ATSWA

ACCOUNTING TECHNICIANS SCHEME WEST AFRICA

STUDY TEXT

PUBLIC SECTOR ACCOUNTING

PUBLICATION OF ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA (ABWA)

ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFIRCA (ABWA)

ACCOUNTING TECHNICIANS SCHEME

WEST AFRICA (ATSWA)

STUDY TEXT FOR

PUBLIC SECTOR ACCOUNTING

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PREFACE

INTRODUCTION

The Council of the Association of Accountancy Bodies in West Africa (ABWA) recognised the difficulty of students when preparing for the Accounting Technicians Scheme West Africa examinations. One of the major difficulties has been the non-availability of study materials purposely written for the scheme. Consequently, students relied on text books written in economic and socio-cultural environments quite different from the West African environment.

AIM OF THE STUDY TEXT

In view of the above, the quest for good study materials for the subjects of the examinations and the commitment of the ABWA Council to bridge the gap in technical accounting training in West Africa led to the production of this Study Text.

The Study Text assumes a minimum prior knowledge and every chapter reappraises basic methods and ideas in line with the syllabus.

READERSHIP

The Study Text is primarily intended to provide comprehensive study materials for students preparing to write the ATSWA examinations.

Other beneficiaries of the Study Text include candidates of other Professional Institutes, students of Universities and Polytechnics pursuing undergraduate and post graduate studies in Accounting, advanced degrees in Accounting as well as Professional Accountants who may use the Study Text as reference material.

APPROACH

The Study Text has been designed for independent study by students and as such concepts have been developed methodically or as a text to be used in conjunction with tuition at schools and colleges. The Study Text can be effectively used as a course text and for revision. It is recommended that readers have their own copies.

FORWARD

The ABWA Council, in order to actualize its desire and ensure the success of students at the examinations of the Accounting Technicians Scheme West Africa (ATSWA), put in place a Harmonisation Committee, to among other things, facilitate the production of Study Texts for students. Hitherto, the major obstacle faced by students was the dearth of study texts which they needed to prepare for the examinations.

The Committee took up the challenge and commenced the task in earnest. To start off the process, the existing syllabus in use by some member Institutes were harmonized and reviewed. Renowned professionals in private and public sectors, the academia, as well as eminent scholars who had previously written books on the relevant subjects and distinguished themselves in the profession, were commissioned to produce Study Texts for the twelve subjects of the examination.

A minimum of two Writers and a Reviewer were tasked with the preparation of Study Text for each subject. Their output was subjected to a comprehensive review by experienced imprimaturs. The Study Texts cover the following subjects:

PART I

1. Basic Accounting Processes and Systems
2. Economics
3. Business Law
4. Communication Skills

PART II

1. Principles and Practice of Financial Accounting
2. Public Sector Accounting
3. Quantitative Analysis
4. Information Technology

PART III

1. Principles of Auditing
2. Cost Accounting
3. Preparation of Tax Computation and Returns
4. Management

Although, these Study Texts have been specially designed to assist candidates preparing for the technicians examinations of ABWA, they should be used in conjunction with other materials listed in the bibliography and recommended text.

PRESIDENT, ABWA

STRUCTURE OF THE STUDY TEXT

The layout of the chapters has been standardized so as to present information in a simple form that is easy to assimilate.

The Study Text is organised into chapters. Each chapter deals with a particular area of the subject, starting with learning objective and a summary of sections contained therein.

The introduction also gives specific guidance to the reader based on the contents of the current syllabus and the current trends in examinations. The main body of the chapter is subdivided into sections to make for easy and coherent reading. However, in some chapters, the emphasis is on the principles or applications while others emphasise method and procedures.

At the end of each chapter is found the following:

- Summary
- Points to note (these are used for purposes of emphasis or clarification);
- Examination type questions; and
- Suggested answers.

HOW TO USE THE STUDY TEXT

Students are advised to read the Study Text, attempt the questions before checking the suggested answers.

ACKNOWLEDGMENTS

The ATSWA Harmonisation and Implementation Committee, on the occasion of the publication of the first edition of the ATSWA Study Texts acknowledges the contributions of the following groups of people. The ABWA Council, for their inspiration which gave birth to the whole idea of having a West African Technicians Programme. Their support and encouragement as well as financial support cannot be overemphasized. We are eternally grateful.

To The Councils of the Institute of Chartered Accountants of Nigeria (ICAN), and the Institute of Chartered Accountants, Ghana (ICAG), and the Liberia Institute of Certified Public Accountants (LICPA) for their financial commitment and the release of staff at various points to work on the programme and for hosting the several meetings of the Committee, we say kudos.

We are grateful to the following copyright holders for permission to use their intellectual properties:

- The Institute of Chartered Accountants of Nigeria (ICAN) for the use of the Institute's examination materials;
- International Federation of Accountants (IFAC) for the use of her various publications;
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- Owners of Trademarks and Trade names referred to or mentioned in this Study Text.

We have made every effort to obtain permission for use of intellectual materials in this Study Texts from the appropriate sources.

We wish to acknowledge the immense contributions of the writers and reviewers of this manual;

Our sincere appreciation also goes to various imprimaturs and workshop facilitators. Without their input, we would not have had these Study Texts. We salute them.

Chairman
ATSWA Harmonization & Implementation Committee

A new syllabus for the ATSWA Examinations has been approved by ABWA Council and the various PAOs. Following the approval of the new syllabus which becomes effective from the September 2017 diet a team was constitutes to undertake a comprehensive review of the Study Texts in line with the syllabus under the supervision of an editorial board.

The Reviewers and Editorial board members are:

REVIEWERS

This Study text was reviewed by:

- Mr. T.A Osonuga — Retired Director of Audit, Office of Auditor General, Federal Republic of Nigeria
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1.0 LEARNING OBJECTIVES

At the end of this chapter, readers would be able to:-

a) Define and explain terminologies in Public Sector Accounting.
b) Identify the objectives of Public Sector Accounting.
c) Understand and appreciate the users of Public Sector Accounting.
d) Distinguish between the private and public sectors.

1.1 INTRODUCTION

Government has to do with a whole Nation. It is represented by organisations that are established to use the resources of a Nation for the upliftment and the welfare of its citizens.

For the skillful administration development of a Nation, there is the need to institute financial and accounting systems in the established organisations which are responsible for finances and human resources. In the same way, such systems are to be introduced and nurtured in those organisations that will be using the finances for such National development. The systems introduced should promote transparency, data storage and retrieval, and accountability. Government organisations are different from private sector establishments. Consequently, they have different features, objectives and functions, which explain their methods of information, and dissemination and stewardship accounting.

1.2.1 DEFINITION OF GOVERNMENT

Government refers to the collection of public institutions established and given the authority to run the affairs of a country. It is a system of governance and includes the body of individuals who are authorised to administer the laws of a Nation.

1.2.2 DEFINITION OF PUBLIC SECTOR

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." 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.

1.2.3 PUBLIC SECTOR ACCOUNTING SYSTEM AND PROCESSES

Public Sector Accounting refers to all the financial documents and records of public institutions that relate to the collection of tax payers" money and the analysis, control of expenditure, administration of trust funds, management of government stores, all the financial responsibilities and duties of the relevant organs. Public Sector Accounting system is the way of accountability through which the established institutions of the public render stewardship on the revenue of the Nation and how it has been disbursed.

Public Sector Accounting includes the process of recording, analysing, classifying, summarising, communicating and interpreting financial information about Government in aggregate and in details, recording all transactions involving the receipt, transfer and disposition of public funds and property. The processes of Public Sector Accounting are further discussed as follows:

(a) Recording

Recording involves the process of documenting the financial transactions and activities in the necessary books of accounts are cash book, ledger and vote book.

(b) **Analysing**

Analysing involves the process of separating transactions according to their distinct nature, posting them under appropriate heads and sub-heads.

(c) Classifying

Classifying has to do with the grouping of the transactions into revenue and expense descriptions and bringing them under major classes as „Revenue Head‟ and „Sub-heads‟, with their relevant code numbers of accounts.

(d) Summarising

Summarising concerns the bringing together of all the classes of accounts and preparing them into reports periodically as statutorily or organisationally required.

(e) Communicating

Communicating is about making available financial reports on all the government financial activities from the necessary accounting summaries to various interested parties. The style of communication adopted should be un- ambiguous, lucid and devoid of jargons as much as possible.

(f) Interpreting

Interpreting ends the process by giving explanations on what has been reported in the various financial statements and reports, as regards the overall operations and performance of the relevant government organisation(s). This is to enable the necessary parties and users to take relevant decisions based on their assessments of the reports.

1.3 NATURE AND OBJECTIVES OF PUBLIC SECTOR ACCOUNTING

Nature

The term "Public Sector" refers to all organisations which are created, administered and financed by Government, from the tax payers" money, on behalf

Objectives

The objectives of Public Sector Accounting include the following:

(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.

1.4 USERS OF PUBLIC SECTOR ACCOUNTING INFORMATION

There are two groups of users of Public Sector Accounting information. These are "Internal" and External" users whose peculiarities and areas of interests are briefly discussed, as follows:

1.4.1 Internal Users and Interest Areas:

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

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

iii) **Top Management members** such as Permanent Secretaries of various Ministries and Chief Executives of Parastatals. They are the conduit of accounting information generation, transmission and serve as liaison officers between Government, employees and the public.

1.4.2 External Users and Areas of Interest.

i) **Members of the Legislature** at both National, State and Local Government levels. Information in the accounts of Governments is the major media through which politicians render stewardship to their constituencies and apprise them of the endeavours of governance.

ii) **The Members of the Public**, to demonstrate accountability and assist the people to appreciate or otherwise the efforts of Governments.

iii) **Researchers and Financial Journalists**. Researchers are expected to develop new and better ideas of governance. Financial journalists cherish accounting information to advise existing and potential investors.

- **iv)** **Financial Institutions**, such as the Commercial Banks, World Bank and International Monetary Fund (IMF). Accounting information assists them to evaluate the credit rating of a borrowing Nation.
- **v)** **Governments, apart from the ones reporting**. Governments collaborate on ideas of investment and research. They require accounting information on the well-being or otherwise of each other.
- vi) **Suppliers and Contractors**. Suppliers and contractors are eager to ascertain the ability of a Government to pay for goods and services delivered. Only Accounting information can be revealing.
- vii) Political Parties, Trade Unions and Civil Liberty Organisation
- viii) Foreign countries and Foreign financial institutions such as International Monetary Fund and World Bank. Like other External users, the Foreign countries and Financial Institutions require accounting information to ascertain the financial viability of the public sector organisations and the efficiency and effectiveness of management. Also, they want to know whether the accounting information enhance the quality, consistency, and transparency of public sector financial reporting.

1.5 COMPARISON BETWEEN PUBLIC SECTORS ACCOUNTING AND PRIVATE SECTOR ACCOUNTING

(a) Private Sector Accounting is peculiar to commercial undertakings which have the maximisation of profits as their main objective. Public Sector Accounting focuses on the provision of adequate welfare to the people with probity, accountability, legal and wise spending in mind.

(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 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.

(d) Public Sector Accounting operates predominantly “fund accounting" method in collating its data and information. Private Sector Accounting uses the proprietary (or ownership) style which discloses the nature and sources of the enterprise’s finance or capital structure, such as ‘ordinary share capital’ and ‘preference share capital.’

(e) Public Sector Accounting mostly uses the budgetary approach, recording and classifying items of revenue and expenditure under various ‘heads’ and ‘sub-heads’. Although Private Sector Accounting equally does budgeting and budgetary control, revenue and expenditure matters are, recorded by their natural description, such as „stationary" and „discount allowed."

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

(g) Public Sector organisations are accountable to the citizens of the Nation through their elected representatives. Private Sector concerns are answerable to their owners.

(h) The legal basis of Public Sector Accounting is the Nation’s Constitution and Acts of Parliament, unlike Private Sector Accounting which draws its existence and strength from Companies Acts.

1.6 PURPOSES OF FINANCIAL STATEMENTS

Financial Statements are structured representations of the financial position and economic performance of an entity.

Specifically, the objectives of general purpose financial reporting in the public sector should be to generate information useful for decision-making, and demonstrate the accountability of an entity for the resources entrusted to it, by providing statistics:

a) On the sources, allocation and uses of financial resources;

b) On how an entity financed its activities;

c) For the valuation of the entity's ability to finance its activities and to settle liabilities;

d) For the measurement of an entity's performance in respect of the set goals.

e) Which will reveal whether or not an entity has acted within the approved budget.

1.7 SUMMARY

This chapter discussed the introductory aspect of Public Sector Accounting as a process which involved the documentation of financial records. The process involves the recording, analysing, classifying and summarising, communicating and interpreting government's financial transactions. The objectives and users of Public Sector Accounting were outlined.

The differences between Public and Private Sector Accounting were discussed. External and Internal users and interest areas of Public Sector Accounting information were also highlighted.

1.8 END OF CHAPTER REVIEW QUESTIONS

Section A

1. ONE of the following is not a statutory regulation on the receipts and payments of government money:

   A. The 1999 Constitution

   B. Finance and Control Management Ordinance of 1958, Cap. 144, 1990

   C. Government gazettes

D. The Audit Act of 1956

E. Financial Regulations.

2. Which ONE of the following is not a public sector organisation?

A. Federal Government.

B. State Government.

C. Federal Radio Corporation of Nigeria.

D. Nigeria Bottling Company Plc.

E. Local Government.

3. Public sector entities are not owned and financed by the:

A. Citizens.

B. Philanthropies.

C. Members of the National Assembly

D. Federal Government

E. State Governments.

4. Which ONE of the following is not an internal user of public sector accounting?

A. Government employees.

B. Revenue collectors.

C. Trade unions.

D. Local and foreign investors.

E. Accounting officers.

5. Users of Public Sector Accounting information are categorises into internal users and ……………………..

6. The main objective of a private enterprise is to maximise profit while that of Government is to:

A. Decrease expenditure.

B. Cater for the welfare of the people, at least cost.

C. Increase Revenue.

D. Decrease sales

E. Increase taxation.

7. The fundamental assumptions which embody the preparation of financial statements is called……………………………….

8. The basis of accounting that records anticipated expenditure which has been finally authorized by the management is called …………………….

9. The method and principles applied by an entity to record its financial transactions are known as…………………………

10. Which ONE of the following is not the purpose of Public Sector Accounting?

    A. Ascertainment of the propriety of transactions.

    B. Appraising the efficiency of those in authority.

    C. Tracking down ghost workers.

    D. Planning future operations.

    E. Facilitating the carrying out of audit exercise.

Section B

1. Explain the concept of Public Sector accounting outlining the processes of recording, analyzing, classifying, summarizing, communicating and interpreting financial information in relation to government.
2. Enumerate any 10 objectives of public sector accounting
3. Differentiate between internal and external uses of public sector accounting stating 6 internal users and 6 external users. Highlight how the study of public sector accounting is useful to each user .(The 12 users mentioned)
4. (a) Identify 4 similarities between public sector accounting and private sector accounting.

   (b) Identify 8 differences between public sector accounting and private sector accounting.

SOLUTION TO END OF CHAPTER REVIEW QUESTIONS

Section A

1. C
2. D
3. B

4. D
5. External users
6. B
7. Accounting concept
8. Commitment basis
9. Accounting basis.
10. C

Section B

1. Public Sector Accounting refers to all the financial documents and records of public institutions that relate to the collection of government revenue and their analysis, the control of expenditure, the administration of trust funds, the management of government stores and all the financial responsibilities and duties of the relevant government institutions and departments.

   Public Sector Accounting is also the process of recording, analysing, classifying, summarising, communicating and interpreting financial information about government in aggregate and in details, reflecting all transactions involving the receipt, transfer and disposition of government funds and property. These processes are further analysed below;

   (a) Recording

   Recording involves the process of documenting the financial transactions and activities in the necessary books of accounts like cash book, ledger, and vote book.

   (b) Analysing

   Analysing involves the process of separating transactions according to what they have been made for and putting them into heads and sub-heads.

(c) Classifying

Classifying has to do with the grouping of the transactions into revenues and expenses and bringing them under major classes like Revenue Head and Sub-heads with their relevant code numbers.

(d) Summarising

Summarising concerns the bringing together of the accounts classes and groupings together and preparing them into reports periodically as are expected by the relevant authorities in the various organisations.

(e) Communicating

Communicating is about making available of the financial reports on all the government financial activities from the necessary accounting summaries to various interested parties.

(f) Interpreting

Interpreting ends the process by giving explanations to what has been reported in the various financial statements and reports, as regards the overall operations and performance of the relevant government organisation(s). This is to enable the necessary parties and users take relevant decisions based on their assessments of the reports.

2 . Objectives of Public Sector Accounting

The following are the objectives of Public Sector Accounting:

(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.

3 Users of Public Sector Accounting Information

Users of government accounting can be categorised into two groups:

i. **Internal users**: they are those that are involved in the preparation of the financial statement directly or indirectly. They use the accounts in the department where it is prepared.

ii. **External users**: they are those that use the department where it is prepared.

Internal Users and the Purposes for which they use the Accounts

a. **Government employees**: they use the accounts to negotiate increase in salaries and benefits.
b. **Trade union**: also to negotiate increase in salaries and benefits.
c. **Government programmers**: to administer and execute specific programmes.
d. Revenue collectors: to executive government programmes
e. **Accounting officers in Ministry, Department or Parastata**l: to plan and control his Ministry, Department or parastatals.

f. Subordinates who oil the administration wheels.

External Users and the Purposes for which they use the Accounts

a. **The General public**: to appraise the performance of government
b. **The financial institutions** :(Banks and IMF): to assess government ability to pay back bank loans if granted.
c. **Local and foreign investors**: to assess the performance of the government and the prospects of their investments.
d. **Suppliers and contractor**: to review the accounts to ascertain the chances of their doing business with the government and ability to pay them when they supply goods and services.
e. **Researchers**: they use the information as an input for their research.
f. **Regional grouping (ECOWAS and OPEC):** to determine the areas where they can assist the government and those areas where government can benefit them.
g. **Government other than reporting government**: to implement government decision and programmes.

4 a. Similarities Between Public Sector Accounting And Private Sector Accounting

a. They both prepare financial statements.

b. They both control their expenditures

c. They both prepare budgets

d. They both audit their financial statements.

e. They both report to the owners of the entity.

4b. Differences Between Public and Private Sector Accounting

(a) Goals & Objectives; Goals and objectives in the public sector are for the general welfare of the citizens. Organisations in the pure public sector are established to provide services for the public as a whole. Goals and objectives of the private sector are to provide goods and services for individuals who want those services and are prepared to pay for them.

(b) Types

Public sector organisations are multi-dimensional and very complex. They can be classified or described in various forms including:

i) National Government, Provincial or Regional Governments, Local Governments Ministries, Departments, Agencies (MDAs)

ii) Public Services (Civil Service, Judicial Service, Audit Service, Fire Service, Prison Service, etc.)

iii) Metropolitan, Municipal and District Assemblies (MMDAs) Sub-metros, Local council committees

iv) Public Boards, State Owned Enterprises and other Parastatal Organisations.

Private Sector Organisations are mainly in the form of the Sole trading (One-man business) organisations, Partnerships and Limited Liability Companies.

(c) Ownership

Public Sector organisations are owned by the government, on behalf of the citizens of the nation while private sector organisations are owned by private individuals.

(d) Legal Basis of Formation

Public sector institutions are established by the Acts and enabling Acts. Private sector organisations are established by relevant laws through the Corporate Affairs Commission.

(e) Funding Sources

Public sector organisations are funded mainly from contributions of the whole citizens in the form of tax, non-tax revenues and other receipts such as foreign/external assistance which come in the form of loans and grants.

Private sector organisations are funded from private capital contributions of individual owners of the organisations, and from subsequent profit made during operations.

(f) Accountability

Public sector organisations are accountable to the citizens of the nation, through the elected representatives of the citizens in parliament.

Private sector organisations are accountable to the owners of the relevant organisations, the proprietor in terms of sole trading organisations, the partners in terms of partnership organisations and shareholders in terms of limited liability companies.

(g) Fixed Assets Recognition

In the Public sector Fixed Assets are written off in the year of purchase while the costs of such fixed assets are spread over their estimated useful life in the private sector.

(h) Audit of Financial Statements

In the public sector, financial statements are audited by the office of the Auditor-General with the exception of parastatals while the External Auditors audit the financial statements in the private sector.

(i) Exclusion Principle

In the public sector, services are rendered to all, even those who avoid taxes while services and goods are rendered and sold respectively to only those who paid for them.

CHAPTER TWO

CONSTITUTIONAL AND REGULATORY FRAMEWORK OF PUBLIC SECTOR ACCOUNTING

CHAPTER CONTENTS

2.0 LEARNING OBJECTIVES

At the end of this chapter, readers should be able to:-

a. Understand the Legal Framework of Public Sector Accounting,

b. Discuss the Administrative Framework of Public Sector Accounting

c. Appreciate the Basic Accounting Bases, Concepts and Principles of Public Sector Accounting.

2.1 INTRODUCTION

Public Sector Accounting is guided by the Constitution and financial regulations of a Nation. It is concerned with the recording of the mobilisation and prudent utilisation of the finances of a country.

2.2 CONSTITUTIONAL AND LEGAL PROVISIONS IN GHANA

2.2.1 1992 CONSTITUTIONAL PROVISIONS OF GHANA

Chapter 13 of the 1992 Constitution of Ghana gives the authorisation for the generation of the country's revenue and stipulates that the Nation's Auditor-General shall prepare and forward his report to the National Assembly within a specified period of time.

2.2.2 GHANA'S FINANCIAL ADMINISTRATION ACT NO. 654 OF 2003

The Act and Financial Administration Regulation of 2004, L.I. 1802, provide the legal basis or authority, while the Accounting Manual and Departmental Accounting instructions give the operational guidelines. Chapter 13 of Ghana's constitution of

1992 dwells on the finances of the country.

LEGAL AND REGULATORY PROVISIONS IN NIGERIA

2.2.3 1999 CONSTITUTIONAL PROVISIONS OF FEDERAL REPUBLIC OF NIGERIA

The 1999 Constitution of the Federal Republic of Nigeria authorises the receipts and payments of Government, spelt out the revenue allocation formula between the Federal, State and Local Governments and stipulates the duties and responsibilities of the Auditor-General. To facilitate reference, specific areas of the 1999 Constitution and their provisions are:

i) Section 80(1) to (4): The establishment and operation of the Consolidated Revenue Fund are discussed.

ii) Section 81 (1) to (4): This provision treats the procedure for authorisation of expenditure from the Consolidated Revenue Fund.

iii) Section 82. Where there is no Appropriation Act as yet, this section authorises the President to withdraw money from the Consolidated Revenue Fund of the Federation for six (6) months.

iv) Section 83. This provides for the creation of the Contingencies Fund.

v) Section 84. The remuneration, etc of the President and other statutory officers are covered by this section.

vi) Section 85. The audit of public accounts is discussed.

vii) Sections 86 & 87: The sections treat the appointment and tenure of the Auditor-General.

viii) Sections 88 & 89: The section gives power to the National Assembly to conduct investigations and procure all evidence needed.

ix) Section 149: Ministers are constitutionally required to declare their assets and liabilities and oaths of allegiance.

x) Section 162: Under this section, the Federation as an entity is statutorily required to create the "Federation Account"" into which all revenue collected by the Government of the Federation (with some exceptions) is paid.

xi) Section 163: This deals with the allocation of other revenue.

xii) Section 164: Federal grants-in-aid of State revenue are treated herein.

xiii) Section 313: The system of revenue allocation is dealt with under this section.

2.2.4 FINANCE (CONTROL AND MANAGEMENT) ACT OF 1958, CAP. 144, 1990

This is the major law on which the foundation of Public Sector Accounting rests in Nigeria. It is the basic law that governs the procedure and control of all financial operations of government. The Act regulates the management and operation of government funds. It prescribes the books of accounts to be operated and the procedures to be adopted in the preparation of accounts and financial statements.

2.2.5 Audit Ordinance of 1956 or Act of 1956:

Section 13, sub- sections 1 - 3 mandates 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.

2.2.6 APPROPRIATION ACTS

Money Bills when passed into laws become Appropriation Acts.They regulate financial matters, including the payment or withdrawal from the Consolidated Revenue Fund. Appropriation Acts are passed yearly, for the release of public money so as to render services in the years to which they relate. Appropriation Acts may direct a change in the way of operating any fund, apart from the Contingencies Fund and the Consolidated Revenue Fund.

2.2.7 FINANCIAL REGULATIONS (2009 Edition)

They are accounting and financial control documents. As a regulatory instrument, “Financial Regulations”“‘ book is the codification of guiding principles and methods. It advocates uniformity in the recording of specified positions, transactions and events. The “Financial Regulations”“‘ are a body of rules designed to assist the achievement of probity and accountability in government. Examples of the rules deal with the opening of bank accounts, cheques and the collection of revenue. “Financial Regulations”“‘ define the duties and responsibilities of finance officers of government and other financial procedures in the public sector.

2.2.8 TREASURY/FINANCE CIRCULARS AND CIRCULAR LETTERS

These are administrative instruments which are issued for the purpose of guiding day- to-day routine operations of the departments of government. They are used in amending existing provisions of public service rules and Financial Regulations.

2.2.9 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.

2.2.10 PUBLIC PROCUREMENT ACT, 2007

This is an Act which establishes the National Council on Public Procurement (NCPP) 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.

2.2.11 OTHER LAWS AND REGULATIONS

i) Economic and Financial Crimes Commission (EFCC), 2002

ii) Independent Corrupt Practice and Other Related Offences Commission (ICPC) Act, 2000

iii) International Public Sector Accounting Standards (IPSAS)/ International Financial Reporting Standards (IFRS)

iv) Financial Reporting Council Act

v) Code Of Conduct Bureau/Code Of Conduct Tribunal Act, 1991

vi) Nigeria Extractive Industries Transparency Initiative, (NEITI) Act, 2007

vii) Freedom of Information Act, 2011

2. 3 BASES OF ACCOUNTING

These refer to how the transaction of government are recognised and recorded in the

accounting books. Some common bases of accounts that are used are the cash and accrual bases.

2.3. 1 Cash Basis

The cash basis of accounting embraces the movement of cash as the basis of recognising income and expenses. Once money is received, income is recognised, whether the goods or services have been supplied or not. On the other hand, an expense is recognised as having been made once payment is made, whether benefit has been received or not.

In other words, income is recognised as it is received in the form of cash and expenditure is recognised as money is paid. No difference is shown in the treatment of capital and revenue expenditure.

Fixed assets are not treated as capital expenditure items. They are written off as revenue expenditure in the years of purchase.

Main characteristics of cash basis of accounting:

i) It is very simple to develop an accounting system based on the mere recording of cash receipts and payments.

ii) Financial statements generated with this technique are not complicated; they are very understandable and the accounting does not require the making of estimates for depreciation or doubtful debts, or adjustments for accruals and prepayments.

iii) It facilitates fiscal stewardship in that in public sector where the concept of cash limit is used in budgeting the use of resources, compliance can be determined easily.

iv) The concept does not make for proper measurement of performance. It is not easy to measure the physical work produced and the assets consumed in doing that within a period of time. The technique does not recognise the time when resources are used.

v) Performance under this approach is poorly measured since recognition is given to the use of limited cash in any service delivery. The cash basis stresses the economy of a service very much, and does not consider the efficiency and effectiveness in service delivery.

vi) In accounting for the existing resources of government, only cash and near cash items are shown on the balance sheet.

vii) Traditional accounting in government is based on cash accounting. Government's final accounts are prepared, using only movement of cash as a means of determining income and expenses.

2.3.2 Accrual Basis

Accrual basis of accounting uses the notion of legal obligation to record financial transactions. Once there is a legally binding contract for the receipt of, or render of service, recognition will be given to the income or expenditure arising out of the contract.

The recognition of revenue or expenditure under this technique does not depend on the point in time when cash moves as either receipt or payment, as with the cash basis.

The concept states that the transactions and events of entities should always be recorded in the periods in which the services are rendered or received, rather than in the periods in which cash is received or paid. This basis of accounting leads to the recognition of credit transactions in the preparation of the financial statements of a public sector organisation.

The concept recognises the period when revenue is deemed to have been earned rather than when it is received. Revenue is earned when a benefit has been given and the giver is entitled legally to receive compensation for the benefit given.

Expenses on the other hand, are recognised when incurred rather than paid. Expenses are incurred when users of the benefits are obliged legally to pay, in exchange.

The accrual concept leads to the making of adjustments in financial statements, especially when expected compensation has been given for benefit not received or rendered, or when benefit has been rendered or received without the passing of the compensation.

In Ghana, the Financial Administration Regulations (FAR), 2004 (L.I. 1802), Part VII, 186, states that government accounts are to be prepared generally, using the accrual basis of accounting.

2.3.3 Modified Accrual Basis

The basic feature of the modified accrual basis is that it combines the cash and accrual bases of recognising revenue. The modified accrual concept recognises revenue only when made available and can be measured.

Revenue is recognised and recorded when received as cash or collectible in some future time, with some certainty.

As an example, under modified accrual basis, revenue from property tax is recognised because the assets on which the tax assessments are made can be identified easily. However, revenue receipts from fines and court charges are recognised on cash basis since they cannot be predicted and estimated with certainty. Predicting future sales tax and valued-added tax, for purposes of accruing the revenue, is very difficult. Expenditure, on the other hand, is recognised for most items on the normal accrual basis.

2.3.4 Modified Cash Basis

This concept, in some instances, resembles the modified accrual basis. The modified cash accounting technique is appreciated where the accounting books of the government institutions are not closed at the end of a year, but are open for some period into the beginning of the following year. Receipts made during the current year which relate to the past period are recorded and accounted for as revenue of the previous period.

2.3.5 Commitment Basis

The accounting technique recognises expenses as soon as expenditure decisions are taken. As soon as a decision is taken for the acquisition of a service or good, accounting records for that begin and cash is set aside to pay for such cost.

Financial transactions are therefore recorded as soon as commitments are made. It is not when there is movement of cash for a transaction, or when there is documentary evidence in the form of invoice. This policy said to be „encumbrance accounting" cash is „encumbered" when it is set aside for a transaction.

A practical situation is when orders are made for the acquisition of some assets. Once the purchase order is made, entries are expected to be made to reserve money for the items. Though purchase order does not bring about any legal obligation, hence no liability, „an encumbrance entry" is made, reserving the necessary amount of money for the order.

2.3.6 Advantages of Financial Regulations Accounting Manual

i)` The book acts as a point of 'vengeance' for those who infringe the rules stipulated

ii) It ensures consistency in the application of its stipulations

iii) It ensures continuity

iv) It serves as a training tool

v) It serves as a guide

2.3.7 Disadvantages of Financial Regulations Accounting Manual

i) It is very rigid, since its application does not encourage the use of initiative

ii) Since the use of initiative is not encouraged it is de-motivational

iii) It makes job monotonous

iv) Workers may not produce best results in view of the de-motivational factor

2.4 SUMMARY

This chapter discussed the nature, constitutional, legal and administrative framework of Government Accounting. It also addressed the different ground works or foundations of accounting of cash basis, accrual basis, modified accrual basis, modified cash basis and commitment basis.

2.5 END OF CHAPTER REVIEW QUESTIONS

Section A

1. The law in which the foundation of Public Sector Accounting rest in Nigeria is

   A. The Annual Appropriation Act
   B. The Audit Ordinance (or Act) of 1956
   C. The Finance (Control and Management) Act of 1958 (Cap.144,1990)
   D. The Financial Regulations

E. The Public Procurement Act, 2007

2. The basis of accounting which recognises expenditure as soon as purchase decisions are taken is ....basis.

3. Which of the following does Section 13 of the Audit Act of 1956 require the Accountant-General of the Federation to submit to the Auditor-General annually?

   i. Receipts and payments account
   ii. A statement of Assets and Liabilities
   iii. A statement of Revenue and Expenditure

   (A) (i) only
   (B) (ii) only
   (C) (i) and (ii)
   (D) (i), (ii) and (iii)
   (E) (ii) and (iii)

4. Under the modified accrual basis

   (A) Revenue is recognised on cash basis and expenditure on accrual basis.
   (B) Only expenditure is recognised on cash basis
   (C) Only revenue is recognised on cash basis
   (D) Revenue and expenditure are recognised on accrual basis
   (E) Revenue is recognised on accrual basis while expenditure on cash basis

Which of the following bases of accounting does the Nigerian Government adopt?

   (A) Cash basis
   (B) Accrual basis
   (C) Modified cash basis
   (D) Commitment basis
   (E) Modified accrual basis

6. In Government when money is expended without prior provision, such outlay is referred to as.........................

7. The definition, functions and respective responsibilities of finance officers in public sector organisations are spelt out in the...........................

8. Under what Section of the 1999 Constitution of Nigeria was the Contingencies

Fund created?

9. The audit of public accounts is treated under section.................... of 1999 Constitution of Nigeria.

10. Traditional accounting in Government is....................... accounting.

Section B

1. Public sector accounting is guided by the constitution and financial regulations of a nation. Discuss 7 legal and administrative framework of Public Sector Accounting.

2. State the specific areas of the 1999 Constitution and their provisions according to each of the following Sections.
   a. Section 80
   b. Section 81
   c. Section 82
   d. Section 83
   e. Section 84
   f. Section 84 (1)
   g. Section 85
   h. Section 86 and 87
   i. Section 88 and 89
   j. Section 149
   k. Section 153
   l. Section 162
   m. Section 163
   n. Section 164
   o. Section 168

3. (a) Differentiate between cash basis of accounting and accrual basis of accounting.
   (b) State 5 characteristics of cash basis of accounting.

4. State 4 advantages and disadvantages <u>each</u> of operation of Accounting Manual or

Financial Regulations.

Suggested Solutions

Section A

1. C
2. Commitment Basis
3. D
4. A
5. A
6. Extra-budgeting
7. Financial Regulations
8. Section 83
9. Section 85
10. Cash

Section B

1. CONSTITUTIONAL AND LEGAL FRAMEWORK OF PUBLIC SECTOR ACCOUNTING

(i) CONSTITUTION OF THE FEDERAL REPUBLIC OF NIGERIA

In Nigeria, Section E of Chapter V of the 1999 Constitution of the Federal Republic of Nigeria discusses the Power and Control over public finances, and specifies the authority for the generation of the revenue, expenditure authorisation and the audit process of the public accounts by the Auditor-General for each State.

The Constitutional provision relates to the importance of finance as the basis for political power generated by the provisions enshrined in the Nigerian 1979, 1989 and 1999 constitutions, on power and control over government funds at the Federal, State and Local Government levels. The provisions of these constitutions relating the Finances of the government are the following:

a) Establishment and operation of the Consolidated Revenue Fund. (S74, S78 and 1979 and 1989 constitution. S.80 of the 1999 Constitution)

b) Establishment and operation of Federation Account. (S162 1999 Constitution)

c) Establishment and operation of the Contingency Fund. (S. 83 of the 1999 Constitution).

d) Establishment, operation and appointment into Public Accounts Committee (S. 62, 88, 89, 103, 128 and 129 of the 1999 Constitution)

e) Establishment, composition and powers of Revenue Mobilisation, Allocation and Fiscal Commission as well as National Planning Commission.

f) The Audit of Public Accounts, Appointment, Tenure, Termination and General Activities of the Auditor-General (S. 85 to 87 of the 1999 Constitution for Federal and S 125 – 127 for States)

g) Appointment and Emolument of political appointees (S. 84 of the 1999 Constitution Federal, S 124 for States)

h) Budget Preparation and Execution (S. 81 of 1999 Constitution and S 124 for States).

i) Revenue Generation (S 162 – 168 of the 1999 constitution). This covers the legalisation of revenue generation, lodgements into relevant accounts and disbursements to various levels of government.

j) Revenue Allocation Formula (S 313 of 1999 constitution)

k) Provision for Debt Recognition

l) Provision for Joint Finance Committee

(i) THE FINANCE (CONTROL AND MANAGEMENT) ACT OF 1958

This is the major law on which the foundation of government accounting depends. It is the basic law governing the procedure and control of all government financial transactions. The Act governs the management and operation of all government funds.

Some of the provisions of the Act are:

a) It placed the management of public finance under the control of the Minister of Finance.
b) It established the Development Fund and States its operation.
c) It specifies the format for the preparation of government financial statements.
d) It recommends the adoption of cash basis of accounting.
e) It adopts the preparation of government account on Fund Accounting basis.
f) It mandates the Accountant-General of the Federation to submit his account for audit not later than 90 days after the end of the fiscal year.
g) It states the government investment portfolios and those areas where government should invest on.

(ii) THE PROVISON OF AUDIT ACT 1956

The Act covers appointment, tenure remuneration and termination of the Auditor-General for the Federation and the audit of public accounts including public corporations.

The Act mandates the Accountant-General of the Federation to submit within seven months after the end of each financial year the accounts of the Federation to the Auditor-General for the Federation for audit.

(iii) APPROPRIATION ACT

a. It is an authority to spend money.
b. It can be used to regulate financial matter.
c. It can be used to change operation of a fund except Consolidated Revenue Fund and Development fund.

(iv) FINANCIAL REGULATIONS:

a. This states that the procedure for or opening of bank account.
b. Collection of revenue.
   Accounting procedure for expenditure.
c. Securing of the financial documents.
d. Acquisition of stores i.e. bought movable items.
e. Definition and responsibilities of finance officers.

(v) TREASURY AND FINANCE CIRCULAR

This is issued from time to time and it is used to :

a. Amend existing rules.
b. To introduce new policies or guidelines e.g. salary reviews.

(vi) OFFICIAL GAZZETTE: It is government official newspaper reporting all government activities, policies, programs e. t. c it also states the employment, promotion, termination and dismissal of any government official.

(vii) Section 80 - Establishment of the Consolidated Revenue Fund (CRF).

(ix) Section 81 - Authorisation of expenditure from the CRF.

(x) Section 82 - Authorisation of expenditure in default of appropriations.

(xi) Section 83 - Establishment of the Contingencies Fund.

(xii) Section 84 - Remuneration of Statutory Officers.

`(xiii) Section 84(4) - Comprehensive list of Statutory Officers.

(xiv) Section 85 - Audit of public accounts.

(xv) Section 86 - Appointment of the Auditor-General for the Federation.

(xvi)	Section 87	-	Tenure of office of the Auditor-General for the Federation.
(xvii)	Section 88	-	Power to conduct investigation by the National Assembly.
(xviii)	Section 89	-	Power as to matters of evidence.
(xix)	Section 149	-	Declaration of assets and liabilities and oaths of office.
(xx)	Section 153	-	List of Statutory Commissions.
(xxi)	Section 162	-	Establishment of the Federation Accounts.
(xxii)	Section 163	-	Allocation of other revenue.
(xxiii)	Section 164	-	Federal grants-in-aid of State revenue.

3 a Cash Basis of Accounting

The cash basis of accounting is one that recognises income generated and expenditure incurred whether cash has been received or disbursed respectively. Once money is received, income is recognised, whether the goods or services have been supplied or not. Also, an expense is recognised as having been made once payment is made, whether benefit has been received or not.

Accrual Basis of Accounting

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.

3ii Characteristics of cash basis of accounting:

a. It is very simple to develop an accounting system based on the mere recording of cash receipts and payments.

b. Financial statements generated with this technique are not complicated; they are very understandable and the accounting does not require the making of estimates for depreciation or doubtful debts, or adjustments for accruals and prepayments.

c. It facilitates fiscal stewardship in that in public sector where the concept of cash limit is used in budgeting the use of resources, compliance can be determined easily.

d. The concept does not make for proper measurement of performance. It is not easy to measure the physical work produced and the assets consumed in doing that within a period of time. The technique does not recognise the time when resources are used.

e. Performance under this approach is poorly measured since recognition is given to the use of limited cash in any service delivery. The cash basis stresses the economy of a service very much, and does not consider the efficiency and effectiveness in service delivery.

f. In accounting for the existing resources of government, only cash and near cash items are shown on the balance sheet.

g. Traditional accounting in government is based on cash accounting. Government's final accounts are prepared, using only movement of cash as a means of determining income and expenses.

4. Advantages Of Having Financial Regulation Book Or Accounting Manual

a. The book acts as a point of "vengeance" for those who infringe the rules stipulated
b. It ensures consistency in the application of its stipulations
c. It ensures continuity
d. It serves as a training tool
e. It serves as a guide

Disadvantages Of The Existence Of Financial Regulation Book Or Accounting Manual

a. It is very rigid, since its application does not encourage the use of initiative
b. Since the use of initiative is not encouraged it is de-motivational
c. It makes job monotonous
d. Workers may not produce best results in view of the de-motivational factor

CHAPTER THREE

FINANCIAL RESPONSIBILITIES OF FINANCE OFFICERS OF GOVERNMENT

CHAPTER CONTENTS

a. Objectives

b. Introduction

c. Accounting Officer

d. Functions of an Accounting Officer

e. Auditor-General for the federation

f. Removal of Auditor-General for the federation

g. Auditor-General for State Government

h. Office of the Auditor General for Local Government

i. The Sub-Accounting Officer

j. The Sub-Treasurer of the Federation

k. Revenue Collector

l. The Federal pay Officer

m. The Director of Budget

n. The Minister of Finance

o. Summary

p. End of Chapter Review Questions

3.0 LEARNING OBJETIVES

At the end of this chapter, candidates would be able to:

a. Identify key Government Finance Officers.

b. Understand the financial responsibilities of the Government Officers.

c. Understand the mode of appointment, powers and functions of the Accountant-General of the Federation.

d. Appreciate the mode of appointment, powers, and functions of the Auditor- General for the Federation.

3.1 INTRODUCTION

Government Officials who are saddled with the responsibility of managing government funds and property can be grouped into two categories and discussed briefly, as follows:

(a) The officials who have attained positions by way of experience, hard work, efficiency and cannot be arbitrarily removed. Such officers include the Accountant-General of the Federation, Auditor-General for the Federation, Accounting Officers, Sub-accounting Officers, Federal Pay Officers, Revenue Collectors and Local Government Secretary.

(b) The officials who occupy positions by way of political dispensations; may not necessarily have any experience in the assigned fields. Such officials include Federal Minister of Finance, State Commissioner for Finance, a Local Government Chairman and Councillors.

3.2 ACCOUNTING OFFICER

The term „Accounting Officer" means the Head of a Ministry/Extra Ministerial Department or whoever is empowered to manage the affairs of a government enterprise. He is responsible for all receipts and payments of public money in his Department or Ministry. He is saddled with the responsibility of reporting on the financial activities of his Ministry or Department. With effect from 1st January, 1998

Permanent Secretaries are the Accounting Officers of their various Ministries.

3.2.1. FUNCTIONS OF AN ACCOUNTING OFFICER

The functions of an Accounting Officer include the following:

i. To establish and manage an effective, efficiently run and result-oriented Internal Control Department in his Ministry.

ii. To ensure that proper books of accounts and system as specified by the Minister of Finance, are kept.

iii. To ensure that all revenue accruable to his Ministry are collected and accounted for as and when due.

iv. To ensure that there is provision for effective security system over all government funds.

iv. To install adequate preventive measures against frauds and misappropriation of funds.

v. To ensure that only trustworthy, dedicated and reputable officers are entrusted with government funds.

vi. To ensure that all payments are backed up with proper authority and that only services and goods provided are paid for.

vii. To make available all the cash, stamps, bank statements etc. in his Auditor-General for, the Federation.

viii. To ensure that financial statements statutorily required are prepared without delay.

3.3 ACCOUNTANT-GENERAL OF THE FEDERATION

Financial Regulation No. 107 of January, 2009, defines the Accountant-General of the Federation as "The The Chief Accounting Officer of the receipts and payments of the government of the Federation. He is saddled with the responsibility of general control, custody and supervision of all ministries and departments within the Federation. He is responsible for the preparation of the annual financial statements of accounts of the Nation as may be required by the 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.

3.3.1 POWERS OF THE ACCOUNTANT-GENERAL OF THE FEDERATION

a) He has power of unlimited access to all financial documents and records of every Ministry or Department at all times.

b) He can carry out any special investigation, when the need arises, in any Ministry or Department.

c) The Accountant-General has power to demand for and obtain any information and explanation required to carry out his duties.

3.3.2. FUNCTIONS OF THE ACCOUNTANT-GENERAL OF THE FEDERATION.

The functions of the Accountant-General of the Federation as contained in Financial Regulations 107 include:

(a) serve as the Chief Accounting Officer for the receipts and payments of the government of the federation;

(b) supervise the accounts of federal ministries, extra-ministerial offices and other arms of government;

(c) collate, prepare and publish statutory financial statements of the federal government and any other statements of accounts required by the Minister of Finance;

(d) manage federal government Investments;

(e) maintain and operate the accounts of the Consolidated Revenue Fund, Development Fund, Contingencies Fund and other Public Funds and provide cash backing for the operations of the Federal Government;

(f) maintain and operate the Federation Account;

(g) establish and supervise Federal Pay Offices in each state capital of the federation;

(h) conduct routine and in-depth inspection of the books of accounts of federal ministries, extra-ministerial offices and other arms of government to ensure compliance with rules, regulations and policy decisions of the federal government;

(i) approve and ensure compliance with accounting codes, internal audit guides and stock verification manuals of federal ministries, Extra-ministerial offices and other arms of government.

(j) investigate cases of fraud, loss of funds, assets and store items and other financial malpractices in ministries/extra-ministerial offices and other arms of government;

(k) provide financial guidelines through the issuance of treasury circulars to federal ministries/extra-ministerial offices and other arms of government to ensure, strict compliance with existing control systems for the collection, custody and disbursements of public funds and stores;

(l) supervise and control the computerisation of the accounting system in the federal ministries, extra-ministerial offices and other arms of government;

(m) carry out revenue monitoring and accounting;

(n) issue officially approved forms bearing Treasury numbers for use in all federal ministries, extra-ministerial offices and other arms of government to ensure uniformity;

(o) formulate the accounting policy of the federal government;

(p) service public debt and loans; and

(q) organise training of accounts and internal audit personnel in all federal ministries, extra-ministerial offices and other arms of government.

3.4 AUDITOR-GENERAL FOR THE FEDERATION

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 S.86 of the 1999 Constitution of the Federal Republic of Nigeria. That is, he/she is:

(a) appointed by Mr. President, subject to confirmation by the National Assembly;
(b) the above appointment is based on the recommendation of the Federal Civil Service Commission;
(c) 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).

3.4.1 POWERS/FUNCTIONS OF THE AUDITOR-GENERAL FOR THE FEDERATION

Powers

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.

(i) Constitutional Functions

These are as follows:

S. 85 (2): The public accounts of the Federation and of all offices and courts of the Federation shall be audited and reported on by the Auditor-General to the National Assembly, for that purpose, he shall have access to all the books, records, returns and other documents relating to those accounts.

S. 85 (3): Though the Auditor-General is not authorised to audit the accounts or appoint auditors for government statutory corporations, commissions, authorities, agencies, including all persons and bodies established by an Act of The National Assembly, but the Auditor-General shall:-

(a) Provide such bodies with;

(i) A list of qualified and experienced auditors from which the bodies shall appoint their external auditors and

(ii) Guidelines on the level of fees to be paid to the external auditors.

(b) Comment on their annual accounts and auditors reports thereon.

S. 85 (4): He shall have power to conduct periodic checks on all government statutory corporations, commissions, authorities, agencies etc. including all persons and bodies established by an Act of The National Assembly.

S. 85(5): He shall, within ninety days of receipt of the Accountant-General's

Financial Statements, submit his reports to each House of the National

Assembly.

(ii) Functions as per Financial Regulations 109 (2009 Edition)

According to Government Financial Regulations 109 (2009 Edition) The Auditor-General for the Federation shall carry out the following statutory functions:

(a) Financial Audit in accordance with extant laws in order to determine whether government accounts have been satisfactorily and faithfully kept.

(b) Appropriation Audit- to ensure that funds are expended as appropriated by the National Assembly.

(c) Financial Control Audit – to ensure that laid down procedures are being observed in tendering, contracts and storekeeping with a view to preventing waste, pilferage and extravagance.

(d) Value-for-Money (Performance) Audit – to ascertain the level of economy, efficiency and effectiveness derived from government projects and programmes.

(iii) Scope

The scope of work of the Auditor-General include:

(a) audit of the books, accounts and records of federal ministries, extra-ministerial offices and other arms of government;

(b) vetting, commenting and certifying audited accounts of all Parastatals and government statutory corporations in accordance with the Constitution of the Federation;

(c) audit of the accounts of federal government establishments located in all states of the federation including all Area Councils in the Federal Capital Territory, Abuja;

(d) audit of the Accountant-General's Annual Financial Statements;

(e) auditing and certifying the Federation Account;

(f) deliberation, verification and reporting on reported cases of loss of funds, stores, plants and equipment as stipulated in the Financial Regulations;

(g) pre and post auditing of the payment of pensions and gratuities of the retired military and civilian personnel;

(h) Periodic checks of all Government Statutory Corporations, commissions, Authorities, Agencies, including all persons and bodies established by an Act of the National Assembly; and

(i) revenue audit of all government institutions.

3.4.2 INDEPENDENCE OF THE AUDITOR-GENERAL

The constitutional provisions which insulate the Auditor-General from being compromised are:

a S. 85(6): In the exercise of his constitutional functions, the Auditor-General shall not be subject to the direction or control of any other authority or person.

b S 87(2): The Auditor-General shall not be removed from office before his retiring age as may be prescribed by law, except for inability to perform the functions of his office or for misconduct.

c S 84(4): The remuneration of the Auditor-General shall be drawn from the Consolidated Revenue Fund of the Federation.

d S 84 (3): His remuneration and salaries as well as conditions of service other than allowances, shall not be altered to his detriment after his appointment.

3.4.3 REMOVAL OF AUDITOR-GENERAL FOR THE FEDERATION

S. 87 (1) says that a person holding the office of Auditor-General for the Federation shall be removed from office by the President acting on an address supported by two- thirds majority of the Senate on the ground that: -

- He is unable to discharge his constitutional and managerial functions due to illness or insanity.
- He is found to have been involved in a grave act of misconduct.

3.5 AUDITOR-GENERAL FOR STATE GOVENMENT

The Office of the State Auditor-General is an Establishment with statutory and constitutional functions. Its powers and responsibilities are derived from the 1999 constitution of the Federal Republic of Nigeria.

It was created mainly to audit the accounts and underlying records of the Auditor-General a State Government can call for audit or special investigation into the books and records of parastatals, ministries and government agencies.

3.5.1 APPOINTMENT OF AUDITOR-GENERAL FOR A STATE GOVERNMENT

According to Section 126 (1) of the 1999 Constitution of the Federal Republic of Nigeria, the Auditor-General for a State shall be appointed by the State Governor on the recommendation of the State Civil Service Commission, subject to confirmation by the State House of Assembly.

3.5.2 FUNCTIONS AND RESPONSIBILITIES OF AUDITOR-GENERAL FOR STATE GOVERNMENTS

i. He is to ensure that adequate accounts are being kept by public establishments.
ii. He is to ensure that all public money is properly accounted for and that the rules and procedures applied are in tandem with the financial regulations.
iii. It is his responsibility to ensure that essential records are kept and the procedures applied are to safeguard and control public assets and cash.
iv. To audit public accounts of the State and all officers and courts of the State.
v. Issuance of Annual Statutory Audit Reports in accordance with the Constitution of the Federal Republic of Nigeria.
vi. To certify computations of pensions and gratuities of retiring public officers.
vii. He is the Chairman of „Audit Alarm Committee" and is to act in that capacity.
viii. To monitor and evaluate all government projects.
ix. To liaise with the Public Accounts Committee of the State House of Assembly on matters brought to the notice of the House.
x. To recommend the remuneration payable to appointed External Auditors of Government Corporations, Commissions, Authorities and Agencies established by Law.
xi. To receive and review the reports of the external auditors of government corporations, etc.
xii. To carry out special audit or investigation on the three arms The Executive, The Legislative and the Judiciary of the State Government.

3.6 OFFICE OF THE AUDITOR-GENERAL FOR LOCAL GOVERNMENT

The office of the Auditor-General for Local Government was established in 1999, in line with the Civil Service Reform of 1998. It was excised from the State Audit Department as it was then known.

3.6.1 LEGAL FRAMEWORK OF THE AUDITOR-GENERAL FOR LOCAL GOVERNMENT

The office operates within the following legal framework:

i) The Local Government financial memoranda
ii) Guideline on local government operations
iii) Updated circulars issued from time to time

3.6.2 STATUTORY FUNCTIONS OF THE AUDITOR-GENERAL FOR LOCAL GOVERNMENT

i. He is responsible for the audit of the financial statements of Local Governments.

ii. He evaluates the integrity and validity of the financial statements of all local governments and writes reports on them.

iii.. He approves sanctions/surcharges through the local government service commission.

iv. Carrying out prepayment audit of gratuity and pension of local government retirees, teaching and non-teaching staff of primary schools in the state.

v. Issuing annual statutory audit reports.

vi. Executing pre-payment audit of major projects of local governments.

vii. Ensuring that proper and adequate system of accounts is established and maintained.

viii. Ensuring that effective and efficient Internal Control System is established in the local governments.

x Reporting any defect in procedures for revenue collection and expenditure disbursements.

xi. Heading the Losers and Audit Alarm Committee at the Local Government level.

3.7 THE SUB-ACCOUNTING OFFICER

This is an officer entrusted with the receipts, custody and disbursements of public funds. He is required to maintain a recognised cashbook together with such other books of accounts as may be required by the Accountant-General. The transactions recorded in his cash book are included in the financial statements presented by the Accountant-General.

3.7.1 FUNCTIONS OF SUB-ACCOUNTING OFFICER

The functions of the Sub-Accounting officer include:-

i. Maintenance of the main cashbooks.

ii. To charge into his accounts under proper heads and sub-heads, all payments of cash and expenditure commitments immediately such are effected.

iii. To check all cash, stamp, paper money and investment records in his care for verification of the balances with cash register and other registers.

iv. To recognize any excess cash discovered apart from the balance in the cash register, as revenue.

v. To check all cash and stamps in his care, so as to reconcile the amounts with the cash book and stamp register balances.

vi. Supervision of officers under his purview and who are entrusted with the receipts and expenditure of public money and introducing into place anti-fraud measures.

3.8 THE SUB -TREASURER OF THE FEDERATION

The Sub-Treasurer of the Federation is an accounting officer who is responsible for the custody, receipt and disbursement of all public money earned and spent from foreign and indigenous investments.

3.8.1 FUNCTIONS OF THE SUB-TREASURER OF THE FEDERATION

i. To ensure that all foreign investments are well monitored and supervised.

ii. To ensure that all government foreign investments are secured and generate reasonable interest.

iii. He is responsible for reviewing and updating the accounting systems in use in the office of the Accountant-General.

iv. To perform any other function as may be directed by the Accountant-General.

3.9 REVENUE COLLECTOR

A Revenue Collector is an officer who is saddled with the responsibility of collecting some specified forms of revenue on behalf of the Government. He is issued an official Treasury Receipt Book 6A for the regular collection of particular items of revenue as specified in the estimate.

A Revenue Collector should maintain a recognised revenue cashbook. He is responsible to the Accounting Officer of the Ministry/Department who will prepare a code of instructions of the procedures to be followed, to ensure prompt and up-to-date collection of government revenue. It is worthy of note that where the Revenue Collector is entrusted with the collection of more than one form of revenue, he should keep a " Revenue Classification Slip" where the Date, Description, Amount, Head, Sub-head and the form of revenue are specified.

3.9.1 FUNCTIONS OF A REVENUE COLLECTOR

i. He is required to exercise total authority over the receipt of all revenue accruable to Government and ensure prompt, accurate and up-to-date collection.
ii. He is to classify all his collections under proper heads and sub-heads of all revenue.
iii. He is to safeguard all public funds, securities and paper money entrusted to him.
iv. As a routine function, he should check all cash in his care and reconcile same with the balance in the cash register.
v. He should promptly report any anomaly discovered by way of fraud or mis-appropriation of government money in his care, to a superior officer.
vi. He should ensure that adequate, up-to-date, accurate and reliable accounting records are kept.
vii. He should ensure that the cash limit balance that should be in his possession is not exceeded.
viii. He is to report to his superior officer any loophole that may be exploited by subordinate officers in the modalities employed in the collection of government revenue.
ix. He is responsible for the disclosure of all cash, stamps, paper moneys, securities, e.t.c, and balances in his custody when Board of Survey is raised by the Accountant-General.
x. He should display effective supervision of the officers under his authority to ensure prompt and accurate collection of revenue.

3.10 THE FEDERAL PAY OFFICER

He is the officer in charge of the Federal Pay Office located in a State. He performs the same functions as those of the Sub-Accounting Officer.

3.11 THE DIRECTOR OF BUDGET

The Director of budget is the officer responsible for the administration of the Department of Budget and Planning. The department is sub-divided into four units namely:- Fiscal, Revenue, Expenditure, and Budget remitting and Evaluation. Each unit plays a separate role different from others.

3.11.1 FUNCTIONS OF THE DIRECTOR OF BUDGET

i. Monitoring of revenue generation and collection by the agencies of government.

ii. Revenue estimation and publication in the budget book.

iii. Comparing of actual revenue received from oil and non-oil sectors with the estimated figure.

iv. Estimating revenue from Joint Venture operations in relation to oil explorations, production and personnel administration.

v. Implementing the budget through the issuance of Authority to Incur

vi. Expenditure papers or Warrants, for both capital and recurrent expenditure.

vii. Assembling, collating and arranging all data, information and other necessary inputs required for budget preparation.

viii. Rendering reports on the performance of the yearly budget and assessing its impact on the economy.

ix. Collection and analysis of expenditure returns.

x. Establishing and maintaining a data bank in the budget office.

xi. Monitoring and evaluating the performance of programmes funded through the budget.

xii. He is the liaison officer between the President, Ministries and Departments during budget preparation.

xii. Formulating fiscal, monetary and economic policies required to develop the economy.

3.12 THE MINISTER OF FINANCE

This is an officer on political appointment who has the responsibility for the control and management of public fund of the Federation.

3.12.1 APPOINTMENT OF THE MINISTER OF FINANCE

The Minister of Finance under the democratic dispensation is appointed by the President after due consultations and the approval of the Senate.

3.12.2 FUNCTIONS OF THE MINISTER OF FINANCE

i. He is responsible for the preparation of annual estimates of revenue and expenditure of the Federal Government.
ii. He is required to formulate all policies related to fiscal and monetary matters.
iii. The Minister is to ensure the mobilisation of both foreign and indigenous financial resources through external and internal financial institutions for development purposes.
iv. To ensure a favourable balance of payments position required to maintain adequate foreign exchange services.
v. To stabilise the value of Nigerian currency both internally and externally.
vi. To supervise all matters in connection with the allocation of revenue to the three tiers of Federal, State and Local Governments.
vii. Relating with relevant International Organisations and Financial Institutions in order to accelerate development process of Nigerian Financial Institutions. Such organisations include: Economic Communities of West Africa (ECOWAS), United Nations National Development (UNND), European Union (EU), and African Union (AU).

3.13 SUMMARY:

The chapter discussed the functions and various posts held by finance officers in the Federation. The means of appointment and powers of some statutory financial officers were also discussed.

3.14 END OF CHAPTER REVIEW QUESTIONS

Section A

1. Which ONE of the following officer saddled with the responsibility of collecting a specified form of revenue on behalf of Government?

   A. Cashier
   B. Bursar
   C. Revenue Collector
   D. Local Officer
   E. Finance Director

2. Which ONE of the government official that is responsible for the administration of Inter-Government financial transactions?

   A. Accountant-General of the Federation
   B. Auditor-General for the Federation
   C. Revenue Collector
   D. Minister of Finance
   E. Federal Pay Officer

3. One of the following officers is not a member of the Executive arm of Government?

   A. The President
   B. The President of the Senate
   C. A State Governor
   D. A Local Government Chairman
   E. A Minister

4. In line with Section 84 of the 1999 Constitution, the following officers" remuneration and allowances are directly charged to the Consolidated Revenue Fund, except those of

   A. Auditor-General for the Federation
   B. Chief Justice of Nigeria
   C. The President
   D. The Inspector-General of Police
   E. The President and Judge of the Customary Court of Appeal of a State

5. Which of the following is not recurrent expenditure?

   A. Running Cost
   B. Salaries and Allowances
   C. Road Construction Cost
   D. Electricity Charges
   E. Pension and Gratuity

6. Who formulates the accounting policy of the Federal Government?

7. The accounting basis under which financial transactions are recorded in the public sector is…………………………………..

8. The authority which empowers government officers controlling vote to incur expenditure is called ....

9. The officer empowered to pass comments on government annual accounts is....

10. The officer responsible for the revenue and expenditure estimation and publication in the budget book is called ....

Section B

1. The office of the Accounting-General for Local Government was established in 1989 in line with the Civil Service Reform of 1988 which was excised from the State Audit Department as it was then known.

Required:

a) Highlight the framework documents that govern the operations of the Auditor-General for Local Government.

   i. Itemize SIX Statutory function of the Auditor- General for Local Government.

2. The Financial Regulations 101 describes the Accounting Officer as the head of a Ministry\Extra Ministerial Department or whoever is empowered to manage the offices of a public enterprise.

Required:

Outline 10 functions of an Accounting Officer.

3. In accordance with Section 85 (2)(3)(4) and (5) of the Constitution of the Federal Republic of Nigeria, identify the statutory functions of the Auditor- General for the Federation.

4. (a) Enumerate 4 Independence of the Auditor-General as highlighted in Sections 85(6), 87(2) , 84(4) and 84(3) of the Constitution of the Federal Republic of Nigeria.

   (b)Who is a revenue collector?

   (c) Draw the format of revenue collector cashbook

   (d) State 6 functions of the revenue collector

SOLUTION TO END OF CHAPTER REVIEW QUESTIONS

Section A

1. C

2. E

3. B

4. D

5. C

6. Accountant-General

7. Cash Basis

8. Warrant

9. The Auditor-General

10. Director of Budget

Section B

1a. The office of the Auditor- General for Local Government operates within the following legal framework:

i. The Local Government financial memoranda
ii. Guideline on local government operations
iii. Updated circulars issued from time to time

1b. The Statutory functions of the Auditor –General for Local Government are:

i. He is responsible for the audit of the financial statements of Local Government.
ii. He evaluates the integrity and validity of the financial statements of all local governments and writes reports on them.
iii. He approves sanctions/surcharges through the local government service commission.
iv. Carrying out prepayment audit of gratuity and pension of local government retirees, teaching and non-teaching staff of primary schools in the state.
v. Issuing annual statutory audit reports.
vi. Executing pre-payment audit of major projects of local governments.
vii. Ensuring that proper and adequate system of accounts is established and maintained.
viii. Ensuring that effective and efficient Internal Control System is established in the local governments.
ix. Reporting any defect in procedures for revenue collection and

expenditure disbursements.

x. Heading the Losers and Audit Alarm Committee at the Local Government level.

2. FUNCTIONS OF THE ACCOUNTING OFFICER

(a) To ensure that proper budgetary and accounting systems are established and maintained to enhance internal control, accountability and transparency.

(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/Extra-Ministerial 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.

(i) Ensuring that proper assessments, fees , rates and charges are made where necessary.

(j) Ensuring adequate collection and accounting for all public moneys received and expended.

3. The Statutory functions of the Auditor-General for the Federation are:

i) S. 85 (2): The public accounts of the Federation and of all offices and courts of the Federation shall be audited and reported on by the Auditor-General to the National Assembly, for that purpose, he shall have access to all the books, records, returns and other documents relating to those accounts.

ii) S. 85 (3): Though the Auditor-General is not authorised to audit the accounts or appoint auditors for government statutory corporations, commissions, authorities, agencies, including all persons and bodies established by an Act of The National Assembly, but the Auditor-General shall:-

(a) Provide such bodies with;

(i) A list of qualified and experienced auditors from which the bodies shall appoint their external auditors and

(ii) Guidelines on the level of fees to be paid to the external auditors. (b) Comment on their annual accounts and auditors reports thereon.

(iii) S. 85 (4): He shall have power to conduct periodic checks on all government statutory corporations, commissions, authorities, agencies etc. including all persons and bodies established by an Act of The National Assembly.

(iv) S. 85(5): He shall, within ninety days of receipt of the Accountant-Generals Financial Statements, submit his reports to each House of the National Assembly

4 a The constitutional provisions which insulate the Auditor-General from being compromised are:

i) S. 85(6): In the exercise of his constitutional functions, the Auditor-General shall not be subject to the direction or control of any other authority or person.

ii) S 87(2):The Auditor-General shall not be removed from office before his retiring age as may be prescribed by law, except for inability to perform the functions of his office or for misconduct.

iii) S 84(4): The remuneration of the Auditor-General shall be drawn from the Consolidated Revenue Fund of the Federation.

iv) S 84 (3): His remuneration and salaries as well as conditions of service other than allowances, shall not be altered to his detriment after his appointment.

b. A '"Revenue Collector" is an officer who is saddled with the responsibility of collecting some specified forms of revenue on behalf of the Government. He is issued an official Treasury Receipt Book 6A for the regular collection of particular items of revenue as specified in the estimate.

A Revenue Collector should maintain a recognised revenue cashbook. He is responsible to the Accounting Officer of the Ministry/Department who will prepare a code of instructions of the procedures to be followed, to ensure prompt and up-to-date collection of government revenue. It is worthy of note that where the Revenue Collector is entrusted with the collection of more than one form of revenue, he should keep a " Revenue Classification Slip" where the Date, Description, Amount, Head, Sub-head and the form of revenue are specified.

c. FUNCTIONS OF A REVENUE COLLECTOR

i. He is required to exercise total authority over the receipt of all revenue accruable to Government and ensure prompt, accurate and up-to-date collection.
ii. He is to classify all his collections under proper heads and sub-heads of all revenue.
iii. He is to safeguard all public funds, securities and paper money entrusted to him.
iv. As a routine function, he should check all cash in his care and reconcile same with the balance in the cash register.
v. He should promptly report any anomaly discovered by way of fraud or mis-appropriation of government money in his care, to a superior officer.
vi. He should ensure that adequate, up-to-date, accurate and reliable accounting records are kept.
vii. He should ensure that the cash limit balance that should be in his possession is not exceeded.
viii. He is to report to his superior officer any loophole that may be exploited by subordinate officers in the modalities employed in the collection of government revenue.
ix. He is responsible for the disclosure of all cash, stamps, paper moneys, securities, e.t.c, and balances in his custody when Board of Survey is raised by the Accountant-General.
x. He should display effective supervision of the officers under his authority to ensure prompt and accurate collection of revenue.

CHAPTER FOUR

SOURCES OF GOVERNMENT REVENUE CHAPTER

CONTENTS

4.0 LEARNING OBJECTIVES

At the end of this chapter, candidates should be able to:

i. identify the general sources of government revenue;

ii. discuss the major revenue collection agencies of the government.

iii. list the sources and classification of government revenue in Nigeria and their groupings into the Consolidated Revenue Fund, the Federation Account, the Development Fund and the Contingencies Fund;

iv. trace the transfer of appropriations from the Federation Account and the Consolidated Revenue Fund, into the Development Fund and Contingency Fund; and

v. distinguish the different revenue fund/account and prepare them with relevant information.

vi. Establish the procedures adopted to estimate governments" revenue needs in Ghana

4.1 INTRODUCTION

Government generates revenue from various sources to run the administration of the Nation and execute development projects in all sectors of the economy. Such revenue is generated through efficient and effective machinery and allocated through the budgetary system to the spending organisations, for their operations.

A good system of revenue generation is paramount to ensure that government mobilises enough finances for the expenditure of the nation to meet the varied needs of the people.

4.2 GOVERNMENT REVENUE AND SOURCES

Government revenue refers to the income generated by the government through various incomes inside and outside the particular government. The following are the general sources of revenue of various governments:

(a) ***Taxation:*** is a compulsory levy imposed by the government where no direct benefit is received by citizens from the government. The levy is usually payable at different rates depending on the nature of economic activity conducted by an individual or firm.

(b) ***Fees:*** these are payments made by users of public services on a cost sharing basis.

(c) ***Fines:*** refer to the penalties imposed by government against law breaches, i.e. any person or firm from which has been proved guilty by law must be exposed to specific fines as compensation for the destruction made by the person or firm and the collected amount being revenue for the government.

(d) ***Grant:*** refer to non-payable money received by the government from another government with the aim of helping such government either to improve or to start a project which is of great importance to the society of such government.

(e) ***Foreign Investment:*** sometimes government may decide to invest beyond its boundary provided there is a proof for sustainable and profitability cash flow. The obtained amounts after operation constitute revenue for the particular government.

(f) ***Public Debt or borrowing:*** becomes an important source of income to the government when revenue collected from taxes and other sources is not adequate to cover government expenditure. Such borrowings become more necessary in times of financial crises and emergency like war, droughts, etc. Public debt may be raised internally or externally. Internal debt refers to public debt floated within the country, while external debt refers to loans floated outside the country.

(g) ***Sales of National Assets:*** selling national assets through privatisation programmes has a constituted a significant source of government revenue across the globe. Revenue from this source is usually used to improve finances or invest in new infrastructure and other key priorities.

4.3 REVENUE COLLECTING AGENCIES IN NIGERIA

Several Agencies are responsible for revenue collection from the various sources and they are as follows:

4.3.1 Nigerian National Petroleum Corporation (NNPC)

NNPC has sole responsibility for upstream and downstream developments, and is also charged with regulating and supervising the oil industry on behalf of the Nigerian Government. Its specific functions and roles include inter alia;

(a) exploration and production, refining, purchasing and marketing of petroleum, its products and by-products;

(b) providing and operating pipelines, tanker-ships and other facilities for the conveyance of crude oil;

(c) constructing, equipping and maintaining tank farms;

(d) research and development; and

(e) doing anything for the purpose of giving effect to agreements entered into by the federal government with a view to seeking participation by the government or the corporation in activities connected with petroleum.

4.3.2 Federal Inland Revenue Service (FIRS)

The FIRS is to control and administer the different taxes (Companies Income Tax Act, Petroleum Profits Tax Act, and Value Added Tax Act; Personal Income Tax Act in respect of residents of the Federal Capital Territory, members of Nigeria Police Force, members of Armed Forces of Nigeria as well as staff of ministry of foreign affairs and non-residents; and Capital Gains Tax Act and Stamp Duty Act in respect of residents of the Federal capital territory, corporate bodies and non-residents) and laws specified in the First Schedule or other laws made from time to time by the National Assembly or other regulations made there under by the Government of the Federation and to account for all taxes collected. Accordingly, the FIRS has been striving to operate a transparent and an efficient tax system that optimises tax revenue collection and voluntary compliance.

4.3.3 State Boards of Internal Revenue Service (SBIRS)

At the state level, the Personal Income Tax Act, 1993 established the States Board of Internal Revenue Service (SBIRS) with responsibility for personal income taxes of individuals and non corporate bodies except residents of the Federal Capital Territory, members of Nigeria Police Force, members of Armed Forces of Nigeria as well as staff of ministry of foreign affairs and non-residents. In addition, it has responsibilities for Capital Gains Tax Act and Stamp Duty Act except those aspects relating to residents of the Federal capital territory, corporate bodies and non-residents. Generally, the States Board of Inland Revenue Service has the power to and be responsible for:

(a) Assessing, Collecting and Accounting for all taxes, fees, and levies in the State. The Commissioner of Finance is to prescribe the manner the Board is to account for the taxes, fees and levies collected;

(b) Supervise the collection of all revenues due to the State Government with other ministries, extra Ministerial Department, Parastatals and Government Companies.

(c) Revise all obsolete rates collectable by the Board and initiate review and advice the Governor on it.

(d) Liase on tax and revenue matters with the Federal Governments directly through the Joint Tax Board and make recommendations where appropriate to the Joint Tax Board on Tax policy, tax reform, tax registration, tax treaties and exemption as may be required from time to time.

(e) To administer the provisions of the Personal Income Tax Act 1993 as amended and relevant tax laws in the State.

(f) To generally, control the management of the service on matters of policy subject to the provisions of the edicts and imposing discipline on employees of the State Internal Revenue Service.

4.3.4 DEPARTMENT OF PETROLUEM RESOURCES (DPR)

DPR has the statutory responsibility of ensuring compliance to petroleum laws, regulations and guidelines in the Oil and Gas Industry. The discharge of these responsibilities involves monitoring of operations at drilling sites, producing wells, production platforms and flow stations, crude oil export terminals, refineries, storage depots, pump stations, retail outlets, any other locations where petroleum is either stored or sold, and all pipelines carrying crude oil, natural gas and petroleum products, while carrying out the following functions, among others:

(a) Supervising all Petroleum Industry operations being carried out under licences and leases in the country;

(b) Monitoring the Petroleum Industry operations to ensure that they are in line with national goals and aspirations including those relating to flare down and Domestic Gas Supply Obligations;

(c) Ensuring that Health Safety& Environment regulations conform to national and international best oil field practice;

(d) Maintaining records on petroleum industry operations, particularly on matters relating to petroleum reserves, production/exports, licences and leases;

(e) Advising Government and relevant Government agencies on technical matters and public policies that may have impact on the administration and petroleum activities;
(f) Processing industry applications for leases, licences and permits;
(g) Ensuring timely and accurate payments of Rents, Royalties and other revenues due to government; and
(h) Maintaining and administering the National Data Repository (NDR).

4.3.5 Nigeria Customs Service (NCS)

The Nigeria Customs Service statutory functions can be broadly classified into two main categories namely, core and other functions:

4.3.5.1 Core Functions

The two core functions are:

(a) Collection of Revenue i.e. Import and Excise Duties and Accounting for same.
(b) Prevention and suppression of smuggling.

4.3.5.2 Other Functions

The category of others function include:

(a) Implementation of Government Fiscal Measures
(b) Generation of statistical data for planning purpose
(c) Trade Facilitation
(d) Implementation of bilateral and multilateral agreements entered into by government
(e) Collection of levies and charges
(f) Collaborative functions with government Agencies including CBN, Police, NDLEA, SON, NAFDAC, FIRS, etc.

In addition to these core and group of other functions, the Service also supports the combating of:

(a) Illegal commercial activities and trade in illicit goods, e.g. import of fake and sub-standard goods
(b) Infraction on Intellectual Property Rights
(c) Illegal international trade in endangered species
(d) Illegal trade in arms and ammunition
(e) Money laundering
(f) Traffic of illicit drugs
(g) Illegal trade in cultural Artifacts.
(h) Importation of pornographic materials
(i) Importation of toxic and hazardous substances.

4.4 SOURCES AND CLASSIFICATIONS OF GOVERNMENT REVENUE IN NIGERIA

The Federal Government derives its revenue from different sources, Thee Federal Government of Nigeria revenue sources were classified into three groups, viz:

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

4.4.1 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 formulas over the years as shown in the table below.

REVENUE ALLOCATION FORMULA

ITEMS	Initial 1981 Act 1/	Revised 1981 Act	1990	January 1992	June 1992 to April 2002	May 2002 (1st Executive Order) *	July 2002 (2nd Executive Order) *	March 2004 (Modified from FMF) 2/ *
Federal Government	**55.0**	**55.0**	**50.0**	**50.0**	**48.5**	**56.0**	**54.68**	**52.68**
State Government	**26.5**	**30.5**	**30.0**	**25.0**	**24.0**	**24.0**	**24.72**	**26.72**
Local Government	**10.0**	**10.0**	**15.0**	**20.0**	**20.0**	**20.0**	**20.60**	**20.60**
Special Funds	**8.5**	**4.5**	**5.0**	**5.0**	**7.5**			
*-A) Derivation (Oil-Producing States)**	2.0	2.0	1.0	1.0	1.0	0	0	0
-B) Dev. Of Mineral Producing Areas	3.0	1.5	1.5	1.5	3.0	0	0	0
-C) Initial development of FCT Abuja	2.5	0	1.0	1.0	1.0	0	0	0
-D) General Ecological problems	1.0	1.0	1.0	1.0	2.0	0	0	0
-E) Stabilisation	0	0	0.5	0.5	0.5	0	0	0
-F) Savings	0	0	0	0	0	0	0	0
-G) other Special Projects	0	0	0	0	0	0	0	0
TOTAL	100	100	100	100	100	100	100	100

1. *Nullified by Supreme Court in October 1981*
* *From the 1999 Constitution, the 13% Derivation provision is accounted for before the revenue is allocated into the federation account.*

2. *the current revenue formula is based on the modified grant from the Federal Ministry of Finance, which came to effect in March, 2004*

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.
- The allocations 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 26.72%.
- The Local Government allocation from the net balance is shared between the 774 Local Governments in Nigeria.
- The allocation to the 36 States and Abuja treated as a `State' for this purpose, is redistributed from 1990 till date, using the following criteria;

  40% on the equality of all States;
  40% on population;
  10% on independent revenue effort.
  10% on social development-***Education (4.0%), Health (3.0%), and Water (3.0%)***
  100%

4.4.2 FEDERATION ACCOUNTS ALLOCATION COMMITTEE - FAAC.

Federation Accounts Allocation Committee (FAAC) was set up by Allocation of Revenue (Federation Account, etc.) Act, Cap. A15, LFN 2004 to deliberate upon and allocate funds from the Federation Account to the three tiers of Government (Federal, State and Local Governments. The Federation Accounts Allocation Committee (FAAC) meeting is normally divided into two institutionally sessions, namely

i) Technical Session

ii) Plenary Session

Membership of Federation Accounts Allocation Committee (FAAC) Technical Session

a) Accountant-General of the Federation- Chairman
b) States' Accountant-General
c) Representatives of the Agencies

   i) Nigeria National Petroleum Corporation (NNPC)

   ii) Federal Inland Revenue Service (FIRS)

   iii) Nigeria Custom Service (NCS)

   iv) Department of Petroleum Resources (DPR)

   v) Revenue Mobilization, Allocation and Fiscal Commission

vi) Federal Ministry of Finance

vii) Central Bank of Nigeria (CBN)

viii) National Planning Commission

ix) Office of States and Local Government Affairs

x) Office of the Vice President

xi) Directorate of Military Pension

xii) Office of Head of Service of the Federation

xiii) Department of Civil Pension

Functions of Technical Session

i) To consider the accounting returns of revenue Collecting Agencies

ii) The deliberate and consider the revenue available for distribution

iii) Make recommendation to the Plenary session foe the adoption of the revenue to be shared to the three tires of the government

iv) To consider any other issues sent from the Plenary Session.

Membership of Federation Accounts Allocation Committee (FAAC) Plenary Session

a) The Honourable Minister of Finance- Chairman
b) The State Commissioners of Finance
c) The Accountant-General of the Federation
d) The State Accountant- Generals
e) Representatives of the thirteen Organisations mentioned under membership of Federation Accounts Allocation Committee (FAAC) Technical Session

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.

4.4.3. SOURCES OF REVENUE PAYABLE TO THE FEDERATION ACCOUNT

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 foreigners residing in Nigeria.

(b) **Head 2 - Indirect Taxes:** These are taxes on 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.

4.5 FEDERAL GOVERNMENT ACCOUNT OR CONSOLIDATED REVENUE FUND

The Consolidated Revenue Fund (CRF) 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.

4.5.1 ANALYSIS OF THE VARIOUS SOURCES OF REVENUE PAYABLE TO CRF

Analyses of various sources of income are given below:

(a) **Head 6-**Direct allocation from the Federation Account at the prevailing rate.

(b) **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.

(c) **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.

(d) **Head 9-Mining:** These include mining fees, rent of crown lands, royalties on gold, tin, iron ore, and coal mines.

(e) **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.

(l) **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.

4.5.2 CHARGES 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:

(ii) Police Service Commission.

(iii) Public Complaints Commission

(iv) Public Service Commission

(v) Nigerian Law Reform Commission

(vi) Independent National Electoral Commission.

(vii) Auditor - General for the Federation.

(viii) President and Justices of the Federal Court of Appeal

(ix) Chief Judge and Judges of the Federal High Court

(x) 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.

4.6 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).

Presently the Value- Added Tax is chaired among the three tiers of government as follows:

Federal Government	15%
State Governments	50%
Local Governments	35%
Total	**100%**

4.7 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 to the beneficiaries, in accordance with the 1999 Constitution, using stipulated criteria which include Equality, Population, Primary School Enrolment and Internally Generated Revenue.

4.7.1 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.

4.8 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 of the Finance (Control & Management) Act of 1958. The Fund was 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.

4.8.1 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.

The sources of finance into and the disposal from the Development Fund can be diagrammatically represented, as follows:

4.9 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.

4.9.1 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 1: - The following information were released by the Office of the Accountant General of the Federation for the year ended 31st December 200X: -

(Ignore cost of collection and derivation)

	₦"000
Import Duties	300,000
Export Duties	550,000
Excise Duties	710,000
Petroleum Profit Tax	4,000,000
Capital Gains Tax	40,000
Companies Income Tax	1,200,000
Sale of Crude Oil	12,000,000
Royalty on Oil	2,000,000
Royalty on Coal	80,000
Royalty on Limestone	50,000
Mining Licenses	4,000
Court Fees	3,000
Court Fines	4,000
Medical Fees	4,500
Visa Fees	1,500
VAT – Abuja Sales	4,000

PAYE – Armed Forces Personnel	600
PAYE – Ministry of External Affairs Personnel	200
Repayment of Loan – State Government	12,000
Rent of Government Property	3,000
Interest on Investments	1,000
Re-imbursement	11,000

The following expenditure items were incurred during the year:

		₦"000
(i)	Personnel Cost	900,000
(ii)	Overheads	4,000,000
(iii)	Transfer to Development Fund	3,000,000
(iv)	Transfer from Contingencies Fund	2,000,000
(v)	Transfer to Contingencies Fund	1,000,000
(vi)	Remuneration of Supreme Court Judges	1,500,000
(vii)	Remuneration of High Court Judges	600,000
(vii)	Pensions & Gratuities of Armed Forces Personnel, Police e.t.c.	450,000

You are required to prepare for the year ended 31st December 200X:-

(a) Federation Account Statement

(b) Consolidation Revenue Fund Account
Statutory Allocation formula to be applied is as follows:

- Federal Government	48.5%
- State Government	24.0%
- Local Government	20.0%
- Special Fund	7.5%

EXPLANATORY NOTES:
In answering this question, efforts should be made to identify and distinguish between the sources of revenue that are accruable to Federation Account and Federal Government Account.

Solution to Illustration 1

i. **FEDERAL ACCOUNT STATEMENT FOR THE YEAR ENDED DECEMBER 200X**

31ST	₦"000	₦"000
Import Duties		300,000
Export Duties		550,000
Excise Duties		710,000
Petroleum Profit Tax		4,000,000
Capital Gains Tax		40,000
Companies Income Tax		1,200,000
Sale of Crude Oil		12,000,000
Royalties on Oil		2,000,000
		20,800,000

STATUTORY APPROPRIATION

Federal Government	48.5% of 20,800,000	(10,088,000)	
State Government	24.0% of 20,800,000	(4,992,000)	
Local Government	20.0% of 20,800,000	(4,160,000)	
Special Fund	7.5% of 20,800,000	(1,560,000)	20,800,000
	Balance	NIL	

ii. **CONSONLIDATED REVENUE FUND AS AT 31ST DECEMBER 200X**

	₦"000	₦"000
Allocation from Federation Account		10,088,000
Royalty on Coal		80,000
Royalty on Limestone		50,000
Mining Licenses		4,000
Court Fees		3,000
Court Fines		4,000
Medical Fees		4,500
Visa Fees		1,500
PAYE – from Armed Forces Personnel		600
PAYE – from Ministry of External Affairs Personnel		200

Repayment of Loan – State Government		12,000
Rent on Government Property		3,000
Interest on Investments		1,000
Re-imbursement		11,000
		10,262,800
Transfer from Contingencies Fund	2,000,000	
Transfer to Contingencies Fund	(1,000,000)	1,000,000
Expenditure		
Personnel Cost	900,000	
Overheads	4,000,000	
Transfer to Development Fund	3,000,000	
Remuneration of Supreme Court Judges	1,500,000	
Remuneration of High Court Judges	600,000	
Pensions & Gratuities of Armed Forces and police personnel	450,000	(10,450,000)
Balance as at 31 December 200x		812,800

Illustration 2

From the following information which were extracted from the office of the Accountant-General, prepare a statement of CRF for the year ended 31st December 20XX:

	₦"000
Bal b/f	15,000,000
Treasury Bills issued during the year	18,000,000
Treasury Bills paid	10,000,000
Transfer from contingencies fund	15,000,000
Transfer to contingencies fund	8,000,000
Revenue received for the year	180,000,000
Expenditure for the year	140,000,000
Transfer to Development fund	30,000,000

SUGGESTED SOLUTION

Illustration 2

FEDERAL REPUBLIC OF NIGERIA

Consolidated Revenue Fund for the year ended 31 December, 20xx

	N'000	**N000**
Balance b/f (1/1/20xx)		
Transfer from Contingencies Fund	15,000,000	
Transfer to Contingencies Fund	(8,000,000)	7,000,000
Treasury Bills issued (1/1/20xx to 31/12/20xx)	18,000,000	
Treasury Bills paid	(10,000,000)	8,000,000
Appropriations		
Revenue Received for the Year	180,000,000	
Expenditure for the year	(140,000,000)	
	40,000,000	
Transfer to development Fund	(30,000,000)	10,000,000
Balance at 31/12/20xx		**40,000,000**

Illustration 3

The following was extracted from the office of the Accountant-General of the Federation for the month ended 31st March 20XX

	₦"000
Capital Gains Tax	450,000
Companies Income Tax	300,000
Petroleum Profit Tax	2,105,000
Excise Duties	102,000
Import Duties	210,000
Export Duties	115,000
PAYE Deductions from the Emoluments of: -	
– Armed Forces	12,000
- Nigeria Police Force	7,000
– Staff of Ministry of External Affairs	6,000
Residents of Federal Capital Territory	4,000
Rent of Government property	3,000
Interest on Investments	1,000
Re-imbursements	11,000

The following expenditure items and appropriations were affected during the year: -

	₦'000
Transfer to Contingencies fund	25,000
Transfer from Contingencies fund	18,000
Transfer to Development fund	42,000
Recurrent Expenditure	830,000

Salaries and allowances of

a) Supreme Court Judges	22,000
b) Auditor-General for the Federation	4,000
c) Federal Court of Appeal Judges	18,000
d) Nigeria Law Reform Commission	5,000

The revenue allocation formula is as follows: -

Federal Government	50%
State Government	30%
Local Government	20%

You are required to prepare:

i. The Federation Account.

ii. The Consolidated Revenue Fund Account for the month of March 20xx.

SOLUTION TO ILLUSTRATION 3

THE FEDERATION ACCOUNT FOR THE MONTH OF MARCH 20XX

	₦'000	₦'000
Capital Gains Tax	450,000	
Companies Income Tax	300,000	
Petroleum Profit Tax	2,105,000	
Excise Duties	102,000	
Import Duties	210,000	
Export Duties	115,000	3,282,000

Less

STATUTORY ALLOCATION (OF N3,072,000,000)

Federal Government 50%	1,641,000	
State Government 30%	984,600	
Local Government 20%	656,400	(3,282,000)
Balance		NIL

CONSOLIDATED REVENUE FOR THE MONTH OF MARCH 20XX

	IN"000	₦"000
Federation Account Allocation	1,641,000	
Payee Deductions (W1)	29,000	
Rent of Government Properly	3,000	
Interest on Investments	1,000	
Re-imbursement	11,000	1,685,000
Transfer from Contingencies Funds	18,000	
Transfer to Contingencies Fund	(25,000)	(7,000)
		1,678,000

APPROPRIATIONS/CHARGES/EXPENDITURE

Recurrent Expenditure	830,000	
Salaries and Allowances of Statutory officers (w2)	49,000	
Transfer to Development Fund	42,000	(921,000)
Balance as at 31st March 20xx		757,000

(i) Working 1 Payee Deductions: ₦(12,000 +7,000 + 6,000 + 4,000) ₦29,000

(ii) Working 2 Salaries/Allowances of Statutory Officers:

₦(22,000 + 4,000 + 18,000 + 5,000) = ₦

4.10 SOURCES OF STATE AND LOCAL GOVERNMENT FINANCE (GHANA)

4.10.1 STATE/CENTRAL GOVERNMENT

4.10.2 PUBLIC MONEY

Government revenue is made up of public money which comes from

a. tax and non-tax revenue and grants, and

b. other sources

(a) Tax Revenue

This is a main source of government revenue. Tax revenue is collected from individuals, in their private capacities and organisations.
According to the principles of public finance, tax revenue should be the main source of finance for the public sector.
Tax is divided into „direct tax‟ and „indirect tax‟.

Direct Tax: The tax is paid directly by individuals and organisations. It is charged on the income that they earn from their professions and operations.

Examples of direct tax are:

Income tax: - This is paid by individuals on their income.

Corporate Tax: - It is paid by business organisations on the profits which they make from their operations.

Indirect Tax: - This is a tax which is not paid directly by the person who suffers or bears the burden. This type of tax is imposed on goods and services that are bought and consumed by individuals.

Examples of Indirect Tax are:

Petroleum Tax: - Such tax is put on the price of petrol or gas fuel

Value Added Tax: - This tax is imposed on some classes of goods and services.

Import Duties: - Taxes put on goods imported into the country

Export Duties: - Taxes levied on goods exported out of the country

(b) Non-tax Revenue

This is made up of all revenue, other than taxes, generated by Government. Examples of non-tax revenue items are internally generated revenue, fines and penalties imposed by law enforcement agencies and the courts.

(c) Internally Generated Revenue

This is income generated by government departments from various internal activities or operations that they undertake. The income is also known as user-fee‟ or user- charge.

Examples of such internally generated revenue include are:

- Fee collected by the passport office of the Ministry of Foreign Affairs
- Fees collected by Vehicle Examination and Licensing Department
- Product testing fees received by the Standards Board
- Academic Facility User Fees (AFUF) of the Universities of Ghana

4.11 LOCAL GOVERNMENT/DISTRICT ASSEMBLY REVENUE (GHANA)

4.11.1 CENTRAL GOVERNMENT REVENUE

These are income items that central government make available to the local governments or „district assembly‟, apart from the Common Fund. Examples of the revenue items are:

(a) Grants-in-aid

These are donations received from foreign governments through the central government.

(b) Recurrent Transfers

These are money that the central government makes available to meet the running costs, remuneration and pensions of the staff of district assemblies‟.

(c) Ceded Revenue

Ceded revenue is the money which central government has given over to district assemblies, beginning from the decentralisation period. The revenue items include casino revenue, betting and advertisement taxes and entertainment duty

4.12 LOCALLY GENERATED REVENUE (GHANA)

The revenues items that district assemblies generate locally include:

a. Rates and levies on animals such as cattle

b. Taxes on the income of self-employed persons/businesses as auto mechanics
c. Interests on Investments
d. Profits from trading activities and projects
e. Collections on vehicle licences for carts, wagons, trucks, bicycles, etc.
f. Loans. An assembly can raise an overdraft or loan facility to the tune of ¢20 million, subject to the approval of the Ministers of Local Government and Finance.
g. General and specific grants from both local and foreign donors

4.13 LOANS AND GRANTS (GHANA)

4.13.1 Loans

Loans are money that government secures from either the local or foreign sources. Local loans are contracted mainly through the central bank and usually in the form of securities such as Treasury Bills and Bonds.

Foreign loans are secured from either governments or International bodies, such as International Money Fund and World Bank.

4.13.2 Grants

These are received by Government from other countries and International bodies for specified projects. Grants are free money and are not refundable.

Grants are of two kinds. They are specific grants and general grants.

A specific grant is not for any particular purpose, such as building a community school for a village. It is also called programme or project support.

A general grant is not for any identified activity. Such a grant is used discretionally. It is also called „budget support‟. To ensure that the „budget support‟ is not in excess of what the government requires, the donors pool their resources together. The fund pooled together is referred to as multi-donor „budget support‟ (MDBS).

4.14 OTHER PUBLIC MONEY (GHANA)

The categories here embraces:

a. government loans and advances repaid
b. dividends from shares in profit-making organisations
c. interest earnings
d. sale of government financial securities and instruments
e. sale of government equity investments
f. sale of government property

4.14.1 Trust Money

Other receipts of Government are trust money. Government holds it for other organisations. Such money is called Special or Trust Fund. An example is superannuation fund which the government holds in trust for its employees, until they retire.

4.15 REVENUE ESTIMATION (GHANA)

Ghana"s Financial Administration Regulation, Section 159, spells out the procedure that the Head of department of a government organisation should follow when estimating the revenue which the department will be able to generate during a budget year.

The head of department should

i. identify all activities that already generate revenue
ii. identify all activities that have the potential to generate revenue
iii. estimate the frequency of these activities and calculate the revenue arising from these activities; and
iv. produce a monthly forecast, identifying when revenue flows are anticipated to take place

A Head of department is expected to examine how past revenue estimates have fared, compared with collections.

The estimates to be made are to be based on current rates or charges. Where there is a desire to make proposals for changes in the rates or charges, the Head of department should highlight the resultant impact.

Where a department is legally authorised to use part of the revenue that it generates, the expectation is that the Head of department will disclose the amount as part of the department's annual non-tax revenue.

4.16 FEDERAL/UNITARY GOVERNMENT ACCOUNTS

Government accounts may be discussed as either federal or unitary in nature, depending on the form of political arrangement of a Nation.

The country may be considered as a group of semi-autonomous units or territories which may be grouped together under a federal system of government. An example is the case of Nigeria.

A country may be running a unitary form of government where such autonomous or semi- autonomous forms of units or territories do not exist. In this case, the accounts of such a Nation will be „unitary account". This is the case in Ghana, inspite of the classifications stated above, accountability is done by Government through public accounts.

4.17 PUBLIC ACCOUNTS (GHANA)

The term „public account" is used generally in the FAA and FAR to mean all documents and records pertaining to public and trust money received into, held in and paid from the Consolidated Fund (Section 74 of FAA). The FAA Sections 40 and 41 as well as Regulation 191 of the FAR define public accounts as comprising the following:

(a) A statement of the financial assets and liabilities of the Consolidated Fund at the close of the financial year, annotated with such qualifying information as may affect the significance of figures shown in the statement;

(b) A summary statement of the receipts into and payments from the Consolidated Fund in comparison with the budget summary for the financial year;

(c) A statement of the revenue and expenditure for the financial year in comparison with the approved revised estimates for the year;

(d) A statement of transactions during the year and an analysis of the position at the end of the year for

i. the public debt;
ii. deposits and other trust moneys;
iii. the securities of government;
iv. advances;
v. public loans;
vi. equity investments of the Consolidated Fund
vii. a cash flow statement of the Consolidated Fund for the year; and
viii. such other statement as may be required by any enactment.

Keeper of Public Accounts

The Regulations require that the Controller and Accountant-General prepares and keeps the Public accounts in Ghana.

4.18 DEPARTMENTAL ACCOUNTS (GHANA)

Each MDA is required to prepare the accounts of a department on monthly and annual bases which shall comprise

i. a balance sheet, showing the assets and liabilities of the department as at the end of the year;
ii. a statement of revenue and expenditure for the year;
iii. a cash flow statement of the department for the year; and
iv. notes that form part of the accounts which shall include particulars of the extent to which the performance criteria in the estimate in relation to the provision of the department's output were satisfied.

NB. Department as used in the FAA and the FAR includes Ministries and Agencies of Government (Section 74 of FAA)

4.18.1 OTHER GOVERNMENT ACCOUNTS

These refer to other records that cover the collection of revenue, control of expenditure in departments, the administration of trust funds, management of public stores and other financial businesses.

Keeper of Other Government Accounts

The Regulations requires that such records are kept by the Heads of departments in the relevant Ministries, Departments and Agencies.

4.19 THE FUND SYSTEM OF ACCOUNTING (GHANA)

Public funds are money owned by a Nation, controlled and applied by the central government for public works and services. In Ghana, such funds consist of the Consolidated Fund, Contingency Fund and other funds that Parliament may establish under any special Act.

The fund accounting system is a concept which is used to describe how government resources are accounted for from one major fund source. The word „fund‟ is therefore used to describe the whole government set-up as one big fund in terms of structure.

4.19.1 DEFINITION OF FUND

Technically a „Fund‟ is an independent accounting entity which can command the use of resources; hence, the need to set up an accounting system for it which is made up of a self-balancing set of accounts. Financial reports are therefore presented showing the operation of a fund system.

Public Sector Accounting is at times described as fund accounting, the emphasis being on the term "fund‟, to represent the various splinter organisations, departments and units within the whole government set-up which utilise the taxpayer' s money and other revenue. Accounting systems are therefore set up for such departments and units to render stewardship for the resources made above.

The fund system of accounting is operated through series of rules and laws that are passed by the Legislature, to ensure that the resources are well utilised by the relevant government institutions.

4.19.2 TYPES OF FUND (GHANA)

The various fund systems in Ghana's government accounting are enumerated as follows:

(a) **Public Funds**

In accordance with Article 175 of the Constitution and Section 5 of the FAA, the public funds of Ghana consist of the Consolidated Fund, the Contingency Fund and such other funds as may be established by or under an Act of Parliament.
Examples of funds established by Acts of Parliament are:

i) The Road Fund, 1997 (Act 536)
ii) The Ghana Education Trust Fund, 2000 (Act 581)
iii) District Assemblies Common Fund, 1993 (Act 455)
iv) Ghana Investment Fund, 2002 (Act 616)
v) Venture Capital Trust Fund, 2004 (Act 680)
vi) Business Assistance Fund
vii) HIPC Fund
viii) Social Investment Fund

The term "Public Funds" is generic and used to describe all public money. It is the summation of all funds established by the Constitution, Acts of Parliament or under the authority of Acts of Parliament. The Consolidated Fund, Contingency Fund, Road Fund are subsets of the universal set of public funds.

(b) **The (General) Consolidated Revenue Fund**

The Consolidated Fund holds all forms of money that belong to the Central Government, except revenue and other money:

i. payable by or under an Act of Parliament into some other Fund established for a specific purpose (e.g. Contingency Fund and Road Fund; or
ii. that may, under an Act of Parliament, be retained by the department, or
iii. agency of Government that received them for the purpose of defraying the expenses of that department or agency.

This means that revenue collected and payable into Road Fund, GET fund, or any other fund legally established and any money collected and legally retained by MDAs that collected them do not form part of the Consolidated Fund – See Article 176 (1) and (2) of Constitution and Section 6 (1) and (2) of the FAA.

In Nigeria, Section 80 of the 1999 Federal Constitution specifies the Consolidated Revenue Fund as the main Fund into which "all revenues generated for the State should be paid into, and out of which all legally authorised expenditures should be paid from".

(c) The Contingency Fund

This is the Fund established for any unbudgeted expenditure which comes up as very urgent or was unforeseen during the financial period. An instance is meeting expenditure on unexpected flood disaster, or outbreak of some disease in a certain part of the Nation. The Constitution provides that money voted for the purpose shall be paid into the Contingency Fund and advances made from it, duly authorised by the appropriate committee of Parliament.

Furthermore, where an advance is made from the Contingency Fund, a supplementary estimate shall be presented as soon as possible to Parliament for the purpose of replacing the amount so advanced. The Fund, if established, is under the Finance Committee of Parliament and not the President or Minister responsible for Finance.

In Ghana, Parliament is expected to vote money to be transferred into the Contingency Fund, to be used when any contingency arises (Article 177). In Nigeria, the setting up of a Contingency Fund is authorised in Section 123 (1) of the Federal Constitution.

(c) Contingency Reserve Fund

This fund is that part of the approved appropriation which is set aside by the Executive. It is normally part of the planned expenditure (possibly a certain percentage of all estimates or votes), which is deducted and reserved, with the aim of helping out any spending organisation in the future to meet any unexpected spending.

This reserve fund is within the control of the Executive and can help out a spending organisation in the event of the need for assistance, and reduce significantly the problem of going through either supplementary request from the Legislature or the issue of looking for areas of possible virement.

Contingency Reserve Fund is a ready succour for unexpected shocks, though its existence can encourage misuse of funds, especially when the reserve swells over the years and proper guidelines and control for its use are not effected.

(e) Internally Generated Funds

Internally generated funds are from the activities of a government agency, other than taxes, collected by the Revenue Agencies, and includes non-tax revenue.

(f) Capital Project Fund

This fund is established to accumulate money saved to undertake projects or for the acquisition of capital assets.

(g) National Loans Fund

Where the policy of Government is to keep such a fund account, it receives the loans that are contracted, both foreign and local, and accommodates the payments of interest on such loans and the repayments of the principal sums. Transfers are made out of the fund into consolidated fund to meet any budget deficits. Monies for the loan liquidation in terms of both principal and interest payments are also made from the consolidated fund into this account.

(h) Trust and Agency Fund

This fund is established to hold money that the government holds in trust for institutions or bodies. Government holds this money as a trustee or an agent to the owners. An example is money that Government holds for International bodies as rewards to the national armed forces, for International peacekeeping assignments.

(i) Debt Service Fund/Sinking Fund

This special fund is kept as an alternative to Loans Fund, where the policy of Government is to keep loans contracted in the Consolidated Fund. The Fund is for the service of both the principal and interest payments. Consequently, transfers into the account is money from the Consolidated Fund necessary for the principal and interest payments.

An alternative to this arrangement is the creation of a Sinking Fund into which a fixed amount is paid annually for a specific loan redemption, in such a way that the annual payment which is the principal and interest earned which are reinvested will be sufficient for the future liquidation of the loan.

When a loan is due for repayment, Bank of Ghana and Accountant-General arrange for the liquidation of the Fund i.e. by selling the investments to make money available. If at any time the amount realised is less what is required for the loan liquidation, transfers are made from the Consolidated Fund to balance up.

(j) Counterpart Fund

This is a fund, which is established by Governments to support projects which are financed by foreign donations. Foreign donations are made by either cash or goods. Where donors donate goods rather than giving physical cash towards specific projects, such fund is created for any money generated from the sale of goods. The Government makes a contribution in addition to the foreign donations, towards the completion of the project.

(k) Intra-governmental Service Fund

A fund can be created as a unit with a central function of providing some basic services among government organisations or departments to ensure economy and efficiency. A stationery depot can be established within a government publishing house to supply various departments with their stationery needs.

(l) Revolving Fund

Such fund is established to „loan‟ organisations for undertaking particular projects or activities which are sold later. The proceeds of sale are paid back into the fund. For instance, the Ghana Education Service does access such funds to purchase textbooks for sale to students‟ secondary schools. The „loans‟ made are paid once the books are sold and paid for by the students.

(m) Local Government Fund

This Fund is established specifically for the activities of local governments, for the social and economic development of the individual localities and districts. In Ghana, the local government structure is made up of metropolises, municipalities and districts.

(n) The District Assemblies' Common Fund

This Fund is additional to other revenue generated by the districts.

This is the local government fund which Section 252 of the 1992 Constitution of Ghana authorised to be established.
The District Assemblies‟ Common Fund (DACF) was established by an Act of

Parliament of 1993.

The Act defines the DACF as "all monies allocated by Parliament... and any interest and dividends accruing from investments of monies from the Common Fund".
Money to be paid into the DACF Account should be at least 5% of the total annual revenue of Ghana, in quarterly instalments.

An appointed DACF Administrator oversees the use of the money provided and has the responsibility to recommend annually to Parliament ways of managing the Fund better among the various districts. A separate bank account, the Common Fund Account, is opened for each district to hold the money that is transferred by the DACF Administrator.

The DACF is to be used for developmental projects in the districts which are expected to prepare a supplementary budget, a development budget for approval before money is used from the fund.

Copies of the supplementary budgets are to be distributed to Regional Coordinating Councils, Minister of Finance, Minister of Local Government and Rural Development, the Development Planning Commission and the Common Fund Administrator.

A copy of the budget is also forwarded to the where the DACF Common Fund Account of the district is kept.

(o) **Asset Renewal Fund**: The fund is mostly used in Local Government Council to replace their equipments like harvesters, tractors, bulldozers etc.

(p) **Stabilization Fund**: It is also referred to as Revenue Fund. The fund is set aside by Government to be used later if there is any fall in revenue generated.

(q) **Special Fund**: This is a fund that is created for a specific purpose.

Examples are Education Fund, National Housing Fund, Small and Medium Enterprise Fund (SMEF), Agricultural Development Fund (ADF).

(r) **Self-Liquidating Fund:** This fund accommodates resources which are transferred occasionally. Any amount left is transferred to a current fund. An example is deposit fund.

(s) **Revolving fund:** It is also known as Working Capital Fund, created to execute services on a revolving basis. The fund generates its income to undertake programmes for which it came into being. However, it maintains the fund balance constant.

4.19.3 ADVANTAGES OF FUND ACCOUNTING

The advantages may be stated as follows:

i. It ensures financial control. When a fund is created, the purpose of the account is expressly stated as such money is meant for a particular project.
ii. It is used to highlight government policy.
iii. It facilitates co-ordination and planning of operations

4.19.4 DISADVANTAGES OF FUND

i) There is no provision for information on debtors and creditors. All transactions are on cash accounting.
ii) Assets are not capitalised. They are written off in the years of purchase.
iii) Effective financial control on all funds may be difficult.
iv) It makes consolidation of government accounts difficult.
v) Usually it is managed by incompetent government officials

4.19.5 ENTRIES OF FUND ACCOUNTING

(a) Dr. Bank Account

Cr. Fund Account

- With the proceed realised on creation of fund

(b) Dr. Fund Investment Account

Cr. Bank Account

- With value of investment purchased with fund

(c) Dr. Fund Investment Disposal Account

Cr. Fund Investment Account

- With the value of investment disposed

(d) Dr. Bank Account

Cr. Fund Investment Disposal Account

- With the proceed on disposal of investment

(e) Dr. Fund Investment Disposal Account

Cr. Fund Account

- With profit realised on disposal of investment

(f) Dr. Fund Account

Cr. Fund Investment Disposal Account

- With loss sustained on disposal of investment

Illustration: The following trust funds were created on 3 January 20xx.

	₦'000
Fola Foundation Fund	6,000
Bola Ajayi Scholarship Fund	10,000
Mobolaji Children Fund	14,000

Investments were made on these funds as follows:

3/6/20xx: Fola Foundation Fund – 500,000, ₦1.00 Cadbury shares purchased at ₦5.00 each
7/8/20xx: Bola Ajayi Scholarship Fund – 200,000, ₦1.00 Level Brothers Shares were purchased at ₦3.00 each
11/11/20xx: Mobolaji Children Fund – 1,920,000, ₦1.00 shares of Flour Mills, purchased at ₦ 5.00 each
Other transactions during the year are as follows:

15/2/20xx: Expenses of Fola Foundation Fund – ₦1,700,00

18/9/20xx: Scholarship awards under Bola Ajayi Fund ₦300,000

26/12/20xx: 420,000 shares in Flour Mills were sold for ₦1,720,000.

You are required to prepare:

a. The Trust Fund Accounts, and the Investment Accounts, and

b. Consolidated Statement of Financial Position of the Funds as at December 31, 20xx

SOLUTION

a. Bank Account

		N‟000			N‟000
3/1/20xx	Fola F.F	6,000	3/6/20xx	Fola F.F. Inv.	2,500
3/1/2oxx	Bola Ajayi S.F	10,000	7/8/20xx	Bola Ajayi S.F. Inv.	600
3/1/20xx	Mobolaji C.F	14,000	11/11/20xx	Mobolaji C.F.	9,600
6/12/20xx	Mobolaji C.F Inv				
	Disposal	1,720	15/2/20xx	Fola F F	1,700
		1,720	18/9/20xx	Bola Ajayi S F	300
			31/12/20xx	Bal c/d	17,020
31/12/20xx		17,020			

Fola Foundation Fund Account

Bola Ajayi Scholarship Fund Account

Mobolaji Children Fund Account

		N‟000			N‟000
3/6/20xx	Bank	1,700	3/1/20xx	Bank	6,000
	Bal c/d	4,300			
		6,000			6,000
				Bal b/d	4,300

		₦‟000			₦‟000
18/9/20xx	Bank	300	3/1/20xx	Bank	10,000
“	Bal c/d	9,700			
18/9/20XX	Bal b/d 9,700				

Mobolaji CF In Disposal:

		₦"000		₦"000
	Loss on Disposal	380	3/1/20xx Bank	14,000
31/12/2011	Bal c/d	13,620		
		14,000		14,000
			31/12/2011 Bal b/d	13,620

Fola Foundation Fund Investment Accounts

		₦"000		₦"000
3/6/20xx	Bank	2,500	Bal c/d	2,500
31/12/20xx	Bal b/d	2,500		

Bola Ajayi Scholarship Fund Investment Account

		₦"000		₦"000
7/8/20xx	Bank	600	Bal c/d	600
31/12/20xx	Bal b/d	600		

Mobolaji Children Fund Investment Account

		₦"000		₦"000
11/11/20xx	Bank	9,600	26/12/20xx Mobolaji C.F. Inv. Disposal	2,100
			₦(5X420,000)	
			Bal c/d	7,500
		9,600		9,600
31/12/20xx	Bal b/d	7,500		

Mobolaji Children Fund Investment Disposal Account

		₦"000		₦"000
26/12/20xx	Mobolaji C.F Inv.	2,100	26/12/20xx Bank - Proceed from disposal (Mobolaji C F Account)	1,720
			Loss on disposal	380
		2,100		2,100

b. CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 20XX

Assets		₦1,000
Non – Current Assets		
Fola Foundation Fund Investment	2,500	
Bola Ajayi Scholarship Fund Investment	600	
Mobolaji Children Fund Investment	7,500	10,600
Current Assets	17,020	17,020
Bank Balance		27,620

FINANCED BY

Liabilities	
Non – current Liabilities	
Fola Foundation Fund	4,300
Bola Ajayi Scholarship Fund	9,700
Mobolaji Children Fund	13,620
	27,620

Cost of Mobolaji Children Fund Investment:

Workings

Computation of loss on disposal of Investment:

420,000 units @ N5.00 each	₦ 2,100,000
Proceed from Disposal	1,720,000)
Profit or loss on disposal	(380,000)

4.20 FUNDING PRINCIPLES IN NIGERIA

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."

4.20.1 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.

4.20.2 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.

4.21 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.

4.21 SUMMARY

This chapter has discussed the general sources of revenue of various governments and the nature and classification of the specific sources of Government Revenue in Nigeria and Ghana. Emphasis was on inflows and outflows of income to the Federation Account, the Consolidated Revenue Fund, the Development Fund and the Contingency Fund. The major revenue collection agencies of the Government of Nigeria were also highlighted.
There are also grants and loans grants are free money that are often given to Governments by other countries and International organisations.

The fund system has been the predominant accounting approach that is applied. It is the situation under which government revenue and its spending are considered under fund arrangements‟. Institutions and departments are recognised as individual and separate units that are authorised to undertake specific government activities.
The chapter also dealt with revenue control techniques and Fund Accounting.

4.23 END OF CHAPTER REVIEW QUESTIONS

Section A

1. The following are sources of inflows for Development Fund, **EXCEPT**

   A. Contribution Form Consolidated Revenue Fund
   B. External Capital Grant
   C. External Capital Loan
   D. Internal Capital Loan
   E. External grants for training

2. Tax paid directly by individuals on the income that they earn is called ....

   A. Corporate Tax
   B. Income Tax
   C. Withholding Tax
   D. Progressive Tax
   E. Indirect Tax

3. Which of the following is **NOT** an indirect tax?

   A. Excise Duties
   B. Personal Income Tax
   C. Value-Added Tax
   D. Import Duties
   E. Export Duties

4. Which of the following is **NOT** public money?

   A. Government loans repaid
   B. Dividend from government investment
   C. Interest earned
   D. Sale proceeds of government property
   E. Deposit

5. Which of the following is **NOT** Capital expenditure?

   A. Construction of Road
   B. Construction of Bridge
   C. Construction of Runaway
   D. Payment of salaries
   E. Purchase and installation of a new power plant.

6. Which of the following is a disadvantage of fund accounting?

   A. Assets are not capitalised
   B. It assists in financial control
   C. It stresses government policy
   D. It is easy to operate
   E. It facilities co-ordination

7. A fund operated by Government to take care of all forms of natural disasters is called ....

8. A grant that is utilised discretionally is known as…………………….

9. A fund set aside by a Local Government to replace fixed assets is called…………………

10. What fund is also known as Revenue Fund?

SOLUTION

1. E
2. B
3. B
4. E
5. D
6. A fund is defined as a separate fiscal entity in which accounts are kept, separated from other funds and governed by specified rule and regulation.
7. Contingences Fund
8. General Grant
9. Asset Renewal Fund
10. Stabilisation Fund

Section B

Question 1

(a) Distinguish between Federation Account and Consolidated Revenue Fund (CRF).

(b) Prepare Federation Account and Consolidated Revenue Fund from the following information:

INFLOWS	**₦'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 1

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

	₦'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
TOTAL INCOME	**151,900,000**

DISTRIBUTION:	**₦000**
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 151,900,00	11,392,500
	151,900,000

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

INFLOWS:

PAYE tax deductions from the emoluments of the following:

		₦'000	**₦'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		73,671,500
	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	20,000	
		(17,820,000)
Bal. c/f	**56,421,500**	

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

S/No.	Beneficiaries	%	Statutory ₦billion	%	VAT ₦billion
1.	Federal Government	52.68	102.53	15	5.13
2.	State Government	26.72	52.00	50	17.09
3.	Local Government	20.60	40.09	35	11.96
4.	13% derivation	—	21.24		
5.	Cost of collection (FIRS & NCS)		4.28		

CHATER FIVE

AUTHORISATION OF GOVERNMENT EXPENDITURE

CHAPTER CONTENTS

5.0 LEARNING OBJECTIVES

At the end of this chapter, readers should be able to:

a. Discuss expenditure estimation in Government
b. Discuss the various warrant used to authorise government expenditure
c. Understand the departmental procedures to requisition for funds

5.1 TYPES OF EXPENDITURE

Expenditure in Government is of two types, namely recurrent/revenue expenditure and capital or development expenditure.
Recurrent/revenue expenditure is incurred for the day-to-day operations. Examples of this expenditure are for the payment of salaries and purchase of stationery.
Capital or development expenditure is made to acquire physical and permanent assets, in form of equipment, vehicles and buildings.

5.2 EXPENDITURE ESTIMATIONS

Before government departments spend money, requests have to be made and authorised by the Legislature, through the mechanism of estimates.
The Financial Regulations, of 2009 of Nigeria, outlines the procedures that a Head of Department should follow when estimating expenditure for a budget year.

A Head of department should

(a) take into consideration Government's macro-economic framework, resources, and priorities and ceilings approves;

(b) prepare a strategic plan which will include a definition of the department's mission, goals, objectives, output and activities;

(c) cost and prioritise the activities of the department, taking into consideration the resource ceiling;

(d) prepare the budget statement in accordance with directives in the Regulations; and

(e) prepare cash forecast, identifying when expenditure outflow is projected to take place.

Where a department is legally authorised to use part of the revenue generated, it is expected that the Head of Department should disclose the portion of the expenditure that would be funded by the internally generated revenue which has been retained for spending.

5.3 EXPENDITURE AUTHORISATION PROCEDURES IN GHANA

The following is the general procedure for the authorisation of money to be spent by any institution of government in Ghana:

a. Ministry of Finance and Economic Planning (MOFEP) prepares a National work plan, based on MDA visions, as stipulated in the budget guidelines.

b. MOFEP issues quarterly cash ceiling to cost centres, sub-totalled at National, Regional and District levels for each MDA.

c. MOFEP issues monthly expenditure Warrants to Controller and Accountant-General attaching cost centre details submitted by MDAs which show the sub- totals at National, Regional and District levels.

d. Based on the Monthly Warrants from MOFEP, CAGD issues Warrants directly to cost centres but aggregated to show sub-totals at National, Regional and District levels. An amount equal to the Warrants for the National, Regional and District level Warrants is transferred into the sub-Consolidated Fund Bank Account of the MDA, RCC and District Assembly respectively.

   The Treasuries have merged with the accounts or finance divisions of MDAs, RCCs and MMDAs.
   Each Ministry in Ghana has its own Accounts/Finance department which also performs the treasury functions

   Each Regional Co-ordinating Council has its Finance Directorate that also performs treasury functions at Regional Level.
   Each District Assembly has its Finance Office that performs treasury functions at the District Level.

   Special Bank Accounts (Sub-Consolidated Fund Bank Account) are available for the Ministries, Regional Co-ordinating Councils and District Assemblies as follows:

Each Ministry has one Consolidated Fund sub-account (i.e. Special Bank Account). This bank account serves the Ministry and all National level departments and agencies. The bank account is with the Bank of Ghana.

Each Regional Administration has one Consolidated Fund sub-account (i.e. special bank account). This bank account serves the Regional Administration and all Regional level departments, agencies and institutions. These accounts are at the nearest branches of Bank of Ghana.

Each District Assembly has one Consolidated Fund sub-account (i.e. 138 special bank accounts for the Assemblies). A bank account serves the District Assembly and all District Level departments, agencies and institutions. These bank accounts are at the branches of Bank of Ghana, nearest to the Districts.

5.4 COMMITMENT PROCESS

On receipt of the quarterly cash ceilings the MDAs review the work plans. On receipt of expenditure Warrants and the Bank Transfer Advices,

i. The cost centre at the Head Office, Regional or District levels prepares Activity and Expenditure Initiation Form to Commerce Commitment process.
ii. The cost centre requests for quotation from suppliers and selects the best.
iii. The cost centre prepares purchase order (PO) and submits for approval.
iv. The cost centre submits approved Purchase Order to Servicing Treasury for commitment
v. The cost centre dispatches Purchase Order to supplier.

5.5 THE CONCEPT OF WARRANT

Warrant is a document used by the Ministry of Finance to authorise money for spending by government departments and agencies.

The expenditure of government is made under various forms of authorisations. The authorisations are to ensure that all payments are made

a) From money available for the particular expenditure,
b) under strict scrutiny of the responsible official of government, and
c) or the right type of expenditure as authorised by Parliament.

5.6 CLASSES OF WARRANTS

There are two broad classes of Warrants, to match the two main types of expenditure of recurrent and capital in nature. Recurrent expenditure is incurred regularly in the course of the organisation's annual operations and are for items or services that are used within the year. Capital expenditure is not incurred often. It is for the purchase of fixed assets.

Warrants are therefore grouped as Recurrent Expenditure Warrants and Specific or Capital Expenditure Warrants.

Within these two main classes, Warrants may be provisional, general and specific.

5.6.1 RECURRENT EXPENDITURE WARRANTS

These are authorisations for expenditure that is of revenue nature. It is expenditure that is incurred regularly on items which are consumed within the year.
Recurrent Expenditure Warrants in use are:

(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

(ii) 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

(i) Imprest Warrant

The Warrant is issued to authorise funds to be released to any senior officer who has to spend the money and account for it periodically.

The following is a typical Imprest Warrant

GHANA

Original
Duplicate
Triplicate
Quadruplicate
Quintuplicate

IMPREST WARRANT

No……………..

……………20…..

THE TREASURY OFFICER

……………………………..

You are hereby authorised and required to issue to the person described in the subjoined Schedule, the amount of………………………………………… to be accounted for in the manner and at the date specified.

……………………………………..
Controller and Accountant-General

SCHEDULE

Description of Person or Account	Purpose for which issued	Amount	GH¢	Particulars and Dates for PO Accounting and Repayment

Signature of the Officer Submitting the Schedule for Warrant

<u>Receipt of Imprest</u>

RECEIVED this……..……………….day of……………………………….…………….2007

from the……………..……………………………………………………..………………

the sum of……………………………………Ghana Cedis and …………..…………pesewas being imprest for……………………………………………..…………..…………………….

to be accounted for not later than the……………………………………..…………………

5.6.2 **CAPITAL EXPENDITURE WARRANTS:**

These are issued as authorisations for disbursement from the Development Fund (DF). Such expenditure may not be incurred except on the authority of any of the following Warrants issued by the Minister of Finance, The Ministry of Finance forwards copies of such Warrants to Vote Controllers or Departmental Heads and these enable the Heads of departments to apply for approval to incur expenditure.

(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 Warrants 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.

5.7 SUMMARY

Government expenditure in the form of recurrent and capital or development, is to be estimated diligently by the spending organisations.
The revenue controlling authorities give proper authorisations for the release of money for the various types of expenditure.Such authorisations are effected by means of Warrants which are grouped into recurrent expenditure" and capital/development expenditure" types.

For each organisation to have access to money to spend, proper procedures are followed, through the preparation of the documents referred to as Financial Encumbrance. The expenditure control system is seen to be well planned to ensure proper utilisation of government finances.

5.8 END OF CHAPTER REVIEW QUESTIONS

Section A

1. Which of the following is **NOT** a memorandum account?

   A. Cheque summary register
   B. List of Motor Vehicles
   C. List of Advances Granted
   D. Statement of Asset and Liabilities
   E. Bank reconciliation Statement

2 Which of the following is **NOT** a Recurrent Expenditure Warrant?

   A. Development Fund Supplementary Warrant
   B. Supplementary General Warrant
   C. Reserve Expenditure Warrant
   D. Annual General Warrant
   E. Supplementary Statutory Expenditure Warrant

3. What is the Warrant that allows an officer to spend more than the budgeted amounts called?

   A. Supplementary Statutory Expenditure Warrant
   B. Annual General Warrant
   C. Reserve Expenditure Warrant
   D. Supplementary General Warrant
   E. Provisional General Warrant

4. The Federal Government of Nigeria approves the following agencies to collect, revenue, **EXCEPT**

   A. Federal Inland Revenue Service
   B. Nigerian National Petroleum Corporation
   C. Nigeria Prisons Service
   D. Nigeria Customs Service
   E. Nigeria Railway Corporation

5. The book used to record expenditure and liabilities incurred in respect of funds in notes by a department or Ministry is called.....................

   A. Expenditure book
   B. Vote book
   C. Revenue book
   D. Cash book
   E. Treasury book

6. The details regarding the keeping of a Vote Book are contained in the....................

7. What is the account that does not form part of the double entry system although indispensable for its valuable control function?

8. All Financial Warrants are issued and signed by the...............................

9. The procedure which enables fund to be transferred from a subhead vote with surplus funds to another sub-head in need, under the same head, is called....................

10 The income and expenditure items that are not budgeted for but listed are called .... transactions.

Section B

1. The Financial Regulation of 2009 of Nigeria outlines the procedures that a Head of Department should follow when estimating expenditure for a budget year.
   Required: Outline the procedure.

2. (a) What is a Warrant?

   (b) Write short notes on the following
   a) Recurrent Expenditure Warrant
   b) Capital Expenditure Warrant
   c) Annual General Warrant
   d) Provisional General Warrant
   e) Supplementary General Warrant
   f) Reserve Expenditure Warrant

3. (a) What is a Virement Warrant?

   (a) Outline the circumstances under which Virement Warrant is allowed.

SOLUTION

Section A

1. D
2. A
3. A
4. E
5. B
6. Financial Regulations
7. Memorandum Account
8. Minister of Finance
9. Virement
10. Below-the-Line.

Section B

1. A Head of department should:

(a) take into consideration Governments macro-economic frame work, resources, and priorities and ceilings of approvals;

(b) prepare a strategic plan which will include a definition of the departments mission, goals, objectives, output and activities;

(c) cost and prioritise the activities of the department, taking into consideration the resource ceiling;

(d) prepare the budget statement in accordance with directives in the Financial Regulations;

(e) prepare cash forecast, identifying when expenditure outflow is projected to take place.

2a. **Warrant** is a document used by the Ministry of Finance to authorise money for spending by government departments and agencies.

(a) **Recurrent Expenditure Warrants:**
Recurrent Expenditure Warrants are authorisations issued by the Minister of Finance to disburse from the Consolidated Revenue Fund

(b) Capital Expenditure Warrants:
These are issued as authorisations for disbursement from the Development Fund (DF). Such expenditure may not be incurred except on the authority by

the Minister of Finance.

(c) **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.

(d) **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.

3(a) Virement Warrant (V.W): This is issued when, as a result of unforeseen circumstances 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.

(b) 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 transfer, the other sub-heads will not be deficit;

(vi) state that Virement Warrants are not sought to create new sub-heads

CHAPTER SIX

PREPARATION OF VOUCHERS

CHAPTER CONTENTS

a) Learning Objectives
b) Introduction
c) Types of Vouchers.
d) Payment Vouchers
e) Receipt Vouchers
f) Adjustment Vouchers.
g) Journal Vouchers
h) Salary Vouchers
i) Other Types of Vouchers
j) Summary
k) End of Chapter Review Questions

6.0 LEARNING OBJECTIVES:

At the end of this chapter, readers should be able to:

i. Discuss the various types and uses of vouchers
ii. Identify the contents of a voucher
iii. Discuss the treatment of loss of a payment voucher

6.1 INTRODUCTION:

A voucher is a documentary evidence of payment or receipt of money which is available for future reference, accounting and auditing purposes. It is the document that serves as evidence of receipt or disbursement of government money, with adequate authority and procedures.

6.1.1 TYPES OF VOUCHERS:-

Vouchers may be classified into four main types. These are:-

a. Payment Vouchers
b. Receipt Vouchers
c. Adjustment Vouchers
d. Journal Vouchers

6.1.2 PAYMENT VOUCHERS

These are vouchers that serve as evidence for the disbursement of government fund. It is to prove that there has been payment for goods supplied and services provided for any Ministry Agency or Department. Any disbursement of government fund must be backed with a valid payment voucher. Raising of vouchers must be done when payments are to be made for:

i. goods that are ordered and supplied by contractors
ii. goods purchased directly from retailers, wholesalers or manufacturers
iii. services rendered to government by the public or other government

Corporation, e.g. Power Holding Company Plc- the company that generates and supplies electricity

iv. services rendered to government by its workers, the public servants
v. execution of contract jobs properly awarded to contractors
vi. retirement benefits of retired public officers

The following should be considered and keenly observed in a voucher, failure of which the business document may be dishonoured, viz:.

i. All vouchers should be type-written, written in ink or ball pens
ii. Separate vouchers should be used for separate heads
iii. Original vouchers should be signed in ink while copies are initialled.
iv. The voucher certificate should be signed separately.
v. Vouchers should be presented for payment within 90 days of their preparation
vi. All vouchers should be certified by the officers that are authorised to do so.
vii. Vouchers should be stamped "Entered in the Votebook" and duly signed by the officer keeping the votebook.
viii. All vouchers should be marked "Checked and Passed", by the checking officer in the Pay Station
ix. Vouchers should be supported with valid, tenable and authentic supporting documents

6.1.3 FEATURES OF A VALID PAYMENT VOUCHER

For a voucher to be valid, it should contain the following features:-

i. Date of the voucher
ii. Classification code,that is Head/Subhead.
iii. Voucher Number
iv. Description of Payment, that is job done or service rendered.
v. Name and address of payee
vi. Amount (in words and figures)
vii. Signature of the paying cashier
viii. Cashier's stamp "PAID"
ix. Signature of the payee
x. Cheque number (where cheque is issued for payment.)
xi. Authority:- Types of warrant that release the money.
xii. Signature of officer controlling expenditure
xiii. Supporting documents:-

    a. Local Purchase Order (LPO) – original copy
    b. Receipt/Invoice – original copy.

c. Special Letter of Authority

d. Delivery Note

e. Tender Certificate (in case of contract)

6.1.4 PAYMENT VOUCHER REGISTER

According to Financial Regulations 605 of January, 2009 officer controlling vote shall operate a payment voucher register, whose format is as follows:

Date	Dept PV No.	Description	Amount	Signature

6.1.5 VOUCHER CERTIFICATE

Preparedby ……………………………
Checked by ……………………………
Recorded in vote book by…………..
Passed by…………………………… Paid by ………………………………..
Authorised by……………………

Each certificate on a payment voucher shall be signed separately. Financial Regulations No. 607 of Nigeria says that certificates should not be written across one or more certificates.

6.1.6 FORMAT OF A PAYMENT VOUCHER

LOGO OF FEDERAL OR STATE GOVERNMENT

NAME OF MINISTRY/DEPARTMENT/PARASTATAL

Head……………………………Station………………………...

Sub-Head…………………………   Voucher No……………..

Date………………………………

Amount ₦………………………..

Name (of payee)…………………………………

Address (of payee)……………….   Signature of Accounting officer……………

DESCRIPTION OF PAYMENT   RATE   AMOUNT ₦

- This section will contain the purpose
- for which the payment is made, e.g.
- supply of goods, rendering of service
- payment of salaries, execution of
- contracts, e.t.c.

TOTAL

- Authority – (i) The warrant that released the money
  (ii)Signature of officer controlling expenditure
- Amount (in words) ....
- Signature of Payee ....
- Signature of Cashier ....

6.1.7 LOSS OF A PAYMENT VOUCHER

Where a raised payment voucher is missing and confirmed lost, the following procedures should be followed:

a. The Accounting Officer must be notified immediately.

b. The loss should be investigated, considering all circumstances leading to that effect.

c. The investigation should confirm whether payment against the voucher has been effected or not.

d. Where payment has been made, it should be confirmed whether the cash withdrawn is still in possession of the payee or not.

e. Where fraud is suspected and confirmed, the Accounting Officer should consider all the necessary factors to determine whether a Board of Enquiry should be raised or not.

f. Where it is established that there is no loss of cash or fraud has not taken place, the Accountant-General should be forward a detailed report concerning the circumstances of the loss, in the first place by the Accounting Officer of the Ministry or Department.

6.2 RECEIPT VOUCHERS

These are vouchers raised as evidences for the receipts of government funds and property. The following documents are used to acknowledge the receipt of government revenue:

i) Printed Government receipts
ii) Counterfoil books
iii) Licences
iv) Stickers
v) Emblems.

The Revenue unit of the Accounts section of a Ministry or Department will render stewardship for all revenue generated during the year, by issuing receipts, counterfoil books, licences and emblems.

6.3 ADJUSTMENT VOUCHERS

Adjustment vouchers are documents used in the Ministries and other public corporations to effect transfers from one account to another without resorting to any movement of physical cash. This is similar to general journals used in the private sector.

6.3.1 USES OF ADJUSTMENT VOUCHERS

Adjustment vouchers are used for the following purposes:-

i) Effecting payments for services rendered by one Ministry or Department to another.
ii) Adjusting wrong postings of transactions in respect of expenditure and revenue heads or subheads
iii Re-classification of transactions
iv Allocation of unallocated stores

6.3.2 CONTENT OF ADJUSTMENT VOUCHERS

The following particulars are to be contained in a valid adjustment voucher:

(a) Reason for the adjustment or transfer from one Ministry or Department to another has to be clearly stated
(b) The voucher number
(c) Date indicating the month of account

6.4 JOURNAL VOUCHERS

Journal vouchers are used for effecting transfers from one account to the other without involving physical movement of cash. There are two main types of Journal Vouchers:- These are:

(i) Supplementary Journal Voucher (SJV) (ii) Principal Journal Voucher. (PJV)

6.4.1 SUPPLEMENTARY JOURNAL VOUCHER (SJV)

This is used under the following circumstances:

i. Where transfers and adjustments are to be made before the 'below-the-line' statement is extracted.

ii. Where differences are discovered between the transcript posting of a Ministry or Department and bank statement received.

iii. Where there is need to re-classify accounts into suitable heads and subheads before the trial balance is prepared.

6.4.2 PRINCIPAL JOURNAL VOUCHER (PJV)

This is primarily used for the following:-

a. To correct accounts that has been mis-classified

b. To adjust wrong postings for example, fund belonging to one Ministry could have been wrongly credited to another Ministry
   i. To effect year-end transfers from the Federation Account to other Ministries and Departments
   ii. To effect month-end transfers from "Above-the-line" Accounts to "Below-the-line Accounts"

6.4.3 OTHER TYPES OF VOUCHERS

i. Payment Voucher – Pensions
ii. Pay-In-Voucher
iii. Payment Voucher - Remittance
iv. Transport Allowance Voucher
v. Travelling Allowance Voucher
vi. Capital Expenditure payment Voucher
vii. Voucher for Non-Government Transport Services
viii. Payroll Summary Voucher (Non-Pension Employee)
ix. Payroll Summary Voucher (Senior Officers)
x. Payroll Summary Voucher (Junior Officers)

xi. Store Issue Voucher

xii. Store Receipt Voucher

xiii. Other Charges Payment Voucher

6.5 SALARY VOUCHERS

The documents and records required to be prepared and maintained in the Personal Emolument Section of the Ministry or Department as regards payment of salaries and wages are:-

i) Personal Emolument Form
ii) Personal Emolument Record Card
iii) Group Register
iv) Salary Variation Advice
v) Variation Control Sheet
vi) Payroll Summary Voucher
vii) Advice of Deduction from Salary
viii) On-Payment Voucher
ix) Cheque or Cash Order Form

6.5.1 PERSONAL EMOLUMENT FORM

This is the form that confirms that an officer is still in service as at the beginning of a year. The Personal Emolument Forms are competed and forwarded by Sectional Heads to all departmental Heads at the beginning of a year. It contains the grade levels and posts of the office

ILLUSTRATION OF PERSONAL EMOLUMENT FORM

LAGOS STATE GOVERNMENT

MINISTRY OF TRAINING AND ESTABLISHMENT

PERSONAL EMOLUMENT FORM (PEF)

NAME:	**ALABI**	**JOHNSON**	**ADEKOLA**
	Surname	*First Name*	*Other Name*

ADDRESS: **18, SHOWUMI STREET, BARIGA**

DEPARTMENT: **TRAINING**

LAST POST HELD: SENIOR ACCOUNTS CLERK

NEW POST ACCORDED: ACCOUNTS SUPERVISOR LAST

GRADE LEVEL: **07**

NEW GRADE LEVEL: **08**

________________________ ________________________

HEAD OF DEPARTMENT **SIGNATURE**

6.5.2 PERSONAL EMOLUMENT RECORD CARD

This is kept in respect of every officer in the civil service. Any change that affects the remuneration of an officer will be entered in the Personal Emolument Record Card. It contains the new salary scale in the event of promotion or increment. It also contains deductions as regards servicing of advances.

6.5.3 GROUP REGISTER

It is maintained to record the names of all civil servants within a Ministry or Department. It serves as a control against the insertion of ghost workers in the payrolls. It register" the Personal Emolument Card Number, the name of the officer, rank and date registered. The number in the register should correspond with the control number in the Personal Emolument Card.

6.5.4 SALARY VARIATION ADVICE

This is used by the Personal Emolument Department of the Ministry to inform the Accounts Section about any changes affecting the salary of an officer. It is issued when an officer is being promoted, retired, suspended, dismissed or transferred. Five copies of the paper are prepared and distributed to the following sections/files:

- Payroll Section
- Variation Control Section
- Internal Audit Section
- Variation Control File
- Officer's Personal File.

6.5.5 VARIATION CONTROL SHEET

This is prepared by the Variation Control section to serve as check over the payroll prepared by the salary preparation unit. It is a record that is maintained to show each variation in the month of emoluments, taxable allowances and the deductions made for each officer. The aggregate of these variations are summed up or subtracted from the relative aggregate of that of the previous month. The figure arrived at after the addition or subtraction will determine the total emoluments, taxable allowances and other types of deductions to be effected in the current month's salary.

6.5.6 PAYROLL SUMMARY VOUCHER

It is the form used to sum up the various columns or the separate payrolls. The total obtained is compared with that on the Variation Control Sheet.

6.5.7 ADVICE OF DEDUCTION FROM SALARY

This is a form used to cover any deduction made from the salary of an officer, e.g. taxes, union dues and advances. It is prepared by the Sectional Head and forwarded to the salary section. The purpose is to notify the salary preparation section of the deductions to be made from the salary of an officer for the period.

6.5.8 ON-PAYMENT VOUCHERS

These are vouchers raised at the personnel department of the salary preparation section, in respect of deductions that have been made from salary and are payable directly to other authorities such as NSITF, National Housing Fund, Union Dues and Federal Inland Revenue Service. etc.

6.5.9 CHEQUE OR CASH ORDER FORM

This is a form that usually accompanies a prepared payroll and payment voucher when cash is to be obtained from the Federal Pay Office for the payment of salaries.

6.6 SUMMARY

The chapter discussed the various types of vouchers, their preparation and respective uses. The content of a valid voucher and the treatment of loss of payment vouchers also discussed**.**

6.7 END OF CHAPTER REVIEW QUESTIONS

1. In which of the following situations will a sub-accounting officer dishonour a voucher and render it invalid? Where the voucher.
   (i) is written in pencil
   (ii) certificate is not signed by the relevant authority.
   (iii) is presented for payment after 90 days of preparation.

   A. i & ii only
   B. i & iii only
   C. i only
   D. ii & iii only
   E. ii only

2. Variation advices are prepared in five copies and distributed to the following, **EXCEPT**

   A. Employees
   B. Employees file
   C. Variation sector
   D. Internal audit
   E. Accountant-General

3. Which of the following is a Non-Personal Advance?

   A. Loss of government fund advance
   B. Salary advance
   C. Advance salary
   D. Motor vehicle advance
   E. Specific advance

4. Which of the following factors would render a voucher invalid?

   A. Prepared in ink
   B. Whose certificate is signed separately
   C. Presented for payment after 90 days
   D. Certified by an officer authorised to do so
   E. Stamped "Entered in the vote book"

5. A documentary evidence of payment or receipt of money which is available for future accounting and auditing purposes is called a/an ....

6. The document which is similar to journals in the private sector and used for correcting errors is called -------------------

7. What paper is sent to Ministries and departmental Heads for confirmation that officers are still in service as at the beginning of a current year is?

8. The document used by the Personal Emolument Unit of a Ministry to inform the Accounts

Section about any changes affecting the salary of an officer is called.........................

9. What document is used to communicate changes in salaries to the officers?

Section B

1. (a) What is a Payment Voucher?

   (b) What are the major considerations in the preparation of Payment Voucher the absence of which may render it invalid?

   (c) State three uses of Adjustment Voucher

2. (a) Enumerate 10 types of Vouchers used in the Public Sector

   (b) In the event of loss of a raised Payment Voucher, what are the procedures required to be followed by the Accounting Officer of the Ministry concerned.

   (c) List 5 documents required to accompany a Contract Payment Voucher.

3. (a) Differentiate between Supplementary Journal Voucher and Principal Journal Voucher stating the functions of each separately.

   (b) Enumerate the salient features of an Advance Payment Voucher.

SOLUTION

Section A

1. D
2. E
3 A
4. C
5. A voucher
6. Adjustment voucher
7. Personal emolument record card
8. Salary Variation Advice
9. Payroll Salary Voucher

Section B

1 a. A Payment Voucher is the document that serves as evidence for the disbursement of government funds and properties.. It is to prove that there has been payment for goods supplied and services provided for any Ministry, Agency or Department. Any disbursement of government fund must be backed up with a valid payment voucher.

b. The following should be considered and keenly observed in a voucher, failure of which the business document may be dishonoured:

- All vouchers should be type-written, written in ink or ball pens

- Separate vouchers should be used for separate heads

- Original vouchers should be signed in ink while copies are initialled.
- The Voucher Certificate should be signed separately.
- Vouchers should be presented for payment within 90 days of their preparation
- All vouchers should be certified by the officers that are authorised to do so.
- Vouchers be stamped “Entered in the Votebook” and duly signed by the officer keeping the Votebook.
- All vouchers should be marked “Checked and passed”, by the checking officer in the Pay Station
- Vouchers should be supported with valid, tenable and authentic supporting documents
- . Adjustment vouchers are used for the following purposes:-

(i) Effecting payments for services rendered by one Ministry or Department to another

(ii) Adjusting wrong postings of transactions in respect of expenditure and revenue heads or subheads.

(iii) Re-classification of transactions

(iv) Allocation of unallocated stores

2a. Types of Vouchers

- Payment voucher-pensions
- Pay-in voucher
- Journal voucher
- Receipt voucher
- Adjustment voucher
- Payment voucher remittance
- Transport Allowance voucher
- Travelling allowance voucher
- Capital expenditure payment voucher
- Payroll summary voucher
- Stores issue voucher
- Stores receipt voucher.

2 b. Where a raised payment voucher is missing and confirmed lost, the following procedures should be followed:

ii) The Accounting Officer must be notified immediately.

iii) The loss should be investigated, considering all circumstances leading to that effect.

iv) The investigation should confirm whether payment against the voucher has been effected or not

v) Where payment has been made, it should be confirmed whether the cash withdrawn is still in possession of the payee or not.

vi) Where fraud is suspected and confirmed, the Accounting Officer should consider all the necessary factors to determine whether a Board of Enquiries should be raised or not.

vii) Where it is established that there is no loss of cash or fraud has not taken place, the Accountant-General should be forward a detailed report concerning the circumstances of the loss, in the first place by the Accounting Officer of the Ministry or Department concerned.

c. The following documents are required to accompany a Contact Payment Voucher:

- A copy of the Tender Board meeting's minutes approving the contact
- A copy of contact Agreement.
- Details of the Contract.
- A copy of Letter of Award of Contract.
- A completion Certificate of the Contract

3a. **Supplementary Journal Voucher (SJV)**

This is used under the following circumstances:

i. Where transfers and adjustments are to be made before the "below-the line" statement is extracted.

ii. Where differences are discovered between the transcript posting of a Ministry or Department and bank statement received.

iii. Where there is need to re-classify accounts into suitable heads and sub-heads before the trial balance is prepared

Principal Journal Voucher (PJV)

This is primarily used for the following:-

a. To correct accounts that has been mis-classified

b. To adjust wrong postings, for example, fund belonging to one Ministry could have been wrongly credited to another Ministry

c. To effect year-end transfers from the Federation Account to other Ministries and

Departments

d. To effect month-end transfers from “Above-the-line‟ Accounts to “Below-the-line Accounts‟

b **Content of Advance Payment Vouchers:**

i) Type of Advance
ii) Accounts chargeable
iii) Name of beneficiary
iv) Status of beneficiary
v) Authority for the advance

CHAPTER SEVEN

PRERARATION OF CASH BOOK, TRANSCRIPTS AND SUBSIDIARY ACCOUNTS

CHAPTER CONTENTS

a) Learning Objective
b) The Cash Office
c) The Treasury Cash Book
d) Imprest Cash Book
e) Revenue Collectors Cash Book
f) Preparation of Transcripts
g) Preparation of Bank Reconciliation Statement
h) Advances
i) Departmental Vote Expenditure Allocation Book (Vote Book)
j) Summary
k) End of Chapter Questions

7.0 LEARNING OBJECTIVE:

At the end of this chapter readers should be able to:-

i. Prepare different types of cash book in the public sector.
ii. Prepare monthly transcripts.
iii. Understand the functions of the Cheque Summary Register.
iv. Prepare a Departmental Vote Expenditure Allocation Book (DVEA).
v. Understand the different types of advances available in the public sector.

7.1 THE CASH OFFICE

The Cash Office is a very sensitive department in an establishment, and as such only diligent, trustworthy, hardworking, experienced and security conscious personnel should be put there.

7.1.1 ESSENTIAL FEATURES OF A CASH OFFICE

i. Paying cage or cubicle.
ii. Notice to the public showing working hours in the office.
iii. Cash tank or Safe with dual control keys.
iv. Notice of restriction of entry by non-staff or unauthorized persons.
v. Security personnel.
vi. A Close Circuit Monitor.
vii. Security Alarm Device.
viii. Counting Machine.
ix. Mercury light.
x. Computer System.
xi. Fire Alarm.

7.1.2 FUNCTIONS OF THE CASH OFFICE

These include:

a. Receipts and payments of liquid cash.

b. Safe custody of cash.

c. Maintenance of a conventional cash book to record all cash transactions.

d. Operation of the Ministry's current account on which cheques are drawn.

e. Balancing of cash book transactions on daily basis.

f. Reconciliation of bank statement balances with cash book balances monthly or as at when required.

g. Submission of original cash book and all copies of vouchers to the accounts department. This is required for preparation of final accounts.

7.1.3 BOOKS OF ACCOUNTS TO BE MAINTAINED IN THE CASH OFFICE

The documents should be monitored to have a record of the officers who are working on them. The documents should always be under security system when they are not in use. They include the following:

i. Treasury Receipt Book.
ii. Cheque Summary Register.
iii. Bank Teller
iv. Cash Book
v. Cheque Book
vi. Cheque Dispatch Register
vii. Payment Voucher Register
viii. Paper Money Register, e.g. dividend warrants, stamps, money orders, postal orders e. t. c.
ix. Pay-in Form.
x. Dishonoured Cheque Register
xi. Safe Content Register

This is used to take account of the items in the safe as at the end of a day"s work. This should be checked for accuracy on the following day before beginning a new transaction.

7.2 THE CASH BOOK

There are three types of cash book kept in a Ministry. They are:

i. The Treasury Cash Book
ii. The Imprest Cash Book
iii. Revenue Collector's Cash Book

7.2.1 THE TREASURY CASH BOOK (TF15a)

This is the main accounting book of original entry. It is an invaluable component of the ledger accounts. The Treasury Cash Book is used in recording all receipts and payments of any nature, belonging to “above-the-line‟ or “below-the-line‟ accounts. Both revenue and expenditure are entered in the cash book. A cash book is divided into two sections. The right side contains all payments while the left side has the record of receipts. Each side consists of eight columns.

FORMAT OF A TREASURY CASH BOOK (TF15a)

Ministry/Department/Station……………Date……………….

TRV No./Date	From whom received	Classification Heads/Sub Head	Treasury Receipt No.	Bank credit slip No.	Bank	cash	Total	Dept No	From whom received	Classification Heads/Sub Head	Payee Bank	Cheque No	Gross Account	Deduction or Cash	Net or Bank
					N	**N**	**N**						**N**	**N**	**N**

Illustration 1 - The following transactions were extracted from the books of the Ministry of Education during the month of March 20XX:

a) Bal b/d from February 20XX

Bank	₦1, 650,000
Cash	₦ 37,800

b) (i) Allocation for recurrent expenditure - ₦8,500,000
(ii) Allocation for capital expenditure - ₦11,500,000

c) Final payment for the construction of 20 blocks of classrooms 211/12 ₦4,600,000 (UBN cheque No 001638 issued).

d) Payment of staff salaries on UBN cheque No 001641 – ₦4,000,000.The following deductions were made : -

Advances	-	Salary	15/6	₦15,000
Advances	-	Motor Vehicle	15/8	₦65,000
Advances	-	Correspondence	15/3	₦60,000
Surcharge of senior officers			11/7	₦50,000

e) Issue of UBN cheque No 001618 to R. T. Motors, for repair of motor vehicles (18/7) ₦58,000

f) Payment for electricity with UBN cheque No 001644 (23/8) ₦97,000

g) Maintenance of office building (23/2) ₦64,000 on cheque No 001616

h) Cash withdrawn from bank ₦70,000

i) Cash received for registration for information technology training, from 31 candidates at ₦2,000/candidate. Treasury receipt No A12701 to A12731 issued serially – 10/16

j) Cash proceed from disposal of office furniture (17/6) ₦80,000 – Treasury Receipt A12733.

k) Payment to bank ₦70,000 – Bank Slip No 0011364.

l) Purchase of Computer Systems by cheque No 001629 (10/13) ₦180,000

m) Cash payment for printing and stationery (11/24) cash ₦64,000

n) Paid for telephone bills (17/8) ₦9,000

You are required to post the transactions in the Treasury Cash Book for the month of March 20XX.

ILLUSTRATION 1 SUGGESTED SOLUTION

MINISTRY OF EDUCATION

TREASURY CASH BOOK FOR THE MONTH OF MARCH 20XX

Voucher No	From Whom	Head and Sub-head	Treasury Bank	Cash ₦	Bank ₦	Total Amount ₦	Treasury No	To whom paid	Head and Sub-head	Payee Bank	Cheque No	Total On gross Amount ₦	Deduction On cash payment ₦	Bank on Net ₦
	Balances b/d			37,800	1,650,000	1,687,800		Construction						
	<u>Allocation:</u>							of classrooms	211/12	UBN	001638	4,600,000		4,600,000
	Recurrent expenditure				8,500,000	8,500,000		Salaries		UBN	001641	4,000,000	190,000	3,810,000
	Capital													
	expenditure							Repair of						
	<u>Advances</u>							motor						
					11,500,000	11,500,000		Vehicles	18/7	UBN	001618	58,000		58,000
								electricity	23/8	UBN	001644	97,000		97,000
	Salary	15/6		15,000		15,000		Building						
								Maintenance	23/2	UBN	001616	64,000		64,000
	Motor vehicle	15/8		65,000		65,000		Cash				70,000		70,000
	Correspondence	15/3		60,000		60,000		Bank				70,000	70,000	
	Surcharge	11/7		50,000		50,000		Computer						
								Systems	10/13	UBN	001629	180,000		180,000
	Bank			70,000		70,000		Stationery	11/24			64,000	64,000	
	Registration fees			62,000		62,000		Telephone	17/8			9,000	9,000	
	Sale of furniture		A12733	80,000		80,000								
	cash				70,000	70,000		Balance c/d				12,947,800	106,800	12,841,000
				439,800	21,720,000	22,159,800						22,159,800	439,800	21,720,000
			Balance b/d	**106,800**	**12,841,000**	**12,947,8000**								

ILLUSTRATION 2

The following transactions took place in the Ministry of Women Affairs during the month of January 20XX. The ministry uses only cash book to record its transactions.

a) Balance brought forward from December 20XY.

	Bank	₦600,000
	Cash	₦10,000

b) 1st quarter allocation for recurrent expenditure ₦6,000,000

c) 1st quarter allocation for capital expenditure ₦3,000,000

d) Payment of Salaries via payroll no MWA/A/01/20XX/

FBN Cheque No 000136 ₦1,500,000

Deductions: -

Rent on quarters	12/13	₦4,000
Motor Vehicle advance Repayment	13/7	₦3,000
Salary Advance repayment	13/10	₦3,000
Correspondence Advance repayment	13/11	₦8,000

e) Payment for repair of furniture by cheque (voucher No MWA/03/077/FBN Cheque 00137) 35/09 ₦25,000

f) Utility service paid by cash 64/07 ₦4,000

g) Travelling and Transport paid by cash 17/1 ₦6,000

h) Cash withdrawn from Bank ₦100,000

i) Renewal of licenses fees received from contractors Cash vide Treasury Receipt No B014047 ₦15,000

j) Maintenance of Motor Vehicle by cheque via Voucher No MWA/04/079/FBN Cheque No 000138 ₦16,400

k) Purchase of Computer systems by cheque via
Voucher No MWA/05/078/FBN Cheque No 000139 ₦1,600,000

l) Cash paid to bank ₦70,000

m) Payment for the purchase of new furniture & Fittings by cheque via Voucher No MWA/06/080/FBN Cheque No. 000141 ₦800,000

You are required to post the above items in the Treasury cash book of the Ministry for the month of January 20XX.

SOLUTION TO ILLUSTRATION 2

MINISTRY OF WOMEN AFFAIRS

TREASURY CASH BOOK FOR THE MONTH OF JANUARY 20XX

Voucher No	FROM Whom	Head And Sub-head	Treasury Receipt No	Cash ₦	Bank ₦	Total Amount ₦	Treasury No	To Whom Paid	Head and subhead		Payee Bank	Cheque No	Gross Amount	Deduction On cash Payment ₦	Bank or Net ₦
	Balance b/d			10,000	600,000	610,000	MWA/01/20XX MWA/03/077	Salaries			FNB	000136	1,500,000	18,000	1,482,000
	Allocations i. Recurrent Expenditure			6,000,000	6,000,000			Repair of furniture	33/09		FBN	000137	25,000		25,000
	ii. Capital Expenditure			3,000,000	3,000,000			Utility service	64/07				4,000	4,000	
								Travelling and transport	17/1				6,000	6,000	
	Rent	12/13		4,000		4,000		Cash					100,000		100,000
	Motor Vehicle Advance	13/7		3,000		3,000	MWA/04/079	Vehicle maintenance			FBN	000138	16,400		16,400
	Salary Advance	13/10		3,000		3,000									
	Correspondence Advance	13/11		8,000		8,000	Mwa/05/078	Computer system			FBN	000139	1,600,000		1,600,000
	Bank		C	100,000		100,000	Bank						70,000	70,000	
	Renewal of licence		B014047	15,000		15,000	Mwa/06/080	furniture			FBN		800,000		800,000
	Cash				70,000	70,000				Bal c/d			5,691,600	45,000	5,646,600
				143,000	9,670,000	9,813,000									
		Balance b/d		45,000	5,646,600	5,691,600							9,813,000	143,000	9,670,000

7.3 IMPREST CASH BOOK

Imprest: - An imprest is defined by the "Financial Regulation" as the aggregate amount of cash advanced to government officers to meet up with urgent expenditure which is provided for in the budget but which vouchers cannot be prepared and presented immediately to the Sub-Accounting officer or the Accountant-General for payment.

7.3.1 Imprest Holder

This is an officer other than the Sub-Accounting Officer, who is entrusted with government money for disbursement where vouchers cannot be prepared and presented to the Sub-Accounting officer for payment.

7.3.2 Types of Imprest

i. ***Standing Imprest***: - This is a general imprest which is in use from the beginning of a fiscal year to the end of that year. It is re-imbursed as and when required. All standing imprest balances should be retired on or before 31st December of the year.

ii. ***Special Imprest*** **–** This is an imprest that is generated for special purpose when the need arises. Special imprest must be terminated and all balances retired immediately the purpose for which it is set up is achieved.

7.3.3 Checks and Balances for Keeping an Imprest Account

i. The imprest holder should be an officer from grade level 04 and above.
ii. The officer should be an officer of proven integrity.
iii. Imprest money should not be used for any other purpose.
iv. The officer keeping imprest cash book should balance the book regularly.
v. The imprest cash book should be checked regularly for any anomaly or sharp practices by the Sub-Accounting officer.
vi. Any balance on imprest must be retired at the end of the fiscal year.
vii. Any imprest amount from ₦50,000 and above should be banked by the imprest holder in an account to be opened in his official status.
viii. All expenditures from imprest should be properly authorized and approved.

ix. Payment vouchers should be raised for all disbursements from the imprest money.
x. There should be no lending to employees from the imprest money.

7.3.4 Re-Imbursement of Imprest

The imprest holder is required to present all payment vouchers for the money spent to the Sub-Accounting officer before re-imbursement of imprest account. The vouchers are not to be recorded under imprest as done in the private sector but classified directly under the expenditure heads affected.

FORMAT OF IMPREST CASH BOOK

Date	Re-imbursement Details	No Off Bank Credit Slip	Cash	Bank	Date	Desc.	P.V. No	Class.	Cash	Bank

Illustration 3

The following transactions were extracted from the books of Alaba Local Government in the month of April 20XX. The monthly float for the Local Government is ₦50,000. The imprest holder receives reimbursement from the Sub-Accounting officers on any amount expended as at the last day of the month.

Date	Details	₦
	Bal b/f	2,500
	Transfer from the Sub-Accounting officer to imprest through FBN cheque	47,500
1-4-20XX	Soft drinks and fish rolls	700
3-4-20XX	Stationery	300
4-4-20XX	Total – Petrol	1,200
4-4-20XX	Phone recharge card – MTN	750
5-4-20XX	Photocopies	300
8-4-20XX	Mr. Bigg"s food	2,300
9-4-20XX	Calculator	2,700
10-4-20XX	Con-oil – Petrol	1,500
11-4-20XX	Stationery	400
12-4-20XX	Motor Vehicle Repair	4,000
15-4-20XX	Beverages – Coffee & Milk	800
16-4-20XX	Electricity bills	6,000
17-4-20XX	Typing and Printing	4,200
18-4-20XX	Flat and Arch files	1,000
19-4-20XX	Transportation of five officers to and fro (Lagos - Calabar)	12,000
22-4-20XX	MTN – Cards	3,000
23-4-20XX	Total – Petrol	1,600
25-4-20XX	Photocopies	200
26-4-20XX	Stationary	1,300
29-4-20XX	Electricity Bills	700
30-4-20XX	Soft drinks and meat pie	800
30-4-20XX	Con-oil – Petrol	1,500

You are required to draw up the imprest account of Alaba Local Government and determine the amount of re-imbursement at the beginning of May 20XX.

Note:- Draw up analysis column for

- Telephone and Postages
- Stationery and Printing
- Entertainment
- Electricity and Electrical Works
- Transportation
- Motor Vehicle Repairs And Maintenance

Solution to Illustration 3 ALABA LOCAL GOVERNMENT

IMPREST ACCOUNT FOR THE MONTH OF MARCH 20XX

Date	Re-imbursement Details	No of Ban	Cash ₦	Bank ₦	Date	Desc.		Classification	Cash ₦	Bank ₦	ANALYSIS Telep &Post	Station ₦	Entert mt ₦	Elect. ₦	Trans. ₦	M/V Repairs ₦
1-4-20XX	Balance b/d				1-4-20XX	Cash c				47,500						
1-4-20XX	Bank		2,500	47,500	1-4-20XX	Soft drinks			700				700			
	Re-imburse	00012345			3-4-20XX	Stationery			300			300				
1-4-20XX					4-4-20XX	Petrol			1,200							1,200
					4-4-20XX	Phone card			750		750					
					5-4-20XX	Photocopies			300			300				
					8-4-20XX	Mr. Biggs			2,300				2,300			
					9-4-20XX	Calculator			2,700			2,700				
					10-4-20XX	Petrol			1,500							1,500
					11-4-20XX	Stationery			400			400				
					12-4-20XX	M/V Repairs			4,000							4,000
					15-4-20XX	Coffee &Milk			800				800			
					16-4-20XX	Electricity			6,000					6,000		
					17-4-20XX	repair			4,200			4,200				
					18-4-20XX	Typg.& Printg			1,000			1,000				
					19-4-20XX	Files			12,000						12,000	
					22-4-20XX	Transport			3,000		3,000					
					23-4-20XX	Phone cards			1,600							1,600
					25-4-20XX	Petrol			200			200				
					26-4-20XX	Photocopies			1,300			1,300				
					29-4-20XX	Stationeries			700					700		
					30-4-20XX	Elect. Bulbs			800				800			
					30-4-20XX	Soft Drinks			1,500							1,500
						Petrol					3,750					
30-4-20XX	Bal b/d		2,750					bal	47,250			10,400	4,600	6,700	12,000	9,800
1-5-20XX	Reimburse		50,000						2,750							
1-5-20XX	ment		47,250						50,000							

7.4 REVENUE COLLECTOR'S CASH BOOK

Revenue Collector: - This is a government officer in possession of an official receipt book TF6 or TF6A or any other receipt books for the collection of specified items of the revenue provided for in the approved budget.

FORMAT OF A REVENUE COLLECTOR'S CASH BOOK

MINISTRY/DEPARTMENT:………….. DATE:………………

DR **CR**

Date	Revenue Receipt No	Classification		From Whom	Amount ₦	Date	Treasury Receipt No	Amount ₦
		Head	Subhead					

The Debit Side: - This is made up of the date on which the collection is made, revenue receipt no – this is the receipt issued to the payer, head/subhead of the ministry or department, the description or particulars of the payment, usually the name of the payer and the amount.

The Credit Side: - This is used to record the remittance of total revenue collected to the Sub-Accounting Officer by the revenue collector. The remittance could be daily, weekly or monthly or anytime the Sub-Accounting Officer directs. The revenue collector is issued a Treasury Receipt by the Sub-Accounting officer or cashier. He records the amount remitted in the Cash Remittance Register. Any outstanding not remitted as at the end of the month's carried forward.

ILLUSTRATION 4.

Mr. Malik Al-Mudashir is a revenue collector in the Works Department of Funtua Local Government. His revenue collections for the month ended July 20XX are as stated below:

Revenue Receipt No	Date	Head/Subhead	Particulars of Payers	Amount ₦

T01001	1-7-20XX	107/03	Kabir Mohammed	3,600
T01003	3-7-20XX	107/05	Hajia Fatimah	4,800
T01005	7-7-20XX	107/09	Muninu Kunmi	12,000
T01002	2-7-20XX	107/05	Zubair Abba	15,000
T01007	11-7-20XX	107/06	James Koleh	1,600
T01004	4-7-20XX	107/08	Shehu Kaduo	13,200
T01006	9-7-20XX	107/04	Mathew Ahmed	400
T01008	13-7-20XX	107/14	Theo Jafar	1,750
T01009	14-7-20XX	107/13	Felicia Gambo	10,250
T01010	18-7-20XX	107/11	Janet Onwa	3,200
T01011	25-7-20XX	107/17	Badlam Bawa	1,700
T01012	31-7-20XX	107/10	Yusuf Jibo	4,300

You are required to prepare a Revenue Collector‟s cash book to show Mr. Al-Mudashir‟s collections after remitting the total amount collected as at 31st July, 20XX to the Sub-Accounting Officer and obtained a Treasury Receipt No B0275006 for the amount remitted.

SOLUTION TO ILLUSTRATION 4

FUNTUA LOCAL GOVERNMENT WORKS DEPARTMENT

REVENUE COLLECTOR'S CASH BOOK FOR THE MONTH OF JULY 20XX

Date	Revenue Receipt No	Head	Sub Head	Particular of Payer	Amt	Date	Treasury Receipt No	Amt
					₦			₦
1-7-20XX	T01001	107	03	Kabir Mohammed	3,600	31-7-20XX	3275006	71,800
2-7-20XX	T01002	107	05	Zubair Abba	15,000			
3-7-20XX	T01003	107	05	Hajia Fatimah	4,800			
4-7-20XX	T01004	107	08	Shehu Kaduo	13,200			
7-7-20XX	T01005	107	09	Muninu Kunmi	12,000			
9-7-20XX	T01006	107	04	Mathew Ahmed	400			
11-7-20XX	T01007	107	06	James Koleh	1,600			
13-7-20XX	T01008	107	14	Theo Jafar	1,750			
14-7-20XX	T01009	107	13	Felicia Gambo	10,250			
18-7-20XX	T01010	107	11	Janet Onwa	3,200			
25-7-20XX	T01011	107	17	Badlam Bawa	1,700			
31-7-20XX	T01012	107	10	Yusuf Jibo	4,300			
				Bal c/d				-
					71,800			71,800
				Balance b/d	71,800			

ILLUSTRATION 4.

Mrs Elizabeth Kamson is the revenue collector of the Health and Social Welfare in Kaju Local Government. Her collections for the month ended 28th of February, 20XX are as follows.

Revenue Receipt No	Date	Head/Subhead	Paid By	Amount ₦
M12361	2-2-20XX	115/06	J. Okada	3,000
M12362	2-2-20XX	115/09	M. Badmus	1,800
M12364	3-2-20XX	115/01	T. Aluko	3,600
M12365	8-2-20XX	115/03	T. Banjo	5,000
M12363	7-2-20XX	115/05	S. Ekanem	17,000
M12367	9-2-20XX	115/15	L. O. Biggs	4,000
M12369	18-2-20XX	115/12	Z. Z. Zacheus	2,200
M12368	15-2-20XX	115/09	M. Ojo	1,800
M12366	9-2-20XX	115/07	K. Taiwo	3,600
M12370	23-2-20XX	115/10	F. Lambo	11,200
M12372	27-2-20XX	115/14	F. M. Righteous	8,500
M12373	27-2-20XX	115/02	T. Jawando	6,700

You are required to prepare a Revenue Collector's cash book, disclosing Mrs. Kamson‟s takings after paying the total amount collected as at 23rd of February, 20XX to the Chief Accounting Officer and was issued a Treasury Receipt No AA0176313 for the sum.

SOLUTION TO ILLUSTRATION 5.

KAJU LOCAL GOVERNMENT

HEALTH AND SOCIAL WELFARE DEPARTMENT

REVENUE COLLECTOR"S CASH BOOK FOR THE MONTH OF FEBRUARY 20XX

Date	Revenue Receipt No	Head	Sub Head	Particular of Payer	Amt ₦	Date	Treasury Receipt No	Amt ₦
2-2-20XX	M12361	115	06	J. Okada	3,000	23-2-20XX	AA 0176313	53,200
2-2-20XX	M12362	115	09	M. Badmus	1,800			
3-2-20XX	M12364	115	01	T. Aluko	3,600			
7-2-20XX	M12363	115	05	S. Ekanem	17,000			
8-2-20XX	M12365	115	03	T. Banjo	5,000			
9-2-20XX	M12366	115	07	K. Taiwo	3,600			
9-2-20XX	M12367	115	15	L. O. Biggs	4,000			
15-2-20XX	M12368	115	09	M. Ojo	1,800			
18-2-20XX	M12369	115	12	Z. Z. Zacheus	2,200			
23-2-20XX	M12370	115	10	F. Lambo	11,200			
27-2-20XX	M12372	115	14	F. M. Righteous	8,500			
27-2-20XX	M12373	115	02	T. Jawando	6,700			
				Bal c/d	-			15,200
					68,400			68,400
1-3-20XX	Bal b/d				15,200			

NOTE :- As at 23rd of February 20XX, the revenue collected by Mrs. Kamson in the sum of ₦53,200 was paid to the Accounting Officer as the total amount realized as revenue as at that date. Subsequent collections valued ₦15, 200 are entered in her cash book and carried forward.

7.5 TRANSCRIPTS

A transcript is a document by which self-accounting units transmit information on their financial transactions to the office of the Accountant-General to prepare the required financial statement. Transcripts replicate trial balances which are prepared in the private sector.

It contains the summarized financial transactions concerning the receipts and disbursements of money posted to the cashbook for a particular month.

A separate section is usually created in the Ministry called "The Final Accounts Section". The section is saddled with the function of preparing monthly transcripts.

7.5.1 TYPES OF TRANSCRIPTS

There are three types of transcripts, these are:

i. ***Cash Transcript***: - This is the transcript used by self accounting and sub accounting units. It is also called Main Transcript.
ii. ***Supplementary Transcript***: - This is used for summarizing and transmitting inter-ministerial or inter-governmental transactions.
iii. ***Control Book or Control Sheets***: - This is the transcript used by Federal Pay
iv. Officer of the Federation.

7.5.2 PREPARATION OF TRANSCRIPTS

In the preparation of transcripts, the following steps should be followed and in the order in which they are listed:

i. Collation of receipt and payment vouchers along with the main cash book.
ii. Checking the vouchers against the cash book entries. This is by ticking all copies of vouchers into the cash book in order to ensure complete and correct entries and prevent any problem arising from errors and mistakes.
iii. Sorting of vouchers into their respective heads and subheads.
iv. Pre-listing of vouchers: - This is done by adding to the total column, subhead by subhead, and ensuring that they agree with the cash book entries.

v. Posting into Analysis Book: - After pre-listing vouchers, the figures are then posted into the analysis book under heads and subheads. This is done on a daily basis.
vi. Balancing of Analysis Book: - This is done at the end of the month. The aggregate figure obtained should agree with the total columns of debit and credit sides of the cash book.
vii. Compilation of the Transcripts: - This is done, starting with the balance brought forward (if any).
viii. Preparation of a voucher schedule: - This should be carried out at the end of each month for each subhead.

7.5.3 DOCUMENTS REQUIRED TO BE TRANSMITTED ALONG WITH TRANSCRIPTS.

The following documents should be prepared and taken along with transcript: -

i. Bank Reconciliation statement.
ii, The cash and bank balances certificate: - This is required to certify that the actual cash and bank balances agree with the cash book and bank statement balances.
iii. Original copies of cash book.
iv. Breakdown of expenditure.
v. In limited self-accounting unit, the duplicate copies of vouchers should also accompany the transcript.
vi. List of outstanding vouchers

7.5.4 CERTIFICATE OF CASH AND BANK BALANCES

The actual cash balance ought to agree with the one in the transmitted transcript. That is why a certificate of cash balance should be issued and signed. A similar certificate should be executed for bank balance by stating the opening balance at the beginning of the month, adding up total receipts by cash and bank to the opening balance and deducting total payments in order to arrive at the transcript‟s balance.

FORMAT OF CERTIFICATE OF BANK AND CASH BALANCES

e.g. for Month ending 31st of May 20XX.

I hereby state the position of my cash book concerning the cash and bank balances for the month of May 20XX as follows:- ₦

CASH BALANCE				₦	₦
Opening Balance as at 1-5-20XX				xx	
Add Total receipts for the month				xx	xxx
Less Total payments for the month					xx
Closing balance as at 31-5-20XX					xxx
ANALYSIS OF CLOSING BALANCE				₦	
₦1,000 Note	-	X	pieces	xx	
₦500 Note	-	X	pieces	xx	
₦200 Note	-	X	pieces	xx	
₦100 Note	-	X	pieces	xx	
₦50 Note	-	X	pieces	xx	
₦20 Note	-	X	pieces	xx	
₦10 Note	-	X	pieces	xx	
₦5 Note	-	X	pieces	xx	
₦2 Coin	-	X	pieces	xx	
₦1 Coin	-	X	pieces	xx	
50k Coin	-	X	pieces	xx	
Cash balance as at 31-5-20XX					xxx
BANK BALANCE					
Opening Balance as at 1-5-20XX				xx	
Add Total receipts for the month				xx	
Less Total payments for the month				xx	
Closing balance as at 31-5-20XX					xxx

The Sub-Accounting Officer or cashier will certify the cash and bank positions by writing thus: -

I certify that at the end of May 20XX, my cash book had a cash balance of ~~N~~xxx which agreed with the physical cash available and had a bank balance of ~~N~~xxx which had been reconciled with the bank statement which also accompanies this transcript.

……………………………. ….……..……………
Name and Post Signature and Date

FORMAT OF A TRANSCRIPT

MINISTRY/DEPARTMENT:………………….. DATE:………………

RECEIPTS **PAYMENTS**

Head	Subhead	Desc.	Receipts ₦	Total ₦	Balance ₦	Head	Subhead	Desc.	Payments ₦	Total ₦	Balance ₦

A transcript has 6 columns on each side of the Debit and Credit. The Debit side has Head, Subhead, Description, Receipts, Total and Balance while the credit side has Head, Subhead, Description, Payments, Total and Balance.

NOTE: - All transactions of below the line accounts (items of expenditure or receipts that are not listed in the budget) are shown separately in the transcript.

ILLUSTRATION 6: -

The following are the transactions extracted from the books of the Ministry of Finance for the month of September, 20XX.

Balance b/d 1-9-20XX Bank ₦4,350,000 Cr

Cash ₦125,200 Dr

The following are the revenues realized for the month.

REVENUE

CLASSIFICATION		**DESCRIPTION**	**AMOUNT**
HEAD	**SUBHEAD**		
			₦
10	11	Fees	2,500,000
8	3	Renewal of Licenses	1,420,700
12	3	Rent On Govt. Property	750,000
11	2	Contractors registration	210,000
13	13	Investment Interest	70,000
11	8	Institutional Registration Fees	300,000
7	13	Companies Income Tax	3,600,000
13	11	Sales of Investment	1,000,000
9	2	Royalty on Mine	1,200,000
7	1	VAT	4,200,000

BELOW-THE-LINE REVENUES

1710	Correspondence Advance Repayment	126,400
1421	Miscellaneous Deposits	72,600
1330	Motor Vehicle Advance Repayment	100,000

PAYMENT

CLASSIFICATION		DESCRIPTION	AMOUNT
HEAD	**SUBHEAD**		
			₦
11	1	Personnel Cost	6,305,200
11	2	Travel and Transport	1,336,000
11	3	Utility Services	341,000
11	4	Telephone and Postages	47,200
11	5	Printing and Stationeries	81,480
11	6	Maintenance of Office Furniture	108,370
11	7	Mtce. Of Motor Vehicle & Other Assets	428,000
11	8	Consultancy Service	218,000
11	9	Grants, Contributions and Subventions	1,118,000
11	10	Training and Development	218,000
11	11	Entertainment and Hospitality	112,000
11	12	Miscellaneous Expenses	47,500
	BELOW-THE-LINE PAYMENTS		
3001		Advance Salary	15,000
3002		Salary Advance	35,000
1710		Correspondence Advance	160,800
1421		Miscellaneous Deposits paid	85,000
1330		Motor Vehicle Advance	125,000

You are required to prepare the monthly transcript for the month of September 20XX

SOLUTION TO ILLUSTRATION 6

MINISTRY OF FINANCE

TRANSCRIPT FOR THE MONTH OF SEPTEMBER 20XX

REVENUE EXPENDITURE

Head	Sub Hd	Description	Amount ₦	SubTotal ₦	Total ₦	Head	Sub Head	Description	Amount ₦	SubTotal ₦	Total ₦
		Bal b/f			4,475,200	11	1	Personnel Cost	6,305,200		
7	1	VAT on Turnover	4,200,000			11	2	Traveling & Trans.	1,336,000		
7	13	Sales of Investment	1,000,000	5,200,000		11	3	Utility Service	341,000		
8	3	Renewal of Licenses	1,420,700	1,420,700		11	4	Telephone &Postgs	47,200		
9	2	Royalty on Mine	1,200,000	1,200,000		11	5	Printg & Stationeries	81,480		
10	11	Fees	2,500,000	2,500,000		11	6	Mtce. of Office Furn.	108,370		
11	2	Contractors registration	210,000			11	7	Mtce of M/V Othr Asst	428,000		
11	8	Institutional Reg. Fees	300,000	510,000		11	8	Consultancy Service	218,000		
12	3	Rent on Govt. Property	750,000	750,000		11	9	Grants,Cont.& Subven	1,118,000		
13	11	Sales of Investment	1,000,000			11	10	Training & Develpmnt	218,000		
13	13	Investment Interest	70,000	1,070,000		11	11	Entert. & Hospitality	112,000		

		BELOW THE LINE				11	12	Misc Expenses	47,500	10,360,750	
1330		M/V Advance Repaymt	100,000					BELOW THE LINE			
1421		Miscellaneous Deposits	72,600			3001		Advance Salary	15,000		
1710		Corresp. Adv. Repymnts	126,400	299,000	12,949,700	3002		Salary Advance	35,000		
						1330		Motor Vehicle Advnce	125,000		
						1421		Misc Deposits	85,000		
						1710		Correspondence Adv.	125,000	385,000	10,745,750
								Bal c/d			6,679,150
					17,424,900						17,424,900

7.6 CHEQUE SUMMARY REGISTER

This is a book that serves the purpose of ensuring that all bank transactions contained in the cash book are accurately entered. It is used for balancing bank transactions in the cash book.

The following hitherto entered in the cash book are to be posted into the register as it affects bank transactions:-

- Issued Cheques.
- Received Cheques.
- Vouchers raised against cheque payments.
- Tellers of payments of cash or cheque into the bank.

The register must be accurately updated by extracting the balances daily. The balances are then compared to the cash book balance and it should be ensured that they agree. The register must be routinely checked on daily basis by the Head of Accounts.

7.7 PREPARATION OF BANK RECONCILIATION STATEMENT

This is required in order to ensure that the bank balance as contained in the bank statement agree with the cash book balance. Differences may arise as a result of any or a combination of the following:

a) Unpresented cheques: - These are issued cheques already credited to the cash book as payment but are yet to be presented by the contractors for payment in the bank. While the cash book has been credited, the bank is yet to effect the debit entry of the transaction.

b) Uncredited cheques: - These are received cheques which have been paid into the bank and debited to the cash book as receipt but the bank is yet to effect the credit entry in the statement.

c) Direct Credits: - These are payments into the bank directly through State or Federal Government or any other person or interest on investment but which are yet to be debited in the cash book as receipts.

d) Standing Order:- These are standing instructions issued by the Treasury Department on the movement of money. They are usually addressed to the bank to effect transfer of a sum certain in amount to the payee e.g. Federal Government, Central Bank and Pensioner.

e) Others: - These include bank charges, commission on turnover, cheque book e. t. c. It could also be due to error on the part of the bank or the cashier keeping the Cash book.

The documents required for the exercise are:

i. Cheque summary register
ii. The cash book
iii. Cheque stubs
iv. Bank statements.
v. Previous month's bank reconciliation statement

FORMAT OF BANK RECONCILIATION STATEMENT

	₦	₦
Balance as per cash book on 28-2-20XX		xx
<u>Add</u>		
Unpresented cheques	xx	
Error in Cash book or		
Bank statement due to receipts	xx	xx
		xxx
<u>Less</u>		
Uncredited cheques	xx	
Error in Cash book or		
Bank statement due to payments	xx	xx
Balance as per Bank Statement on 28-2-20XX		xxx

ILLUSTRATION 7

The bank column of the cash book of College of Arts and Science, Igbonla showed a debit balance of ₦5,316,200 as at 31st December 20XX while the bank statement showed a credit balance of ₦6,860,010.

However, the following transactions required further consideration:

i. Unpresented Cheques: -

No L0013788	-	₦350,000
L0013789	-	₦410,000
L0013791	-	₦520,000
L0013792	-	₦1,250,000

ii. Uncredited Cheques: -

No X010007	-	₦533,000
Y010008	-	₦296,500
MD03147	-	₦1,134,385

iii. The following are direct credits discovered:-

a) Government Subvention paid directly into the bank without the knowledge of the school amounted to ₦3,000,000

b) Interest received on investment ₦7,010

c) Interest on Fixed Deposit ₦18,300

iv. Direct Debits: -

a) Commission on Turnover – ₦30,300

b) Monthly insurance premium on the School Power Generating Plant – insurance policy in the sum of ₦16,000 was on a standing order and was not recorded in the bank book.

c) Bank Charges for cheques book and VAT on Commission on Turnover amounted to ₦1,315.

You are required to prepare

i. An Adjusted Cash book.
ii. Bank reconciliation statement as at 31st December 20XX.

SOLUTION TO ILLUSTRATION 7

College of Arts and Science, Igbonla.

i. Adjusted Cash Book as at 31st December 20XX.

	₦		₦
Bal b/d	5,316,200	C. O. T.	30,300
Govt. Subvention	3,000,000	Insurance Premium	16,000
Interest on Investment	7,010	VAT & Other Bank Charges	1,315
Interest on Fixed Deposit	18,300	Bal c/d	8,293,895
	8.341.510		8,341,510
Bal b/d	8,293,895		

ii. Bank Reconciliation Statement as at 31st December 20XX

		₦	₦
Balance as per Adjusted Cash book			8,293,895
Add			
Unpresented cheques			
	L0013788	350,000	
	L0013789	410,000	
	L0013791	520,000	
	L0013792	1,250,000	2,530,000
			10,823,895

Less

Uncredited cheques

	X010007	533,000	
	Y010008	296,500	
	MD03147	1,134,385	(3,963,885)
Balance as per Bank Statement			6,860,010

ILLUSTRATION 8

The following is extracted from the books of Akadama State Ministry of Commerce & Industries as at 31st July 20XX

a) The cash book has a debit balance of ₦4,800,000 while the bank statement showed an overdrawn balance of ₦2,741,000.

b) Cheques paid to suppliers specified below have not been presented to the bank for payment.

Cheques No A007307	-	₦3,160,000
A007308	-	₦11,000,000
A007309	-	₦14,000,000
A007310	-	₦4,340,000

c) A deposit of ₦37,000,000 is yet to be credited to the ministry‟s account by the bank.

d) The bank debited a cheque of ₦1,000,000 being grant from State Government to the ministry‟s account. On investigation, the bank admitted the error.

e) A cheque of ₦420,000 was dishonoured by the bank but this has not been effected in the cash book.

f) A cheque drawn for ₦2,000,000 has been entered in error as receipt from the State Government.

g) Bank charges of ₦621,000 on the bank statement has not been recorded in the cash book.

You are required to prepare

i. An Adjusted Cash book.

ii. Bank Reconciliation Statement as at 31st July 20XX.

SOLUTION TO ILLUSTRATION 8

AKADAMA STATE

MINISTRY OF COMMERCE AND INDUSTRIES
ADJUSTED CASH BOOK AS AT 31ST JULY 20XX

	₦		₦
Bal b/d	4,800,000	Dishonoured Cheque	420,000
Error in Bank	2,000,000	Error in Cash Book	4,000,000
		Bank Charges	621,000
		Bal c/d	1,759,000
	6,800,000		6,800,000
Bal b/d	1,759,000		

ii. **BANK RECONCILIATION STATEMENT AS AT 31ST JULY 20XX**

			₦	₦
b)				
c)	Balance as per Adjusted Cash Book			1,759,000
d)	Add: Unpresented Cheques			
e)	Cheque	A 007307	3,160,000	
f)	Cheque	A 007308	11,000,000	
g)	Cheque	A 007309	14,000,000	
h)	Cheque	A 007310	4,340,000	32,500,000
i)				34,259,000
j)	Less: Uncredited deposit			(37,000,000)
k)	Balance as per Bank Statement			**(2,741,000)**

7.8 ADVANCES

Advances can be defined as cash credits granted to an employee in a firm, establishment or institution where he is employed. Advances are also granted in the public service and are regulated by Chapter 18 of the Financial Regulations.

7.8.1 TYPES OF ADVANCES

1. ***Non Personal Advances***: - They are authorized by the Minister of Finance through the Auditor-General for the Federation.

   They are advances used to write off loss of public funds through theft, overpayment, misappropriation, fraud or abandonment of revenue receivable abd Personal Advances.

2. ***Personal Advances***: - These are advances of cash to individual officers in the public sector.

   They are grouped into 6 namely:

   i. Salary Advance
   ii. Advance Salary
   iii. Motor Vehicle Advance
   iv. Correspondence Advance
   v. Spectacle Advance
   vi. Touring Advance

i. Salary Advance: - This is an advance granted to an individual officer who has met any of the underlisted conditions: -

   a) He is returning from leave of about 21 days and he is to proceed on transfer immediately. The officer is also required to foot the transportation bill.
   b) He is on first appointment in the public service.
   c) He is on transfer to an overseas office of the Ministry of External Affairs.

d) He has just been transferred to a new Department or Ministry outside his station.

Repayment: - Salary Advance is payable within three months i instalmentally.

ii. Advance Salary: - This is the salary paid to an officer when he is to proceed on annual leave. The month or period when he is on leave is paid in advance.

Repayment: - Advance Salary is repayable en-bloc at the end of the same month.

iii. Motor Vehicle Advance: - This is granted to senior public officers for the purchase of motor vehicles. It is granted to officers from Grade Levels 8 and above. Officers who are on Grade Level 7 whose duties involve travelling are also eligible to motor vehicle advance. Officers who have obtained motor vehicle advance approval can also be given a refurbishing loan of ₦20,000.

Conditions for granting Motor Vehicle Advance

a) Any officer who has obtained Motor Vehicle Advance will not be granted another one until after 3 years of the former one. However where the vehicle in his possession has been completely written down and certified so by an insurance company, he will be granted.
b) Payments as regards purchase of motor vehicle are to be made directly to the dealer.
c) An agreement must be signed by the officer that all outstanding on the advance shall be deducted from his gratuity or salary on retirement or resignation from office. Where such is not enough, the vehicle should be recovered and sold.

Repayment: - Motor Vehicle advance is payable on monthly instalments for a period of 3-4 years.

iv. Correspondence Advances: - This is an advance granted for taking correspondence courses. It is interest free.

Conditions for granting Correspondence Advance

- The officer must be competent and have the required qualification to proceed on the course.
- The course to be taken must be relevant to his job.
- The course on completion must be able to improve his efficiency and effectiveness.
- The course must be taken in an approved and recognized institution.

Repayment: It is payable on monthly instalments for a period of 1-2 years.

v. Spectacle Advance: - This is granted to an officer for the procurement of spectacles which has been prescribed by government medical officer and an optician.

Repayment: - Minimum period of 6-months instalmental payment.

vi. Touring Advance: - This is regulated by Financial Regulation 1880 to 1886. It is granted to alleviate problems associated with transportation and hotel bills of a government official who is on duty outside his station.

Conditions for granting Touring Advance

1. It must not be granted to an officer who has not retired previous touring advance.
2. In the case of failure to retire it, it should be deducted en-bloc from salary of the officer responsible.

Repayment: - It must be retired within 7 days of return from tour.

7.8.2 ADVANCE PAYMENT VOUCHERS

All vouchers relating to advances must contain the following: -

a. Name of the officer and his grade level.
b. Name of the account chargeable.
c. Type of advance.
d. Terms and conditions guiding the granting of the advance.
e. Status of the officer
f. Authority for the advance.

7.9 DEPARTMENTAL VOTE EXPENDITURE ALLOCATION BOOK (D.V.E.A)

This is simply referred to as the Vote Book. It is a record kept by all officers entrusted with the responsibility of having total and express control of the expenditure vote in his Ministry or Department. This is done by making reference to the provision for expenditure in the approved annual estimate.

The Vote Book makes records of all expenditures including liabilities incurred as regards the votes allocated to a particular Ministry or Department. The Vote Book is controlled by the Accounting Officer in a Ministry or Department. This is done by making reference to the provision for expenditure in the approved annual estimate.

7.9.1 PURPOSE OF KEEPING A VOTE BOOK

i. To have absolute control over expenditure.
ii. To prevent any reckless spending or abuse of vote in a Ministry or Department.
iii. To ensure that votes meant for a particular expenditure are not channelled to other expenditures which are not provided for in the approved budget.
iv. To reveal balances available.
v. To show all commitments and outstanding liabilities.
vi. To review uncommitted balance at a glance.

7.9.2 MAINTENANCE OF VOTE BOOK

A Vote Book must be maintained by an officer who has been in the system over some years and must have proved to have integrity, experience, competence, dedication and be responsible. The officer must not be below the rank of a

Senior Finance Assistant.

The officer must always be under the supervision of another senior officer in order to ensure that the objectives of maintaining the Vote Book are not neglected.

7.9.3 FORMAT OF A VOTE BOOK

ILLUSTRATION 3-7

Example of a Vote Book

Head________________________ Vote Book Authorised Appropriation:

Sub-head____________________ AGW_________________________

Service______________________ AIE__________________________

OTHERS______________________

TOTAL_______________________

EXPENDITURE LIABILITY

1	2	3	3	5	6	7	8	9	10	11	12	13	14	15
Line No	Date	PV No	Particulars	Payment	Total Payments	Bal	Liab. Ref	Liab. Incurred	Liab. cleared	Liability Outstanding	Remarks	Uncommitted balance	Line No	Line No

Column	Subject	Details
1	Line No	Line must be numbered serially
2	Date	Dates vouchers are recorded or liabilities are incurred.
3	Voucher No	The Department's Payment Voucher Numbers. This is obtained from the Voucher register
4	Particulars	Payee Names
5	Payments	The Gross payment on the voucher. Only payments made are entered in this column.
6	Cumulative Payment.	Total payments as at the date the last payment was made
7	Balance	Balance after deduction of 6 above from the Authorized amount
8	Liability Reference	Local Purchase Order (LPO), Job Order or any Job Agreement iven or entered into but not yet executed or supplied
9	Liability Incurred	After the supply of items or execution of contract, the actual amount will be recognized by entering in 5 above.
10	Liability Cleared	When 9 above has been cleared and entered in 5, it is then posted

		here to show that the liability is cleared
11	Outstanding Liabilities	Gross amount of liabilities incurred to date i. e. cumulative liability.
12	Remarks	The Ministry or company's indebtedness to the contractor or supplier in 9 above
13	Uncommitted Balance	Amount of balance that is not committed to any outstanding liability. This is after deduction of all liabilities incurred from column 7, if any.
14	Line No	Reference to numbers of the lines cleared.
15	Line No	Column 1 repeated.

7.9.4 VERIFICATION OF ENTRIES IN THE VOTE BOOK

To ensure that all entries posted in the Vote Book are up-to-date, the vouchers must be stamped "Entered in the Vote Book" by the officer controlling expenditure and must be initialled by him.

Also the entries can be verified by ensuring that:

a) Totals in columns 6 and 7 must agree with the Authorised Amount.

b) Totals in columns 11 and 13 must agree with the amount shown in column 7.

7.9.5 FUNCTIONS OF OFFICER CONTROLLING EXPENDITURE

i. To ensure that the Vote Book is properly maintained by entering all payments accurately.
ii. To forward on monthly basis, returns to the Vote issuing Ministry or Department.
iii. To make investigation, reports and take any other action as he deems fit where he discovers any irregularity in a payment voucher.
iv. To ensure that all expenditures are justified.
v. He must ensure that votes are applied for the purpose for which they are provided.
vi. To ensure that votes are always available throughout the fiscal year by spreading them evenly.
vii. To demand for additional provision of votes where he feels that incurred liabilities will be more than the vote obtained.

<u>ILLUSTRATION .9.</u>

The following information was submitted by the Sub-accounting officer of the Federal Ministry of Education for the month ended April 30th 20XX.

1-4-20XX The sub-accounting officer collected the second quarter allocation of ₦3,000,000 in respect of stationeries through AGN377.

Head of Expenditure is 501 while the sub-head is 007.

3-4-20XX Paid ₦150,000 for the purchase of Higher Education and Hard Cover Notebooks on P. V. No 3001 from Abiola Bookshop.

8-4-20XX Paid ₦175,000 to Ajayi Bookshop for the supply of stencils and typing sheets on P. V. No 3002.

16-4-20XX Paid ₦200,000 to Ekanem Bookshop for biros, pencils, rulers, erasers and mathematical instrument sets on P. V. No 3003.

18-4-20XX Issued an LPO No 4001 to the tune of ₦400,000 to Abiola Bookshop for the supply of carbon papers, staple pins, perforators and gums.

19-4-20XX Issued an LPO No 4002 to Maryam Ventures for the supply of computer accessories to the tune of ₦370,000.

22-4-20XX Abiola Books supplied the requested items worth ₦300,000 as per their invoice and P. V. No 3004 was raised for payment.

23-4-20XX Paid the sum of ₦370,000 to Maryam Ventures for the supply of computer accessories on P. V. No 3006

24-4-20XX Paid the sum of ₦300,000 on P. V. No 3007 to Jaiye & Sons for the supply of Flat files and Arch files.

27-4-20XX Issued an LPO No 4003 to Jamganza Bookshop for the supply of Fine Art materials worth ₦250,000.

29-4-20XX Paid the sum of ₦250,000 to Jamganza Bookshop for the items supplied on P. V. No 3008.

30-4-20XX P. V. No 3008 was revoked as a result of supply of obsolete Fine Art materials by Jamganza.

You are required to post the transactions in a D. V. E. A. Book.

SOLUTION TO ILLUSTRATION 9.

Head: - Ministry of Education

Authorized Amount: - ₦3,000,000

Sub-head: - 007

Month: - April 20XX

Service - Stationery

Line No	Date	P. V. No	Particular	Paymts ₦	CumPaymts ₦	Bal ₦	Liab Ref	Liab Incurd ₦	Liab Cleared ₦	Outstding Liabilities ₦	Remarks	Uncommitd Balance ₦	Line No
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1	1-4-20XX		Authorized Appropriatn			3,000,000						3,000,000	1
2	3-4-20XX	FME 3001	Abiola Bookshop	150,000	150,000	2,850,000						2,850,000	2
3	8-4-20XX	FME 3002	Ajayi Bookshop	175,000	325,000	2,675,000						2,675,000	
4	16-4-20XX	FME 3003	Ekanem Bookshop	200,000	525,000	2,475,000						2,475,000	
5	18-4-20XX					2,475,000	LPO No 4001	400,000		400,000	Abiola Bookshop	2,075,000	
6	19-4-20XX					2,475,000	LPO No 4002	370,000		770,000	Maryam Ventures	1,705,000	
7	22-4-20XX	FME 3004	Abiola Bookshop	300,000	825,000	2,175,000			400,000	370,000	Payment to Abiola	1,705,000	5
8	23-4-20XX	FME 3006	Maryam Ventures	370,000	1,195,000	1,805,000			370,000		Payment to Maryam	1,705,000	6
9	24-4-20XX	FME 3007	Jaiye & Son	300,000	1,495,000	1,505,000						1,405,000	
10	27-4-20XX					1,505,000	LPO No 4003	250,000		250,000	Janganza Bookshop	1,155,000	
11	29-4-20XX	FME 2008	Janganza Bookshop	250,000	1,745,000	1,255,000			250,000		Payment to	1,155,000	10

7.10 SUMMARY

The Chapter discussed the various types of books of accounts kept in the Public Sector. The format and illustration as to the preparation of monthly Transcripts was also discussed. The Chapter detailed how to prepare Departmental Vote Expenditure Allocation Book (D.V.E.A.) and discussed the types of advances in the Public Sector.

7.11 END OF CHAPTER REVIEW QUESTIONS

Section A

1. Which of the following is not likely to be found in a Cash Office?

   A. Counting Machine
   B. Mercury Light
   C. Store Requisition vouchers
   D. Fire and Burglary Alarm
   E. Notice of operation hours

2. The Treasury Cash Book is used to record

   A. receipts of fund only.
   B. payments of money only.
   C. receipts and payments above the line only.
   D. all receipts and payments irrespective of the nature.
   E. Advances only

3. The advance used purposely for writing off loss of public money is called

   A. Salary Advance.
   B. Touring Advance.
   C. Non-personal Advance
   D. Personal Advance.
   E. Motor Vehicle Advance

4. All the listed books and documents below are used in the pay office EXCEPT

   A. Voucher register
   B. Cheque book
   C. Voucher register
   D. Cash Book
   E. Contract register

5. The following documents must be kept permanently **EXCEPT** one:

   A. All cash book
   B. Paper money register
   C. Pension register
   D. Subsidiary ledger
   E. Payment cards

6. The repayment period for Salary Advance is.................... months instalmentally.

7. The summary of income and expenditure of a Ministry for a month is called.................

8. The imprest that is retired immediately the purpose for which it is set is achieved is called....................

9. State **TWO** ways in which a spoilt cheque is treated

10. The name of the document used by the revenue collector to record all the cash received and paid or transferred by him is called.......................................

Section B

a. The Chief Accountant in charge of expenditure in the Ministry of Health, Sabamu State, supplied the following information for the First Quarter of Year 2017. Fund has been released for purchase of Stationeries, under Head 2025; Sub-Head 1127,

   The following additional information is available

   a. Amount released on AIE/MSH/2017/01 dated 1 January, 2017, was ₦2million.

   b. On 5 January, LPO No. 001/005 was issued to Deala Press Ltd, Success Road, Agidigi for the printing of payment vouchers in the sum of ₦650,000

   c. On 10 January, cash purchase of various stationery items was made in the sum of N350,000 as detailed on Payment Voucher No. 01/005

   d. On 15 January, Deala Press Ltd delivered the payment vouchers. The company submitted a bill of N750,000 for settlement. It attributed the increase in price to the escalating cost of materials. However, the increase was approved and payment effected, accordingly on Payment Voucher No. 02/005.

   Required:

   With the aid of an annotated Departmental Vote Expenditure Allocation Book (D.V.E.A) Write up the entries**.** (15mks)

b. You are the Accounting Technician for the Ministry of Information Ahoada. The following information are available in the records of the Ministry for the month of

c. December 2016:

Balances brought forward, 1/12/2016:	₦
Bank (credit)	3,000,000
Cash (debit)	48,000

Revenue items collected during the month of December 2012 were:

ABOV THE LINE

Classification	**Description**	
06/1	Other Internal Revenue (Bank)	120,000
06/2	License Fees (Bank)	200,000
07/1	Royalty on Agric Inputs (Bank)	8,000
07/2	Water Rate (cash)	12,000
10/8	Tender Fees (cash)	28,000
11/13	Registration Fees from contractors (cash)	20,000
12/11	Rent on Junior Staff Quarters (cash)	7,200
12/12	Rent on Senior Staff Quarters	10,000

BELOW THE LINE

2011	Repayment of Salary Advance (cash)	12,000
3011	Repayment of Spectacle Advance	4,000

Payments effected during the month were:

ABOVE THE LINE

Classification	**Description**	₦
24/1	Personnel Cost (Bank)	1,200,000
24/2	Transport	200,000
24/3	Stationery (Bank)	400,000
24/4	Utilities (Cash)	16,000
24/5	Vehicle Maintenance (Cash)	12,000

BELOW THE LINE

2011	Salary Advance (Bank)	16,000
3011	Spectacle Advance	6,000

You are required to prepare the Transcript of the Ministry for the Month of December 2016

(Total 20 Marks)

d. The cash book of Igwe Local Government Council has a credit balance of ₦21,000 on 30 June, 20xx. The bank statement showed a debit balance of ₦56, 400. An investigation into the difference in figures reveals the following information:
The bank had paid ₦40,000 on 29 June by way of standing order.
A cheque for ₦103,700 sent to a supplier on 30 June was not paid by the bank until 6 July, 20xx.
A cheque valued ₦168, 000, paid into bank on 28/6/20xx was not credited until 3 July, 20xx.
On 20 June, a cheque for 11,400 received from an insurance company was posted in the Cash Book as 71, 400.
130, 000 drawn from the deposit account had been shown in the Cash Book as withdrawal from the current account.

Bank Charges of 1,100 shown in the bank statement had not been entered in the Cash Book.

You are required to:

(a) Prepare Adjusted Cash Book

(b) Prepare a statement reconciling the amended balance with the one shown on the bank statement.

4. LADSOL GOVERNMENT COLLEGE

Mr. Jameson Trumpter hails from Warri. He was employed by the National Teachers Commission in the year 2002 and has served in various institutions. He has just attended a course at the Administrative Staff College of Nigeria (ASCON), where he went through a financial accounting course for non-accountants.

Mr. Jaiyeorie has been the Bursar of Ladsol Government College for about fifteen years. He was the one in charge of collecting revenue, issuing receipts, lodging money into the bank, keeping tellers and collecting bank statements. He did the postings to the Cash Book and prepared the bank reconciliation statements in arrears. Recently, it was observed, that Mr. Jaiyeorie’s life style had changed from “low profile” to one of ostentation. He had exhibited recklessness in his spending and caused “tongues to start wagging”. Many people, including Mr. Trumpter, were suspicious of Mr. Jaiyeorie’s sudden source of wealth.

Consequently, the Head Teacher decided to beam search-light on Jaiyeorie’s. Mr. Tumpter commissioned a firm of Chartered Accountants to look into the accounting books of the college for the year ended 31st August, 2016.

The examination revealed the following:

(a) Cheques issued but not presented to the bank valued ₦300,000,000

(b) Uncredited cheques amounted to ₦ 530,000,000

(c) Bank charges amounted to ₦ 100,000,000

(d) Cash collections that were not yet banked amounted to ₦ 130,000,000,

(e) There were direct transfers into bank account of ₦ 66,000,000.

(f) Cash book balance was ₦750,000,000

(g) Subscriptions paid directly to bank valued ₦ 2,000,000

(h) The ‘Standing Order’ in respect of standard pension payment of ₦ 20,000,000 had been effected at the bank only.

(i) The bank statement revealed a balance of ₦ 356,000,000.

You are required to:

i. State **ONE** basic problem faced by the operational system adopted by Mr. Jaiyeorie.

ii. List **TEN** information that are contained in a bank statement.

iii. Prepare Ladsol Government College’s bank reconciliation statement from the information above for the year ended August 31st, 2016 , and comment on differences observed, if any.

SOLUTION

Section A

1. C
2. D
3. C
4. E
5. B
6. Three months
7. Transcript
8. Special imprest
9. (i) Spoilt cheque must be cancelled
   (ii) Spoilt cheque must be affixed to the counter foil
   (iii) The designated bank is promptly informed
   (iv) Corresponding cheque book cancelled in cheque delivery register (any two)
10. Revenue collectors' cashbook.

Section B

QUESTION 1

SABAMU STATE MINISTRY OF HEALTH

DEPARTMENTAL VOTE EXPENDITURE ALLOCATION BOOK FOR FIRST QUARTER OF 2017

HEAD 2025 **ITEM:** STATIONERY

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
LINE	DATE	PV. NO	DESCRIPTION	PAYMENT	CUMULATIVE PAYMENT	BALANCE	LIABILITY REF.	LIABILITY INCURRED	LIABILITY SETTLED	LIABILITY OUTSTANDIN	REMARKS	UNCOMMITTED BALANCE	LINE NO	LINE NO

										G				
				₦	**₦**	**₦**	**₦**	**₦**	**₦**	**₦**	**₦**	**₦**		
1	01/01/2017	AIE/MSH 2017/01	Authorised amount	-	-	2,000,000	-	-	-	-	-	2,000,000		1
2	05/01/2017		Deala Press Limited	-	-	2,000,000	LPO 001/005	650,000	-	650, 000	-	1,350,000		2
3	10/01/2017	01/005	Stationary items	350,000	350,000	1,650,000	-	-	-	650, 000	-	1,000,000		3
4	31/01/2017	02/005	Deala Press Limited	750,000	1,100,000	900,000	-	-	650,000	-	Deala Press settled	9,000		4

SUBHEAD 2017 **AMOUNT: ₦2,000,000**

MINISTRY OF INFORMATION, AHOADA
TRANSCRIPTS FOR THE MONTH OF DECEMBER 2016

RECEIPTS									PAYMENTS		
HEAD	SUB HEAD	DESCRIPTION	AMOUNT	SUB TOTAL	TOTAL	HEAD	SUB HEAD	DESCRIPTION	AMOUNT	SUB TOTAL	TOTAL
			₦	₦	₦				₦	₦	₦
		Balance b/fwd Above the line			3,048,000	24	1	Above-the-Line			
06	1	Other internal revenue	120,000			24	2	Personnel cost	1,200,000		
06	2	License fees	200,000	320,000		24	3	Transport	200,000		
07	1	Royalty on Agric inputs	8,000			24	4	Stationery	400,000		
07	2	Water rate	12,000	20,000		24	5	Utilities	16,000		
10	8	Tender fees	28,000	28,000				Vehicle maintenance	12,000	1,828,000	
11	13	Registration fee from contractors	20,000	20,000				Below- the-line			
12	11	Rent on Junior staff quarters	7,200			2011		Salary advance			
12	12	Rent on senior staff quarters	10,000	17,200	405,200	3011		Spectacle advance	6,000	22,000	1,850,000
		Below the-line									
2011		Repayment of spectacle advance	12,000								
3011		Repayment of spectacle advance	4,000	16,000	16,000			Balance c/d	________	________	1,619,200
	1	Balance b/d	421,2009	421,200	3,469,200				1,850,000	1,850,000	3,469,500
					1,619,200						

3. IGWE LOCAL GOVERNMENT COUNCIL,

ADJUSTED CASHBOOK FOR THE MONTH ENDED 30 JUNE, 20XX.

		Balance B/F	21,000
Wrong posting of cash drawn	130,000	Standing order	40,000
Insurance wrong posting	60,000		
		Bank Charges	1,100
	________	Balance c/d	7,900
	130,000		**130,000**

IGWE LOCAL GOVERNMENT COUNCIL

BANK RECONCILIATION STATEMENT FOR THE

MONTH ENDED 30 JUNE 20XX

	₦	
Balance as per Adjusted cashbook		7,900
Add: Unpresented cheques	103,700	
	111,600	
Less: Uncredited cheques		(168,000)
Balance as per Bank statement		**(56,400)**

4a **ONE** basic problem faced by the operational system adopted by Mr. Jaiyeorie.is Lack of Segregation of Duties as he was the one in charge of collecting revenue, issuing receipts, lodging money into the bank, keeping tellers and collecting bank statements. He did the postings to the Cash Book and prepared the bank reconciliation statements in arrears.

4b. TEN information contained in a bank statement:

(a) The name and address of the Bank
(b) Name of Accounts holder
(c) Account Number
(d) Branch of the Bank
(e) Opening Balance
(f) Closing Balance
(g) Debit transactions
(h) Credit Transactions
(i) Date of Transactions
(j) Period of Transactions
(k) Currency Denomination
(l) Charges on Turnover.

4c.

LADSOL GOVERNMENT COLLEGE
BANK RECONCILIATION STATEMENT 31ST AUGUST , 2016

	₦	₦
Balance as per Bank Statement		356,000,000
Add:		
Uncredited Cheques	30,000,000	
Bank Charges	100,000,000	
Standing Order	20,000,000	
Cash collections not yet banked	130,000,000	780,000,000
Less:		
Unpresented Cheques	300,000,000	
Direct Transfers	66,000,000	
Subscriptions paid directly	2,000,000	(368,000,000)
Expected Balance as per Cashbook		**768,000,000**
Actual Balance as per Cashbook		**750,000,000**
Diiference		**18,000,000**

COMMENT:

The balance as per the Cash based on the books of the College as at 31st August, 2016 was **₦750,000,000** . However, the expected balance as per the Bank Reconciliation Statement above is **₦768,000,000** leaving a difference of **₦18,000,000** which Mr Jaiyeorie should be invited to expain.

CHAPTER EIGHT

TREASURY SINGLE ACCOUNT AND OTHER FINANCIAL MANAGEMENT REFORMS

CHAPTER CONTENTS

a) Learning Objectives

b) Definition and Objectives of Treasury Single Accounting (TSA)

c) TSA Models

d) Components of TSA

e) Reasons for the Introduction of TSA

f) Objectives of TSA (E- Payment)

g) Benefits of TSA (E- Payment)

h) Objectives of TSA (E- Collection)

i) Benefits of TSA (E- Collection)

j) Scope of TSA

k) Roles of Stake Holders

l) General and Operational Challenges

m) Automated Accounting Transaction Recording and Reporting System (ATRRS)

n) Integrated Personnel & Payroll Information System (IPPIS)

o) Government Integrated Financial Management Information System (GIFMIS)

p) Summary

q) End of Chapter Review Questions

8.0 LEARNING OBJECTIVES

To share information and implementation experiences of TSA Concept, Design, Benefits and the Role of Stakeholders at Federal and States Governments in Nigeria and other Financial Management Reforms

8.1 DEFINITION AND OBJECTIVES OF TREASURY SINGLE ACCOUNTING (TSA)

a) The Treasury Single Account (TSA) is part of the Public Financial Management (PFM) Reforms approved in 2004.

b) The TSA is a bank account or set of linked accounts through which Government transacts financial operations.

c) It is a unified structure that gives consolidated view of Government Cash resources with a view to strengthening effective budget implementation, check idle cash balances, make planning easy and allow for effective decision making.

8.1.1 OBJECTIVES OF TSA

The cardinal objective of TSA is to facilitate the implementation of an effective Cash flow Policy with a view to:

a) Ensuring that sufficient cash is available as and when needed to meet payment commitments;

b) Controlling the aggregate of cash flows within fiscal, monetary and legal limits;

c) Improving the management of Government's domestic borrowing programmes;

d) Enhancing operating efficiency through the provision of high quality services at minimal costs;

e) Investing of excess or idle cash;

f) Ensuring greater accountability in public expenditure.

8.1.2 TSA MODELS

a) The "Pure" TSA – Model 1-No account sub-structure; all deposit and payment transactions processed through a single bank account. This is relatively rare

b) The Decentralised TSA -Model 2

   i. Separate accounts, in commercial banks or central bank, zero-balanced overnight (ZBAs)
   ii. More normal in a decentralised environment where commercial banks process transactions
   iii. Each ministry/agency makes its own payments and directly operates the respective bank account under the TSA system.
   iv. Ministry of Finance sets the cash disbursement limits (based on unit of appropriation) for control purposes

8.1.3 REASONS FOR THE INTRODUCTION OF TSA

i) Inability of government to determine cash position at any point in time
ii) Unlimited Commercial bank accounts maintained by MDA
iii) Growing domestic debt and borrowing not aligned to need
iv) Idle cash balances/unspent balances in MDA accounts
v) Excessive use of ways and means in financing budget expenditure
vi) Inability to undertake effective cash planning and management as required by the Fiscal Responsibility Act

vii) No reliable basis to prepare Warrants to MDA, delays in Budget Execution and perennial existence of unspent balances by the year end. Warrants/AIEs releases were not based on cash plan

8.1.4 BENEFITS OF TREASURY SINGLE ACCOUNT (TSA)

i) Help government unify banking arrangements;

- i. Assist the Federal Government in the efficient utilisation of government funds for approved projects;
- ii. Promote transparency and accountability in government operations;
- iii. Reduce the amount, and cost of government borrowing by maximising the use of available government resources to deliver projects.
- iv. Ensure centralized control over revenue through effective cash management.
- v. Enhance accountability and enables government to know how much is accruing to it on a daily basis.
- vi. Reduce fiscal criminality and help tame the tide of corruption.

8.1.5 COMPONENTS OF TSA

a) **E-Payment-** The Federal Government of Nigeria commenced the implementation of Treasury Single Account (TSA) in April, 2012, with the e-payment component. It is a direct payment through electronic transfer to an individual or an organisation using the medium of computer technology.

b) **E- Collection-** The e-Collection component of TSA commenced in January, 2015. The first Treasury Circular on e-Collection was issued on the 19th of March, 2015 followed by Guidelines in September, 2015. It is a comprehensive electronic solution for the remittance, management and reporting for all Federal Government receipts (revenues, donations, transfers, refunds, grants, fees, taxes, duties, tariffs, etc.) into the TSA and Sub-Accounts maintained and operated at the CBN.

8.1.6 OBJECTIVES OF TSA (E- PAYMENT)

- i. To avoid borrowing and paying additional charges to finance the expenditure of MDA while some MDA keep idle funds in their respective bank accounts
- ii. To ensure effective aggregate control of cash in monetary and budget management
- iii. Minimizing transaction cost;
- iv. Making rapid payments of expenses;
- v. Facilitating reconciliation
- vi. Efficient control and monitoring of funds allocated to MDA
- vii. Support monetary policy implementation.

8.1.7 BENEFITS OF TSA (E- PAYMENT)

- a) Provides complete and timely information on government cash resources
- b) Improve operational control on budget execution
- c) Enables efficient cash management
- d) Reduces bank fees and transaction costs

e) Facilitates efficient payment mechanisms
f) Improves bank reconciliation and quality of fiscal data
g) Improves liquidity of government
h) Issuance of Warrants and AIEs based on cash plan
i) No more commercial bank accounts maintenance by MDA
j) Drastic fall on the ways and means by which overdrafts are requested for from CBN requirement from CBN
k) Support government budget execution

8.1.8 OBJECTIVES OF TSA (E- COLLECTION)

a) To ensure total compliance with the relevant provision of the 1999 Constitution of the FRN (Section 162 & 80)

b) To collect and remit all revenue due to the Federation Account and Consolidated Revenue Fund (CRF)

c) To block all leakages in government revenue generation, collection and remittance.

d) To enthrone a new regime of transparency and Accountability in the management of government receipts.

e) To improve on availability of funds for the development programs and projects.

f) To align with CBN Cashless Policy.

g) To ease the burden of revenue payers.

8.1.9 BENEFITS OF TSA (E- COLLECTION)

i. It helps in controlling and monitoring of receipts and payments of FGN funds

ii. It prevents and detects potential and actual frauds

iii. It improving planning through MTEF

iv. It avoid double payments and likely build- up of payment in arrears;

v. Creating an accurate cash flow statements to help governments obtain appropriate line of credit,

vi. It implements cash collection acceleration techniques,

vii. It integrates policy priorities into annual budgets and thereby ensure that available resources are channelled to priority sectors;

viii. Minimize deficits and borrowings within limits set by government

ix. Improves transparency and accountability of all FGN receipts

SCOPE OF TSA

S/N	MDA Category	Implementation Strategy
a.	MDAs fully funded from the Budget e. g Ministries etc	i. All collections to be paid directly into CRF/TSA ii. Expenditure to be drawn from CRF/TSA based on Annual Budget
b.	MDAs partially funded but generate additional revenue e.g Teaching Hospitals, Tertiary Institution etc	i. All collections to be paid directly into CRF/TSA except for extra budgetary receipts which are to be paid into Sub-Accounts at CBN, which are linked to TSA. ii. Platform will be configured to allow access to funds based on approved budget
c.	MDAs not funded from budget but expected to pay Operating Surplus/25% of Gross earnings to the CRF e.g CBN, NPA, FAAN, NDIC etc	i. All collections to be paid into Sub- Accounts at CBN, which are linked to TSA. ii. Platform will be configured to allow access to funds based on approved budget
d	MDAs funded from Federation Account e.g NNPC, FIRS, NCS, DPR, MMSD	i. All Federation revenues generated by the Agencies to be paid into Federation Account at CBN. ii. All Independent Revenue generated b these Agencies to be paid into CRF/TSA iii. FGN share of Federation Account to be paid into CRF/TSA iv. Statutory approved cost of collection to paid into Sub-accounts at CBN which are linked to TSA v. Platform will be configured to allow access to funds based on approved budget
e.	Agencies funded through Special Accounts (Levies). E.g PTDF, NSC, NPA,	i. Sub- Accounts linked to TSA to be maintained at CBN. ii. All IGR collected to be directly paid into CRF/TSA iii. Platform will be configured to allow access to funds based on approved budget

	RMRDC	
f	Profit oriented Public Corporations/Business Enterprises e.g. BOI, NEXIM, BOA etc	Dividends from these Agencies to be paid into the CRF/TSA
g	Revenue Generated under Public Private Partnership e.g. Production of International Passports, Concession Arrangement	i. FG portion of the collection to be paid into CRF/TSA. ii. Partners portion of the revenue to be transferred to the partners account
h	MDAs with Revolving Funds and Project accounts e.g. Drug or Fertilizer Revolving Fund, Roll-Back Malaria, SURE-P	i. Project Account (Revolving Funds) to be maintained at CBN. ii. Collection (IGR) to be paid into CRF/TSA iii. Platform will be configured to allow access to funds based on approved budget
i	Donor and Counterpart Funds	i) Donor Fund Sub-Account will be opened at CBN and to be linked to CRF/TSA ii) Spending from such accounts will be based on approved Budget

8.1.10 ROLE OF OFFICE OF ACCOUNTANT-GENERAL OF THE FEDERATION

i) Ensure effective implementation of e-collection reform

ii) Proper monitoring of the e-collection gateway

iii) Prompt reconciliation of all collections

iv) Provide MDAs with periodic report of collection

v) Support MDAs, banks and payers on the operation of e-collection

vi) Regular monitoring of all collections to ensure prompt remittance and accounting for collection

vii) Continuous update of e-collection guidelines and processes

viii) Abide by the provisions of the MoU with Stakeholders

8.1.11 ROLE OF DFAS OF THE MDAS

i. Ensure that proper books of Revenue Accounts are maintained.

ii. Ensure prompt issuance of receipts for remittances paid through the e-collection.

iii. Ensure that Internally Generated Revenue is not diverted

iv. Ensure that returns on revenue performance are rendered promptly.

v. Ensure that sharp practices emanating from collusion among dishonest revenue officers are discouraged and stopped forthwith.

vi. Ensure that idle funds are invested and accrued interest there from are transferred into the CRF promptly in line with the extant laws.

vii. Maintain the culture of revenue monitoring visits to all MDAs, FPOs, Government Companies and Parastatals

8.1.12 ROLES OF CENTRAL BANK OF NIGERIA (CBN)

i) Deployment of Gateway for use by other stakeholders

ii) Ensure that Remita platform facilitates the transmission of all instructions.

iii) Design the payment and collection process across all Banks based on operational standards

iv) Maintain the Treasury Single Account (TSA) of the FGN

v) Ensures maintenance, security and optimum performance of the Gateway to meet its obligations

vi) Issue guidelines (circular) to DMBs on the operation of the TSA.

vii) To abide by all Terms and Conditions for the Operation of TSA

8.1.13 ROLES OF THE DEPOSIT MONEY BANKS (DMBS)

i. Ensure that payment to government are given prompt service.

ii. Ensure that all collections in favour of FGN are promptly remitted and complaints are lodged with OAGF, CBN and REMITA without delay.

iii. Liaise regularly with OAGF to ensure smooth operation of the TSA.

iv. Liaise with relevant Departments of OAGF and CBN in the TSA operations.

v. Ensure that Terms and Conditions enshrined in the MoU are effectively discharged.

8.1.14 ROLE OF SERVICE PROVIDER

i. Work with CBN, OAGF and other Stakeholders to articulate system requirements.
ii. Provide a robust stable and effective integrated processing platform
iii. Ensure the optimal availability of all relevant systems and platforms
iv. Provide effective and efficient support to users of the platform
v. Provide users with relevant reports
vi. Training of users on the use of the payment gateway

8.1.15 GENERAL AND OPERATIONAL CHALLENGES

General

i. Fees charged by service provider deducted at source not provided for in the Budget;
ii. Lack of unified service agreement among Stakeholders;
iii. Some MDAs still maintain hidden Commercial Bank Accounts;
iv. Connectivity;
v. Infrastructure, incentives and logistics;
vi. Funding.
vii. Resistance by some MDAs
viii. Capacity gap of Users
ix. Inadequate Sensitization
x. Diversion of tax revenue into personal accounts

Operational

- Mopped up Funds- What to do with it?
- Investible Funds?
- Overextension of CBN’s existing capacity in view of new roles.
- Unethical practices by Banks
- Government Finances of 2016 Budget
- Implications for Financial Reporting
- Different IT Platforms- Remita, GIFMIS, NIBBS
- Endowment Funds implications
- Treatment of Donor Funds Through the TSA

- Direct Debits by CBN
- Lack of adequate framework for Domiciliary Accounts payments by CBN
- Delay in payments of Salaries
- Resistance by some MDAs to join the TSA
- Incessant transfer of funds from TSA to Commercial Banks Accounts in the name of Counterpart Funding/ Associated project Accounts by MDAs

8.2 AUTOMATED ACCOUNTING TRANSACTION RECORDING AND REPORTING SYSTEM (ATRRS).

It is an ICT based Accounting Software application which facilitates the input of Accounting Transactions, its reconciliation and the generation of Standard Accounting Reports that meet the required Standard of the Treasury. The software is developed by the Treasury (OAGF). It provides a leverage solution to automate the manual recording of the accounting transactions in the Line Ministries, Agencies and Parastatals of Government.

The introduction helps in the prompt rendition of financial and accounting returns; accurate presentation of financial reports; enhanced capacity to generate complex analytical reports; enhanced ability to cope with large volume of transactions; automatic mode of processing transactions and ability to eventually operate on-line real time processing, thereby ensuring that solution is provided to most of the challenges posed by the manual accounting process.

8.2. 1 BENEFITS OF THE ATRRS ACCOUNTING SOFTWARE

1. Familiarize the workforce with the use of IT equipment at an early stage of Government Integrated Financial Management Information System (GIFMIS) implementation, which would enable a smoother transition to the GIFMIS Software.
2. Potentially reduces training period and requirement for GIFMIS.
3. Potentially reduces GIFMIS implementation cost.
4. Shortens Business Process re-engineering period (i.e. it is faster to transit from a
semi automated process than a manual process.
5. Facilitates ease of reconciliation of the various bank accounts maintained by Government agencies.

6. Ensures clean and accurate data will be available for migration in to GIFMIS.

8.3 INTEGRATED PERSONNEL & PAYROLL INFORMATION SYSTEM (IPPIS)

IPPIS was conceived by the Federal Government of Nigeria (FGN) to improve the effectiveness and efficiency in the storage of personnel records and administration of monthly payroll in such a way as to enhance confidence in staff emolument costs and budgeting.

8.3.1 OBJECTIVES OF PPIS

The objectives of IPPIS are as follows:

a. Facilitates planning: Having all the civil service records in a centralised database will aid manpower planning as well as assist in providing information for decision- making.
b. Aid Budgeting: An accurate recurrent expenditure budget on emolument could be planned and budgeted for on a yearly basis.
c. Monitors the monthly payment of staff emolument against what was provided for in the budget.
d. Ensures database integrity so that personnel information is correct and intact.
e. Eliminates payroll fraud such as ghost workers syndrome.
f. Facilitates easy storage, updating and retrieval of personnel records for administrative and pension processes.

MDAs are Ministries, Departments and Agencies within the Public Service where the IPPIS will be implemented. Six MDA‟s selected in the pilot phase of the project are:

a. Federal Ministry of Education
b. Federal Ministry of Finance
c. Federal Ministry of Foreign Affairs
d. Federal Ministry of Information
e. Federal Ministry of Works
f. National Planning Commission

8.3.2 FUNCTIONS OF COMPONENT OF IPPIS

These are summarised as follows:

a. Data captive equipment with fingerprint scanners for biometric enrolment and camera for employee photographs.

b. Each of the pilots MDA can capture, update and process its personnel records.

c. There are at present about 30,000 public servants from the pilot MDAs whose records and biometric data have been captured, verified and stored in the centralized personnel database of IPPIS.

d. Salaries are now paid directly into the bank accounts of public servants whose records exist in the IPPIS database

e. Third party agencies such as FIRS, SBIR, PENCOM and Cooperative Societies also receive their payments directly.

8.4 GOVERNMENT INTEGRATED FINANCIAL MANAGEMENT INFORMATION SYSTEM (GIFMIS)

GIFMIS is a sub component of the ERGP (Economic Reform and Governance Project) which will support the public resource management and targeted anti-corruption initiatives area through modernising fiscal processes using better methods, techniques and information technology. The Government Integrated Financial Management Information System (GIFMIS) is an IT based system for budget management and accounting that is being implemented by the Federal Government of Nigeria to improve Public Expenditure Management processes, enhance greater accountability and transparency across Ministries and Agencies.

GIFMIS is designed to make use of modern information and communication technologies to help the Government of Nigeria to plan and use its financial resources more efficiently and effectively.

The Government recognizes nevertheless that additional challenges remain and that Public expenditure management needs to be further strengthened to (i) build an integrated budget based on programs that are clearly linked to key development objectives; (ii) ensure greater accountability from budget holders; (iii) allow greater emphasis on budget outcomes and impact; and (iv) identify and address remaining sources of leakage in budget execution in order to strengthen efficiency of public expenditures.

This will require in addition to changes in policies and regulations, considerable modernization and automation of current budget and financial management and procurement practices.

8.4.1 PURPOSE OF GIFMIS

The purpose of introducing GIFMIS is to assist the FGN in improving the management, performance and outcomes of Public Financial Management (PFM). The immediate purpose of this project is to enable an executable budget, i.e. a budget which can be implemented as planned by addressing the critical public financial management weaknesses including:

- Failure to enact the budget before the start of the financial year.
- The budget is not based on realistic forecasts of cash availability.
- Lack of effective cash management – multiple bank accounts within Treasury and MDAs that make effective control impossible; when combined with the lack of cash forecasting this leads to inefficient and unplanned borrowing.

- A lack of integration between different financial management functions and processes, e.g. budget is prepared in a way that makes it difficult to manage budget execution through the chart of accounts.

It must be underscored that whereas GIFMIS is part of the solution to the above problems, it (GIFMIS) cannot be a driver of change to better public financial management – rather it is a tool to facilitate change. To this end, the introduction of a GIFMIS will be combined with major changes to business processes. As a matter of fact GIFMIS provides an opportunity to move to Treasury Single Account and to reduce the number of stages in transaction processing. In addition it will provide better access to information which can be used to improve fiscal and operational management. GIFMIS will also reduce fiduciary risk by enabling greater transparency and by reducing the opportunities for manual intervention in financial transactions.

8.4.2 OBJECTIVES OF GIFMIS

The overall objective is to implement a computerized financial management information system for the FGN, which is efficient, effective, and user friendly and which:

(i) Increases the ability of FGN to undertake central control and monitoring of expenditure and receipts in the MDAs.

(ii) Increases the ability to access information on financial and operational performance.

(iii) Increases internal controls to prevent and detect potential and actual fraud.

(iv) Increases the ability to access information on Government's cash position and economic performance.

(v) Improves medium term planning through a Medium Term Expenditure Framework (MTEF).

(vi) Provides the ability to understand the costs of groups of activities and tasks.

(vii) Increases the ability to demonstrate accountability and transparency to the public and cooperating partners.

8.4.3 SCOPE OF GIFMIS

i. GIFMIS will be used to support the government in all aspects of budget preparation, execution and management of government financial resources.

ii The system will cover all spending units financed from the government's budget, and will process and manage all expenditure transactions (including interfaces) pertaining to these units.

iii. All steps in the expenditure cycle including, budget appropriations, financing limits, commitments, verification and payment transactions will be recorded by and managed through the system.

iv. In other words, the system will be a modern, efficient and user-friendly facility, providing comprehensive information on all the financial affairs of the Government.

v. This will act as a reliable basis for multi-year budgeting, annual budgeting, commitment control, payment control, financial and cash management and economic planning.

vi. The financial management functions of the GIFMIS will cover the entire financial management cycle including:

a. Budget preparation
b. Budget maintenance and management
c. Budget execution and treasury management
d. General ledger
e. Procurement, including commitments of purchase orders, maintenance of a central supplier register and support for e-procurement.
f. Receipting, accounts receivable and revenue management
g. Payments and accounts payable
h. Inventory and Stock Control
i. Asset Management
j. Budget execution reporting
k. Financial reporting
l. Project accounting
m. Loans and Advances

8.4.4 INTERFACE WITH THIRD PARTIES

Interfaces with third party systems to be provided by the GIFMIS include:

b) Human Manager – Payroll – OAGF – Payroll costs/Loan repayments
c) ASYCUDA – Customs – NCS – Revenue
d) SAP – Taxation – FIRS – Revenue
e) CD-DRMS – Debt Management – DMO – Debt payments
f) Oracle ERP – Banking interface – CBN – Bank Statements
g) Oracle 9i – Medium Term Budget – BOF – Annual Budgets and ceilings

8.4.5 GIFMIS CRITICAL SUCCESS FACTORS

The following factors have been identified as critical to the success of GIFMIS implementation;

- Sustained Management Support
- Effective Organizational change
- Good Project Scope Management
- Adequate Project Team Composition
- Comprehensive Business Process Re-engineering
- Adequate Project Sponsor and Champion Role
- User Involvement and Participation
- Trust between Partners
- Dedicated Staff and Consultants
- Strong Internal & External Communication
- Formalised Training Program
- Adequate Training Program
- Data Conversion Management
- Empowerment of Project Management Team & Sponsor
- Adequate GIFMIS implementation strategy
- Avoidance of Extensive Customisation.

8.5 SUMMARY

The Chapter discussed the operation of Treasury Single Accounting and other various Financial Management Reforms put in place by the government for efficiency and financial operation in the public service

8.6 END OF CHAPTER REVIEW QUESTIONS

1 a. What is e-payment**?**
b**.** List TEN benefits of e-payment.
c. State two types of transactions covered by e-payments.
d. Itemise the Content of an e-payment voucher.

2 a. Ex plain the concept of Treasury Single Account (TSA)
b. Discuss any FIVE benefits of TSA

3 a. What is the full meaning of the Acronym GIFMIS?
b. State the main objectives of GIFMIS.

SOLUTION

1 a E-payment is a subset of e-governance which is the application of electronic means in the interaction between Government and Citizens and Government and Businesses.

It is a form of direct payments and banking without physical appearance at the MDAs or Bank through the means of electronic, interactive communication channels and other
Technological infrastructures.

b. BENEFITS OF TSA (E- PAYMENT)

a) Provides complete and timely information on government cash resources
b) Improve operational control on budget execution
c) Enables efficient cash management
d) Reduces bank fees and transaction costs
e) Facilitates efficient payment mechanisms
f) Improves bank reconciliation and quality of fiscal data
l) Improves liquidity of government
m) Issuance of Warrants and AIEs based on cash plan
n) No more commercial bank accounts maintenance by MDA
o) Support government budget execution
p) The risk associated with cheques been stolen, forging of signature and disparity between amount in words and figures is totally eliminated.

c. Transactions covered by e-Payment

i. All payments to Contractors and to Service Providers.
ii. Payments to Staff, PHCN, FIRS and other Government Agencies .

Contents of E-Payment Teller

i) Account Name of the beneficiary
ii) Account Number of the beneficiary
iii) Bank and Branch of the beneficiary
iv) Sort Code (if not part of Account Number)
v) Amount Payable
vi) Purpose of the Payment
vii) Signature and Thumbprint impression of the accounts signatories

2 a. The Treasury Single Account (TSA) policy was established in order to reduce the proliferation of bank accounts operated by MDAs and to promote financial accountability among governmental organs. The compliance of the policy faces challenges from majority of the MDAs.

b. **Benefits of TSA**

i) Help government unify banking arrangements;
ii) Assist the federal government in the efficient utilisation of government

funds for approved projects;

iii) Promote transparency and accountability in government operations;

iv) Reduce the amount, and cost of government borrowing by maximising

v) Ensure centralized control over revenue through effective cash management.

vi) Enhance accountability and enables government to know how much is accruing to it on a daily basis.

vii) Reduce fiscal criminality and help tame the tide of corruption.

3 a. GIFMIS- Government Integrated Financial and Management Information System

b. Objectives of the GIFMIS

The overall objective is to implement a computerized financial management information system for the FGN, which is efficient, effective, and user friendly and which:

i. Increases the ability of FGN to undertake central control and monitoring of expenditure and receipts in the MDAs.
ii. Increases the ability to access information on financial and operational performance.
iii. Increases internal controls to prevent and detect potential and actual fraud.
iv. Increases the ability to access information on Government's cash position and economic performance.
v. Improves medium term planning through a Medium Term Expenditure Framework (MTEF).
vi. Provides the ability to understand the costs of groups of activities and tasks.
vii. Increases the ability to demonstrate accountability and transparency to the public and cooperating partners.

CHAPTER NINE

PROCUREMENT PROCEDURES

CHAPTER CONTENTS

a. Learning Objective
b. Due Process rocedures
c. Benefits of Due Process
d. Public Sector Accounting and Contracts
e. Contract Payment Voucher
f. Contract Register
g. Content of a Contract Register
h. Documents Accompanying A Contract Payment Voucher
i. Tenders Board on Contracts
j. Types of Tenders Board
k. Procedure for Award of Contracts
l. Post- Award Activities
m. Tenders Board Information on Voucher
n. Other Contract Terms
o. Public Procurement Act,2007
p. Bureau of public procurement
q. Summary
r. End of Chapter Questions

9.0 LEARNING OBJECTIVE

At the end of this chapter readers should be able to:-

i) Understand the procedures required in the procurement of contracts from Government.
ii) Identity benefits of one process
iii) Enumerate the contents of a contract register
iv) Understand the procedures for award of contracts
v) The composition and functions of Bureau of Public Procurement

9.1 DUE PROCESS PROCEDURES

Due process is the mechanism for ensuring strict compliance with the openness, competition and cost accuracy, rules and procedures that should guide contract awards within the three tiers of Government in Nigeria.

It is a policy formulated to ensure that all the laid down rules and regulations guiding the conduct of the award of any contract in any government establishment are strictly adhered to without compromise, partial treatment or manipulation.

It is introduced to stem the tide of corrupt government officials in connivance with contractors in the embezzlement of public funds in the name of contract awards and arrest flagrant abuse of procedures, inflation of contract costs and lack of transparency

It is the instrument used by the Budget Monitoring and Price Intelligent Unit (BMPIU) which is tasked with implementing Nigeria's Public Procurement Reform Programme.

9.1.1 BENEFITS OF DUE PROCESS

i. To safeguard public funds and assets.

ii. To improve the system of planning and diligent project analysis leading to the accuracy of costing and prioritisation of investments.

iii. To improve fiscal management through more efficient and effective expenditure.

iv. To improve the technical efficiency through un-impaired and enhanced information flow.

v. To enhance transparency and accountability in governance.

vi. To rebuild public confidence in government financial activities.

vii. To ascertain that Government receives value for money expended.

viii. As it applies the principle of competition and moderate costs, it saves money for Government which can be employed in other sectors.

ix. It re-instates, hitherto lost confidence and trust in foreign investors, who believed that the country is corrupt and that no genuine business can be transacted in Nigeria.

x. To remove the erroneous belief that contracts are awarded on the basis of "whom you know‟, and not "what you know‟, as contract are awarded on the consideration of price competitiveness, expertise and probity but not political connections.

9.2 PUBLIC SECTOR CONTRACTS

A contract is an agreement between two or more persons which is legally binding and for financial consideration. It is important that all issues in respect of a contract are

known and adequately documented. This is to ensure that the terms of the contract are adhered to strictly before payments are effected.

9.2.1 CONTRACT PAYMENT VOUCHER

All payment vouchers raised in respect of a contract should contain the under listed information: -

i) The name of the contractor.
ii) Contract number.
iii) The vote of charge
iv) Name or Title of the project
v) Certificate number being paid
vi) The contract amount
vii) Authority for payment

9.2.2 CONTRACT REGISTER

A contract register is the book into which all contract agreements are recorded. It is forwarded to the Accounts Section for updating whenever any contract is awarded.

9.2.3 CONTENTS OF A CONTRACT REGISTER

The contract register should contain: -

1. Name and address of contractor
2. Contract Number.
3. Contract Sum.
4. Contingencies and Variation clauses.
5. Terms of payment.
6. Period of completion of the contract.
7. File number.
8. Details of advance payment and balance.
9. Signature of the officer controlling the vote of charge concerning the contract.

9.2.4. DOCUMENTS ACCOMPANYING A CONTRACT PAYMENT VOUCHER

The following documents are required to accompany a contract payment voucher:

i. The minutes of the meeting of the Tenders Board that awards the contract. This is to ascertain that the contract amount is within the range of the Tenders Board.

ii. Certificate of completion of the contract. This is issued by a competent field engineer or surveyor.

iii. Copy of the contract agreement to show that the terms are fully complied with.

iv. Letter of award of the contract.

v. Delivery Note or Stores Receipt Voucher (SRV) where the contract is t supply of items.

vi. A waybill, and/or invoice issued by the contractor.

9.2.5 TENDERS BOARD ON CONTRACTS

A tender is defined as a proposal to carry out some services or deliver goods. The tender is prepared and presented for scrutiny by the contractor, on request, by the contractee. It is legally binding as an offer.
Tender Board is made up of public officers constituted to administer or award contracts in respect of all Government awards for an amount which is above one million naira (₦1,000,000).

9.2.6 TYPES OF TENDERS BOARD

These are:

a) ***Departmental Tenders Board:-*** This is a Tenders Board that can award contracts within a department. The Board has the power to award any contract of ₦250,000, but not up to ₦500,000.

Composition:- The Departmental Tenders Board is made up of seven(7) members as follows:

i. Director, other than the Department's Director, as Chairman
ii. One Deputy Director
iii. One Assistant Director
iv Chief Accountant of the Department
v. Three (3) other members

Each recommendation of this Board is passed to the Permanent Secretary of the Ministry, for approval.
It is pertinent to note that The Federal Ministry of Finance Circular No 15775 of 27/6/01abrogated the Departmental Tenders Board.

The circular states that contract of works, services and purchases of up to N1,000,000 may be approved by the Permanent Secretary/ Chief Executive of the ministry without an open tender.

b). ***Ministerial Tenders Board:-*** It is the Tenders Board vested with the power to award contracts of between ₦500,000 and ₦5,000,000.

Composition: - All Directors of the Ministry with the Permanent Secretary as Chairman. The recommendation of the Board is passed to the Minister of the Contractee Ministry, for approval.

c) ***Council Of Ministers (Federal Executive Council):-*** The Board can award any contract worth over ₦5, 000,000 without any limitation.

Composition: - All Ministers with the President as Chairman. The recommendation of the Board is passed to the President for approval

9.2.7 PROCEDURE FOR AWARD OF ONTRACTS

Whenever an approval has been given in respect of a contract, the relevant Tenders Board should be informed. The Secretary to the Tenders Board will then write other members of the board for a meeting where "Notification" of Invitation for the award will be discussed

"Notification of Invitation" means tenders, bid, advertisement which will be published in newspapers, official gazette and other means of communication.

i. ***Selective Tender: -*** Selective tender is used where the award of a contract is urgent. In this case, the invitation to tender may not be offered to the general public but to selected contractors. However, the number of contractors will not be less than five.

ii. ***Deposit By Tender: -*** Sometimes, some deposits might need to be paid along with the tender. If this is the case, the tender will not be assessed except there is evidence that the deposit has been paid. This deposit is usually expended for administrative purposes.

Once all the invitations have been received (tender bids), the Secretary will open all the tenders in the presence of the Chairman and record the name of every prospective contract awardees and the amount quoted in respect of the contract. Thereafter, a meeting will be called where one of the contractors will be selected.

It should be noted that the selection of a contractor might not be necessarily based on lowest tender or cost, but other factors such as experience, professionalism, politics, past records, and timeliness. The name of the contractor selected or recommended will then be forwarded along with other contractors to the approving agency. The reason why he is being selected will be stated.

Where none of the contractors that responded to the invitation is qualified, another notice of invitation will be released .The contractor that is finally selected will be informed and invited to complete other formalities.

9.2.8 TENDERS BOARD INFORMATION ON VOUCHER

Payment vouchers in respect of any contract awarded through tender should contain the following information:

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 approval given by the approving authority.
iv. Copy of each payment voucher in respect of total amount already paid in respect of the contract.

9.2.9 OTHER CONTRACT TERMS

Tender Splitting**:** It is an offence punishable by imprisonment or fine or both for any officer to deliberately split contract works, purchases or procurement of services.

Bid Security**:** All contracts estimated to cost N10,000,000 and above should attract a bid security in an amount of not less than the bid price in form of bank guarantee issued by a reputable bank.

***Contingencies Clause:* -** This states that if the contractor has taken reasonable care in executing the work and an unexpected situation develops, the contractee should bail out the contractor by making more money available or review upward the contract sum. If otherwise, the contractor will bear the cost.

***Retention Fee Clause:* -** This states that after the completion of the project, the Government should withhold about 10% of the contract sum for about a year. The amount withheld will be paid to the contractor after one year if the project is found properly executed and any structural error/defect is not detected.

***Variation Clause:* -** states that where due to increase in the price of materials, labour and other services used in the execution of the contract, the contract sum should be reviewed upwards. This clause takes care of inflation.

Mobilisation Fees Clause: - This states that immediately the contract is awarded, Government should pay about 10% of the contract sum to the contractor. This is to assist the contractor in mobilizing men and materials to site to commence the executive of the contract. The amount paid to the contractor will be deducted from subsequent payments due to him as he executes the contract.

9.3 PUBLIC PROCUREMENT ACT, 2007

The Act is established by the Enactment of the National Assembly of the Republic of Nigeria.

9.3.1 ESTABLISHMENT OF NATIONAL COUNCIL ON PUBLIC PROCUREMENT

There is established the National Council on Public Procurement – referred to in the

Act as "the Council".

9.3.2 COMPOSITION OF THE COUNCIL

The Council shall consist of:

i. The Minister of Finance as Chairman

ii. The Attorney-General and Minister of Justice of the Federation

iii. The Secretary to the Government of the Federation

iv. The Head of Service of the Federation

v. The Economic Adviser to the President

vi Six-Part-Time members to represent:

a) Nigeria Institute of Purchase and Supply Management

b) Nigeria Bar Association

c) Nigeria Association of Chambers of Commerce, Industry, Mines and Agriculture

d) Nigeria Society of Engineers

e) Civil Society

f) The Media

vii. The Director-General of the Bureau who shall be the Secretary of the Council.

9.3.3 FUNCTIONS OF THE COUNCIL

(a) To consider, approve and amend the monetary issues relating to the Act.
(b) To consider and approve policies on public procurement
(c) To approve the appointment of the Director of the Bureau
(d) To receive, review, consider and approve the audited accounts of the Bureau of Public Procurement
(e) To approve changes in the procurement process to adapt to improvements in modern technology
(f) To perform such other functions as may be deemed necessary to achieve the objectives of the Act.

9.4 BUREAU OF PUBLIC PROCUREMENT

This is established by the Public Procurement Act 2007

9.4.1 OBJECTIVES OF THE BUREAU

(a) The harmonisation of existing government policies and practices on public procurement
(b) The establishment of pricing standards and benchmarks
(c) Ensuring the application of fair, competitive, transparent and standard practices for the procurement and disposal of public assets and services
(d) The attainment of transparency, competitiveness and professionalism in the public sector procurement system

9.4.2 FUNCTIONS OF THE BUREAU OF PUBLIC PROCUREMENT

(a) To formulate the general policies and guidelines relating to public sector procurement.
(b) To supervise the implementation of established procurement policies.
(c) To monitor the prices of tendered items and keep a National database of standard process.
(d) To publish the details of major contracts in the procurement journal.
(e) To publish papers and electronic editions of the procurement journal.
(f) To maintain a National database of the particulars and classifications
and categorisation of Federal contractors and service providers.
(g) To collate and maintain in a database for all Federal procurement plans and information.
(h) To undertake procurement research and survey.

(i) To organise training and development programmes for procurement professionals.

(j) To prepare and update standard bidding and contract documents.

(k) To prevent fraudulent and unfair procurement and where necessary apply administrative sanctions.

(l) To review the procurement and award of contract procedures of every entity to which the Act applies.

9.4.3 POWERS OF THE BUREAU

The Bureau shall have the power:

a. To review and or inspect any procurement transaction to ensure compliance with the provisions of the Act.

b. To review and determine whether any procuring entity has violated any provisions of this Act.

c. To stop and blacklist any supplier, contractor or service provider that contravene any provision of this Act.

d. To maintain a National database of Federal contractors and service providers.

e. To maintain a list of firms and persons that have been debarred from participating in public procurement activity and publish them in the procurement journals.

f. To investigate any aspect of any procurement proceeding where a breach, default, mismanagement and or collusion has been alleged, reported or proved against a procuring entity or service provider.

g. To recommend to the Council where there are persistent breaches of this Act or regulations for suspension, replacement, discipline and temporary transfer of any officer of any procuring entity or of the Council.

h. To act upon complaints in accordance with the procedures set out in this Act.

i. To nullify the whole or any part of any procurement proceeding or award which is contravention of this Act.

j. To enter into contract or partnership with any company, firm or person which in its opinion will facilitate the discharge of its functions.

9.5 SUMMARY

The Chapter discussed the due process procedures involved in the award of Government contracts including the provisions of Public Procurement Act, 2007

9.6 END OF CHAPTER REVIEW QUESTIONS

1 Due process is the mechanism for ensuring strict compliance with the openness competition and cost accuracy guiding contract awards within the three tiers of government in Nigeria.

Required:

(a) Mention EIGHT benefits of due process

(b) State SIX information contained in a contract payment voucher

(c) State SIX documents required to accompany a contract payment voucher

2. Write short notes on the following terms in relation to contract

(a) Tender Splitting

(b) Bid Security

(c) Contingencies Clause

(d) Retention fee Clause

(e) Variation Clause

(f) Mobilisation Fee Clause

3. The Public Procurement Act , 2007 was established by the National Assembly of the Federal Republic of Nigeria which in turn established the National Council on Public Procurement.

i. State the Composition of the Council.

ii. Enumerate SIX functions of the Council.

4. (i) Itemise FOUR objectives of Bureau of Public Procurement

(ii) State SIX functions of Bureau of Public Procurement

(iii) Enumerate SIX powers of Bureau of Public Procurement.

Solution

1 a. Benefits of Due Process

i. To safeguard public funds and assets.
ii. To improve the system of planning and diligent project analysis leading to the accuracy of costing and prioritisation of investments.
iii. To improve fiscal management through more efficient and effective expenditure.
iv. To improve the technical efficiency through un-impaired and enhanced information flow.
v. To enhance transparency and accountability in governance.
vi. To rebuild public confidence in government financial activities.
vii. To ascertain that Government receives value for money expended.
viii. As it applies the principle of competition and moderate costs, it saves money for Government which can be employed in other sectors.
ix. It re-instates, hitherto lost confidence and trust in foreign investors, who believed that the country is corrupt and that no genuine business can be transacted in Nigeria.

b Content of Contract Payment Voucher

All payment vouchers raised in respect of a contract should contain the under listed information: -

i. The name of the contractor.
ii. Contract number.
iii. The vote of charge
iv. Name or Title of the project
v. Certificate number being paid
vi. The contract amount
vii. Authority for payment

iii. Documents Accompanying A Contract Payment Voucher

These are as stated below:

i. The minutes of the meeting of the Tenders Board that awards the contract. This is to ascertain that the contract amount is within the range of the Tenders Board

ii Certificate of completion of the contract. This is issued by a competent field engineer or surveyor.

iii. Copy of the contract agreement to show that the terms are fully complied with.

iv. Letter of award of the contract.

v. Delivery Note or Stores Receipt Voucher (SRV) where the contract is supply of items.

vi. A waybill, and/or invoice issued by the contractor.

2 (a) ***Tender Splitting*:** It is an offence punishable by imprisonment or fine or both for any officer to deliberately split contract works, purchases or procurement of services.

(b) ***Bid Security*:** All contracts estimated to cost N10,000,000 and above should attract a bid security in an amount of not less than the bid price in form of bank guarantee issued by a reputable bank.

(c) ***Contingencies Clause:* -** This states that if the contractor has taken reasonable care in executing the work and an unexpected situation develops, the contractee should bail out the contractor by making more money available or review upward the contract sum. If otherwise, the contractor will bear the cost.

(d) ***Retention Fee Clause:* -** This states that after the completion of the project, the Government should withhold about 10% of the contract sum for about a year. The amount withheld will be paid to the contractor after one year if the project is found properly executed and any structural error/defect is not detected.

(e) ***Variation Clause:* -** states that where due to increase in the price of materials, labour and other services used in the execution of the contract, the contract sum should be reviewed upwards. This clause takes care of inflation.

(f) ***Mobilisation Fees Clause:* -** This states that immediately the contract is awarded, Government should pay about 10% of the contract sum to the contractor. This is to assist the contractor in mobilizing men and materials to site to commence executive of the contract. The amount paid to the contractor will be deducted from subsequent payments due to him as he executes the contract.

3 a. Composition of The National Council on Public Procurement.

i. The Minister of Finance as Chairman
ii. The Attorney-General and Minister of Justice of the Federation
iii. The Secretary to the Government of the Federation
iv. The Head of Service of the Federation
v. The Economic Adviser to the President
vi. Six-Part-Time members to represent:

a) Nigeria Institute of Purchase and Supply Management

b) Nigeria Bar Association

c) Nigeria Association of Chambers of Commerce, Industry, Mines and Agriculture

d) Nigeria Society of Engineers

e) Civil Society

f) The Media

vii. The Director-General of the Bureau who shall be the Secretary of the Council.

b. Functions of The National Council on Public Procurement

a. To consider, approve and amend the monetary issues relating to the Act.

b. To consider and approve policies on public procurement

c. To approve the appointment of the Director of the Bureau

d. (To receive, review, consider and approve the audited accounts of the Bureau of Public Procurement

e. To approve changes in the procurement process to adapt to improvements in modern technology

f. To perform such other functions as may be deemed necessary to achieve the objectives of the Act.

4 a Objectives of The Bureau of Public Procurement

(a) The harmonisation of existing government policies and practices on public procurement

(b) The establishment of pricing standards and benchmarks

(c) Ensuring the application of fair, competitive, transparent and standard practices for the procurement and disposal of public assets and services

(d) The attainment of transparency, competitiveness and professionalism in the public sector procurement system

b. Functions of The Bureau of Public Procurement

(a) To formulate the general policies and guidelines relating to public sector procurement.

(b) To supervise the implementation of established procurement policies.

(c) To monitor the prices of tendered items and keep a National database of standard process.

(d) To publish the details of major contracts in the procurement journal. (e) To publish papers and electronic editions of the procurement journal.

(f) To maintain a National database of the particulars and classifications and categorisation of Federal contractors and service providers.

(g) To collate and maintain in a database for all Federal procurement plans and information.

(h) To undertake procurement research and survey.

(i) To organise training and development programmes for procurement professionals. (j) To prepare and update standard bidding and contract documents.

(k) To prevent fraudulent and unfair procurement and where necessary apply administrative sanctions.

(l) To review the procurement and award of contract procedures of every entity to which the Act applies.

C Powers of The Bureau of Public Procurement

The Bureau shall have the power:

a. To review and or inspect any procurement transaction to ensure compliance with the provisions of the Act.

b. To review and determine whether any procuring entity has violated any provision of this Act.

c. To stop and blacklist any supplier, contractor or service provider that contravene any provision of this Act.

d. To maintain a National database of federal contractors and service providers.

e. To maintain a list of firms and persons that have been debarred from participating in public procurement activity and publish them in the procurement journals.

f. To investigate any aspect of any procurement proceeding where a breach, default, mismanagement and or collusion has been alleged, reported or proved against a procuring entity or service provider.

g. To recommend to the Council where there are persistent breaches of this Act or regulations for suspension, replacement, discipline and temporary transfer of any officer of any procuring entity or of the Council.

h. To act upon complaints in accordance with the procedures set out in this Act.

i. To nullify the whole or any part of any procurement proceeding or award which is contravention of this Act.

j. To enter into contract or partnership with any company, firm or person which in its opinion will facilitate the discharge of its functions

CHAPTER TEN

BUDGETING PROCESS IN THE PUBLIC SECTOR

CHAPTER CONTENTS

10.0 LEARNING OBJECTIVES

At the end of this chapter, readers should be able to:

i. Understand the concept of budget and budgeting
ii. State the objectives of budgeting
iii. Discuss budgetary control.
iv. Understand elements of organisational and National Budgetary Control areas,
v. Discuss the types of budget systems and cycle

10.1 DEFINITIONS OF A BUDGET AND BUDGETING

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

Budgeting is the process of putting together the financial information that will enable an organisation or a Nation to plan and execute its set goals and objectives. It is the process of putting together the financial demands of Government Institutions.

10.2 OBJECTIVES OF BUDGETING

Budgeting has the following Objectives:

i. It is to assist policy makers to develop policies that will assist the Nation to achieve its main objectives.

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

iii. It is to give authority to future spending; i.e. it is an expenditure authorisation means.

iv It is to provide a mechanism to control the Nation's revenue and expenditure.

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

vi. It serves as motivating device for both government employees and the departmental managers.

vii. It serves to bring together the separate sub-systems of a Nation to enable them work together towards the achievement of set objectives.

10.3 THE BUDGETARY/PUBLIC SECTOR ACCOUNTING CONCEPT

The budgetary accounting concept is the process through which government organisations account for the receipt of budgeted resources and how they are applied.

Similarly, it is the accounting procedure that is concerned with the recording of authorised and approved estimates or appropriations. The basic principles of bookkeeping and accounting in the public sector can be started through the process of budgetary accounting to show how budgetary estimates, their approval, allocation and use are accounted for through the bookkeeping process.

10.4 BUDGETARY CONTROL

This is the establishment of a budgeting system to formulate financial action plans for the operations of an organisation and the system to direct such finances to achieve the desired actions in the budget.

Budgets are prepared for departments and units under the control of responsible officials or managers, and they are compared periodically with the achievements made in the form of actual expenditure.

Any deviations or variances which may be either positive or negative are determined and necessary remedial actions.

Budgetary control is a process which is undertaken to enable budgets and targets set to be continuously examined for review or adjustment, depending on performance so far. It is used as a means of making managers and Heads of Departments be accountable for their actions and non-performance.

10.4.1 IMPLEMENTING A GOOD BUDGETARY CONTROL SYSTEM

The features necessary to implement a good budgetary control system, include the following:

i) The need for an agreement generally in the organisation to implement such a budgetary control measure.
ii) The objectives, output and targets for the organisation are agreed and used as the bases for measuring achievements.
iii) The organisation is broken down into responsibility centres where each of them is to execute identified activities.
iv) A detailed plan is formulated into a comprehensive budget.
v) A monitoring and evaluation device is adopted to judge the performance and progress of every unit or department within the total system.
vi) A continuous process is adopted of comparing achievements or output with the budgets.

10.5 NATIONAL BUDGETARY CONTROL

The responsibility of national budgetary control lies with the Ministry of Finance, which is to ensure that the expenditure of a country are always within the available revenue resources.

10.5.1 NATIONAL BUDGETARY CONTROL AREAS

Budgetary control in government cover the following areas:

(a) Revenue Control

This concerns the procedures set up to ensure the collection of revenue of Government through properly identified sources, the adequate monitoring of such collections and ensuring that they are accounted for.
The process is initiated through a Finance Bill forwarded to Parliament by the Executive to seek authorisation for the collection of annual revenue from identified sources.

(b) Fund Control

It is the procedure adopted to ensure that the Nation's fund is properly kept and used in the right way, with the issues of probity and accountability in mind.
Fund control of a Government starts from the Legislature. In the British system, this role of the Legislature earned it the name "Controller of the Purse".

Parliament has to authorise the use of money from the Fund by examining and approving the Appropriation Bill into Appropriation Act.

Parliament has to ensure that the National Fund is safeguarded and used efficiently and effectively. There is the other aspect which has to do with the control of the Executive under which public organisations put in measures to safeguard funds.

(c) Expenditure Control

This is the control system which ensures that all the spending done is as agreed. This is also known as Vote Control and is exercised by the accountant of the public organisation.

(d) **Cost Control**

This is the control measure to ensure that the total cost of any activity to an organisation is within the right valuation. The control measure involves an awareness by every organisation or personnel to ensure that items are procured which will give the highest benefit from the spending, and the acquisition of items or services through proper negotiation and bargaining to ensure cost reduction.

(e) Cash Control

This system is the availability of cash resources for any item of good or service that the organisation wishes to acquire. It therefore ensures that spending plans for a period are made by a department based on approved vouchers. Cash forecast is expected here so as to avoid any overspending request that will lead to deficit.

(e) **Payment/Disbursement Control**

This relates often to pre-spending checks to ensure that money to be spent has been approved on properly authorised activities.
Disbursement control brings out pre-audit checks to ensure that, for instance, authorisation has been given for the presented vouchers, the supplier of the activity has been properly identified, and the quantity of items has been well identified and agreed on. It also ensures that the right amount has been identified, subject to any discounts, and other terms of payment, and the necessary documentation has been provided or attached to the main request.

(f) **Salary/Payroll Control**

This has to do with the control of the systems of rewarding in the organisation to ensure that good remuneration is paid to the right people employed to prevent fraud.

10.6 ELEMENTS OF ORGANISATIONAL BUDGETARY CONTROL

10.6.1 RESPONSIBILITIES

Regulations 168 of the Financial Administration Act (FAA) states that the responsibility of the budgetary control of organisations in the form of Ministries, Departments, Agencies, Sections, Units, lies with the respective Heads of such institutions. Such heads are expected to ensure that the expenditure of their respective divisions are within the planned budgets.

10.6.2 ORGANISATIONAL BUDGETARY VARIATION

The Heads of departments are required by regulation 169 of the FAA to report to the appropriate authority of any situation that might cause a change in the expected outcome of the budget, from either the revenue budget or expenditure budget.

10.6.3 ORGANISATIONAL BUDGETARY PROGRESS

The Heads are required by Regulation 180 of the FAA to prepare and send quarterly budgetary control report, prepared in months, to the Finance Minister within fifteen working days after the end of the relevant quarter.

10.7 TYPES OF BUDGET SYSTEMS

Public sector budgeting has been reformed over many years during the development time of the Nation. This has led to the following types of systems of budgeting:

10.7.1 THE TRADITIONAL BUDGET

This is the initial system of budgeting that was developed. The main objective was to plan how to utilise the financial resources of a Nation, control them and ensure accountability from the stewards.

Two main features of this type of budget are:

(a) 'Line Item' feature

This system develops the revenue and expenditure by the nature or type of income and expenditure. The normal types of income are tax, loans, grants etc. The budget is prepared estimating the revenue to be generated through these income. The normal expenditure items are by materials, travelling and transport, salaries, equipment, repairs and maintenance.

(b) Incrementalism Feature

With the incrementalism feature, the budget for any year is prepared by making adjustments in the form of either increases or decreases in the preceding year's budget figures. The advantage is seen in the way budget authorities make annual reviews of activities and policies.

The traditional budget is also known by these two features, that is, either as the

"line item" budget or the incremental budget.

Advantages

The advantages of the traditional budgeting system include the following:

i) The budget system is simple to prepare.
ii) It is a means of expenditure control.
iii) It ensures that money is used for assigned uses.
iv) It ensures the protection of the finances of an organisation.
v) Changes can be made in the "line items" easily.
vi) It is also easy to make detailed comparisons between budgeted and actual revenue and expenditure.

Disadvantages

The disadvantages of the traditional budgeting system may be discussed, as follows:

i) The budget is concerned more with conforming to legal requirements rather than proper planning and development.
ii) It stresses on the importance to spend exactly the amount budgeted for a type of expenditure, without being concerned about the achievement.
iii) It encourages inefficient spending habits by public officers.
iv) Expenditure items are not scrutinised much because of the incrementalism principle applied.
v) Items of expenditure are often not easily taken out of the budget, resulting in the misdirection of resources.

10.7.2 PERFORMANCE BUDGETING

The Government of the United States spear head in budgetary reforms when the traditional budget was not satisfactory. The Hoover Commission recommended this budgeting technique in 1949.

This led to the passing of the National Security Act Amendment of 1949 and the Budgeting and Accounting Procedures Act of 1950.

This budgeting system stresses on the functions and projects which are undertaken, as against the traditional budget which stresses on inputs, or expenditure items such as materials, wages and stationeries.

The functions and projects refer to the output of the expenditure. Hence, it was budget known as Output Budget. For this system of budgeting, attention is on the general character and relative importance of the work to be done. Attention is centred on the function or activity, and on the accomplishment of the purpose.

Requirements are submitted for budget preparation through programme classification, indicating the past activities of the organisation, their costs, the activities to be undertaken during the next year, results expected and the pattern of responsibilities assignment.

Advantages of the budgeting echnique

i) This budgeting system gives sufficient information since it includes a narrative description of each project, and the services provided by, the organisation.
ii) Inputs and outputs are both shown and measured,
iii) It is a monitoring device, since the results of each activity are noted and measured.
iv) Emphasis is on the activities of the organisation, as well as on controlling costs.

Weaknesses of the technique

The technique was used with little success, even in the United States where it originated. The weaknesses are as follows:

i) There is difficulty regarding the classification of programmes and the provision of cost data in respect of many activities.

ii) The process of allocation of cost estimates over the activity or programme elements is difficult.

iii) Personnel for project costing and analysis are difficult to obtain in the public sector.

iv) Most public sector activities are not easily measurable in output terms.

v) The technique fails to stress on long-run objectives of government, just as the traditional budget.

10.7.3 THE ZERO-BASED BUDGETING (ZBB)

The budgeting technique stresses that every item of expenditure to be budgeted for should be scrutinised and justified for such item to be funded in the budget. The technique expects that organisations should justify the need that they should continue to exist.

The budget, by implication, tries to discourage wasteful expenditure, and is aimed at ensuring that useless projects are not undertaken.

Organisations and personnel are encouraged to do better analysis of their activities of the past and ensure that only relevant ones are to be budgeted for. This type of budgeting follows three main procedures: These are:

i. First, various decision units are identified, which involve clearly defined and measurable objectives of the organisation or units of the organisation. Identified managers or leaders responsible for such objectives and the effects or impacts thereof are also clearly noted.

ii. Second, decision packages are developed or determined, which refers to the means of achieving the decision units stated above, in the form of the services to be performed, and the relevant costs or the finance for such services.

iii. Third, the decision packages are reviewed and then ranked in order of priority.

Those decision packages that can be applied very efficiently to the relevant decision units are then selected by the authorities or managers responsible for the achievement of the objectives or programmes. The arrangement of the packages in the order of priority can often be subjective.

Advantages of Zero-Based Budgeting

i) Items of expenditures are reviewed and justified before they are accepted.

ii) It is a mark of financial discipline which is imposed on the organisation.

iii) The process involves all the personnel in the units, departments or organisation which is commendable, since it enables every person to feel as being part of decision making.

Disadvantages of Zero-Based Budgeting

i) The technique requires a lot of time and resources to identify.

ii) The decision units cannot be developed easily because objectives and output of public organisations are not easy to identify and measure clearly.

iii) The decision packages or programmes cannot be arranged easily in order of priority; such actions are very subjective. Politicians can decide to carry out certain activities which may be costly.

10.7.4 PLANNING PROGRAMMING BUDGETING SYSTEM (PPBS)

The main features of this budgeting technique are identified in the three main words in the concept:

(a) Planning

This involves the development of long range objectives and goals of the public sector institutions. Such goals and objectives are at times prioritised for the purposes of their achievement.

(b) Programming

Programmes are developed to achieve the objectives or goals as identified under the planning. Alternative programmes are identified here and compared.

(c) Budgeting

This involves placing money values on the programmes, putting together the costing of the programmes and the relevant benefits that will be derived.

Subsequently a full system is developed and implemented from an integrated set of selected efficient programmes and this is followed by constant monitoring and reviews.

Advantages of the Technique

i. It stresses more on the future, since planning involves projecting.

ii. It enables budget authorities to evaluate programmes to determine their efficiency and effectiveness.

iii. It encourages constant review of programmes.

iv. The whole system development prevents programmes that often overlap through departments; similar programmes in different organisations are well coordinated.

Disadvantages of the Technique

i. The long range planning process is often difficult since going deep into the future is very subjective.

ii. Planning cannot be done well since most of the goals or objectives in the public sector system cannot be physically identified and measured easily.

iii. The process requires a lot of time, money and personnel who can do good analyses financially and technically.

iv. There is also the problem that most public sector output issues cannot be quantified and measured. Consequently, performance cannot be measured easily through such budgeting system.

10.8 MEDIUM TERM EXPENDITURE FRAMEWORK (MTEF)

10.8.1 DEFINITION

MTEF is a medium term high level strategic plan of the government, usually three years in Nigeria and which forms the basis of annual budgeting taking into consideration the law requirement that spending should not exceed revenue by more than 3% of GDP. It shifts the psychology of budgeting from "needs" to an "availability of resources"

It is also enshrined in the Part II, Section 11-17 of the Fiscal Responsibility Act (FRA), 2007 which mandates the Federal Government to develop a Fiscal Strategic Paper (FSP) within an MTEF for the next three years

10.8.2 OBJECTIVES OF MTEF

i. To improve macroeconomic balance, including fiscal discipline through good estimates of the available resource envelope, which are then used to make budgets that fit squarely within the envelope.

ii. To improve inter- and intra- sectoral resource allocation by effectively prioritizing all expenditures (on the basis of the government's socio-economic program) and dedicating resources only to the most important ones

iii. To increase greater budget predictability as a result of commitment to more credible sectoral budget ceilings.

iv. To increase greater political accountability for expenditure outcomes through legitimate decision making.

v. To make public expenditures more efficient and effective, essentially by allowing line ministries greater flexibility in managing their budgets in the context of hard budget constraints and agreed upon policies and programs.

10.8.3 CONTENT OF MTEF

In line with the Part II, Section 11-17 of the Fiscal Responsibility Act (FRA), 2007, the MTEF shall contain the following for the next three financial years

1. A Macro-Economic Framework,
2. A Fiscal Strategy Paper,
3. An Expenditure and Revenue Framework,
4. A Consolidated Debt Statement and
5. A Statement on Contingent Liabilities

10.8.4 RISK TO MTEF

i. Global Development- *Fragile Economic Recovery and the Emergence of New Political Risks*

ii. Persistence of Oil Price Decline- *Low oil prices expected to remain in the medium term*

iii. Oil Production and Oil Sector Management- *Oil production bedeviled by crude oil theft and oil pipeline vandalism*

iv. Non- Oil Revenue Risks- Due to low remittance by Government's Owned Enterprises into Treasury due to lack of Transparency e. g Operating Surplus

10.9 THE BUDGET CYCLE

The budget cycle is the period which begins with the initiation of the preparation of the central government budget for any new financial year. The cycle starts with the budgetary estimates preparation stage, through the authorisation of estimates into budgets for spending, the processes of spending such amounts authorised, and the final accountability of such spending to parliament as confirmed by the audit of the financial reports revealing the spending.

For an efficient budget cycle and budget preparation, there is the concept of Public

Expenditure Survey (PES) that adds more value to the annual budgeting process.

PES in government financial administration is a process that involves the examination of spending activities of public sector organisations and how such expenditures have been felt through projects and developments in the economy. PES was developed in the central government in the United Kingdom.

A government committee on public spending, the Plowden Committee made a recommendation for the PES.

The Committee stressed that "regular surveys should be made of public expenditure as a whole, over a period of years ahead, and in relation to prospective resources; decisions involving substantial future expenditure should be taken in the light of these surveys".

A good system of PES enables central governments to note their progress and to take decisions on annual public finances, and new public expenditure plans for new year(s).

PES has positive effect on the budget preparation of the spending organisations and the ultimate government budget.

The following is a general budget cycle which governments adapt for their various systems:

(a) A policy paper is often developed by the Central Budget Agency which is normally prepared after considering the general economic environment and normally with input from a good system of PES to note the general impact of past and on-going expenditure plans of the government. The paper shows revenue and expenditure projections and outlines at times major alternative proposals for change during the coming year, based on the expenditure survey.

(b) The Cabinet takes provisional decisions on the total amount of expenditure, on new major spending projects or other cut backs and on major tax changes as well as new tax policies. Cabinet decisions are then communicated back to the Budget Agency.

(c) The Budget Agency then issues guidelines for the spending MDA‟s to follow in making their spending plans or requests. These instructions are often called the Budget Circular or the Call for Estimates.

(d) Spending MDA‟s prepare and present their estimates to the budget agency. Where a spending organisation has other departments or agencies under it, the parent organisation meets representatives of the sub-organisations to discuss their various estimates to ensure that their thinking is within agreed levels. Such discussion is referred to as Internal Hearing.

(e) Budget examiners at the Central Budget Agency examine the estimates from spending organisations for agreement or queries. Their examination is to ensure that estimates presented by spending organisations are within authorised levels.

(f) Budgetary hearings, known as external hearings, are organised between the spending departments and the budgetary agency to discuss and agree on the departmental estimates.

(g) Agreed departmental estimates are submitted by the budget office to the Minister of Finance for final agreement and submission to the Cabinet. Dissatisfied spending organisations whose requests are not satisfied can appeal to the Cabinet for consideration.

(h) Cabinet considers and agrees on final expenditure levels, and if possible, any needed tax changes.

(i) Estimates agreed finally by Cabinet are presented by the Executive, by either the President or the Prime Minister to Parliament. In normal cases, it is the Minister of Finance who presents the estimates to Parliament in the form of Finance Bills for tax and revenue and Appropriation Bills for expenditure.

(j) Under Certificate of Urgency, the Finance Bills are passed by the Legislature into Finance Acts to enable the revenue organisations have the authority to collect tax and other revenue.

(k) The Legislature then examines the estimates through appropriate estimates/expenditure sub-committees.

(l) The Legislature subsequently sits as a House known as Appropriation Committee to pass the Appropriation Act that gives approval for the estimates for the various organisations.

(m) Ministry of Finance gives directives to the Public Sector Accounting agency to release finances to spending organisations for their approved spending.

(n) Money is released by Public Sector Accounting agency which is responsible to distribute government finances to spending organisations.

(o) Government departments subsequently prepare financial statements for their operations and the Government Accountant, the Controller and Accountant-General prepares the National consolidated accounts.

(p) Government financial statements are submitted to Parliament and received by the Public Accounts Committee. These statements are audited by the Auditor- General to determine the extent of compliance by such spending organisations to legislative directives.

10.10 THE PRINCIPLE OF ANNUALITY

This is another important principle in government budgeting and accounting which moves with the budgetary system of accounting in the public sector.

The principle states that when approval is given by the Legislature for departmental estimates to be appropriated for spending, such approval is normally for one year, and that at the end of the year, any approved money for organisations that is not used or spent lapses and goes back into the Consolidated Fund.

This is seen to be a principle which very often encourages spending officers of government organisations to make rash spending so as to make use of any unspent balance at the end of the budget year for fear of not getting such money the following year and which can again affect negatively any estimate to be presented for approval in the coming budget year.

Country Specific Budgetary Process – The Adopted MTEF

As stated earlier on, Ghana Government has been using the MTEF procedure for its annual budgeting purposes since September 1997.

The following is the general procedure for the authorization of money to be spent by any institution of government in Ghana:

Budget preparation process begins in the first half of each year. Ministry of Finance and Economic Planning prepares the schedule of activities for the budget cycle starting, with a National Policy Workshop for all MDA"s. Policy Review workshops are held for all MDA"s after which MDA"s prepare their Policy Review Reports in line with National policies. This is followed by Intra-Sectoral Meetings within each MTEF Sector for MDA"s to resolve duplications of Outputs and Activities and enforce collaboration, where necessary.

The Policy Review Reports are used:

i. To conduct Policy Hearings for the MDA's.

ii. By MOFEP to determine the MDA ceilings after the estimation of the Resource Envelope (Government of Ghana & Donor).

iii. The ceilings are conveyed to the MDA"s in the Budget Guidelines.

iv. The MDA's then use their Policy Review Reports and the ceiling to review their Strategic Plans to bring them in line with government policies and priorities.

The review covers Objectives, Outputs and Activities in the Strategy Plans, which are prioritised at MDA level. These are followed by Costing Workshops for the MDA"s during which MDA identified the inputs required to carry out their activities. It is the total cost of these inputs for all the Activities that make up the MDA Draft Estimates, which are submitted to MoFEP. The MoFEP arranges budget hearing for all MDA"s to defend their estimates after which the MoFEP compiles, print and submits to Cabinet the draft estimates and the Appropriation Bill. After Cabinet's approval, the budget or estimate and the Appropriation Bill are presented to the Parliament for debate and approval. On approval, the Appropriation Bill becomes the Appropriation Act.

Overview of the Expenditure Management Cycle

The following is a presentation of the annual expenditure management cycle of the government

1. POLICY ANALYSIS AND REVIEW	**2. RESOURCE PROJECTIONS AND ALLOCATION**	**3. STRATEGIC PLAN AND BUDGET**
- Review macroeconomic and sectoral policies - Identify and estimate the expenditure implications of agreed policies	- Total resources are projected - Three year ceilings (a broad based and integrated) are updated	- Strategic plans are reviewed through stakeholder and SWOT analysis. - MDA budgets are prepared based on the strategic plans Budget is approved

4. BUDGET IMPLEMENTATION AND CONTROL	5. MONITORING AND ACCOUNTING	6. EVALUATION
- Work plans and cash flow forecasts (resource requirements schedule) are prepared - MDA‟s begin spending	- Ensure funds are spent and output produced within plans and budget - Ensure revenue is collected as planned - Identify budget implementation problems, develop and implement solutions to address subsequent problems	- Perform variance analysis between planned and actual revenue and expenditure (activities, outputs and objectives) to evaluate budget

10.11 SUMMARY

Government budgeting is seen as the centre of government financial administration. All government financial matters are done through the authority of the budget.

Government budget sets out the revenue and spending plans through the various organisations, prioritise the expenditure patterns of government and through a well defined budgetary control policy, sets out the control measures and monitoring systems for the finances and their use.

Various budgeting systems have been developed over many years to take care of any limitation or deficiencies that were observed in the preceding system. This began with the traditional line item system and reformed into other types, namely the performance budget system, the zero base budget system, the planning programming budgeting system (PPBS), and the latest expenditure budget known as the Medium Term Expenditure Framework (MTEF).

Such systems have been used or adopted in various comprehensive budgeting frameworks, which involves processes and procedures for the formulation of the National budget and the subsequent spending processes, monitoring and accountability. This has been the normal annual budget cycle of government.

The budgeting concept in government therefore is an important administrative tool which ensures the general direction and planning of the Nation. The proper development and institution of such concept is seen to be very necessary for every Nation.

10.11 END-OF-CHAPTER REVIEW QUESTIONS

Section A

1. Which of the following is not required as needful for budgeting?

   (A) Planning

   (B) Auditing

   (C) Motivation

   (D) Communication

   (E) Standard for Measure of performance

2. Which of the following is an advantage of a surplus budget?

   (A) It is a device to solve unemployment problems.

   (B) It is used to stimulate economic growth.

   (C) It is used to solve the problem of inflation.

   (D) It enables Government to fully utilise its resources.

   (E) It promotes infrastructural development.

3. Which of the following budgeting methods do Extra-Ministerial Departments adopt?

   (A) Zero-base budgeting system

   (B) Programme performance budgeting system

   (C) Cash basis budgeting system

   (D) Incremental budgeting system

   (E) Rolling plan budgeting system

4. A method available to Government to control aggregate demand and reduce inflationary pressure is

   (A) Budget surplus

   (B) Balanced budget

   (C) Expenditure budget

   (D) Budget deficit

   (E) Overhead budget

5. Which of the following is FALSE concerning the basis distinction between budget and development plan?

   (A) A budget is short-term plan while a development plan is longer.

   (B) A budget is concerned with current problems while a development plan addresses fundamental economic issues.

   (C) A budget relies heavily on internal and indirect taxes while a development plan depends heavily on foreign exchange earnings and heavy capital inflows from abroad.

(D) A budget is flexible while a development plan is fixed in terms of ends and means specification.

(E) A budget may not cover the whole system of the economy while a development plan covers the entire structure of the economy.

6.. The officer who controls a budget head delegated to him by an Accounting Officer is called ....

7. A budgeting approach which proposes government revenue for a new fiscal year by adding a percentage of the previous year"s figure is..........................

8. What budget technique accommodates changing levels of production and facilitates the generation of control reports?

9. A medium-term plan in which new plans are made and acted upon yearly in keeping with the requirement of the economy is called…………………….......

10. A budgeting technique that considers the past budget and adds some percentage is called …………………………..

Section B

1 . a. Discuss FOUR bases of preparing budget estimates.

b. Discuss TEN factors which may affect the Budgeting System in the Public Sector

2. (a) What is incremental budgeting system?

(b) The Ministry of Establishment of Kalabari State provided the following information about its budgeted and actual overhead and personnel costs in respect of year 2016.

		YEAR 2016	
SUB HEAD	**DESCRIPTION**	**PROVISION N'M**	**ACTUAL N'M**
01	Personnel costs	1,650	1,530
02	Travel and tour	240	290
03	Utility services	180	160
04	Telephone services	110	140
05	Stationery	510	480
06	Office furniture and maintenance	350	290
07	Maintenance of motor vehicle	470	490

08	Maintenance of capital assets	1,110	940
09	Subventions & grants	990	990
10	Staff training & development	130	110
11	Miscellaneous expenses	770	740
12	Contribution to foreign bodies	430	420

The following information are also relevant:

i) an inflation factor of 10% on overhead cost is recognized in the computation of 2017 budget.
ii) Increase in activities in 2017 will attract 15% of overhead cost.
iii) 10% of total salaries for 2016 is required to meet the additional personnel cost in 2017. The personnel cost of year 2016 include N380,000,000 spent on staff salaries.
iv) The staff allowance will be 30% of year 2017 staff salaries.

You are required to prepare 2017 budget on incremental system basis (Show workings):

4 SAHABANA Local Government has the reputation of surpassing its Estimated Revenue since its inception. The Local Government is fairly populated with several construction works in progress within and outside the Local Government Headquarters. Hence, the need for the council Treasurer to maintain a reasonable financial liquidity during any year. The following income and expenditure are available during the first quarter of the year:

REVENUE

	Actual Revenue in the Month
	₦
November 2015	1,800,000
December 2015	1,850,000
January 2016	1,370,000
February 2016	1,950,000
March 2016	2,000,000

EXPENDITURE

	January	February	March
	₦	₦	₦
Personnel Cost	450,000	450,000	460,000
Grants and Subvention	300,000	305,000	305,000
Rent	180,000	180,000	180,000
Other Charges	150,000	180,000	200,000
Capital expenditure	750,000	850,000	950,000

The following information is relevant:

From past records, an average of 60% of revenue due is collected during the month, 25% in the following month and the balance in the second month after. Of the amount due on Grants and Subventions, it was the Council's policy to delay payment for one month.

Council's bank account has a credit balance of ₦500,000 at the beginning of the year.

You are required to:

Prepare a cash flow statement of the council for the 1st quarter of 2016.
(Show all workings in details)

3. Lagoon Local Government is inhabited by 3.5 million citizens. The council is expected to generate from various sources and incur expenditure on approved expenditure projects. The following details are provided for in 2014 fiscal year:

- Taxable adult in the Local Government is 1 million. The rate of tax is ₦2,300 per taxable adult.
- There are 2,500 industries expected to pay tenement rates of ₦100,000 per annum per industry.
- There are 200,000 residential buildings expected to pay tenement rates of ₦5,000 per annum per house.
- The modern markets within the local government will generate ₦600 per annum per stall and ₦5,000 per seller and hawker operating in the market.
- The 300 mass transit buses of the local government generate ₦250,000 per day. There are 28 days in a month.
- The council expects the following additional revenue in the year:

Statutory allocation	-	₦500,000,000
Miscellaneous	-	₦100,000,000

- The following expenditure will be incurred:

		₦'000
1.	Local Government Council	10,000
2.	Miscellaneous	5,000
3.	Education	700,000
4.	Health	400,000

- Personnel cost will be:

1. 200 senior staff. An average of ₦300,000 per annum is to be paid to each.
2. 1,200 junior staff. An average of ₦200,000 per annum is to be paid to each

- Culvert/drains construction:

1. 2,000 culverts at ₦750,000 per culvert
2. 10,000km drains to be cleared at ₦500,000 per km
   - Mass transit buses to be procured will cost ₦21,000,000,000
   1. The council is always faced with acute inadequate budget provision in the year
   2. There are 2,000 market stalls and 200,000 hawkers

You are required to:

1. Prepare the Income and Expenditure budget for the fiscal year of 2016 (Show your workings)
2. Advise the Local Government on available options on (i) above

Note: budget items are coded:

Revenue	10
Revenue expenditure	20
Capital expenditure	40

Solution

Section A

1. B
2. C
3. D
4. A
5. D
6. The Vote Controller or Officer Controlling Expenditure
7. Surplus Budget
8. Flexible Budgeting
9. Rolling plan
10. Incremental or traditional budgeting system

Section B

1 a Uses of Budgets

Budgets are used for the following:

(i) **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.

(ii) **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’.

(iii) **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.

(iv) **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.

(v) **Evaluation of Economic and Social Policy**

Budgets are used to solve the social problems of inflation and unemployment.

(vi) **Cost Reduction Technique Project Appraisal**

Evaluation of operations and procedures may result in cost savings.

b. Factors affecting Budgeting System in the Public Sector

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

(i) **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.

(ii) **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.

(iii) **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.

(iv) **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.

(v) **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.

(vi) **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.

(vii) **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.

(viii) **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.

(ix) **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

(x) **External Factors.**

Uncertainties in the economy of other countries of the world even developed Nations affects Nigeria either directly or otherwise. For instance, fluctuations and nose diving of crude oil prices in the world market had an adverse effect on foreign income and thus would affect budget estimate implementation**.**

2 (a) An incremental budgeting technique is a technique of budgeting which involves the utilization of past established budget. The budget considers the current budget and add to a percentage of last budget based on trend, inflation and available revenue at the disposal of the government.

(b) **Kalabari State Ministry Of Establishment**

Personnel And Overhead Cost Budget For Year 2017

Sub Head	Description	Notes	N'M
01	Personnel cost	1	1,644.50
02	Travel and tours	2	366.85
03	Utility services	3	202.40
04	Telephone	4	177.10
05	Stationery	5	607.20
06	Office furniture & maintenance	6	366.85
07	Maintenance of motor vehicle	7	619.85
08	Maintenance of capital assets	8	1,189.10
09	Contribution and grants	9	1,252.35
10	Staff training and development	10	139.15
11	Miscellaneous expenses	11	936.10
12	Contribution to foreign bodies	12	531.30
	Total Budget Cost		**8,032.75**

WORKINGS			**N'M**	**N'M**
1.	Personnel cost			
	Salaries (1,530 – 380) x 110%	=	1,265.00	
	Add			
	Staff allowance			
	= 1,265 x 30%	=	379.50	1,644.50
2.	Travel and tours		(290 x 110% x 115%)	366.85
3.	Utility services		(160 x 110% x 115%)	202.40
4.	Telephone services		(140 x 110% x 115%)	177.10
5.	Stationary		(480 x 110% x 115%)	607.20

6.	Office furniture maintenance	(290 x 110% x 115%)	366.85
7.	Maintenance of capital vehicle	(490 x 110% x 115%)	619.85
8.	Maintenance of capital assets	(940 x 110% x 115%)	1,189.10
9.	Subvention & grants	(990 x 110% x 115%)	1,252,35
10.	Staff training & Dev.	(110 x 110% x 115%)	139.15
11.	Miscellaneous	(740 x 110% x 115%)	936.10
12.	Contribution to foreign bodies	(420 x 110% x 115%)	531.30

3 **Sahabana Local Government**

Cash Budget For The First Quarter Of 2016

	January	**February**	**March**	**Total**
	₦	**₦**	**₦**	**₦**
Revenue (W1) (a)	1,554,500	1,790,000	1,893,000	5,237,500
Expenditure:				
Personnel cost	450,000	450,000	460,000	1,360,000
Grants and subvention	-	300,000	305,000	605,000
Rent	180,000	180,000	180,000	540,000
Other charges	150,000	180,000	200,000	530,000
Capital expenditure	750,000	850,000	950,000	2,550,000
(b)	1,530,000	1,960,000	2,095,000	5,585,000
Balance b/fwd	500,000	524,500	354,500	500,000
Excess/(Deficit) (a – b)	24,500	(170,000)	(202,000)	(347,500)
Balance c/fwd	524,500	354,500	152,500	152,500

Workings:

(1)	**Revenue**	**January**	**February**	**March**
		₦	**₦**	**₦**
	November 2015	270,000	-	-
	December 2015	462,500	277,500	-
	January 2016	822,000	343,500	205,500
	February 2016	-	1,170,000	487,500
	March 2016	-	-	1,200,000
		1,554,500	1,790,000	1,893,000

4 i. **Lagoon Local Government**

Income And Expenditure Budget For The Year 2016

Head	**Description**	**Working**	**Amount**
			₦
Income			
1001	Taxes	(1)	2,300,000,000
1002	Rates	(2)	2,251,200,000
1003	Commercial undertakings	(3)	25,200,000,000
2004	Statutory allocation	-	500,000,000
1005	Miscellaneous	-	100,000,000
			30,351,200,000
Expenditure			
2001		(4)	300,000,000
2002			10,000,000
2003			5.000,000
2004			700,000,000
2005			400,000,000
4001		(5)	27,500,000,000
			28,915,000,000

Summary			
Income			30,351,200,000
Expenditure			(28,915,000,000)
Excess of Income over Expenditure			1,436,200,000

The Local Government is hereby advised to work assiduously towards making the budget above achievable as it would generate an excess revenue in the sum of ₦1,436,200,000 in the year 2016.

Workings

		₦
1.	**Head 1001 – Taxes**	
	₦2,300 x 1,000,000	2,300,000,000

2.	**Head 1002 Rates**		₦
	- Industries	₦100,000 x 2,500 =	250,000,000
	- Buildings	₦5,000 x 200,000 =	1,000,000,000
	- Stalls	₦600 x 2, 000 =	1,200,000
	- Sellers	₦5,000 x 200,000 =	1,000,000,000
			2,251,200,000

		₦
3.	**Head 1003 – Commercial undertakings**	
	= ₦250,000 x 300 x 28 x 12 =	25,200,000,000

4.	**Head 2001 Personnel cost**		₦
	- Senior Staff	₦300,000 x 200 =	60,000,000
	- Junior Staff	₦200,00 x 1,200 =	240,000,000
			300,000,000

5.	**<u>Head 4001 Capital Expenditure</u>**		₦
	- Culverts	₦750,000 x 2,000 =	1,500,000,000
	- Drawings	₦500,000 x 10,000 =	5,000,000,000
	- Mass Transit buses		<u>21,000,000,000</u>
			<u>27,500,000,000</u>

CHAPTER ELEVEN

FINANCIAL CONTROL SYSTEM IN THE PUBLIC SECTOR

CHAPTER CONTENTS

11.0 LEARNING OBJECTIVES

At the end of this chapter, readers would be able to:

i. appreciate what is financial control in public sector organisations.

ii. identify the various executive and legislative controls exerted to ensure efficient use of tax-payers money.

11.1 THE CONCEPT OF FINANCIAL CONTROL

Public Sector Financial Control has to do with

i. budgeting for public revenue and expenditures over an appropriate time span.

ii. recording the revenue collected and expenditure incurred.

iii. comparing actual results with the targets set.

iv. establishing systems for information flow and control.

11.2 CONTROL STRUCTURES

Control structures generally have to do with the process of ensuring that all revenues of government generated are paid into the main account of Government or the Consolidated Revenue Fund.

The various revenue generating departments of Government are authorised to pay all revenue they collect into specific accounts called “collection bank accounts” for onward transfer into Government accounts with the Central Bank.

Where a revenue generating department is allowed by legislation to utilise some of its collections the organ is required to follow the necessary procedures, especially to enable it to properly account for the money that it has used.

Three main control structures exist in the public system to ensure that Government revenue is not misappropriated. These are "Parliamentary", "Treasury" and "Departmental" Controls. They are briefly discussed, as follows:

11.3 LEGISLATIVE CONTROL

This control concept has to do with the various measures that Parliament can use for the purpose of controlling the use of public funds. This system of control is important since Parliament is an independent body from the Executive, where the government administration is formed by the ruling party.

Parliament is therefore known traditionally in the British system of governance as The Controller of the Purse. It is the institution which controls the use of the money of Government. The Constitution establishes the parliamentary authority over public funds and their uses.

Parliament achieves such financial controls over public revenue and expenditure through the following:

(a) Public Finance Committee

This is a committee of Parliament. It is responsible for the receipt of the Appropriation Bill, made up of the annual revenue expenditure estimates and other proposals of Government, for the consideration of the National Assembly.

(b) Appropriation Committee

This Committee is concerned with the passing of the Appropriation Bill into the Appropriation Act, in order to give authorization to the estimates, after the examination made by various sub-committees. The Appropriation Committee is in effect the whole House of Parliament when it sits to pass the Appropriation Act.

(c) Other Functional Committes

These are Committees of Parliament that are responsible for the examination of individual estimates of the organizations. They are also to monitor the expenditure of the relevant organizations. The proper performance of their roles is a major control mechanism, known as the execution of oversight functions.

(d) Public Accounts Committee

The committee receives the audited public accounts and other special audit reports, examines and debates the contents and submits its report(s) in the form of its findings and recommendations to the whole House. Parliament takes action on the public accounts on the basis of the recommendations of the committee.

(e) The Audit Service

In Ghana, this institution is responsible for the examination of public accounts to attest to the use of the various public funds as were approved by Parliament at the beginning of the year. It assists Parliament in controlling public funds, through the Public Accounts Committee, in the form of its examinations of all accounts of government organisations.

(f) The Concept of Appropriation

Legislative control has to do with the concept of **Appropriation** in the public sector. It refers to the procedure through which National revenue is made available to the Executive arm of government organisations, annually, to finance their programmes or activities.

In Ghana, every year's budgets are prepared by all public sector undertakings in the form of statements referred to as the **Supply Estimates,** for the Legislature's for approval. An **Appropriation Bill** covers the combined Estimates of the spending organisations. The Bill is passed into **Appropriation Act** after all the Estimates have been examined and debated upon.

According to Section 25 (2) of FAA, the estimates of the expenditure of departments and agencies shall be classified under programmes or activities which shall be included in a Bill known as the Appropriation Bill and which shall be forwarded to Parliament, to provide for the issue from the Consolidated Fund or such other appropriate Fund, of the sums of money necessary to meet the expenditure.

The functions of an Appropriation Act are to:

i. authorise the estimates of the organisations.

ii. give agreement to the Ambit of the Vote.

iii. Act as reference point for disagreements.

iv. denote by implication ***ultra-vires*** the activities of organisations which are outside the authorised areas.

The parliamentary examination and debate of the Estimates take some time before the final approval and subsequent passing of the Appropriation Act to enable such organisations obtain finances for their activities for any budget year.

In Ghana, before the start of a particular budget year, a **Provisional Appropriation Act** is passed. It authorises finances for Government organisations to carry on their activities in the early part of the budget year (normally the first three months), until the completion of the examinations and debates. Such finances are referred to as **Provisional Appropriations** or

Votes on account. They are deductible from the amounts which are approved finally for each organisation.

Article 180 of the 1992 Constitution of Ghana enjoins the Head of the Executive, the President, to call for such Provisional Appropriations. The Estimates become known as **Votes** after approval, as they constitute the individual proposals for specific expenditure items or areas that together form the budgets.

A description is given for the purposes for which the estimates are to be used. The descriptions are referred to as the **Ambit of the Vote** or the **Vote's Ambit.**

(i) Appropriations-in-Aid

This expression refers to any income that a department receives apart from releases from the Consolidated Fund. This income is deducted from the total supply estimates or appropriations needed by the organisation, thereby reducing the amount expected to come out of the Consolidated Fund.

11.4 THE EXECUTIVE CONTROL

The Executive comprises the President and his cabinet members at the Federal level, while at the State Government level it is made up of the Governor and his cabinet members. At both levels, the Constitution has two other arms which are called "the Judiciary" and "the Legislature". Hence all policies, economic or political, to be executed by the President or Governor, are subject to the approval of the Legislature.

The Executive controls government expenditure through the following means:

i. Determination of monetary fiscal policies in general.

ii. Compilation and tentative approval of the Nation's budget.

iii. Appointment of the Auditor-General at all tiers of the Government.

iv. Issuance of budgetary guidelines.

v. Introduction of "due process" guidelines.

vi. Introduction of e-payment, e-receipt and e-banking systems.

vii. Introduction of the Public Procurement and Fiscal Responsibility Act, 2007.

11.5 MINISTRY OF FINANCE CONTROL

Ministries are required to present to the Minister of Finance the proposed expenditure budgets which are necessary, reasonable and economical. Apart from the annual activities, the Minister of Finance's approval is required for every item of new expenditure, for any increase in expenditure beyond that originally authorised. The Minister's approval is required also for any transfer of funds between one head or subhead to another.

The Minister of Finance authorises the Accountant-General to issue Warrants which in turn empowers Accounting Officers to incur expenditure.

In summary, the Minister of Finance controls government expenditure through the following:

i. Issuance of financial authorities.
ii. Compilation and tentative approval of the Nation's budget.
iii. Issuance of budgetary guidelines.
iv. Issuance of financial regulations.
v. Issuance of financial circulars.

11.6 THE TREASURY CONTROL

In some instances, the Treasury delegates its functions to Ministries which are called Self-Accounting Units. These units have all the books of accounts in the same way as they are kept by the Treasury. The treasury therefore exercises some measure of control and performs oversight functions over the accounting works of the Units.

The Inspectorate Officers from the Treasury often visit the Ministries and Departments to oversee the accounting systems in place.

The Internal Audit Department of the Treasury pays regular visits to the Self-Accounting Units to appraise the activities of the Ministries and do formal reports as appropriate.

In summary, the Treasury Department controls government expenditure through the following means:

i. Maintenance of proper books of accounting records.
ii. Establishment of effective Internal Control System.
iii. Establishment and nurture of a functional Internal Audit Department.
iv. Appointment of Board of Survey.
v. Appointment of Board of Enquiry.
vi. Issuance of Treasury Circulars.
vii. Issuance of Financial Regulation.

11.7 DEPARTMENTAL CONTROL

These are control measures that are instituted in the spending organizations, to ensure proper and optimal use of funds.

Important control variables Instituted include:

i. Heads of Departments, normally the Vote controllers, are responsible for the issue of the Activity and Expenditure Initiation Forms for any expenditure activity.

   Such Heads of Departments are to issue departmental accounting manuals, which have the codes of instructions, to regulate the financial administration

and accounting practices.
The manuals contain the details of accounting procedures, chart of accounts, keeping of accounts, the formatting and preparation of financial statements.
The manuals are approved by the vote Controller, Accountant- General and the Auditor-General.

ii. Spending Officers and, Heads of Departments are primary Controllers of Votes of expenditure.
Under the Financial Regulations, spending officers are under obligation to

(a) keep accounts to monitor and render stewardship for the funds as approved and allocated to departments.
(b) state the commitments made against the approved or allocated funds.

iii. For purposes of proper and tight expenditure control, Vote Controllers are to ensure the following:
(a) Every expenditure is a lawful charge against the public fund.
(b) There are funds to meet the expenditure.
(c) Stores/Services Received Advices (SRAs) are checked.
(d) Payments are in order in all respects. They should conform to established regulations, the prices and rates charged are fair and reasonable in relation to current local rates.
(e) Payment vouchers are duly signed with relevant supporting documents.

11.8 EFFICIENCY UNIT

Necessity of the Efficiency Unit
There are several reasons why an Efficiency Unit has become imperative for Nigeria.

a. Nigeria's dependence on crude oil for foreign exchange and revenue which has made the Nigerian economy vulnerable to shocks in the international oil markets. The impact of the recent collapse in crude oil prices on Nigeria's External Reserves, the Naira Exchange Rate and Revenues are testament to the urgent need to review the manner in which increasingly limited Government revenues are spent.

b. The disproportionate share of Recurrent Expenditure to Capital Expenditure which has constrained the development of infrastructure. Such spending pattern that is biased against spending on capital projects is inimical to growth and development.

c. The work and procurement processes as well as, practices in the public sector which inherently promote or support wastage and inefficiency.

d. To ensure that Government's resources are used in the most efficient manner so that citizens get value for money and that more funds are available for capital projects (such as infrastructure) has never been greater. that the Government is taking a bold initiative to zoom in on its Expenditure with a view to eliminating waste and inefficiencies.

Mandate Of The Efficiency Unit

The Efficiency Unit will execute its mandate in a number of ways:
i. Reviewing the Government's spending pattern using data from the Budget Implementation Report and other sources.

ii. Work closely with the Ministries, Departments and Agencies (MDAs) to review work and procurement processes for specific expenditure lines

iii. Agree changes or process improvements to reduce wastages and make savings.

iv. Continuously publishing the achievements (savings) from the implementation of such changes or process improvements.

v. Identifying and migrating best practices in the public sector spending patterns and processes of other countries to Nigeria.

vi. Promoting a change in the culture of public spending by MDAs to one of prudence and savings.

vi. Collaborate with government institutions whose responsibilities have a bearing with those of the Unit

viii. Identifying and implementing Price Guidelines and Benchmarking of MDAs offers the opportunity for Quick Wins and large savings.

ix. Ensuring that the Government's revenues are deployed in an efficient manner that translates to Value for Money and Savings to Government. This initiative will complement on-going efforts by the Government to diversify its revenue sources.

Composition of Steering Committee

1.	The Honourable Minister of Finance	-	Chairman
2.	The Head of Civil Service of the Federation	-	Member
3.	The Auditor-General for the Federation	-	Member
4.	The Accountant General of the Federation	-	Member
5.	Four members from the Private Sector		
6.	Head of the Efficiency Unit	-	Secretary

Benefits of Efficiency Unit

The creation of an Efficiency Unit as a public sector reform initiative has the following unique benefits for Nigeria:

i. It is a tool that is internal to the Government thereby saving costs, providing learning opportunities for Government and resulting in long term benefits.
ii. It is participatory (the MDAs are involved) rather than top-down which makes acceptance and the institutionalization of a culture of efficiency easier.
iii. It has the potential for introducing other reforms in the public sector for public good.

11.9 SUMMARY

Financial control in the public sector involves control of public revenue and expenditure, deciding on the objectives and priorities of Government, devising proper and adequate systems for flow and control of information which relate to such finances. The chapter also discussed the monitoring and outcome of the usage of such finances.

The chapter discussed the structures mounted by the Legislature, Executive Arms to control the finances of Government and also the new efficiency unit created in Nigeria.

Various concomitant financial authorisation measures in the form of expenditure authorisation procedures, Warrants, financial encumbrance and drawing limits are also discussed.

11.10 END OF CHAPTER REVIEW QUESTIONS

Section A

1. Issuance of financial authorities is one of the control measures adopted by: (i) The Treasury.
   (ii) The Ministry of Finance.
   (iii) The Extra-Ministerial Departments

   A. (i) only
   B. (ii) and (iii) C. (iii) only
   D. (i) and (ii) E. (ii) only

2. Which of the following organs approve the Nation‟s Budget?

   A. The National Assembly. B. The Executive.
   C. The Minister of Finance.
   D. The Accountant-General of the Federation. E. The Auditor-General for the Federation.

3. The Legislative body that performs a post mortem function on financial matters is the

   A. Audit Alarm Committee. B. Treasury Board.
   C. Public Accounts Committee.
   D. The Joint Committee of the Senate and House of Representatives
   E. The Board of Survey

4. Which ONE of the following Arms of Government carries out monetary and fiscal policies as a means of control over government expenditure?

   A. The Industries and Extra-Ministerial Departments. B. The Ministry of Finance.
   C. The Legislature. D. The Executive. E. The Judiciary.

5. The independent organ of Government that reviews all contracts awarded which are of significant values is

   A. The Procurement Body. B. The Board of Enquiry. C. The Board of Survey.
   D. The Budget Monitoring and Price Intelligence Unit
   E. The Federal Executive Council

6. Issuance of budgetary guidelines is one of the ways by which the..................Arm of Government controls expenditure

7. What is the mechanism of Government for ensuring strict compliance with the openness, competition and cost accuracy rules and procedures in contract awards?

8. The Officer that is saddled with the responsibility of performing purely regularity and compliance audit on government accounts and reports to the National assembly is...

9. The authority which confers power on government officers controlling expenditure votes to incur expenditure is called..................................

10. The organ of Government that issues guidelines on the preparation of budgets is the ....

Section B

1. What are the main roles of the National Assembly in planning and monitoring of public expenditure?

2. List the basic controls exercised over Government Expenditure to prevent indiscriminate spending of funds.

3. The Legislative Control deals with various measures that the Parliament employ to safeguard public funds- Discuss FIVE ways by which the Parliament exercise such financial controls.

4. a. Explain the purpose of Efficiency Unit.

   b. State the benefits of Efficiency Unit for Nigeria.

SOLUTION TO END-OF-CHAPTER REVIEW QUESTIONS

Section A

1. E
2. A
3. C
4. B
5. D
6. Executive.
7. Due Process.
8. Auditor-General for the Federation.
9. Warrant.
10. Ministry of Finance.

Section B

1. The main roles of the National Assembly in Planning and Monitoring of Government Expenditure are:

(a) Ratification of the monetary and fiscal policies adopted by the Executive.

(b) Compilation and ultimate approval of the Nation's Budget.

(c) Ratification of the appointment of the Auditor-General.

(d) Appointment of the Public Accounts Committee.

(e) Appointment of the Audit Alarm Committee.

(f) Monitoring of the implementation of the Budget.

(g) Guiding against Extra-Budgetary spending, and ensuring that money is expended for which it is meant.

2
i. Financial Control
ii. Legislative Control
iii. Executive Control
iv. Ministry of Finance Control
v. The Treasury Control
vi. Departmental Control.

3 The Legislative Control deals with various measures that the Parliament employ to safeguard public funds through the following ways:

(a) Public Finance Committee

This is a sub-committee of Parliament. It is responsible for the receipt of the Appropriation Bill, made up of the annual revenue expenditure estimates and other proposals of Government, for the consideration of the National Assembly.

(b) Appropriation Committee

This committee is concerned with the passing of the Appropriation Bill into the Appropriation Act, in order to give authorization to the estimates, after the examination made by various sub-committees. The Appropriation Committee is in effect the whole House of Parliament when it sits to pass the Appropriation Act.

(c) Examination Sub-Committees

These are sub-committees of Parliament that are responsible for the examination of individual estimates of the organizations. They are also to monitor the expenditure of the relevant organizations. The proper performance of their roles is a major control mechanism, known as the execution of oversight functions.

(d) Public Accounts Committee

The committee receives the audited public accounts and other special audit reports, examines and debates the contents and submits its report(s) in the form of its findings and recommendations to the whole House. Parliament takes action on the public accounts on the basis of the recommendations of the committee.

(e) The Audit Service

In Ghana, this institution is responsible for the examination of public accounts to attest to the use of the various public funds as were sanctioned by Parliament at the beginning of the year. It assists Parliament in controlling public funds, through the Public Accounts Committee, in the form of its examinations of all accounts of government organisations.

(f) The Concept of Appropriation

Legislative control has to do with the concept of **Appropriation** in the public sector. It refers to the procedure through which National revenue is made available to the Executive arm of government organisations, annually, to finance their programmes or activities.

(i) Appropriations-in-Aid

This expression refers to any income that a department receives apart from releases from the Consolidated Fund. This income is deducted from the total supply estimates or appropriations needed by the organisation, thereby reducing the amount expected to come out of the Consolidated Fund.

3 a) In broad terms, the Mandate of the Unit is to review the Expenditure profile and pattern of the Federal Government and work with Ministries, Departments and Agencies (MDAs) to introduce more efficient processes and procedures that will ensure that the Government's revenues are deployed in an efficient manner that translates to Value for Money and Savings to Government. This initiative will complement on-going efforts by the Government to diversify its revenue sources.

b) The creation of an Efficiency Unit as a public sector reform initiative has the following unique benefits for Nigeria:

i. It is a tool that is internal to the Government thereby saving costs, providing learning opportunities for Government and resulting in long term benefits.

ii. It is participatory (the MDAs are involved) rather than top-down which makes acceptance and the institutionalization of a culture of efficiency easier.

iii. It has the potential for introducing other reforms in the public sector for public good.

CHAPTER TWELVE

TREASURY FINAL ACCOUNTS

(a) Learning Objectives Purpose
(b) The Treasury Department
(c) Preparation of Federal Government Accounts
(d) Final Accounts Unit
(e) Revised Financial Statements
(f) Summary
(g) End of Chapter Review Questions

12.0 LEARNING OBJECTIVES

After studying this chapter, the reader should be able to;

(a) List the rules and regulations guiding the preparation of financial statements as contained in the International Public Sector Accounting Standards (IPSAS); and

(b) Prepare the financial statements of Government.

12.1 FEDERAL GOVERNMENT FINAL ACCOUNTS

The Final Accounts of the Federal Government can be obtained in four different documents. These are:

12.1.1 THE ESTIMATE:- This is the estimated revenue and expenditure of the Federal Government for the oncoming year. In the preparation of a realistic estimate, emphasis is placed on past information contained in last year‟s actual financial statements.
The problems associated with preparation of estimates include lack of adequate information and timely availability of data required.

12.1.2. THE OFFICIAL GAZETTE:- This is the source of information that is compiled from the Accountant General's records. The weakness of this source is that it is usually prepared in arrears of about three to six months.

12.1.3. THE ANNUAL REPORTS OF THE ACCOUNTANT- GENERAL

They are the most detailed source as they contain a number of Financial Statements. The reports are prepared and signed by the Accountant-General and addressed to the Minister of Finance. The reports contain:-

(a) The narrative reports on the Federal Government Finance.
(b) The State of financial affairs of the Federal Government.
(c) Data, Tables, Time Series, Extracts, e.t.c.
(d) Remarks on Promotions, Transfers, and Resignations in the Federal Civil Service.
(e) The Financial Statements

12.2 THE OFFICE OF THE ACCOUNTANT-GENERAL OF THE FEDERATION (TREASURY)

The Office of the Accountant-General of the Federation is an Extra- Ministerial Agency under the Federal Ministry of Finance. The office 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.

12.2.1 SOURCES OF INFORMATION FOR 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.

12.3 ANNUAL FINANCIAL STATEMENTS

The Accountant- General 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:

Presently, entities in Nigeria prepare the following GPFS:
(a) Cash flow Statement; No 1.0
(b) Statement of Assets and Liabilities - Statement No 2.0
(c) Statement of Consolidated Revenue Fund; No 3.0
(d) Statement of Capital Development Fund; No 4.0
(e) Notes to the Account;
(f) Performance Reports;
(g) Statistical Reports;
(h) Accounting Policies.

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

Note on Treasury Bills;
Note on Special & Trust Funds;
Note on Other Loans and Investments

12.3.1 NOTE ON NATIONAL (OR PUBLIC) DEBTS

The Note on 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.

12 .3.2 STATEMENT NO. 1.0: CASH FLOW STATEMENT

Cash flow Statement (statement of Receipts and payments) is one of the Statements required Cash IPSAS.

(a) 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.

(b) Cash flows are basically reported under three (3) separate activities as follows: i) Operating activities ii) Investing Activities and iii) Financing Activities

(c) Cash flow of an entity must fall within the above three activities

12.3.3 STATEMENT NO. 2.0 - 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:

12.3.4. 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.

12.3.4.1 NOTE ON 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.

12.3.4. 2 NOTE ON 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.

12.3.5 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.

e notes have been given above. However, the statutory financial statements are summarized in a tabular form, as follows:

12.4 LIMITATIONS OF FINANCIAL REPORTING IN THE PUBLIC SECTOR

These limitations may be briefly discussed as follows:

(a) Diversity of Users: As a result of wide network of users of government financial statements, it is difficult to satisfy all of them as the information supplied may not meet the yearnings of certain people.

(b) Inadequacy of information, coupled with the need to produce other documents required to explain some unanswered questions in the report.

(c) Problems are associated with delay in the preparation of reports thus rendering them useless for economic purpose or performance appraisal.

(d) Human resource constraints may hinder the government from adopting a particular basis of accounting.

(e) The reports are usually based on inaccurate data and/or information, thus rendering them unreliable.

Illustration 1 - The following information were extracted from the books of Chelsenal State of Nigeria as at 31 December 20XX:

	Dr	Cr
	₦"000	₦"000
Bank Account	15,000	
Cash Account	2,500	
Consolidated Revenue Fund b/fwd		17,000
Allocation from Federation A/c		30,000
Licenses and Fines		3,000
Loans from Federal Government		11,000
Fees		4,500
Earnings and Sales		

		2,500
Loans to Local Government	7,000	
Re-imbursement		11,000
Development Fund (Capital Vote)		15,000
Interest on Repayment		500
Development Fund as at 1st Jan	35,000	
Internal Loans		20,000
External Loans		35,000
Capital Expenditure	42,000	
Advances	13,500	
Fixed Deposit with GTB plc	22,000	
Ord. Shares of ₦1.00 each at NASCOM Plc	16,000	
Other Income		3,000
Recurrent Expenditure	22,500	
Special Fund		23,000
	175,500	175,500

The following information are relevant:

i. The sum of ₦25,500,000 should be transferred to Development Fund.
ii. Expenditure amounting to ₦2,000,000 had been omitted from the books.
iii. A total grant of ₦7,500,000 collected from Federal Government for Capital Projects to be executed in the second quarter of the year had not been recorded in the books.
iv. The actual amount received on interest on repayment was ₦400,000

You are required to prepare for the year ended 31st December 20XX

a) Consolidated Revenue Fund Account.
b) Development Fund Account.
c) Statement of Assets and Liabilities

Solution to Illustration 1

Workings

BANK ACCOUNT

	₦		₦
Bal b/d	15,000	Expenditure	2,000
Federal Government Grant	7,500	Unrealised interest on repayment	100
		Bal c/d	20,400
	22,500		22,500
Bal b/d	20,400		

CHELSENAL STATE

(a) **Consolidated Revenue Fund For The Year Ended 31 December 2011**

	₦"000	₦"000
Bal b/d		17,000
Federal Allocation		30,000
Licenses and Fines		3,000
Fees		4,500
Earnings and Sales		2,500
Re-imbursement		11,000

Interest on Repayment		400
Other Incomes		3,000
		71,400
Less:-		
Recurrent Expenditure	22,500	
Other Expenditures	2,000	
Transfer to Development Fund	25,500	50,000
Bal c/d		21,400

(b) **Development Fund Account As At 31 December 20xx**

	₦"000
Bal b/d	(35,000)
Federal Govt. Grant	7,500
Capital Vote	15,000
Internal Loans	20,000
External Loans	35,000
Transfer from CRF	25,500
	68,000
Capital Expenditure	(42,000)
Bal c/fwd	26,000

Statement of Assets & Liabilities as at 31 December 20xx

ASSETS:	₦'000
Investment – NASCOM Plc	16,000
Fixed Deposit (GTB)	22,000
Advances	13.500
Loans to Local Govt.	7,000
Bank Account	20,400
Cash Account	2,500
	81,400
REPRESENTED BY: -	
Consolidated Revenue Fund (CRF)	21,400
Development Fund	26,000

Special Fund	23,000
Loans from Federal Govt.	11,000
	81,400

12.5 CASH FLOW STATEMENTS

A Fund flow Statement is that which shows the various sources of income and expenditure in analytical form comprising inflows and outflows, from operating activities, investing activities and financing activities.

These may be further discussed as follows:

(a.) ***Operating Activities***: - These comprise the principal revenue generation and disbursement activities through the business of an organization, during production for example.

Examples of inflows Operating Activities

a. Cash receipts from taxes, levies and fines

b. Cash receipt from charges for goods and services provided by the entity

c. Cash receipt from grants or transfers and other appropriations or other budget authority made by central government or other public sector entities

d. Cash receipt from royalties, fees, commissions and other revenue

e. Cash payments to other public sector entities to finance their operations (not including loans)

f. Cash payment to suppliers for goods and services

g. Cash payments to and on behalf of employees

h. Cash receipts and payments of an insurance entity for premiums and claims, annuities and other policy benefits.

i. Cash payments of local property taxes or income taxes (where appropriate) in relation to operating activities

j. Cash receipts and payments from contracts held for dealing or trading purposes

k. Cash receipts or payments from discontinued operations

l. Cash receipts or payments in relations to litigation settlements

(b.) ***Investing Activities***: - These have to do with the acquisition and disposal of fixed assets, investments and intangible assets such as trademark, goodwill, patent rights.

Examples of Investing Activities

a. Cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalized development costs and self-constructed property, plant and equipment.

b. Cash receipts from sales of property, plant and equipment, intangibles and other long-term assets

c. Cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents and those held for dealing or trading purposes)

d. Cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to tbe cash equivalents and those held for dealing or trading purposes)

e. Cash advances and loans made to other parties (other than advances and loans made by a public financial institution)

f. Cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a public financial institution)

g. Cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

h. Cash receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities

(c). ***Financing Activities***: - These are activities that bring out structural changes in the composition of equity capital of an enterprise.

Examples of Financing Activities.

a. Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings.

b. Cash repayments of amounts borrowed

c. Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease

12.5.1 PREPARATION OF CASHFLOW STATEMENT.

There are two methods of preparing cashflow statements. These are:

1. ***Direct Method***: - This is a method whereby the proceeds from operating activities in form of sales and payments to suppliers of goods and providers of services are shown, including all other expenses paid.
2. ***Indirect Method***: - Here the operating profit/loss from the operating activities

only is highlighted. Examples of Cashflow presentation formats under direct and indirect methods are furnished hereunder:

FORMAT OF CASHFLOW STATEMENT

DIRECT METHOD

ALASCO BULK PURCHASING BOARD, OGUDU STATE CASHFLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 20XX

	₦	₦
Operating Activities		
Cash received from customers		Xx
Cash paid to suppliers		(xx)
Expenses paid		(xx)
Other operating income received		Xx
Tax paid		(xx)
Net cash inflow/outflow from operating activities		Xx
Investing Activities		
Purchase of Fixed Assets		(xx)
Disposal of Fixed Assets		Xx
Purchase of Investments		(xx)
Sale proceeds from investments		Xx
Interest/Dividend received		Xxx
Net cash inflows/outflows from investing activities		Xx
Financing Activities		
Issue proceeds of shares/debentures	Xx	
Redemption of Shares/Debentures	(xx)	
Dividend/Interest paid	(xx)	
Net cash inflows/outflows from financing activities		Xx
Increase in cash and cash equivalent during the year		Xx
Cash and cash equivalent at beginning		Xx
		XX
Cash and cash equivalent at the end comprise: -		
Cash at Bank		Xx
Cash in Hand		Xx

DIRECT METHOD

ALASCO BULK PURCHASING BOARD, OGUDU STATE CASHFLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 20XX

	₦	₦
Operating Activities		
Operating Profit		Xx
Adjustments for items not involving movement of cash:		
Depreciation	X	
Profit on Disposal of fixed assets or investments	x	
Loss on Sale of Fixed Assets or investment	x	x
Cashflow from Operating Activities before changes in working capital		x
Working Capital Changes		
Increase in Current Assets	(xx)	
Increase in Current Liabilities	Xx	
Decrease in Current Assets	Xx	
Decrease in Current Liabilities	(xx)	Xx
Tax paid		(xx)
Net cash inflows /outflows from Operating Activities		xx
Investing Activities		
Purchase of fixed assets	(xx)	
Disposal of fixed assets	xx	
Purchase of Investments	(xx)	
Sales proceed from investments	xx	
Interest/Dividend received		xx
Net cash inflow/outflow from investing activities		Xx
Financing Activities		
Issue proceeds of shares/debentures	xx	
Redemption of shares/debentures	(Xx)	
Dividend/Interest paid	(xx)	
Net cash inflows/outflows from financing activities		xx
Increase in cash and cash equivalent during the year		Xx
Cash and cash equivalent at beginning	Xx	
		xx
Cash and cash equivalent at end		xx

Cash and cash equivalent at the end of period comprise:

Cash at Bank	xx
Cash in Hand	xx
	xx

12.6 BASIC ELEMENTS OF THE AUDITOR'S REPORT

The Auditor's report includes the following basic elements, ordinarily in the following layout:

a) Title;

b) Addressee;

a) *Opening or introductory paragraph* which must Identify the financial statements audited and a statement of the responsibility of the entity's management and the responsibility of the auditor;

b) *Scope paragraph (describing the nature of an audit),* making reference to the International Standards of Auditing (ISAs) or relevant national standards or practices. Also. a description of the work the auditor performed

c) *Opinion paragraph containing* making reference to the financial reporting framework used to prepare the financial statements (including identifying the country of origin of the financial reporting framework when the framework used is not International Accounting Standards); and an expression of opinion on the financial statements;

d) Date of the report;

e) Auditor's address; and

f) Auditor's signature.

12.7 SUMMARY

This chapter 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.

12.8 END OF CHAPTER REVIEW QUESTIONS

According to the Government Financial Regulations Chapter 1 Paragraph 10. State the functions of the officers controlling expenditures.

2. The following balances were extracted from the books of Oluwadurotimi Local Government Treasury for the month ended October 31, 2016.

	₦M
Reserve Fund	65,000
Cash on Hand	106,000
Bank Overdraft	11,400
Revenues(Recurrent Capital)	317,000
Expenditures (Recurrent / Capital	654,780
Loans	400,000
Deposits into the Local Government Treasury	46,900
Advances granted by Local Government	51,120
Investments	30,400

You are required to prepare a trial balance for the month ended October 31, 2016.

3. The following balances were extracted from the books of OBANLA STATE GOVERNMENT OF MAIGERIA as at 31st December, 2016:

2015		**2016**
₦'000		**₦'000**
644,997	Statutory allocation	4,841,017
119,102	Value Added Tax Collection	160,133
403,020	Internally Generated Revenue	498,843
58,256	Other Revenue	79,397
490,110	Personnel Cost	1,170,666
280,095	Overhead Cost	739,646
137,081	Consolidated Revenue Fund Charges	382,936
246,400	Other Capital Receipts	379,237
394,969	Capital Expenditure	2,753,553
591	Other Fund Deposits	591
28,288	Cash at Bank	69,604

67,799	Deposit with Banks	740,352
62,772	Investments	27,987
11,252	Advances	74,474

Additional Information provided:

The following amounts expended on Unfunded Internal Debt servicing have been included in the Consolidated Revenue Fund Charges:

	₦'000
2015	36,970
2016	45,364

Any surplus/deficit on Revenue Account is transferred to the Capital Account as appropriate.

You are required to prepare:

(a) Consolidated Revenue Fund

(b) Statement of Assets and Liabilities for the year ended 31st December, 2016

4. A cash flow Statement is that which shows the various sources of income and expenditure in analytical form comprising inflows and outflows, from operating activities, investing activities and financing activities.

Required:

Define each of the three ACTIVITIES giving FIVE examples of Operating Activities, FOUR of Investing Activities and THREE of Financing Activities

5. LABEODAN State of NAIBERIA extracted the following information from their treasury's final account for the year ended December 31, 2016

	2016	**2015**
	Nm	**Nm**
Tax collected	1,313	1,150
Revenue from services	987	750
Grant from Canada	875	675

Interest from lag lagan	982	759
Accrued operating surplus	821	525
Proceeds from sale of treasury bills	639	495
Proceeds from sale of bonds	789	653
Purchase of equipments	700	650
Employee cost	1,450	1,210
Pension	350	290
Contract supplies	150	120
Interest paid on loans	101	89
Other administrative expenses	301	207
Purchase of foreign currency	315	301
Proceeds from sale of equipment	115	100
Loans	340	240
Repayment of loans	140	120
Cash book balance at January 1st	4,375	2,015
Cash and cash equivalent at December 31st	7, 729	4,375

You are required to prepare the Cash flow Statement of the State for the year ended December 31st, 2016 using the Direct Method.. (Show Comparisons)

SOLUTION

1. The functions of officers controlling expenditures are as follows:
   - Ensure that adequate accounting and internal control systems are in existence as prescribed by or under the authority of the Accountant-General of the Federation
   - Exercise supervision over the receipt of public revenue and ensure prompt collection.
   - Ensure that proper provision is made for safe-keeping of public monies, securities, stamps, receipts, tickets, licenses and valuable documents.
   - Maintain checks to prevent occurrence of fraud, embezzlement and carelessness.
   - Promptly charge in his accounts under proper heads and subheads all disbursements and receipts.
   - Promptly prepare such financial statements as required by law or by the Accountant –General of the Federation.
   - Ensure that all transactions are correctly posted and kept up-to-date.
   - Promptly report any misappropriation of funds or frauds to the Accountant-General

2. OLUWADUROTIMI LOCAL GOVERNMENT

TRIAL BALANCE FOR THE MONTH ENDED OCTOBER 31, 2016.

	₦M	₦M
Reserve Fund		67,000
Cash on Hand	106,000	
Bank Overdraft		11,400
Revenues(Recurrent and Capital)		317,000
Expenditures (Recurrent and Capital	654,780	
Loans		400,000
Deposits into the Local Government Treasury		46,900
Advances granted by Local Government	51,120	
Investments	30,400	
	-------------	-------------
	842,300	842,300

3. OBANLA STATE GOVERNMENT OF MAIGERIA

CONSOLIDATED Rss EVENUE FUND STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2016

RECURRENT ACCOUNT

	2015	**2016**
Recurrent Revenue	**₦'000**	**₦'000**
Statutory Allocation	644,997	4,841,017
Value Added Tax	119,102	160,133
Internally Generated Revenue	403,020	498,843
Other Revenue	58,256	79,397
(A)	**1,225,375**	**5,579,390**
Recurrent Expenditure		
Personnel Cost	490,110	1,170,666
Overhead Cost	280,095	739,646
* Consolidated Revenue Fund Charge	137,081	382,936

(B)	**907,286**	**2,293,248**
Surplus/Deficit to Capital a/c. (A - B)	**318,089**	**3,286,142**
CAPITAL ACCOUNT:		
Transfer from Recurrent Account	318,089	3,286,142
Other Capital Receipts	246,400	379,237
	564,489	3,665,379
Capital Expenditure	(394,969)	(2,753,553)
Capital Development Fund	169,520	911,826
*Internal Debt Servicing Component of the Consolidated, Revenue Fund Charges	36,970	45,364

STATEMENT OF ASSETS AND LIABILITIES
FOR THE YEAR ENDED 31 DECEMBER 2016

	2015	**2016**
LIABILITIES	**₦(‘000)**	**₦(‘000)**
Public Funds – C.R.F	169,520	911,826
Other Funds Deposit	591	591
	170,111	**912,417**
ASSETS		
Cash at Bank	28,288	69,604
Deposit with Banks	67,799	740,352
Investments	62,772	27.987
Advance	11,252	74,474
	170,111	**912,417**

4 (a.) ***Operating Activities***: -

These comprise the principal revenue generation and disbursement activities through the business of an organization, during production for example.

Examples of Operating Activities

- Sales of goods and provision of services.
- Statutory Allocation.
- Revenue from Taxes, Fines and Rates
- Supply of goods and provision of services.
- Payments to staff.

(b.) ***Investing Activities***: - These have to do with the acquisition and disposal of fixed assets, investments and intangible assets such as trademark, goodwill, patent rights.

Examples of Investing Activities

- Acquisition of long term assets.
- Proceeds from disposal of long term assets.
- Payments for acquisition of investments.
- Proceeds from disposal of investments..

c. ***Financing Activities***: - These are activities that bring out structural changes in the composition of equity capital of an enterprise.

Examples of Financing Activities.

- Receipts from issue of shares and debentures.
- Receipts from redemption of shares and debentures.
- Receipts as dividends and interest.

5 . **LABEODAN STATE OF NAIBERIA**

CASHFLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2016

Cash flow from operating Activities		2016	2015
		Nm	Nm
Receipts:			
Tax collected		1,313	1,150
Revenue from services		987	750
Grant from Canada		875	675
Interest from lag lagan		982	759
Accrued operating surplus		821	525
		4,978	3,859
Less:			
Payments			
Employee cost		(1,450)	(1,210)
Pension		(350)	(290)
Contract supplies		(150)	(120)
Other administrative expenses		(301)	(207)
		(2,251)	(1,827)
Net Cash inflow from operating activities	(a)	2,727	2,032
Investing activities			
Proceeds from sale of treasury bills		639	495
Proceeds from sale of bonds		789	653
Purchase of equipments		700	650
Proceeds from sale of equipment		115	100
Net cash inflow from investing activities	(b)	843	598
Financing activities			
Interest paid on loans		(101)	(89)
Purchase of foreign currency		(315)	(301)
Loans		340	240
Repayment of loan		(140)	(120)
Net Cash outflow from Financing activities	(c)	(216)	(270)
Cash and cash equivalent (a+b+c)		3,354	2,360
Cash and cash equivalent at 1st January		4375	2,015

Cash and cash equivalent at 31st December	7,729	4,375

CHAPTER THIRTEEN

LOCAL GOVERNMENT

CHAPTER CONTENTS

13.0 LEARNING OBJECTIVES

At the end of this chapter, readers should be able to:-

i. Understand the functions of the Local Governments

ii. Identify the various Local Government Officers and their respective functions.

iii. Present in analytical form how the Local Governments keep their accounts.

iv. Understand the financial controls available in Local Government Account.

13.1 DEFINITION

Local Government relates directly with the people in a community. It is the government through which the populace have their aspirations and grievances attended to by the Federal Government. While the Federal Government has control over them, State Governments too have considerable influence over Local Governments.

13.2 FUNCTIONS OF LOCAL GOVERNMENTS

The functions of Local Governments are contained in the Fourth Schedule of the 1999 Constitution. These functions include:-

(a) Formulation of economic policies which will bring about rapid development in local government areas and making necessary recommendations to State Commission.

(b) Establishment and maintenance of cemeteries, destitute homes and provision of basic needs to the aged who are infirmed.

(c) Issuance of licenses in respect of motor cycles, cars, bicycles and keeping of pets.

(d) Registration of all births, marriages and deaths.

(e) Naming of streets, roads and crescents and numbering of houses.

(f) Construction, maintenance and running of markets, motor parks, machine parks and public conveniences.

(g) Provision and maintenance of basic facilities for refuse disposal and public conveniences.

(h) Construction and maintenance of roads and street drainage systems.

(i) Analysis and assessment of properties and bill boards for accurate charges and collection of tenement rates and advertisement rates.

(j) Provision and maintenance of primary health care services to the community.

(k) Establishment and maintenance of rural water supply system, e.g. sinking of boreholes.

(l) Control and regulation of lock up shops, restaurants and kiosks.

(m) Licensing, regulation and control of the sale of liquor.

(n) Participating in the provision and maintenance of primary education.

(o) Control of regulation of out-door advertisements.

The Fourth Schedule of the 1999 Constitution of Nigeria states the functions of a Local

Government Council, as follows:

1. The main functions of a local government council are as follows:

   (a) the consideration and the making of recommendations to a State commission on economic planning or any similar body on -

      (i) the economic development of the State, particularly in so far as the areas of authority of the council and of the State are affected, and

      (ii) proposals made by the said commission or body ;

   (b) collection of rates, radio and television licences;

   (c) establishment and maintenance of cemeteries, burial grounds and homes for the destitute or infirm;

   (d) licensing of bicycles, trucks (other than mechanically propelled trucks), canoes, wheel barrows and carts;

   (e) establishment, maintenance and regulation of slaughter houses, slaughter slabs, markets, motor parks and public conveniences;

   (f) construction and maintenance of roads, streets, street lightings, drains and other public highways, parks, gardens, open spaces, or such public facilities as may be prescribed from time to time by the House of Assembly of a State;

(g) naming of roads and streets and numbering of houses;
(h) provision and maintenance of public conveniences, sewage and refuse disposal;
(i) registration of all births , deaths and marriages;
(j) assessment of privately owned houses or tenements for the purpose of levying such rates as may be prescribed by the House of Assembly of a State; and
(k) control and regulation of-
(i) out-door advertising and hoarding,
(ii) movement and keeping of pets of all description, (iii) shops and kiosks,
(iv) restaurants, bakeries and other places for sale of food to the public, (v) laundries, and
(vi) licensing, regulation and control of the sale of liquor.

2. The functions of a local government council shall include participation of such council in the Government of a State as respects the following matters-
(a) the provision and maintenance of primary, adult and vocational education;
(b) the development of agriculture and natural resources, other than the exploitation of minerals;
(c) the provision and maintenance of health services; and
(d) such other functions as may be conferred on a local government council by the House of Assembly of the State.

13.3 FUNCTIONS OF LOCAL GOVERNEMNT OFFICERS

The organs or key officers in a Local Government are: - (a) Chairman.
(b) Vice-Chairman.
(c) Secretary.
(d) Treasurer.
(e) Head of Personnel Management.
(f) Legislature.

13.3.1 Functions of the Chairman

These include the following:

(a) He is responsible for decision-making as regards finance and accounting in the local government. Consequently, he is the Chief Executive and Accounting Officer.
(b) He is to preside over all Council meetings and cast vote when the situation demands.
(c) He is responsible for the custody of all funds and property entrusted in his care.
(d) He is to prepare the Local Government's annual budgets and submit to

The legislative arm for approval.

(e) He is to prepare monthly statements of accounts to the Legislative House for examination and comment.

(f) He is required to have documentary evidences of all receipts and disbursements of public funds.

(g) The Chairman is to prepare and present annual reports of his Local Government to show that he is accountable for the funds and property entrusted in his care. The account is to be presented to the Public Accounts Committee.

(h) He is to ensure that all the rules and regulations guiding the receipts and disbursements of government funds and property are strictly adhered to.

(i) He is to ensure that there is palpable peace and harmony between the neighbouring communities in his Local Government.

(j) He is to make positive, effective and commendable impact on the populace in his community.

(k) He shall abide by any other rules, regulations and guidelines governing the functions of an executive local government Chairman.

13.3.2 Functions of the Vice-Chairman

(a) He is to preside over Council meetings in the absence of the Chairman.

(b) He is to be closely involved in the running of the Local Government by assisting the Chairman.

(c) He is to attend to matters of utmost urgency where the Chairman is not available and relate same to the Chairman for decision-making.

(d) He is to perform any other function as may be directed by the Chairman.

13.3.3 Functions of the Secretary

As the Secretary to the Local Government,

1. He intimates the Chairman, Vice-Chairman and the Council with the notice of meetings.
2. He records the minutes of the Council meetings.
3. He is to settle amicably differences between Officers in the Local Government and the Councillors.
4. The Secretary is to deliberate on financial, social and political issues with

   "The Council", i.e. the legislature, as they affect the Local Government.

5. He is to receive and dispatch all correspondence between the Local

   Government and the public or State Government.

6. The Secretary performs any other function as may be prescribed by law

or assigned to him by the Council.

13.3.4 Functions of the Treasurer

The Treasurer has the following roles to play:

(a) He is responsible for all the receipts and disbursements of funds.

(b) He is responsible for keeping accurate and timely accounting records of funds received or disbursed.

(c) He should ensure that all records kept by his subordinate officers are checked routinely for accuracy.

(d) He is to intimate the Local Government of any economic policy that will increase the internally generated revenue (IGR) of the Council.

(e) He should exploit all the opportunities available for the collection of all forms of revenue as specified in the budget estimate.

(f) He is to see that all the laid out procedures as regards disbursements of funds are followed.

(g) He should assist in the preparation of annual and supplementary budgets.

(h) He is to be actively involved in the appraisal of all capital projects before they are executed.

(i) He is to make recommendations to the Council in his capacity as the financial adviser.

(j) He is responsible for ensuring that the liquidity position of the Council is favourable at all times.

(k) He should ensure that payment vouchers are validly prepared and presented for payment.

(l) He should maintain all records of accounts in a form suitable for decision- making by the Council.

13.3.5 Functions of the Head of Personnel Management

His functions include the following:

(a) He is to serve as a signatory, on behalf of the Council, on all vouchers and cheques.

(b) He is to approve by signing all contractual agreements and local purchase orders relating to contracts and supplies, on behalf of the Council, subject to prior approval by the Chairman.

(c) He is responsible for the control and supervision of the civil servants in the Local Government.

(d) He is to assist the Audit Alarm Committee in performing its functions whenever it is constituted.

(e) He is to act as the Clerk of the Legislature Council in their deliberations.

13.3.6 Functions of the Council Legislature

(a) To promulgate laws guiding the administration of the Local Government as may be allowed by the Constitution.

(b) To analyse, debate, approve and amend the Local Government annual budgets.

(c) To critically examine, consider, approve and monitor the execution of all capital projects and programmes in the annual estimate.

(d) To examine and make comments on the monthly financial statements of the Council as presented by the Chairman.

(e) To consult, intimate and advise the Chairman on matters affecting the development of the Council.

(f) To serve the Chairman notice of impeachment and thereafter proceed on the procedures for the exercise, where he is found to have committed an impeachable offence.

(g) To receive, debate on and examine the annual audited reports of the Council submitted by external auditors.

(h) To perform any other function as may be directed by the State House of Assembly.

13.4 FINANCIAL CONTROL IN LOCAL GOVERNMENT

Financial control in Local Governments can be classified into two. These are: -

(a) Internal Control.

(b) External Control.

13.4.1 Internal Control

(a) This involves all the internal control procedures that are set up to ensure that receipts and disbursements of public funds and property are justly, validly and essentially carried out. They include: -

- (i) Issuance of Warrants before disbursements of funds.
- (ii) Constitution of stand-in-committees for special services.
- (iii) Authorisation of all disbursements of fund from and into the Council by the Accounting Officer, only.
- (iv) Control and regulation of payments by the preparation of payment vouchers, following the laid down rules and regulations guiding their preparation.
- (v) Constitution of Budget Implementation Committee for the preparation of annual estimates of revenue and expenditure.
- (vi) Monitoring of checks and balances by the Internal Auditor, who should approve all forms of payments and report any unauthorized or inappropriate payment to the Audit Alarm Committee or Auditor- General for Local Government.

13.4.2 External Control

This comprises the control systems which are put in place outside the Local Government. They are those established by the Financial Memoranda and other rules and regulations guiding the establishment of Local Governments.

They are statutory controls which include: -

a) ***Legislative Control***: - The Legislature (otherwise known as the Council) has the right to remove from the budget on estimate proposal any item of expenditure is considered as waste of government resources. The Legislative members have the power to reduce an amount proposed by the Chairman for any project. The legislature members also have the power to impeach the Chairman where any case of embezzlement or misappropriation of government fund is established against him.

b) ***State Government Control***: - All audited accounts of the Local Government must be presented and reported to the State House of Assembly, through the Public Accounts Committee, which is empowered to invite any executive member, Accounting Officer or Sub-Accounting Officer, who has been implicated in the audit report.

c) ***External Auditor's Control***: - The Local Government accounts must be audited annually by the Office of the Auditor-General for Local Governments, who is empowered to appoint external auditors. The external auditors are qualified personnel who independently examine critically the financial statements and accounting records of the Local Governments and are required to express their opinion through a report submitted to the Auditor-General for Local Government.

d) ***Auditor General for Local Government***: - The Office of the Auditor-General for Local Government embarks on quarterly routine audit of the Local Governments. He is empowered to report any anomaly detected in the running of any Local Government (especially as it concerns disbursement of funds) to the Public Accounts Committee of the State House of Assembly.

e) ***Petitions***: - The members of the public have the right to express their dissatisfaction as to the conduct of the executive arm of the Local Government by forwarding a report in form of petition to the State House of Assembly.

13.5 FINANCIAL MEMORANDA FOR LOCAL GOVERNMENT

The Financial Memoranda for Local Government is a publication by the Federal Government which contains the administrative guidelines, the existing systems of checks and balances as well as the roles of all the officers from the Chief Accounting Officer, the Chairman, to the officer at the lowest cadre.

13.5.1 Objectives of the Financial Memoranda

These include:

(a) To serve as administrative guidelines which facilitate day-to-day running of Local Governments.

(b) To expressly highlight the implications of disbursing government fund and property without proper authority, approval and unjustly.

(c) To facilitate recording of Local Government financial transactions in the appropriate accounting method.

(d) To serve as a learning tool for officers on first appointment or on transfer to a new section.

13.5.2 Contents of Local Government Financial Memoranda

These may be summarised, as follows:

(a) The format of budget and budgetary control.

(b) The financial responsibilities of the Chairman and other Accounting Officers of a Local Government.

(c) The responsibilities of the Local Government Secretary, Treasurer and Heads of Departments.

(d) The responsibilities of the Internal Auditor as they relate to Audit Alarm.

(e) The powers and functions of the Auditor-General for Local Government.

(f) The functions and operations of the Audit Alarm Committee.

(g) The various financial offences and their respective sanctions.

(h) The means of Revenue Collection and Control.

(i) Main books of accounts kept in the Local Government.

(j) The custody, accounting and control of stores.

13.6 DOCUMENTATION OF REVENUE AND EXPENDITURE

All Local Governments must prepare and submit to the office of the Auditor-General for Local Government annual financial statements. These must be submitted within three months of the following year. The items are:

(a) Statement of Assets and Liabilities.

(b) Statement of Revenue and Expenditure.

(c) Statement of Actual Revenue.

(d) Statement of Actual Expenditure.

(e) Statement of Advance Account Balances.

(f) Statement of Deposit Account Balances.

(g) Statement of Suspense Account Balances.

(h) Statement of Reserve Fund Account Balances.

(i) Statement of External Loans Outstanding.

The purposes of the documentations are:

(a) It is a means of accounting for public money

(b) It is a means of showing the financial position of government funds at that level

(c) It is a basis of assessing the performance of government

(d) It is a means through which the legislature can exercise its power over public accounts.

The books of accounts kept by the accounting and sub-accounting officer in the Local Governments are:

(a) The Cash Book

(b) The Adjustment Record
(c) The main Ledger for the following accounts:-
(d) General Revenue Balance Account
(e) Advance Account
(f) Deposit Account
(g) Suspense Account
(h) Investment Account

(i) Fixed Deposit Account

(j) Renewal fund Deposit Account

(k) Reserve Fund Investment Account

(l) Renewal Fund Investment Account.

(m) Subsidiary Accounts. These include:
   i. Departmental Vote Revenue Allocation Book
   ii. Departmental Vote Expenditure Allocation Book
   iii. Individual Advances Account
   iv. Individual Deposit Account
   v. Investment Register.

13.6.1 SOURCES OF LOCAL GOVERNMENT REVENUE

These can be classified into 3 groups, as follows: -

a. ***Statutory Sources of Revenue***

   i. Statutory Allocation

   ii. 10% of State owned derived income

b. ***Permissive Sources of Revenue***

   i. Radio & T.V. license fees.

   ii. Special rates, fees and fines.

   iii. Registration & License fees

   iv. Tenement rates/property tax.

c. ***Incidental Sources of Revenue***

   i. Proceeds from economic projects.

   ii. Grants from Federal and State Governments.

   iii. Loans granted by State Government.

   iv. Borrowing from other sources.

   v. Investment income.

   vi. Income generated from maintenance of market stalls, car parks.

   vii. Income from maintenance of cemeteries.

viii. Income from registration of births, deaths and marriages.

ix. Outdoor advertising.

x. Income from restaurant, kiosks and shops.

xi. Income from naming of streets, roads, avenue, close and crescents.

xii. Earnings from commercial undertakings.

d. Statutory Allocations.

e. Grants

13.6.2 FORMAT OF STATEMENT OF REVENUE AND EXPENDITURE: AGODO LOCAL GOVERNMENT

STATEMENT OF REVENUE AND EXPENDITURE FOR THE YEAR ENDED 31ST DECEMBER 20XX

		₦	₦
Revenue			
Balance b/fwd			xx
Revenue for the year			
Head	Description		
1001	Taxes	Xx	
1002	Rates	Xx	
1003	Local Licenses, Fees and Fines	Xx	
1004	Commercial undertakings	Xx	
1005	Rent on LG property	Xx	
1006	Interest and Dividend earned	Xx	
1007	Other Grants	Xx	
1008	Miscellaneous receipts	Xx	
1009	Statutory Allocation: -		
	- Federal	Xx	
	- State	Xx	
	Total Revenue for the year		xx
	Total Revenue Available		xxx
Expenditure			
Head	Description		
2001	Office of the Chairman	Xx	

2002	Office of the Secretary	Xx	
2003	The council	Xx	
2004	Personnel Department	Xx	
2005	Finance Department	Xx	
2006	Education Department	Xx	
2007	Primary Health Care	Xx	
2008	Agriculture & Natural Resource	Xx	
2009	Works & Housing	Xx	
2010	Commerce & Industry	Xx	
2011	Traditional Office	Xx	
2012	Miscellaneous	Xx	
2013	Other Charges	Xx	
2014	Internal Debt Servicing	Xx	
400X	Capital Expenditure	Xx	(xxx)
(Deficit)	Revenue carried forward		(xxx)/xxx

13.6.3 FORMAT OF STATEMENT OF ASSETS AND LIABILITIES

ASSETS	₦ Fixed Deposit	xx	Investment	xx	
Loans and Advances				xx	
Deposits for Assets				xx	
Cash at Bank				xx	
Cash in Hand				xx	
Others				xx	
					xxx

LIABILITIES		
Deposit Liabilities, e.g. P.A.Y.E, N.U.L.G.E	xx	
Loans	xx	
General Revenue Balance	xx	
Others	xx	
		xxx

Illustration 1: - The following information relate to Kangen Local Government for the year ended 31st December, 20XX:

(i) Assets and Liabilities as at 31st December 20XX are:

Fixed Deposit	₦16,000,000
Investments	₦6,000,000
Advances	₦3,900,000
Cash at Bank	₦1,432,400
Cash in Hand	₦185,960
Deposit Liabilities	₦13,608,000
Deposit for Land	₦4,000,000
Deposit for Motor Vehicle	₦11,000,000

(ii) Stated below are the revenue and expenditure for the year: -

Head	Description	Amount (₦)
2004	Personnel Department	28,410,200
2005	Finance Department	43,100,200
1003	Local Licences, Fees and Fines	13,256,310
1005	Rent on Local Govt Property	13,100,600
1001	Taxes	38,141,100
1006	Interest and Dividends	1, 300,000
2001	Office of the Chairman	66,964,700
2006	Education Department	44,345,900
2003	The Council	39,180,800
1009	Statutory Allocation	495,011,830
1002	Rates	23,848,300
1007	Other Grants	136,181,230
2008	Agriculture and Water Resources	42,344,200
1004	Commercial Undertakings	24,613,620
2002	Office of the Secretary	33,624,180
2007	Primary Health Care Department	37,618,790
1008	Miscellaneous Receipts	6,125,380
2009	Works and Housing Department	46,125,380
2010	Commerce and Industry	38,648,740
2013	Other Charges	11,400,380
2012	Miscellaneous	21,867,080

4000	Capital Expenditure	262,600,000
2011	Traditional Offices	14,858,160

(i) General Revenue Balance brought forward on 1st January 20XX was ₦8,420,700

(iv) The code in use is 1 as prefix for Revenue and 2 as prefix for Expenditure.

You are required to prepare: -

(a) Statement of Revenue and Expenditure for the year ended 31st December, 20XX.

(b) Statement of Assets and Liabilities as at that date.

Suggested Solution to Illustration 1

KANGEN LOCAL GOVERNMENT

a) **Statement of Revenue and Expenditure for the Year Ended 31ST DECEMBER 20XX**

		₦	₦
Revenue for the year			
Head	Description		
1001	Taxes	38,141,100	
1002	Rates	23,848,300	
1003	Local Licenses, Fees and Fines	13,256,310	
1004	Commercial undertakings	24,613,620	
1005	Rent on LG property	13,100,600	
1006	Interest and Dividends	1,300,000	
1007	Other Grants	136,181,230	
1008	Miscellaneous receipts	6,125,380	
1009	Statutory Allocation	495,011,830	
		751,578,370	

Expenditure

Head	Description		
2001	Office of the Chairman		66,964,700
2002	Office of the Secretary		33,624,180
2003	The Council		39,180,800
2004	Personnel Department		28,410,200
2005	Finance Department		43,100,200
2006	Education Department		44,345,900
2007	Primary Health Care		37,618,790
2008	Agriculture & Water Resource		42,344,200
2009	Works & Housing	46,125,380	
2010	Commerce & Industry	38,648,740	
2011	Traditional Office	14,858,160	
2012	Miscellaneous	21,867,080	
2013	Other Charges	11,400,380	
4000	Capital Expenditure	262,600,000	(731,088,710)
	Excess of Income Over Expenditure for the year		20,489,660
	General Revenue Balance b/forward		8,420,700
	General Revenue Balance c/forward		**28,910.360**

b) **Statement of Assets and Liabilities as At 31st December, 20xx**

ASSETS	₦
Fixed Deposit	16,000,000
Investment	6,000,000
Advances	3,900,000
Deposit for Land	4,000,000
Deposit for Motor vehicle	11,000,000
Cash at Bank	1,432,400
Cash in Hand	185,960
	42,518,360
Represented By	
Deposit Liabilities	13,608,000
General Revenue Balance	28,910,360

42,518,360

Illustration 2

The "Accountant 3" of Ibussa Local Government submitted the following as the transactions

for the year ended 31st December, 20XX:

	₦"000
Local licenses, fees and rates	45,398
Local rates and taxes	36,492
Statutory allocation	306,108
Grants from State Government	69,115
Grants from Federal Government	126,707
Office of the Chairman	69,645
Office of the Secretary	76,895
Traditional Office Expenses	12,490
Primary Health Care	43,510
Rural Electrification Expenses	9,440
Capital Expenditure	359,060
District Area Office Administration	116,525
Rent on Local Government Property	118,260
Miscellaneous Expenses	330
Planning and Budgeting Expenditure	5,301
Interest payments and dividends received	6,350
Earnings from commercial undertakings	129,642
Legislative Deposits	36,308
Payee and union due balance	375
Advance Salaries to staff	963
Deposit for purchase of computer systems	24,130
Pension Balance	649

Revenue brought forward	5,306
Bank Balance	120,773
Cash in Hand	2,108
Withholding Tax	13,660
Finance and Supply	53,200

You are required to prepare:-

a) Trial Balance for the Local Government Council for the year ended 31st December, 20XX.

b) Statement of Income and Expenditure as at that date.

c) Statement of Assets and Liabilities as at that date.

SUGGESTED SOLUTION TO ILLUSTRATION 2

IBUSSA LOCAL GOVERNMENT

TRIAL BALANCE AS AT 31ST DECEMBER 20XX

	₦'000	₦'000
Statutory Allocation		306,108
Capital Expenditure	359,060	
District Area office Admin.	116,525	
Miscellaneous Expenses	330	
Planning and Budgeting Expenditure	5,301	
Interest payments and dividends received		6,350
Rent on Local Govt. Property		118,260
Earnings from Commercial undertakings		129,642
Legislative deposits		36,308
Payee and Union Due Balance		375
Advance salaries to staff	963	
Deposit for purchase of Computer	24,130	
Pension Balance		649

Withholding Tax		13,660
Finance & Supply Department	53,200	
Local Licenses, Fees and Rates		45,398
Local Rates & Taxes		36,492
Grants from State Government		69,115
Grants from Federal Government		126,707
Office of the Chairman	69,645	
Office of the Secretary	76,895	
Traditional Office Expenses	12,490	
Primary health cave	43,510	
Rural electrification expenses	9,440	
Bank Balance	120,773	
Cash in Hand	2,108	
Revenue brought forward		5,306
	894,370	**894,370**

b.

IBUSSA LOCAL GOVERNMENT

STATEMENT OF INCOME & EXPENDITURE FOR THE YEAR ENDED 31ST DECEMBER, 20XX

	₦	₦
INCOME		
Rent on Property		118,260
Statutory Allocation		306,108
Grants from Federal Govt.		126,707
Grants from State Govt.		69,115
Local Licenses, fees & rates		45,398
Local rate and taxes		36,492
Interest payments & dividends received		6,350
Earnings from Commercial & undertakings		129,642
		838,072
Less: Expenditure		

Office of the Chairman	69,645	
Office of the Secretary	76,895	
Traditional office expenses	12,490	
Primary Health Care	43,510	
Rural electrification	9,440	
District Area office. Admin	116,525	
Miscellaneous expenses	330	
Planning & Budgeting Expenditure	5,301	
Finance & Supply Department	53,200	
Capital Expenditure	359,060	(746,396)
Excess of Income over Expenditure for the year		91,676
Revenue brought forward		5,306
Revenue carried forward		**96,982**

d. **STATEMENT OF ASSETS AND LIABILITIES AS AT 31ST DECEMBER 20XX**

ASSETS	**N**
Deposit for purchase of computers	24,130
Advance salaries to staff	963
Bank balance	120,773
Cash in Hand	2,108
	147,974
LIABILITIES	
Legislative Deposits	36,308
P.A.Y.E & Union due balance	375
Pension Balance	649
Withholding Tax	13,660
Revenue balance	96,982
	147,974

Illustration 3

The following information was extracted from the Gandoya State Treasury Department’s

Trial Balance: -

	31-12-2011	31-12-2010
	₦“000	₦“000
Treasury Cash	37,229	35,336
Cash in Transit	10,316	8,214
Consolidated Revenue Fund	118,148	119,284
Bank Balance	58,631	71,818
Bank Overdraft	5,336	7,691
Contingencies Fund	33,120	30,804
Advances	6,407	3,336
Investments	15,000	15,000
Fixed Assets	49,975	43,327
Accumulated Depreciation on Fixed Assets	6,108	4,171
Deposits	14,846	15,081

You are required to prepare a Comparative Statement of Balance Sheet as at 31st December 2011.

SUGGESTED SOLUTION TO ILLUSTRATION 3

GANDOYA STATE

COMPARATIVE STATEMENT OF BALANCE SHEET AS AT 31ST DECEMBER 2011

ASSETS			31/12/2010	
	₦’000	₦’000	₦’000	₦’000
Fixed Assets	49,975		43,327	
Depreciation	(6,108)	43,867	(4,171)	39,156
Investments		15,000		15,000
Advances		6,407		3,336
Treasury Cash		37,229		35,336

Bank Balance	58,631	71,818
Cash in Transit	10,316	8,214
	171,450	**172,860**
LIABILITIES		
Consolidated Revenue Fund	118,148	119,284
Contingencies Fund	33,120	30,804
Deposits	14,846	15,081
Bank overdraft	5,336	7,691
	171,450	**172,860**

13.7 AUDIT OF LOCAL GOVERNMENT ACCOUNTS

Auditing of Local Government accounts can be classified into two parts. These are a) Internal Auditing

b) External Auditing

13.7.1 INTERNAL AUDITING: - This is a set of audit programmes drafted to carry out an independent appraisal of the transactions within the Local Government in order to ensure they are in conformity with the Constitution, extent rules and regulations.

13.7.1.1 OBJECTIVES OF INTERNAL AUDITING OF LOCAL GOVERNMENTS

(a) To evaluate the effectiveness of the internal control procedures.

(b) To ensure that the financial memoranda is strictly complied with as regards receipts and disbursements of funds.

(c) To ascertain, verify and confirm the existence of fixed assets. (d) To embark on special investigations where fraud is established.

(e) To check the validity, reliability and timeliness of accounting information submitted as reports.

13.7.2 EXTERNAL AUDITING: - This is carried out by the Auditor-General for Local Government in the State where the Local Government is situated. The Auditor- General is empowered to appoint External Auditors to audit the accounts of Local Governments. Their reports are submitted to him for appraisal and he in turn will transmit them to the State House of Assembly through the Public Accounts Committee.

13.7.2.1OBJECTIVES OF EXTERNAL AUDITING OF LOCAL GOVERNMENT

(a) These are to ascertain whether the activities of the Local Governments are in conformity with due process.

(b) The activities are conducted in an effective way in compliance with relevant laws.

(c) The funds and property entrusted in the care of the executive are effectively utilized.

(d) Payments made are justified and properly authorized.

13.8 SUMMARY

The chapter contained the review of the functions expected of the Local Governments and the responsibilities of its key officers. The various forms of accounts being kept and maintained by the Local Governments are also discussed, with appropriate illustrations.

13.9 END-OF-CHAPTER REVIEW QUESTIONS

Section A

1. Which of the following officers serves the purpose of liaising with the Chairman and the House of Legislature during meetings?

   A. The Secretary
   B. The Chairman
   C. The Council Manager
   D. The Treasurer
   E. The Cashier

2. Which schedule of the 1999 Constitution categorises the obligations of local governments into two, “Mandatory functions and Concurrent functions?”

   A. 1
   B. 2
   C. 3
   D. 4
   E. 5

3. Who out of the following officers, serves as Secretary to the Funds Management

   Committee of a Local Government?

   A. The Chairman

B. Secretary to the Local Government
C. Head of Personnel Management
D. The Council Treasurer
E. The Vice Chairman

4. The body of the local government that has the responsibility to debate, approve and amend the budget of a Local government is

A. The Local Government Revenue
Committee B. The Auditor-General for local
government C. The Chairman of the Council
D. The Secretary to the Local Government
E. The Local Government Council

5. The Internal Audit of a Local Government Council reports directly to the ....

6. The ministerial phase is the stage at which Local Government Council estimates are screened by the ....

7. The internal audit, internal checks, procedures and rules designed to safeguard the assets of a Local Government Council are called ....

8. The 10% of internally generated revenue is payable to the Local Governments of a

State through the........................... Account

9. The sources of revenue of a Local Government can be classified into three: statutory, permissive and ....

Section B

1 Enumerate TEN functions of the Local Government as contained in the Fourth Schedule of the 1999Constitution.

2 Identify EIGHT functions of the Treasurer of a Local Government Council.

3. According to the Federal Government Circular of 20th May, 1991, the Council Manager has assumed the position of of dominance in a Local Government Council. Highlight SEVEN functions of the Council Manager.

4. Discuss SEVEN Problems/Limitations of the Local Government Council.

5. The following information is extracted from the books of Baraju Local Government for year ended 31st December, 2016

(i) Assets and Liabilities as at 31st December, 2016

	N
Fixed Assets	16,000,000
Investments	6,000,000
Advances	3,900,000
Cash at bank	1,432,400
Cash in hand	185,960
Deposit liabilities	13.608,000
Deposit for land	4,000,000
Deposit for motor vehicle	11,000,000

(ii) Stated below are the revenue and expenditure for the year:

Head	Description	Amount (N)
2004	Personnel department	28,410,200
2005	Finance department	43,100,200
1003	Local licences, fees and fines	13,256,310
1005	Rent on local govt property	13,100,600
1001	Taxes	38,141,100
1006	Interest and dividends	1,300,000
2001	Office of the Chairman	66,964,700
2006	Education department	44,345,900
2003	The Council	39,180,800
1009	Statutory allocation	495,011,830
1002	Rates	23,848,300
1007	Other grants	136,181,230
2008	Agriculture and water resources	42,344,200

1004	Commercial undertakings	24,613,620
2002	Office of the Secretary	33,624,180
2007	Primary health care department	37,618,790
1008	Miscellaneous receipts	6,125,380
2009	Works and housing department	46,125,380
2010	Commerce and Industry	38,648,740
2013	Other charges	11,400,380
2012	Miscellaneous	21,867,080
4000	Capital expenditure	262,600,000
2011	Traditional office	14,858,160

(iii) General revenue balance brought forward on 1st January 2016 was N8,420,700

(iv) The code in use is 1 as prefix for revenue and 2 as prefix for expenditure

You are required to prepare:

(a) Statement of revenue and expenditure for the year ended 31st December, 2016

(b) Statement of Financial Position as at the date.

SOLUTION

Section A

1. A
2. D
3. C
4. E
5. Accounting officer or Chairman
6. Ministry of Local Government
7. Internal Control
8. Joint Local Government Council Account
9. Incidental

Section B

1. The functions of Local Governments are contained in the Fourth Schedule of the 1999 Constitution. These functions include:-

   (a) Formulation of economic policies which will bring about rapid development in local government areas and making necessary recommendations to State Commission.
   (b) Establishment and maintenance of cemeteries, destitute homes and provision of basic needs to the aged who are infirmed.
   (c) Issuance of licenses in respect of motor cycles, cars, bicycles and keeping of pets.
   (d) Registration of all births, marriages and deaths.
   (e) Naming of streets, roads and crescents and numbering of houses.
   (f) Construction, maintenance and running of markets, motor parks, machine parks and public conveniences.
   (g) Provision and maintenance of basic facilities for refuse disposal and public conveniences.
   (h) Construction and maintenance of roads and street drainage systems.
   (i) Analysis and assessment of properties and bill boards for accurate charges and collection of tenement rates and advertisement rates.
   (j) Provision and maintenance of primary health care services to the community.
   (k) Establishment and maintenance of rural water supply system, e.g. sinking of boreholes.
   (l) Control and regulation of lock up shops, restaurants and kiosks.
   (m) Licensing, regulation and control of the sale of liquor.
   (n) Participating in the provision and maintenance of primary education.
   (o) Control of regulation of out-door advertisements.

2 **Functions of the Council Treasurer**

   The Treasurer has the following roles to play:

   (a) He is responsible for all the receipts and disbursements of funds.
   (b) He is responsible for keeping accurate and timely accounting records of funds received or disbursed.
   (c) He should ensure that all records kept by his subordinate officers are checked routinely for accuracy.
   (d) He is to intimate the Local Government of any economic policy that will increase the internally generated revenue (IGR) of the Council.
   (e) He should exploit all the opportunities available for the collection of all forms of revenue as specified in the budget estimate.
   (f) He is to see that all the laid out procedures as regards disbursements of funds are followed.
   (g) He should assist in the preparation of annual and supplementary budgets.
   (h) He is to be actively involved in the appraisal of all capital projects before they are executed.

(i) He is to make recommendations to the Council in his capacity as the financial adviser.
(j) He is responsible for ensuring that the liquidity position of the Council is favourable at all times.
(k) He should ensure that payment vouchers are validly prepared and presented for payment.
(l) He should maintain all records of accounts in a form suitable for decision- making by the Council.

3. Functions of The Council Manager

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

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

4. Problems/Limitations of Local Government Councils

The problems facing Local Government Councils 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.

5. BARAJU LOCAL GOVERNMENT

a) **STATEMENT OF REVENUE AND EXPENDITURE FOR THE YEAR ENDED 31ST DECEMBER 2016**

		N	N
Revenue for the year			
Head	**Description**		
1001	Taxes	38,141,100	
1002	Rates	23,848,300	
1003	Local licenses, fees fines	13,256,310	
1004	Commercial undertakings	24,613,620	
1005	Rent on LG property	13,100,600	
1006	Interest and dividends	1,300,000	
1007	Other grants	136,181,230	
1008	Miscellaneous receipts	6,125,380	
1009	Statutory allocation	495,011,830	751,578,370
Expenditure			
Head	Description		
2001	Office of the Chairman	66,964,700	
2003	Office of the Secretary	33,624,180	
2003	The Council	39,180,800	
2004	Personal department	28,410,200	
2005	Finance department	43,100,200	
2006	Education department	44,345,900	

2007	Primary health care	37,618,790	
2008	Agriculture & water resources	42,344,200	
2009	Works & housing	46,125,380	
2010	Commerce & industry	38,648,740	
2011	Traditional office	14,858,160	
2012	Miscellaneous	21,867,080	
2013	Other charges	11,400,380	
4004	Capital expenditure	262,600,000	(731,088,710)
	Excess of income over expenditure for the year		20,489,660
	General revenue balance b/forward		8,420,700
	General revenue balance c/forward		28,910,360

b) **STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER, 2016**

ASSETS	N
Fixed deposit	16,000,000
Investment	6,000,000
Advances	3,900,000
Deposit for land	4,000,000
Deposit for motor vehicle	11,000,000
Cash at bank	1,432,400
cash in hand	185,960
	42,518,360
Represented By	
Deposit liabilities	13,608,000
General revenue balance	28,910,360
	42,518,360

CHAPTER FOURTEEN

STORES AND STORES ACCOUNTING

CHARPTER CONTENTS

a) Learning Objectives
b) Introduction
c) Stores Classification
d) Stores Accounting
e) Receipt of and Payments fo Stores
f) Transfers Of Stores
g) Issues of Stores
h) Stores Procurement Procedures
i) Condemned Stores
j) Functions Of The Store Keeper
k) Hand Over of Stores
l) Loss of Stores
m) Procedures for Reporting Loss Of Stores
n) Stock Taking
o) Board of Survey And Its Purpose
p) Board of Enquiry
q) Contents of The Board's Report
r) Remission Of Copies Of The Board's Reports
s) Action Taken On The Board Of Enquiry's Report
t) Use Of Shortfalls And Excesses Account Or Price Adjustment Account.
u) Summary
v) End of Chapter Review Questions

14.1 LEARNING OBJECTIVES

After studying this chapter, readers should be able to:

a) Explain the importance of store and store accounting;
b) Differentiate among different classification of Stores; and
c) Delineate the composition and functions of the Board of Survey and the Board of Enquiry.

14.2 INTRODUCTION

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.

14.2.1 STORES CLASSIFICATION

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

14.2.2 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.

Purposes of Allocated Stores

These include the following:

i) To make provision for acquisition of quality stores and make them available always when required.

. ii) To create the required storage space always. This is by adhering to the policy of holding the minimum stocks required.

iii) To ensure that those stores which are always needed are made available.

iv) To incur minimum cost as regards the acquisition of stores.

14.2.3 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.

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.

14.2.4 FURTHER CLASSIFICATION OF STORES

Stores can further be classified into three, based on their life span. These are:

1. ***Expendable Stores: -*** These are stores that are used in the day-to-day activities of an organization. They have a life span of about 2 to 5 years. They include Computer, Television, and Farm implements such as cutlasses, shovels and Calculators.
2. ***Non-Expendable Stores: -*** These are stores that can be used for a long period of time. They need only maintenance and repairs when required. They have a life span of 5 years and above. Examples of the stores are plant and machinery, building, motor vehicles, and furniture.
3. ***Consumable Stores:*** - They are used in the day-to-day running of an establishment. They are used up immediately demand is made for them. An example of consumable stores is Stationery.

14.3 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.

14.3. 1 DOCUMENTATION OF STORES

Store records are contained in the stock ledger accounts which are extracted from vouchers. In the case of unallocated stores, the quantities, values and balances are recorded in the stock ledgers and vouchers.

It is worthy of note that a storekeeper is not responsible for the maintenance of store ledgers. This duty is assigned to the store officer.

The store officer is required to keep separate ledgers for different items of stores. All items of stores should be serially recorded and arranged. All stores that belong to the same class should be recorded in one single ledger.

14.3.2 MAINTENANCE OF TALLY CARDS OR BIN CARDS

This is a card that is being kept by the store keeper to ensure that all the items in the store at any point in time tally with those in the store ledgers. The tally cards should be marked with the ledger folios checked and updated frequently.

Tally cards should be updated from the information on the vouchers prepared for the receipts or issues of stores.

14.3.3 RECEIPT OF AND PAYMENT FOR STORES

Receipts 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.
When stores are received, the authorized officer in charge should ensure that they meet the specifications and are of the required quality and quantity. All store receipt documentation procedures should be duly observed.
The storekeeper should ensure that all received items are entered in the store ledger and charged to the appropriate expenditure sub-head.

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.

The payment voucher for all items received should be supported with valid local purchase order (LPO's), invoices and copies of stores receipt vouchers (SRV‟s). The SRV number should be clearly stated on the certificate issued by the storekeeper.

14.3.4 TRANSFER OF STORES

There may arise a situation where one store in a department is out of stock of a particular item. In this case, items may be transferred from other store. The transfer is carried out by raising a stores transfer requisition (STR) by the first store making the request. The STR will be prepared in duplicate and the original forwarded to the issuing store. The latter then issues a store issue voucher (SIV), also in duplicate, a copy of which will accompany the transferred stores. The other copy will serve as a receipt voucher.

14.3.4 ISSUE OF STORES

Before the storekeeper issues out any requisition for stores, a store requisition form (SRF) will have to be prepared and signed by the authorized officer of the department or unit where the material is needed.

All stores issue voucher (SIV's) will be prepared to support all store issues on the prescribed forms. An SIV is to be prepared in duplicate. The storekeeper will update his records by posting the tally or bin cards, with the information on the quantity and dates of issues.

14.3.5 CONDEMNED STORES

Where a Board of Survey has condemned some items of stores and approval given to write them off, a store issue voucher (SIV) has to support the issue of the stores, duly authenticated.

14.4 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.

14.5 STORE PROCUREMENT PROCEDURE

The Accounting Officer is responsible for the determination of the maximum, minimum and re-order levels for the unallocated stores. When the re-order level is reached, the storekeeper is expected to make purchase requisition to the Purchasing Department. The following procedure will then be followed by the Purchasing Department in the acquisition of new stores: -

i. Seek and obtain authority to make purchases from the officer controlling expenditure.

ii. Advertise for quotations from suppliers or request for tenders from contractors, specifying the closing date for submission.

iii. A Departmental Tenders Board will then be constituted to determine the lowest, most reliable and dependable bidder.

iv. Recommendation of award of the contract to the successful bidder by the Departmental Tenders Board.

v. Approval by the Head of Department or Permanent Secretary.

vi. Issue of Local Purchase Order (LPO) specifying the quantity, rate and time of delivery of the stores to the successful bidder who is the contractor.

14.6 STORES HANDOVER

This may arise where an officer is re-deployed to another department or station entirely. It could also be due to an officer embarking on annual or casual leave. The following procedure is to be observed in the handover of stores: -

i. The officer taking over the stores should ensure that items in the store tally with the records in the store ledger or bin card.

ii. Where the out-going officer is not available, an appointment of a stock verifier is effected to hand-over the store to the in-coming one.

iii. Where there are no differences between the physical stores and those of the ledger records, the incoming and outgoing officers will sign Treasury Form 10 certificate.

iv. Where there are differences resulting in the loss of stores, the outgoing officer will be held responsible.

14.7 LOSS OF STORES

Where there is establishment of loss of stores, the accounting officer may authorize its write-off. This, however, is determined by the factors surrounding the loss. Where any of the following conditions prevails the loss may be written off, viz:

1. The value of the items lost is not more than ₦200.
2. The internal control system exists and is devoid of any exploitable weakness.
3. The loss cannot be traced to or narrowed down to outright fraud, theft, or unauthorized usage.
4. The loss is not due to negligence of the store officer.

14.7.1 PROCEDURE FOR REPORTING OF LOSS OF STORES

In the event of loss of stores, discovered by the store-keeper, he should make official report to the Head of Department who will in turn forward detailed information to the Accounting Officer. He will determine the materiality of the loss and if found to be much, he completes Part IV of the Treasury Form 146 and forwards a copy each to: -

i. The Accountant-General of the Federation
ii. The Auditor-General for the Federation; and
iii. Head of Accounts Section

14.7.2 SUMMARY OF ACTIONS TO BE TAKEN BY CONCERNED OFFICERS IN THE EVENT OF LOSS OF STORE.

a. ***Store Keeper: -***

i. Where fraud or theft is established and an officer is suspected, he reports to the police.

ii. Collects, completes the Treasury Form 146 and thereafter submits it to the Head of Department.

b. ***Head of Department: -***

i. Reports the loss in detail to the Accounting Officer.

ii. Carries out thorough investigation about the loss of stores and computes Parts II and III of Treasury Form 146.

iii. Makes recommendation to the Accounting Officer when he deems fit that the Board of Enquiry should be constituted to investigate the loss.

c. ***Accounting Officer: -***

i. Where the loss is found to be substantial, he is to carry out independent investigation and order for the constitution of Board of Enquiry.

ii. Ensures that the recommendations of the Board of Enquiry are effected to the letter.

d. ***Accountant-General of the Federation:--***

i. Ascertains that the composition of Board of Enquiry is not devoid of experienced, reliable and competent officers of proven integrity.

ii. He is to ensure that an accounts officer who is versed in public sector accounting or the internal auditor of the department is a member of the Board of Enquiry.

Generally, all the officers stated above have the collective responsibility of ensuring that:

a) All the exploited internal control system weaknesses are effectively fortified.
b) The loss is recovered by surcharging the culprits.

Illustration 1: - The details below were extracted from the receipts and issues of customized notebooks to primary schools, of Adalua Local Government Area in Bagoma State, in the Month of October 20XX.

Date	Details	School/Printer	SRV & SIV	Quantity/Units
1-10-20XX	Balance	-	-	256,000
2-10-20XX	Issues	Lans Pry. Sch.	01005	73,000
4-10-20XX	Issues	Bali Pry. Sch.	01006	49,000
5-10-20XX	Issues	Agaku Pry. Sch.	01007	57,000
6-10-20XX	Issues	Kangi Pry. Sch.	01008	62,000
8-10-20XX	Receipts	Audu Printer Ltd	02003	185,000
8-10-20XX	Issues	Bukuru Pry. Sch.	01009	105,000
13-10-20XX	Issues	Tonga Pry. Sch.	01010	84,000
17-10-20XX	Receipts	Mabo Printing Press	02004	132,000
20-10-20XX	Issues	Albam Pry. Sch.	01011	95,000

22-10-20XX	Issues	Kantomi Pry. Sch.	01012	46,000
23-10-20XX	Receipts	Hafsat Press Ltd	02005	180,000
24-10-20XX	Issues	Jenbus Pry. Sch.	01013	75,000
25-10-20XX	Issues	Ajanat Pry. Sch.	01014	68,000
29-10-20XX	Receipts	Audu Printer Ltd	02006	108,000
30-10-20XX	Issues	Dende Pry. Sch.	01015	72,000
31-10-20XX	Issues	Lans Pry. Sch.	01016	68,000

You are required to enter the receipts and issues of the customized notebooks on the Tally Card of the Main Store of the Local Government.

Solution to Illustration .1

ADALUA LOCAL GOVERNMENT
MAIN STORE TALLY CARD FOR
THE MONTH OF OCTOBER 20XX

DATE		RECEIPTS		ISSUES		BALANCE QTY
	PARTICULAR	OTY	SRV NO	QTY	SIV NO	
1-10-20XX	Balance b/f					256,000
2-10-20XX	Issues to Lans Primary School.			73,000	01005	183,000
4-10-20XX	Issues to Bali Primary School.			49,000	01006	134,000
5-10-20XX	Issues to Agaku Primary School.			57,000	01007	77,000
6-10-20XX	Issues to Kangi Primary School.			62,000	01008	15,000
8-10-20XX	Receipt from Audu Printer Ltd	185,000	02003			200,000
8-10-20XX	Issues to Bukuru Primary School.			105,000	01009	95,000
13-1020XX	Issues to Tonga Primary School.			84,000	01010	11,000
17-1020XX	Receipt from Mabo Printing Press	132,000	02004			143,000
20-1020XX	Issues to Albam Primary School.			95,000	01011	48,000
22-1020XX	Issues to Kantomi Primary School.			46,000	01012	2,000
23-1020XX	Receipt from Hafsat Press Ltd	180,000	02005			182,000
24-1020XX	Issues to Jenbus Primary School.			75,000	01013	107,000
25-1020XX	Issues to Ajanat Primary School.			68,000	01014	39,000
29-1020XX	Receipt from Audu Printer Ltd.	108,000	02006			147,000
30-1020XX	Issues to Dende Primary School.			72,000	01015	75,000
31-1020XX	Issues to Lans Primary School.			68,000	01016	7,000

14.8 STOCK VALUATION METHODS

The Valuation methods in use include the following:

1. ***First-In-First-Out (FIFO): -*** Under this method, issues are priced at that of the oldest batch of stock in store until all units of it have been exhausted, after which the price of the next oldest item is used.

   Characteristics

   i. It is a realistic costing system.

   ii. It is a good representation of effective store keeping practice whereby the oldest store items are issued first.

   iii. It is acceptable by the Statement of Accounting Standard No 4 and International Accounting Standard No 2.

2. ***Last In First Out (LIFO): -*** Under this approach, issues are charged out at the price of the most recent batch received and continued to be batched until a new batch is received.

   Characteristics

   i. It understates the taxable profit available.
   ii. Stocks are valued at the new prices.
   iii. It is not acceptable by the Statement of Accounting Standard No 4 and International Accounting Standard No 2.

3. ***Average Price Method: -*** Under this method, the issues will be priced at the average of all the prices or charges received before the issue.

$$\text{Issue Price} = \frac{\text{Total of all batch prices}}{\text{No of batches}}$$

4. ***Weighted Average Price Method: -*** In this method, issue price will be calculated after each receipt, taking into consideration both quantities and values available. This is determined as follows: -

$$\text{Issue Price} = \frac{\text{Total Value of Available Stock}}{\text{Sum of Quantities}}$$

Illustration 2: - The unallocated store of the Ministry of Education showed the following information as regards the receipts and issues of roofing sheets, for the repairs of some secondary schools in Olowo State, during the month of September 20XX:

Balance in stock as at 1-9-20XX		320 sheets @ ₦250 per sheet
6-9-20XX	Purchases	500 sheets @ ₦300 per sheet
11-9-20XX	Purchased	400 sheets @ ₦280 per sheet
15-9-20XX	Issues	600 sheets to Alaba Secondary School
20-9-20XX	Purchases	300 sheets @ ₦260 per heet
25-9-20XX	Issues	500 sheets to Bog Grammar School

You are required to record the transactions in the Store Ledger of the Ministry showing the closing stock under the following methods: -

a) First-In-First-Out (FIFO)

b) Last-In-First-Out (LIFO)

c) Average Price (AP)

d) Weighted Average Price (WAP)

Solution to Illustration 2

MINISTRY OF EDUCATION

a) STORE LEDGER CARD (USING FIFO METHOD)

DATE	PARTICULAR	RECEIPTS			ISSUES			BALANCE		
		QTY	PRICE ₦	VALUE ₦	QTY	PRICE ₦	VALUE ₦	QTY	PRICE ₦	VALUE ₦
1-9-20XX	Balance							320	250	80,000
6-9-20XX	Purchases	500	300	150,000				820		230,000
11-9-20XX	Purchases	400	280	112,000				1220		342,000
15-9-20XX	Alaba Sec. Sch				320	250	80,000	900		262,000
15-9-20XX	Alaba Sec. Sch				280	300	84,000	620		178,000
20-9-20XX	Purchases	300	260	78,000				920		256,000
25-9-20XX	Bog Gram. Sch				220	300	66,000	700		190,000
25-9-20XX	Bog Gram. Sch				280	280	78,400	420		111,600

EXPLANATORY NOTES: -

(i) Using the FIFO method, the first issue was 600 roofing sheets to Alaba Secondary School. These were and issued priced as follows: -

320 sheets @ ₦250. The balance at the beginning of the month
280 sheets @ ₦300, issued at the price the sheets were purchased. The 28sheets
600 are from the 500 sheets purchased on 6-9-20XX

(ii) Closing stock value of ₦111,600 consisting of 420 sheets arrived at as follows:
120 sheets remaining from the 280 earlier issued on 25-9-20XX (last issue)
300 sheets not yet issued out.

VALUATION:

	₦
120 sheets @ ₦280 =	33,600
300 sheets @ ₦260 =	78,000
420	111,600

b) STORE LEDGER CARD (USING LIFO METHOD)

DATE	PARTICULAR	RECEIPTS			ISSUES			BALANCE		
		QTY	PRICE ₦	VALUE ₦	QTY	PRICE ₦	VALUE ₦	QTY	PRICE ₦	VALUE ₦
1-9-20XX	Balance							320	250	80,000
6-9-20XX	Purchases	500	300	150,000				820		230,000
11-9-20XX	Purchases	400	280	112,000				1220		342,000
15-9-20XX	Alaba Sec. Sch				400	280	112,000	820		230,000
15-9-20XX	Alaba Sec. Sch				200	300	60,000	620		170,000
20-9-20XX	Purchases	300	260	78,000				920		248,000
25-9-20XX	Bog Gram. Sch				300	260	78,000	620		170,000
25-9-20XX	Bog Gram. Sch				200	300	60,000	420		110,000

<u>EXPLANATORY NOTES</u>: -

i. Using the LIFO method, the first issue was 600 roofing sheets to Alaba Secondary School. These were issued as follows: -

400 sheets @ ₦280 i.e. All the recently purchased 400 issued out.
<u>200</u> sheets @ ₦300 i.e. 200 from the 500 purchased before the latest.
<u>600</u>

ii. Closing stock value of N110,000 was arrived at as follows: -
100 sheets @ ₦300 = ₦30, 000
<u>320</u> sheets @ ₦250 = <u>₦80, 000</u>
<u>420</u> <u>₦, 000</u>

c) <u>STORE LEDGER CARD (USING THE AVERAGE PRICE METHOD)</u>

DATE	PARTICULAR	RECEIPTS			ISSUES			BALANCE		
		QTY	PRICE ₦	VALUE ₦	QTY	PRICE ₦	VALUE ₦	QTY	PRICE ₦	VALUE ₦
1-9-20XX	Balance							320	250	80,000
6-9-20XX	Purchases	500	300	150,000				820	280.49	230,000
11-9-20XX	AlabaSec. Sch	400	280	112,000				1220	280.33	342,000
15-9-20XX	Purchases				600	276.67	166,000	620	283.87	176,000
20-9-20XX	Bog Gram. Sch	300	260	78,000				920	276.09	254,000
25-9-20XX					500	280	140,000	420	271.14	114,000

<u>EXPLANATORY NOTE</u>: - Using the average price method, the value of the first issue to Alaba Secondary School is arrived at thus: -

$$\text{Issue Price} = \frac{\text{Total of Batch Prices of Available Stock}}{\text{No of Batches}}$$

$$= \frac{250 + 300 + 280}{3} = \frac{830}{3} = 276.67$$

$$2^{nd}\ \text{Issue} = \frac{300 + 280 + 260}{3} = \frac{840}{3} = 280$$

d) STORE LEDGER CARD (USING THE WEIGHTED AVERAGE METHOD)

DATE	PARTICULAR	RECEIPTS			ISSUES			BALANCE		
		QTY	VAL ₦	PRICE ₦	QTY	VAL ₦	PRICE ₦	QTY	VAL ₦	PRICE ₦
1-9-20XX	Balance							320	250	80,000
6-9-20XX	Purchases	500	300	150,000				820		230,000
11-9-20XX	Purchases	400	280	112,000				1220		342,000
15-9-20XX	Alaba Sec. Sch				600	280.3	168,198	620		173,802
20-9-20XX	Purchases	300	260	78,000				920		251,802
25-9-20XX	Bog Gram. Sch				500	273.7	136,850	420		114,952

Tutorial

$$1^{st}\ \text{Issue Price} = \frac{\text{Summation of Value as at Issue Date}}{\text{Summation of Quantity as at Issue Date}}$$

Issue on 15-9-20XX to Alaba Sec. Sch.

$$= \frac{342{,}000}{1{,}220} = N280.33$$

Issue on 25-9-20XX to Alaba Sec. Sch.

$$= \frac{251{,}802}{920} = N273.70$$

14.9 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 3:

The sum of 600,000 was fraudulently paid for the upkeep of Government property, instead of 400,000, 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	600,000	
	Cash Account		600,000
	Being payment for the upkeep of govt. property		
6/6/2008	Advances Non-Personal	200,000	
	Upkeep of govt. property		200,000
	Being discovery of overpayment of N200,000.		

NOTE: *The loss will be kept in the advances non-personal account, pending the outcome of the investigation by the Board of Enquiry. 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.*

14.10 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 forty per cent (40%) 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.

14.10.1 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.

14.10.2 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.

14.11 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.

14.11.1 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.

14.11.2 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.

14.11.3 **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 transaction 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.

14.11.4 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.

14.12 BOARD OF ENQUIRY

14.12.1 **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.

14.12.2 **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.

14.12.3 **WHEN IS A BOARD OF ENQUIRY NOT NECESSARY?**

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

(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.

14.12.4 **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.

14.12.5 **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.

14.12.6 **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 grade 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.

14.12.7 **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.

14.12.8 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.

14.12.9 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.

14.12.10 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.

14.13 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-	
Stores Written Off	xx	Deficiencies Sub-Head	xx
Revaluation of Stores xx		Revaluation of Stores	xx
Balance c/d	xx		
	xx		xx
		Balance b/d	xx

CLAIMS ACCOUNT

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

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

14.14 SUMMARY

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

The chapter also centered on due process procedures involved in the awards of Government contracts including the documentation of stores. Different methods of stock valuation of F.IF.O., L.IF.O., Simple Average and Weighted Average according

14.15 END-OF-CHAPTER REVIEW QUESTIONS

1. a. What is Stores Accounting?
   b. Stores can be classified into two : Allocated and Unallocated Stores-Discuss
   c. Explain the following giving two examples of each.
      - Non Expendable Stores
      - Expendable Stores
      - Consumable Stores.

2. State FIVE uses of Shortfalls and Excesses Account or Price Adjustment Account in Stores.

3. a State EIGHT functions of the storekeeper.
   b. Discuss the procedures required in Stores Procurement.

4. AGBAMA State Ministry of Works produces furniture for classrooms and offices. During the year 2016, the following information were extracted from the production department.

	Total	**Net**
	Cost	**Realisable**
	Value	**Value**
	Amount	**Amount**
	₦'000	**₦'000**
Value of store on Hand 1/12/16	123,000	125,000
Store taken on charge during the year	360,000	375,000
Store surplus taken on charge	1,500	155,000

Store revaluation on charge	17,100	17,500
Stores issued during the year	412,500	425,000
(i) Shortfall and excess	527	600
(ii) Store differences account	493	500
Store revaluation	19	25

Required:

(a) Prepare unallocated store Annual Balances Statement.
(b) Determine the value of stores at the yearend stating your reasons.

SUGGESTED SOLUTION

1. a. The Federal Government Financial Regulation 2101 defines stores as "All moveable items purchased from public fund or otherwise acquired by the Government".

   b. Stores can be classified into two main classes – these are: -
      a) Allocated Stores
      b) Unallocated Stores

   Allocated Stores: **-** These are stores which the money used for their procurement are already provided or budgeted for in the approved estimates. The cost of allocated stores is charged to the sub-head that is responsible for its expenditure. Allocated stores may be purchased directly from outside or taken from the stock of items in unallocated stores.

.

   Unallocated Stores: **-** These are purchased or ordered for the general stock. For unallocated stores, the vote of charge which is the sub-head chargeable cannot be determined immediately the purchases are made. The cost of unallocated stores is chargeable to the unallocated stores sub-head in the approved estimate of expenditure, and later treated as allocated stores when issued.

   c.
      i. ***Expendable Stores:*** **-** These are stores that are used in the day-to-day activities of an organization. They have a life span of about 2 to 5 years. They include Computer, Television, and Farm implements such as cutlasses, shovels and Calculators.

ii. ***Non-Expendable Stores: -*** These are stores that can be used for a long period of time. They need only maintenance and repairs when required. They have a life span of 5 years and above. Examples of the stores are plant and machinery, building, motor vehicles, and furniture.

iii. ***Consumable Stores:*** - They are used in the day-to-day running of an establishment. They are used up immediately demand is made for them. An example of consumable stores are Stationeries, Detergents.

2. 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.

3a **Functions of the e Store Keeper**

i. Maintenance of proper books of accounting records to timely reflect the transactions.
ii. Diligent arrangement of the store.
iii Ensuring cleanliness of the store.
iv Invitation of purchase requisitions from the needy department.
v 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).
vi Updating the bin or tally cards.
vii Issuing of items out of the store, on the strength of properly authenticated store requisitions.
vii Preparation of store receipt and issue vouchers.
ix Ensuring that there is adequate security over the custody of the store materials.

3 b. 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.

4. AGBAMA STATE MINISTRY OF WORKS

FURNITURE PRODUCTION DEPARTMENT

(a) **ANNUAL BALANCE STATEMENT AS AT 31ST DECEMBER, 2016**

(STORE ACCOUNT FOR 2520)

	₦'000		₦'000
Value of store on hand	123,000	Store issued	425,000
Store taken on charge	360,000	Store written off:	
Store revaluation	17,100	(a) Shortfall & excess	527
Store surplus taken on charge	1,500	(b) Deficiencies	493
		Store revaluation	19
	________	Value of store on hand	75.561
	501,600		591,600

The value of stock as at 31/12/2016 is ₦75,561,000 being the lower cost of the two i.e. Total cost and Net realisable value.

CHAPTER FIFTEEN

LOSS OF GOVERNMENT FUND

CHAPTER CONTENTS

a) Learning objectives

b) Introduction

c) Types of Losses

d) Responsibility of Accounting Officer in the Event of Loss of Fund

e) The Federal Losses Committee

f) Accounting Treatment of Loss of Government Fund

g) Summary

h) End of Chapter Review Questions

15.0 LEARNING OBJECTIVES

After studying this chapter readers will be able to:

(ii) Explain the concept of Loss in the Public Sector;

(iii) List types of Losses;

(iv) Enumerate the responsibility of Accounting officer in the event of Loss of Fund;

(v) Discuss the function of the Federal Losses Committee and Board of Enquiries as regards Loss of Fund;

(vi) Enumerate the Conditions under which a Board of Enquiries is to be constituted in the event of Loss of Fund; and

(vii) Tabularise the Accounting entries required to write off Loss of Government Fund.

15.1 DEFINITION OF LOSS

Loss or shortage of fund is a depletion of government fund at a given time.

15.2 TYPES OF LOSSES

The type of losses that can arise in a public sector are as follows

(a) Misappropriation of funds

(b) Falsification of records

(c) Conversion of funds to personal use.

(d) Fraudulent payments

(e) Theft.

(f) Negligence

(g) Abandonment of revenue receivable.

(h) Abandonment of advance granted from recurrent expenditure

(i) Loss of Cash

15.3 RESPONSIBILTY OF ACCOUNTING OFFICER IN THE EVENT OF LOSS OF FUND

Where a cash loss to the value of N 50,000 or less has occurred without fraud being involved, Accounting Officers are personally empowered to surcharge the officers responsible up to the full amount of the loss.
Accounting officers are personally responsible for ensuring that all responsible officers for losses are surcharged .

For officers above G.L.10, the loss should be reported to the Accountant – General of the Federation.

Where a loss is treated under this regulation, Accounting Officer must immediately send a brief report of the circumstances in deciding the value of the loss to:

i. The Chairman, Federal Civil Service Commission
ii. The Auditor – General for the Federation
iii. The Accountant – General of the Federation
iv. The Federation Ministry of Finance.

According to the PR 1502, a loss shall be charged as a personal advance against the officers responsible for the loss pending a decision by the Federal Losses Committee.
The officer in charge of the office in which the loss occurs shall take the following actions:

i. Report immediately to Head of the Unit or Division by the fastest means if the loss occurs away from the Headquarter.
ii. Report to Police if fraud or theft is suspected.
iii. Initiate immediate action by completing Treasury form 146 part 2 and forward same in quintuplicate to Head of Units or Division.
iv. Ensure that if a weakness in the system of control or in security is established, measures have been taken to prevent a re-occurrence of the loss.
v. Ensure that accounting entries have been made.

15.4 THE FEDERAL LOSSES COMMITTEE

The Federal Losses Committee is a Standing Committee responsible for considering all cases involving loss of cash, stores and vehicles.

15.4.1 COMPOSITION OF THE FEDERAL LOSSES COMMITTEE

i. A Representative of the Auditor-General as Chairman
ii. A representative of the Accountant General
iii. A representative of the Administration Department of the Ministry/Extra Ministerial office and other Arms of Government concerned.
iv. A representative of the Inspector-General of Police
v. A representative of the Economic and Financial Crimes Commission.
vi. The Inspectorate Department of the office of the Accountant-General shall provide the Secretariat.

15.5 ACCOUNTING TREATMENT OF LOSS OF GOVERNMENT FUND

Where it is confirmed or established that there has been loss of cash due to embezzlement, armed robbery, fraud or failure to receive an advance granted or collect revenue for service rendered, adjustment vouchers are not raised. Such losses are charged to Non-Personal Advance account by preparing payment voucher.

The Non- Personal Advance Account is prepared by the Accountant-General after authorization by the Minister of Finance Accounting to the financial Accounting entry required for the treatment of such losses however depend on the following;

a) Date the transaction which led to the loss occurred
b) Date the loss is discovered
c) Date of passing the entries
d) Name of the loss
e) Type of fund involve

15.5.1 ACCOUNTING ENTRIES

S/N	Type Of Loss	Accounting Entries Required	
		DR	**CR**
i.	Loss of cash	Non Personal Advance A/c	Cash A/c
ii.	Fraudulent payment or overpayment made and discovered within the current financial	Non Personal Advance A/c	Relevant Sub-Head

iii.	Fraudulent payment or overpayment in previous financial year charged to Consolidated Revenue Fund (CRF) or Development Fund (DF)	Non Personal Advance A/c	Revenue Sundry
iv.	Fraudulent payment or overpayment made in previous financial year charged against public fund other than CRF or DF	Non Personal Advance A/c	Account originally debited
v.	Abandonment of the recovery or an amount or Advance charged initially to an Advance A/c	Loss of Fund A/c	Advance A/c
vi..	Overpayment not involving fraud made in a previous financial year charged against CRF or DF	No adjustment Required but the loss will be recognised by the Accountant-General	
vii.	Abandonment of recovery of advances issued initially from Re-current expenditure	Same as above	
vii.	Abandonment of the recovery of unpaid Revenue	Same as above	

ILLUSTRATION 1

While cross-checking the books of accounts of BAYOOS STATE, during the year ended 31 December, 2011, the Accountant-General made the following discoveries:

(i) On 30 June, 2011 there was double payment of ₦500,000 to Olugade Contractor, in respect of renovation work carried out on the office of the Governor. Recovery of 500,000 was made before the end of the year.

(ii) A sum of ₦440,000 was fraudulently made from the Flood Relief Fund in August, 2003. The money stolen was however recovered on 31 December, 2011.

(iii) The sum of ₦4,000,000 which was charged to the Motor Vehicles Advances Account, was abandoned as authorised by the Commissioner for Finance.

(iv) Miscellaneous revenue of ₦11,000,000 which would have been collected by the Government was abandoned.

(v) Inadvertent overpayment of ₦240,000 which was made in year 2010 and charged to the Consolidated Revenue Fund (CRF), was recovered in year 2011.

Prepare necessary journal entries to give effect to the developments stated above.

Suggested solution to Illustration 1

IN THE BOOKS OF BAYOUS STATE JOURNAL ENTRIES

			N'000	N'000
31/12/2011	(i)	Advance (or Cash(Bank) Act Renovation of Building Act Being refund of overpayment made by Olugade, Contractor, on renovation of Governor's Office	500	 500
	(iii)	No journal entry is required The Accountant-General of the State is to register the abandonment of the recovery as a loss		
	(iv)	No journal entry is required The Accountant-General of the State is to register the abandoned claimed as a loss		
	(v)	Advance (or Cash (Bank) Act Consolidated Revenue Fund Being recovery in year 2011 of overpayment made in year 2010	240	 240

ILLUSTRATION 2

On 5 October, 2010, a double payment was made to Alhaji Abdullah, a supplier of computer systems to the Ministry of Works and Housing. The amount involved was ₦2,500,000. The discovery was made in December of the same year.

You are required to journalize the discovery.

Suggested Solution to Illustration 2

This is an overpayment made and discovered within the same year.

	Dr	Cr
	₦	₦
Non-Personal Advance A/C	2,500,000	
Ministry of Works/Housing 402/07		2,500,000
(Being overpayment for the supply of computer systems).		

ILLUSTRATION 3

The case is similar to the one in illustration 2 above, but the overpayment was not discovered until February, 2004. You are required to journalize the discovery.

SOLUTION TO ILLUSTRATION 3

	DR	CR
	₦	₦
Non-Personal Advance A/c	2,500,000	
Research Foundation A/c		2,500,000

ILLUSTRATION 4

A sum of ₦3,200,000 was fraudulently withdrawn from Research Foundation in December, 2009. It was not discovered until October, 2010.

	DR	CR
	₦	₦
Non-Personal Advance A/c	3,200,000	
Research Foundation A/c		3,200,000

ILLUSTRATION 5

The following discoveries were made by the Accountant-General while carrying out a special check on the books of accounts of Yade State:

(i) On April 2010, the sum of ₦315,000.000 was fraudulently withdrawn from Imuala State and charged to CRF. The fraud was discovered on 13 February, 2011.

(ii) On 17 of July, 2011, an overpayment of ₦1,050,000 was made to EKKAN Ltd in respect of supply of furniture to the new Government House built by the former Administration. This was discovered on 21st September of the same year.

(iii) On 29 October, 2011 an amount of ₦45,000, being the revenue accruable to the State Government from rent of property which was but never received, was abandoned.

(iv) On 3 of November 2011, an officer died while in active service. The aggregate of his pension and gratuity was ₦77,605 while he had an outstanding motor vehicle advance of ₦96,815.

(v) On 12 of November 2011, the sum of ₦365,000.00 which was initially charged to correspondence advance had been abandoned.

You are required to journalize the transactions and discoveries made above.

SUGGESTED SOLUTION TO ILLUSTRATION 6

		Dr. ₦	Cr. ₦
(i)	Non-Personal Advance A/c	315,000,000	
	Consolidated Revenue Fund		315,000,000
	Being an amount fraudulently withdrawn from Imuala State's Accounts and charged to Consolidated Revenue Fund		
(ii)	Non-Personal Advance A/c	1,050,000	
	Ministry of Works & Housing		1,050,000
	Being over-payment for the supply of furniture		
(iii)	No Adjustment Required		
(iv)	Loss of Fund A/c	19,210	
	Motor Vehicle Advance A/c		19,210
	Being an outstanding advance found to be irrecoverable and written off.		
(v)	Loss of Fund A/c	365,000	
	Correspondence Advance A/c		365,000
	Being an amount charged to advance account and now abandon		

15.6 SUMMARY

This chapter discussed the concept of loss of fund and types in the public sector. The treatment of loss and role of accounting officers in the event of loss was also dealth with. The functions of the Federal Loses Committee and Board of Enquiries were highlighted. The specific conditions under which a Board of Enquiries may be constituted in the event of loss of fund was also discussed.

15.7 END OF CHAPER REVIEW QUESTIONS

1a Loss or shortage of fund in a depletion of government fund at a given time.

Enumerate eight (8) sources through which loss of fund may arise in the Public Sector.

b. What actions s required by the Financial Regulations 1502 should be taken by the Accounting Officers in charge of the office in which a loss of fund occurred?

2a The Federal Losses Committee is a Standing Committee responsible for considering

all cases involving loss of cash, stores and vehicles, state the composition of the Federal Losses Committee.

b.(i) Differentiate between Board of Survey and Board of Enquiries.

(ii) Under what conditions would a Board of Enquiries be constituted?

3. In a prescribed format showing DEBIT and CREDIT, prepare the Accounting Entries in relation to FR 1524 and 1525 as regards the following losses in the Public Sector.

(i) Loss of Cash

(ii) Fraudulent Payment or overpayment made and discovered within the current financial year in respect of a specified subhead.

(iii) Fraudulent payment or overpayment in previous financial year charged to consolidated Revenue Fund (CRF) or Development Fund (DF).

(iv) Fraudulent payment or overpayment made in previous financial year charged against public fund other than CRF or DF.

(v) Abandonment of the recovery of an amount or advance charged initially to an Advance.

(vi) Overpayment not involving fraud made in a previous financial year charged against CRF or DF.

(vii) Abandonment of the recovery of unpaid revenue.

(viii) Abandonment of recovery of advances issued initially from Re-current Expenditure

(ix) Abandonment of the recovery of s Bicycle advance issued initially from Recurrent

Expenditure.

4. In accordance with FR 1537, state the content of the Board of Enquiries Report vis-à-vis the Board’s recommendations.

i. SECTION A- MULTIPLE CHOICE QUESTIONS

1. Which of the following will NOT be contained in the payment voucher relating to contracts?
   A. The name of the contractor
   B. The vote of charge
   C. Name of project
   D. Name of the members of the Tender Board
   E. Certificate number being paid

2. What is a transcript?
   A. Summary of total collections and payments of a self-accounting department, analysed to sub-heads and below-the-line accounts
   B. Information on the receipt and payment transactions of a self-accounting department, in summary form.
   C. Summary of bank disbursements of a self-accounting department
   D. Complete analysis of receipt and payment transactions of a self-accounting department
   E. Summary of receipt and payment transactions of a self-accounting department

3. Government makes use of the following vouchers in government store, EXCEPT
   A. Tally card
   B. Store issue voucher
   C. Store ledger
   D. Store survey sheet
   E. Store register book (for petrol and diesel)

4. Which of the following is NOT recommended stock valuation method under SAS No 4 and IAS No 2 ?
   A. First in, first out
   B. Simple average
   C. Last in, first out
   D. Weighted average
   E. Simple weighted average

5. Which of the following Tender Board can approve contracts whose values exceed ₦50, 000,000 each?
   A. Departmental Tenders Board
   B. Parastatal Tenders Board
   C. Ministerial Tenders Board
   D. Police Tenders Board
   E. Federal Executive Character (FEC)

SHORT – ANSWER QUESTIONS

6. The amount of money that is set aside on a contract to meet defect and repairs in the event of any structural defect on the job is called...................
7. Where the implementation of a project is to be accelerated the Tenders Board concerned may apply.................
8. The documents used to support stores and materials issued within the same store for conversion or manufactures are called.................
9. Issues from stores should be supported on the evidence..................
10. What are the materials purchased for general stock for which the final vote of charge cannot be stated at the time of purchase called?

SOLUTIONS TO END OF CHAPTER REVIEW QUESTIONS

1. D
2. A
3. C
4. C
5. E
6. Retention fee
7. Selective Tendering
8. Conversion vouchers
9. Stores issue vouchers
10. Unallocated stores

iii. SOLUTION

1,(a) Loss or shortage of fund can arise from any of the following

(i) Misappropriated of funds

Falsification of records

(ii) Conversion of funds to personal use

(iii) Fraudulent payments

(iv) Theft

(v) Negligence

(vi) Abandonment of revenue receivable.

(vii) Abandonment of advance granted from recurrent expenditure

(viii) Loss of Cash .

(b) The officer in charge of the office in which the loss occurs shall take the following actions:

(1) Report immediately to Head of the Unit or Division by the fastest means if the loss occurs away from the Headquarter.

(a) Report to Police if fraud or theft is suspected.
(b) Initiate immediate action by completing Treasury form 146 part 2 and forward same in quintuplicate to Head of Units or Division.
(c) Ensure that if a weakness in the system of control or in security is established, measures have been taken to prevent a re-occurrence of the loss.
(d) Ensure that accounting entries have been make.

2. (a) **Composition of The Federal Losses Committee**

(a) A Representative of the Auditor-General as chairman
(b) A representative of the Accountant General
(c) A representative of the Administration Department of the Ministry/ Extra Ministerial office and other Arms of Government concerned.
(d) A representative of the Inspector-General of Police
(e) A representative of the Economic and Financial Crimes Commission.
(f) The Inspectorate Department of office of the Accountant-General shall provide the Secretariat.

b (i) The Board of Enquiry is a Board constituted by the Accountant-General at the request of the Accounting Officer, the Chairman Federal Civil Service Commission when there are reported cases of loss of Government fund while Board of Survey is usually convened to examine cash, bank balances and stamps held by the Accountant-General of the Federation in the treasury and other sub-treasury offices both in Nigeria and overseas. It also involves examination of unserviceable stores, plant, buildings and equipment.

A	Lose of cash	Non personal Advance a/c	Cash a/c
B	Fraudulent payment or overpayment made and discovered within the current financial year	Non Personal Advance A/c	Relevant Sub-head
C	Fraudulent payment or overpayment in previous financial year charged to Consolidated Revenue Fund (CRF) or Development Fund (DF)	Non Personal Advance A/c	Relevant Sub-head
D	Fraudulent payment or overpayment made in previous financial year charged against public fund other than CRF or DF	Non Personal Advance A/c	Account originally debited
E	Abandonment of the recovery of an amount or advance charged initially to an Advance A/c	Loss of Fund A/c	Advance A/c
F	Overpayment not involving fraud made in a previous financial year charged against CRF or DF Note: No. Adjustment Required, but the loss will be recognized by the Accountant-General	-	-
G	Abandonment of recovery of a bicycle advance Issued initially from recurrent expenditure Note: No. Adjustment Required, but the loss will be recognized by the Accountant-General	-	-
H	Abandoned of recovery of an unpaid revenue Note: No. Adjustment Required, but the loss will be recognized by the Accountant-General	-	-

3. **Contents of Board of Enquiries Report**

(a) Analysis of the exact amount of loss incurred

(b) An express opinion on the state of the internal accounting system.

(c) Recommendation for the immediate improvement on the security measures in place.

(d) A recommendation as to the fixing of responsibility for the loss, in whole or in part.

(e) Assessment of the level of negligence displayed by the officer held responsible for the loss of fund.

(f) Recommendations as whether to surcharge the officer responsible.

(g) Details of any mitigating circumstances, which should be taken into consideration in the assessment of the degree of negligence.

CHAPTER SIXTEEN
ACCOUNTS OF PARASTATALS

CHAPTER CONTENTS

a. Learning Objectives

b. Government Companies And Parastatals: Their Characteristics

c. What Informs Setting Up Government Companies and Corporations

d. Accounting in Parastatals

e. Auditing Of Parastatals Accounts

f. Summary

g. End of Chapter Review Questions

16.0 LEARNING OBJECTIVES

After studying this chapter, readers should be able to understand:

(a) Information on the Enabling Laws which establish government companies or Parastatals

(b) The rationale behind the establishment of public enterprises and Parastatals

(c) Accounting information requirements of public enterprises

(d) Sources of revenue of Parastatals and government companies.

.

16.1 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 subsidised 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.

16.2 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 coorporation and is usually classified into recurrent and capital grant or subvention.

16.3 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.

16.4 MAIN OBJECTIVES OF SETTING UP CORPORATIONS/ PARASTATAL /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.

16.5 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.

16.5.1 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) Statement of Financial Performance.
(b) Statement of Financial Position
(c) Notes to the Statements.
(d) Cash Flow Statements.
(e) 5-year Historical Summary.

However, for the not-for-profit making public enterprises, the financial statements are expected to include:

(a) Statement of Financial Performance (Income and Expenditure) Accounts.
(b) General Revenue Accounts.
(c) Statement of Financial Position
(d) Cash Flow Statements.
(e) 5-year Historical Summaries.

16.6 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).

16.7 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.

16.8 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.

ILLUSTRATION

The following information relate to the accounts of OKOKOMAIKO State University for the year ended 31st December 2015:

	Dr.	**Cr.**
	N'000	**N'000**
Land and Buildings (cost)	55,000	
Long-term investments	25,000	
Accumulated Depreciation:		
- Land and Building		6,000
- Motor vehicles		2,000
- Equipment and furniture		1,500
Motor vehicles(cost)		28,000
Grants from Central Government		15,000
Grants from State Government		5,000
Grants from Local Governments		3,500
Endowment, donations and subventions		39,000
Computer Board grant		10,000
Residences and catering operations	5,000	7,500

Academic fees and support grant		9,000
Maintenance of premises	2,000	
Academic services	3,000	
Academic departments	10,000	
General education expenditure	9,000	
Equipment and furniture	17,000	
Miscellaneous Expenditure/Income	5,000	4,500
Research grant and contracts	3,500	4,000
Long-term loans		50,000
Current Assets/Liabilities	15,500	4,500
Appeal funds		5,000
General fund		10,500
Reserves		1,000
	178,000	**178,000**

The following additional information are also relevant, viz:

(i) Loan interest outstanding at the end of the year was ₦5 million.

(ii) Depreciation on fixed assets is charged at the following rates on cost:
- Building is 5% (cost of land is ₦25 million)
- Motor vehicles is 20%
- Equipment and furniture is 15%

(iii) A building costing ₦5 million with accumulated depreciation of ₦1 million was sold for ₦8 million. This transaction has not been adjusted in the accounts.

(iv) Interest receivable amounted to ₦6 million while ₦5 million should be transferred to reserves.

You are required to prepare the Income and Expenditure Accounts of the University for the year ended 31st December 2016 and Balance Sheet as at that date.

SOLUTION

OKOKOMAIKO STATE UNIVERSITY
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31ST DECEMBER, 2016

INCOME	**₦'000**	**₦'000**
Grants from central Government		15,000
Grants from State Government		5,000
Grants from Local Government		3,500
Endowment; donations and subvention		39,000
Computer Board grant		10,000
Residents and Catering Operation		7,500
Academic fees and support grant		9,000
Research grant and contracts		4,000
Miscellaneous income		4,500
Profit on sale of building		4,000
Interest on investments		6,000
		107,500
EXPENDITURE		
Residence and catering operations	5,000	
Maintenance of premises	2,000	
Academic services	3,000	
Academic department	10,000	
General education expenditure	9,000	
Research grant and contract	3,500	
Interest on loans	5,000	
Depreciation - Buildings	1,250	
- Motor vehicle	5,600	
- Equipment and furniture	2,550	
Miscellaneous expenses	5,000	
		51,900
Surplus for the year		55,600
Transfer to reserves		(5,000)
Surplus after transfer		50,600

OKOKOMAIKO STATE UNIVERSITY
STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER 2016

	₦'000	₦'000
NON CURRENT ASSETS		
Property Plant and Equipment (Note 1)		77,100
Long term investments		25,000
Current assets (working 1)	29,500	
Current liabilities (working 2)	(9,500)	
Net Current assets		20,000
Total Net Assets		**122,100**
Financed by:		
General funds		61,100
Appeal fund		5,000
Reserves		6,000
Long-term loan		50,000

			122,100

NOTES

1. Property, Plant and Equipment

Land and buildings	50,000	(6,250)	43,750
Equipment and furniture	17,000	(4,050)	12,950
Motor vehicles	28,000	(7,600)	20,400
	95,000	(17,900)	**77,100**

WORKINGS

		₦'000
1.	Current assets b/fwd	15,500
	Add: Proceeds from sale of building	8,000
	Interest received	6,000
		29,500
2.	Current liabilities b/fwd	4,500
	Loan interest	5,000
		9,500

16.9 AUDITING OF PARASTATAL ACCOUNTS

16.9.1 Internal Audit

Internal auditing is ``an independent appraisal activity within an organisation for the review of system of control and the quality of performance, as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources." The essence, of internal audit is to assist the organisation in the prudent management of corporate resources – human and non-human for the achievement of set goals and objectives. It also conducts continuing evaluation of the existing internal control measures, pinpoints loopholes and recommends improvements.

16.9.2 Duties of an internal Auditor

The duties include:

(a) Conducting pre-payment audit of vouchers, particularly those of big amounts of money.

(b) Auditing of the books of account of the organisation to ascertain whether or not the existing financial regulations and professionalism are being complied with.

(c) Conducting spot checks on the revenue generating centres to enforce compliance with the provisions of accounting manual on the collection, receipting and daily lodgement of cash received.

(d) Auditing of economy, efficiency and effectiveness to ensure wise spending of organisational money, so as to avoid over-invoicing of goods and services acquired, by conducting market survey.

(e) Acting as liaison officer between the statutory (external auditor and management).

(f) Indenturing and inventorying corporate movable and fixed assets such as air conditioners and computers.

(g) Conducting special investigations for management.

(h) Preventing and detecting errors and frauds, with particular emphasis on the former.

16.10 EXTERNAL AUDITORS AND THEIR DUTIES

Corporations and government companies have laws which provide for appointment of their external auditors who attest to the integrity and corrections or otherwise of the end-of-year final accounts and the underlying records. However, such appointments have the intervention of the Auditor-General for each state of the Federation of Nigeria.

The duties of external (Statutory) auditors of government companies and corporations include:

(a) Conducting special investigations or carrying out `Spin-off" assignments which require more confidential and technical handling than the internal auditors can afford or be saddled with.

(b) Evaluating the corrections validity and professionalism of the accounts and records submitted by the management, and expressing their true and fair view or otherwise.

(c) Ascertaining that there has been proper authority for the acquisition, retirement and utilisation of the public sector organisation's property.

(d) Considering whether the information stated in the report of the directors or management, for the year, are in tandem with the final accounts prepared.

(e) When the opinion is that there is no consistency between the accounts submitted and the report of the directors or management, the external auditors should state that in their report.

16.11 SUMMARY

This chapter discussed the accounts of parastatals and government companies. It examined the factors which inform the setting up of such government agencies, the representative accounting records kept and mode of stewardship by the directors and top management. The chapter rounded up by discussing the duties of internal and external auditors of corporations and government enterprises.

16.12 END OF CHAPTER REVIEW QUESTIONS

1. Public companies and corporations are government agencies set up for...............purposes.

2. Parastatals generate their own..........................

3. The subventions which government gives may be.................or ....in nature.

4. Which of the following is true of parastatals?

   (i) They have their enabling laws

   (ii) They are natural legal persons that can sue and be sued.

   (iii) They are artificial legal persons that can sue and be sued.

   A. I only B.

   II only C.

   III only D.

   I and II E.

   I and III

5. Parastatals have......................Ministries.

6. Why are public companies and corporations set up?

   (i) To beat down high prices charged by commercial businesses

   (ii) To raise the standard of living of the people.

   (iii) To ensure the survival of some industries

   A. I only

   B. II only

   C. III only

   D. I and II

   E. I, II and III

7. Corporations operate..................basis of accounting.

8. In corporations, as with private sector companies, for every debit accounting entry there is a corresponding................entry.

9. What is the general `wear‟ and `tear‟ of a fixed asset?

10. What organ of a parastatal is charged with the prevention and detection of errors and frauds?

SECTION B

1 a. What are Parastatals?

b. Enumerate SIX paramount characteristics of parastatals

2. What are the main objectives of setting up parastatals?

3. Identify FOUR sources of revenue into parastatals.

4. The following information have been extracted from the books of SOLUBADE ELECRICITY BOARD , for the year ended 31 December, 2015:

	₦'000
Accumulated Depreciation, 01/01/2015	45,224
Sale of Electricity	114,392
Purchase of Electricity	95,784
Meter reading, billing and collection of electricity	1,624
Fixed Assets Expenditure	84,102
Debtors for electricity consumption read in the year and other sales	12,006
Training and welfare	692
Stock and work in progress	1,234
Rents, Rates and Insurance	2,126
Electricity Estimated unread consumption	7,222
Administration and General Expenses	1,476
Electricity Council Grant	21,556
Preparation of Electricity Council's Expenses	362
Bank Balance and Cash	1,284
Depreciation for the year	3,634
Hire purchase and deferred payment installations not yet due	2,672
Interest and Financing Expenses	2,434
Creditors and accrued liabilities	13,926
Profits on contracting and sale of appliance poles A/c	534
Reserves	23,116
Rental of Meters Application, etc.	556
Distribution cost	4,476
Customer Service	1,810

You are further informed that depreciation for year 2015 was ₦3,634,000.

You are required to prepare in the vertical form the Statement of Financial Performance (Revenue) and Statement of Financial Position of SOLUBADE ELECRICITY BOARD, for the year ended 31 December, 2015:

SUGGESTED SOLUTIONS

SECTION A

1. Specific
2. Income/Revenue
3. Recurrent or Capital
4. E
5. Supervising
6. E
7. Accrual
8. Credit
9. Depreciation
10. Internal Audit

Money Laundering Act

SECTION B

1a. Parastatals are special organizations established with the purpose of executing some specified services to the public. They are set up by the State or Federal Government to provide services to the people. They are sometimes referred to as statutory corporations, and some of them are set up like companies.

b. **Characteristics of Parastatals**

(i) Usually a parastatal is established by an enabling Act which states unequivocally the details pertaining to the following: -

a) The name of the parastatal.
b) The objectives and functions of the parastatal.
c) The place where the head office and branch offices of the parastatal will be sited.
d) The organogram of the organization consisting of the directors, managers, other officers stating their respective functions and basis for appointing them.
e) The supervising ministry which they are responsible to and must report to.
f) The sources of fund for the parastatal and the type of accounts they are expected to keep.

(ii) The parastatals are not governed by the Companies and Allied Matters Act 1990 (CAMA 1990) but their enabling Act. This explains why they are not with the prefix Ltd or Plc, for example Power Holding Company of Nigeria, Nigeria Ports Authority, Nigerian Maritime Authority e.t.c.
However where the parastatal is set up as a company, its Memorandum and Articles of Association will govern its operation.

(iii) The method of preparation of the accounts of parastatals is quite different from that of Ministries. This is because the government regulations that are applicable to ministries do not apply to parastatals.

(iv) All government parastatals have supervising ministries which are guided by regulations called bye-laws. The supervising ministry must approve the following for the parastatal: -

a. The increase in price of their services or products.
b. Any bye-law of the parastatal.
c. The parastatal's annual estimate and budget.

(v) Parastatals are not set up to make profit but to provide welfare services to the citizens at a lower rate if not absolutely free and as such government provide enough fund (known as subvention) to them to run the organization.

(vi) All parastatals also incur expenses which are divided into capital and recurrent expenditures.

(vii) Most parastatals write off their assets into expense account after purchase. In other words, they do not depreciate assets and they do not use accrual basis of accounting.

2. **Objectives of setting up Parastatals**

(a) ***Public Interest***: - To allow the public have interest in the means of production of essential goods and services.

(b) ***Checking Inflation***: - Another objective of establishing parastatals is to check artificial inflation caused by the monopolistic ventures of the private sector where they charge arbitrary prices due to non-competitive market forces.

(c) ***Avoiding Imitation***: - To avoid duplication of facilities which could be sub-standard.

(d) ***Control Of Economy***: - The aim is also to ensure that the government has total control over areas of the economy, especially in the provision of basic amenities e.g. water, electricity and education.

(e) ***Diversion Of Revenue***: - To generate income into the public sector rather than being concentrated in the hands of the private sector.

(f) To ensure the survival of infant industries.

(g) To enhance the standard of living of the people

3. Sources of Revenue into Parastatals

The other sources of revenue to parastatals apart from funds generated internally are:-

a. Recurrent Revenue Subvention
b. Capital Revenue Subvention
c. Loans
d. Internally Generated Revenue

4. SOLUBADE ELECTRICITY BOARD

STATEMENT OF FINANCIAL PERFORMANCE (REVENUE) FOR THE YEAR ENDED 31 DECEMBER, 2015

	₦'000	₦'000
Sales of Electricity		114,392
Less: Purchases of Electricity		95,784
Gross Profit		**18,608**
Profit on Contracting and Sale of Appliance Poles		534
Rental of Meter Applications		556
TOTAL PROFIT (A)		19,698
Less:		
Meter Reading Billing and Collection of Electricity	1,624	
Training and Welfare	692	
Rent, Rates and Insurance	2,126	
Administration and General Expenses	1,476	
Preparation of Electricity Council's Expenses	362	
Depreciation	3,634	
Interest and Financing Expenses	2,434	
Distribution Cost	4,476	
Customer Services	1,810	
	(B)	(18,634)
Net Income (A – B)		**1,064**

STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER, 2015

	₦'000	₦'000
Non Current Assets		
Property, Plant and Equipment (Cost)		84,102
Less: Accumulated Depreciation ₦(45,224,000 + 3,634,000)		48,858

Net Book Value		**35,244**
Current Assets:		
Stock and Work-in-Progress	1,234	
Trade Receivables	12,006	
Electricity Estimated Unread Consumption	7,222	
Hire Purchase and Deferred Payment		
Installments	2,672	
Bank Balance and Cash	1,284	
	24,418	
Current Liabilities:		
Trade and other payables	(13,926)	
WORKING CAPITAL		10,492
NET TOTAL ASSETS		**~~N~~45,736**
Financed by:		**~~N~~'000**
Electricity Council Grant		21,556
Reserves Brought Forward		23,116
Retained profit for the year		1,064
		~~N~~45,736

Rent of property		40,000
Interest on Fixed Deposit		50
Survey Fees		2,000
Government Grants (Recurrent)		1,000
Dividends Received		20
		113,070
EXPENDITURE	N'‘000	
Estate Maintenance	25,000	
Salaries and Allowances	24,000	
Printing and Stationary	60	
Postages and Telephone	40	
Fuelling and Maintenance of vehicles	1,200	
		(50,300)
Surplus, being excess of Income over Expenditure		~~N~~,770

CHAPTER SEVENTEEN

PENSION AND GRATUITY

CHAPTER CONTENTS

17.0 LEARNING OBJECTIVES

At the end of this chapter, readers should be able to :

- Explain the concepts of pension and gratuity;
- List the conditions for granting retirement benefits;
- Discuss the Provisions of Pensions Act, 1979 (as updated) and Pension Reform Act of 2014 as amended;
- Identify major pension regulatory bodies and their respective functions
- Compute retirement benefits from relevant information
- Outline the objectives of Pension Reform Act 2014.
- Identify the categories of people exempted from Pension Reform Act 2014 .
- Discuss the powers and functions of the key pension administration institutions

17.1 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 a 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 as at the time of his retirement.

(e) **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).

17.2 APPLICATION OF THE PROVISIONS OF THE PENSIONS ACT, NO.102 OF 1979

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.

17.2 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.

17.3 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.

17.4 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.

17.5. 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 17.1

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.

17.6 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:

17.6.1 Years 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.

17.6.2 **10 years and above:** death gratuity is based on the rates as per the Table at 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.

17.7 MINIMUM AND MAXIMUM PENSION

The minimum pension payable is 8,000.00 per annum, while the maximum is 80% of final pay.

17.8 DEATH GRATUITY IN COURSE OF SERVICE

17.8.1 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 1/3rd 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 1/6th of the accrued pension of the deceased officer.

17.6.2 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.

ILLUSTRATION 18-1

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 (5) of this section shall be a charge upon the Consolidated Revenue Fund of the Federation.”

17.9 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.

17.10 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 compiled 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.

17.11 MERGER OF SERVICE

This is applicable to all military organisations and the conditions are the same with those of transfer of service.

17.12 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.

17.1.3 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.

17.1.2 PENSION & GRATUITY: TABLE APPLICABLE WITH EFFECT FROM 1/6/92

	Old i.e up to 31/5/92		New i.e. wef 1/6/92	
Years in Service	Gratuity %	Pension %	Gratuity%	Pension%
5	-	-	100	-
6	-	-	108	-
7	-	-	116	-
8	-	-	124	-
9	-	-	132	-
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

Derived Formula

The following formula may be used, instead of the table above, to compute any gratuity or pension due, viz:

Gratuity = 100 + {(x – 10) x 8}%

Pension = 30 + {(B – 10 x 2)}%

‘B’ is the qualifying years for pension, and

X’ is the qualifying years for gratuity.

ILLUSTRATION 18-2

If ‘x’ is 20 years,

gratuity is: 100 + {(20 - 10)x 8}%

Therefore gratuity is: (100 + 80)% = 180%

If ‘B’ is 20 years,

pension is: 30% + {(20 - 10) x 2}%

= 30% + (10 x 2)%

= 30% + 20% = 50%

NOTE: The computations are expressed in percentages.

17.1.3 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.

17.16 PENSION REFORM ACT 2014

By virtue of the Act both the Public and Private Sectors Pension Schemes are now contributory. The employers and employees are expected to contribute a minimum of 18% in aggregate towards the retirement of the employee. The rate is subject to review as may be agreed between the employer and employee.

17.17 OBJECTIVES OF THE NEW PENSION REFORM ACT, 2014

(a) To provide a sustainable and well managed pension to employees both in the public & private sectors.
(b) To ensure that all and sundry in the working class save in order to make provision for life after retirement.
(c) To ensure that all and sundry is entitled to and receive terminal benefits as and when due.

(d) To ensure that all regulations and guidelines available for administration and payment of retirement benefits are applicable to both public and private sector officers.
(e) To sustain a worthwhile standard of living of all employees after retirement.
(f) To ensure that a pension contributions are fully protected till maturity before the retirement of the contributor.
(g) To improve pension management structures in Nigeria
(h) To create job opportunities.

17.18 S 5(1) EXEMPTION FROM NEW PENSION REFORM ACT 2014

The categories of persons exempted from the Contributory Pension Scheme are:

(a) The categories of persons mentioned in Section 291 of the Constitution of the Federal Republic of Nigeria 1999 (as amended) including the members of Armed Forces, the intelligence and Secret Services of the Federation.

(b) An employee who is entitled to retirement benefits under any Pension Scheme existing before 25th day of the 25th day of June 2004 and has 3 or less years to retire.

(c) Fully Funded Pension Scheme

17.19 NATIONAL PENSION COMMISSION

17.19.1 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.

(b) 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.

17.19.2 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.

17.19.3 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."

17.19.4 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.

17.19.5 Composition of National Pension Commission

The Commission comprises:

(g) A part-time Chairman in possession of a University Degree or its equivalent and 20 years experience.

(h) 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.

(i) 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:

(j) Head of the Civil Service of the Federation.

(k) The Federal Ministry of Finance.

(l) The Nigeria Union of Pensioners.

(m) The Nigeria Employers' Consultative Association.

(n) The Central Bank of Nigeria.

(o) The Nigerian Labour Congress.

(p) The Securities and Exchange Commission.

17.20 THE RATES OF DEDUCTIONS

The contribution for any employee to which this Act applies shall be made in the following rates relating to his monthly emoluments:

(f) a minimum of 10 percent by the employer.

(g) a minimum of 8 percent by the employee.

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.

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.

(c) 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.

17.17.3.8 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.

17.17.3.9 PAYMENT OF RETIREMENT BENEFITS

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:

(a) Programmed monthly or quarterly withdrawals calculated on the basis of an expected life span.
(b) Annuity for life purchased from a life insurance company licensed by the National Insurance Commission with monthly or quarterly payments.
(c) 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.
(d) 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.

17.17.3.10 DEATH OF EMPLOYEE

Where an employee dies:

(a) The entitlement under the life insurance policy maintained shall be paid to his retirement savings account.

(b) 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.

17.17.3.11 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.

17.17.3.12 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.

17.17.3.13 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.

17.17.3.14 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.

17.17.3.15 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.

17.18 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.

17.18.1 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.

17.19 PENSION ASSET CUSTODIANS

Section 46 of Pension Reforms Act of 2004 states that Pension Asset Custodian must be a licensed financial institution set up to hold pension fund assets on trust with a minimum net worth of ₦5 billion.
The pension asset 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.

17.20 FAILURE TO OPEN RETIREMENT SAVINGS ACCOUNT

Where an employee fails to open such retirement savings account within a period of six months after assumption of duty, his employer shall subject to guidelines issued by the commission, request a Pension Fund Administrator to open a nominal retirement savings account for each employee for the remittance of his pension contributions S11(5).

17.21 FAILURE TO DEDUCT OR REMIT CONTRIBUTIONS

An employer who fails to deduct or remit the contributions within the time stipulated in subsection (3) (b) of this section shall, in addition to making the remittance already due be liable to a penalty to be stipulated by the Commission. S11(6).
The penalty referred to in S 11(6) shall not less than 2 percent of the total contribution that remains unpaid for each month or part of each month the default continues and the amount of the penalty shall be recoverable as a debt owed to the employee's savings account as the case may be.

17.22 INVESTMENT OF PENSION FUNDS

All contributions are to be invested by the PFA with the objectives of safety and maintenance of fair returns. Pension funds and assets shall be invested in any of the following:-

(a) Bonds, Bills and other Federal Government and CBN Securities

(b) Ordinary Shares of Public Liability Companies (PLC)

(c) Bank Deposits and Bank Securities

(d) Real Estate Investment.

17.23 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.

17.24 SUMMARY

Pension Reform Acts of 2004 introduced improvements in 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. The Act was amended by enactment of pension reforms at 2004 to add more provision.

17.26 END OF CHAPTER REVIEW QUESTIONS

SECTION A

1. A lump sum of money paid only once to a retired officer having served for a minimum period of 5 years in relation to the Old Pension Scheme is called:

   (a) Statutory payment
   (b) Pension
   (c) Gratuity
   (d) Contribution
   (e) Allowance

2. A period of service after an officer has served for a period not less than the period for which he is qualified for pension or gratuity is called:

   (a) Service period
   (b) Qualifying service
   (c) Withdrawal period
   (d) Resignation period
   (e) Quality service period

3. A ceasation of service after an officer has served for a minimum period of 10 years is called:

   (a) Pension
   (b) Dismissal
   (c) Withdrawal
   (d) Retirement
   (e) Resignation

4. According to Section (9) of the Pension Reform Act 2014 as amended, the ratio of contribution by Employee : Employer in the private and public sector is:

   (a) 7.5%: 7.5%
   (b) 10% : 7.5%
   (c) 10% : 8%
   (d) 8% : 7.5%
   (e) 8% : 10%

5. The body saddled with the responsibility of supervision, coordination and regulation of pension scheme is called:

   (a) National Pension Commission
   (b) Pension Asset Commission
   (c) National Fund Commission
   (d) Pension Fund Commission
   (e) Pension Fund Corporation

6. The account maintained by the Pension Fund Administrator for all beneficiaries of Pension Fund is called-------------------------

7. The minimum networth required to be possessed by a Pension Fund Custodian is -----------------

8. According to Pension Reform Act 2014 as amended, the minimum number of employees in an organization required for operation of the scheme is--------------

9. Any service duly recognized by the Ministry of Establishment is called---

10. According to the Armed Forces Act No 105 of 197, an officer who have completed 3 years during the war is counted as----------------

SECTION B

1. Define the following terms in relation to Pension and Gratuity as covered by Pension Acts 102 and 103 of 1979.
   - (a) Pension
   - (b) Gratuity
   - (c) Next of kin
   - (d) Public service
   - (e) Pensionable emolument
   - (f) A child

2. (a) Identify FIVE conditions for granting retirement benefits.
   (b) State EIGHT objectives of the Pension Reform Act 2004 as amended in 2014.
   (c) In accordance with Section 8 of the Pension Reform Act 2014 as amended describe the categories of employees exempted from the scheme.

3. The Pension Fund Commission is the body responsible for regulation, supervision and effective administration of Pension issues in Nigeria.

   Required:
   a. Examine the Composition of the Pension Fund Commission.
   b. State the Functions of the Commission
   c. List the Powers of the Commission

SOLUTION

SECTION A

1. C
2. B
3. D
4. E
5. A
6. Retirement Savings Account
7. ₦5,000,000,000
8. 3
9. Public Service
10. 6 years

SECTION B

1. (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) **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.

(d) **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).

(e) **Pensionable Emoluments:** It is the gross salary (basic salary and allowances) attached to a retiring officer's substantive rank.

(f) The Pension Act, 1979 (as amended) defines a child as:

- Posthumous child.
- A child born out of wedlock, but whose paternity has been accepted.
- A step child or a child adopted in a manner recognised by a law before the death of the deceased officer.

2a **Conditions For Granting Retirement Benefits**

The conditions for granting retirement benefits are 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.

b. **Objectives of the New Pension Reform Act, 2004 and 2014 as amended**

(i) To provide a sustainable and well managed pension to employees, both in the public and private sectors.

(ii) To ensure that all and sundry in the „working class" save in order to make provision for life after retirement.

(iii) To ensure that all and sundry are entitled to and receive terminal benefits as and when due.

(iv) To ensure that all regulations and guidelines available for administration and payment of retirement benefits are applicable to both public and private sector officers.

(v) To sustain a worthwhile standard of living of all employees after retirement.

(vi) To ensure that all pension contributions are fully protected till maturity before the retirement of the beneficiaries.

(vii) To improve pension management structures in Nigeria.

(viii) To create job opportunities.

c. **Exemption from New Pension Reform Act 2004 and 2014 as amended**

- Employees with 3 or less years to retire.
- All Judicial Officers - S.291 of 1999 Constitution.
- Fully Fund Pension Schemes.

CHAPTER EIGHTEEN

INTERNATIONAL PUBLIC SECTOR ACCUNTING STANDARDS (IPSAS)

CHAPTER CONTENTS

18.0 LEARNING OBJECTIVES

At the end of this chapter, readers would be able to:

a) Understand the underlying reason for the issuance of International Public Sector Accounting Standards (IPSAS)

b) Discuss the provisions of IPSAS 1,2, 3, 12, 17, 31 and Cash Basis IPSAS

18.1 INTRODUCTION

The IPSASB (formerly Public Sector Committee (PSC)) is a Board of IFAC formed to develop and issue under its own authority International Public Sector Accounting Standards (IPSASs). IPSASs are high quality global financial reporting standards for application by public sector entities other than Government Business Enterprise (GBEs).

18.1.1 INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD (IPSASB) AND ITS OBJECTIVES

International Federation of Accountants (IFAC) set up a Public Sector Committee to evolve universal and standardised reporting formats and style, applicable in national, regional and local governments and related public agencies.

The committee developed International Public Sector Accounting Standards to improve public sector financial management, probity and accountability. The standards advocate that the financial reports of public sector organisations should be credible by conveying true and fair views.

18.2 OBJECTIVE AND SCOPE

To improve the quality of general purpose financial reporting by public sector entities, leading to better assessments of the resource allocation decisions made by governments, thereby increasing transparency and accountability.
The scope covers the *federal*, *state* and *local* governments as well as related governmental entities (MDAs) and widely used by intergovernmental organizations

18.2.1 BENEFITS OF ADOPTING AND IMPLEMENTING IPSAS

i. **Accountability:** IPSAS requirement for increased disclosure in accounting reports increases the level of accountability in government.

(d) **Transparency:** Where IPSAS is adopted, full disclosure becomes an imperative of Public Sector Accounting.

(e) **Improved Credibility/Integrity:** Government accounting/reporting are not credible if government itself decides the rules.

(f) Building Confidence in Donor Agencies and Lenders: Adoption of IPSAS increases the country's eligibility to access economic benefits from donor agencies (UNDP, USAID etc), private sector financial institutions (Bonds and Bonds rating agencies), official institutions (IMF and World Bank) etc.

(g) Improved Service Delivery: As a result of greater accountability and transparency, adoption of IPSAS will improve Value- for -Money (VFM).

(h) **Aggregate Reporting:** Adoption of IPSAS will ensure a holistic reporting of government financial transactions and positions.

(i) **Political Leverage:** Government may be required to provide accounting information by a higher or legal authority e.g. UN, ICJ, etc.

(j) **International Best Practice and Comparability:** IPSAS seeks to ensure that financial statements prepared on the basis of it are internationally comparable.

(k) Comparable information assists the stakeholders in assessing how well their resources have been utilized.

(l) **Enhanced Public-Private Partnership arrangements:** Collaborative efforts between the public and private sectors is enhanced with both running on similar set of accounting standards- IPSAS and IFRS.

(m) **Economic Leverage**: Sovereign nations are induced with the prospect of commensurate benefits. Governments susceptible to economic leverage are more likely to adopt IPSAS.

(n) An IPSAS compliant economy keeps abreast of the latest market trend thereby becoming competitive in the global market place.

(o) **Greater Disclosures:** IPSAS encourages full disclosure, which beams the light of transparency, integrity and accountability.

(p) **Increased Control of Public Agencies:** The increased disclosure, transparency and comparability IPSAS engenders will permeate the public sector thus bringing about greater accountability.

(q) **Increased Cross-border Investment and Foreign Direct Investment:** The adoption of IPSAS will put the country on the same accounting pedestal as several other countries of the world, thereby increasing the propensity to generate more cross-border and foreign direct investments through greater transparency and a lower cost of capital for potential investors.

(r) Strategic plans and reports become more meaningful as increased transparency provides a basis for member states to assess whether resources are being used effectively and efficiently.

(s) **Enhanced Implementation of the Freedom of Information (FOI) Act 2011:** The accountability and transparency requirements of IPSAS are consistent with and supports the provisions of the Nigerian FOI Act 2011 which seeks to promote access to government information.

(t) Provide better quality information to stakeholders.

(u) Adoption of IPSAS will provide a unified approach to managing all funds-regular; specific; voluntary; trust and service funds, and will allow for benchmarking with similar institutions and forecasting future flow of all resources to the organization.

(v) IPSAS supports efficient internal controls and results-based management.

18.2.2 DEFINITIONS AND GLOSSARY OF TERMS IN INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS)

These include the following:

(a) Accounting Policies

Accounting policies are the specific conventions, bases, principles, rules and practices which are adopted by a public sector organisation, in preparation and presentation of financial statements.

(b) Accrual Basis

Under this basis of accounting, transactions are given effect immediately as they occur, rather than when cash or its equivalent is received or paid.

(c) Assets:

These are an entity's resources accumulated over time and which are capable of generating future economic benefits or services.

(d) Associate:

This is an entity which the investor has great influence on. It is neither a controlled organisation nor a joint venture of the investor.

(e) Liabilities:

They are current debts or obligations owing, arising from past business transactions. The obligations when discharged are act flows of resources from the debtor entity.

(f) Cash:

This is made up of physical cash in hand and demand deposits at bank.

(g) Cash flows:

They are the inflows and outflows of cash and cash equivalents such as stocks and shares.

(h) Monetary items:

These consist of money held, assets and liabilities to be received or paid in fixed or determinable sums of money.

(i) Net assets/equity:

The residual interest in the resources (assets) of a public organisation, after settling all its liabilities. The balance may be positive or negative. Net assets/equity is the residual measure in the statement of financial position.

(j) Oversight:

This is the supervision of the activities of a public organisation, with the responsibility and authority to control, or indeed exert significant pressure over the operating and financial decisions of the entity.

(k) Government Business Enterprise

Government Business Enterprise means an entity that has all the following characteristics:

i) Is an entity with the power to contract in its own name;

ii) Has been assigned the financial and operational authority to carry on a business;

iii) Sells goods and services in the normal course of its business to other entities at a profit or full cost recovery;

iv) Is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and

v) Is controlled by a public sector entity.

18.2.3 THE RELEVANT STANDARDS

The International Public Sector Accounting Standards may be briefly discussed, as follows:

Standard	Summary
IPSAS 1-Presentation of Financial Statements	• Sets out the manner in which GPFS shall be prepared . • A complete set of financial statements comprises: – Statement of financial position; – Statement of financial performance; – Statement of changes in net assets/equity; – Cash flow statement; – When the entity makes it approved budget publicly available, a comparison of budget and accrual amounts; – Notes.
IPSAS 2- Cash Flow Statement	• Requires the presentation of information about historical changes in a public sector entity's cash and cash equivalent using a cash flow statement. • The standard describes how to classify cash flows during the period to: operating, investing and financing activities.
IPSAS 3-Accounting Policies, Changes in Accounting Estimates and Errors	• Prescribes the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates, and corrections of errors.
IPSAS 4 -Effects of Changes in Foreign Exchange Rates	• Prescribes the accounting treatment for an entity's foreign currency transactions and foreign operations. • The standard defines the *functional currency* and prescribes how to convert from foreign to functional currency.
IPSAS 5 - Borrowing Cost	• Prescribes the accounting treatment for borrowing costs. • Borrowing costs include interest, amortization of discounts or premiums on, and amortization of ancillary costs incurred in the arrangement of borrowings
IPSAS 6 -Consolidated and Separate Financial Statements	• Identifies the requirements for preparing and presenting consolidated financial statements for an economic entity under the accrual basis of accounting. • Also addresses how to account for investments in controlled entities, jointly controlled entities and associates in separate financial statements.
IPSAS 7 - Investments in Associates	• Prescribes the investor's accounting for investments in associates where the investment in the associate leads to the holding of an

	ownership interest in the form of a shareholding or other formal equity structure.
IPSAS 8 -Investments in Joint Ventures	• Provides the accounting treatment for interests in joint ventures, regardless of the structures or legal forms of the joint venture activities.
IPSAS 9 -Revenue from Exchange Transactions	• applies to revenue arising from the following exchange transactions and events: • The rendering of services; • The sale of goods, and • The use of others of entity assets yielding interest, royalties and dividends.
IPSAS 10 -Financial Reporting in Hyperinflationary Economies	• Prescribes specific standards for entities reporting in the currency of a hyperinflationary economy, so that the financial information (including the consolidated financial information) provided is meaningful. • The financial statements of an entity that reports in the currency of a hyperinflationary economy shall be stated in terms of the measuring unit current at the reporting date.
IPSAS 11 -Construction Contracts	• This standards relates to the accounting treatment for revenue and costs associated with construction contracts in the financial statements of the contractor.
IPSAS 12 -Inventories	• Prescribes the accounting treatment of inventories, including cost determination and expense recognition, 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	• Relates to lessees and lessors, the appropriate accounting policies and disclosures to apply in relation to finance and operating leases. • The standard classifies leases into: finance and operating for accounting treatment purposes.
IPSAS 14 -Events After the Reporting Date	• Prescribes: When an entity shall adjust its financial statements for events after the reporting date. Disclosures that an entity should give about the date when the financial statements were authorized for issue, and about events after the reporting date.
IPSAS 16 -Investment Property	• Relates to accounting treatment for investment property and related disclosures Investment property is land or buildings held (whether by the owner or under a finance lease) to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes; sale in the ordinary course of operations.
IPSAS 17 -Property, Plant and Equipment	• Prescribes the principles for the initial recognition and subsequent accounting (determination carrying amount and the depreciation charges and impairment losses) for property, plant and equipment so that users of financial statements can discern information about an entity’s investment in its property, plant and equipment and the changes in such investment.

IPSAS 18 -Segment Reporting	• Establishes the principles for reporting financial information by segments to better understand the entity's past performance and to identify the resources allocated to support the major activities of the entity, and enhance the transparency of financial reporting and enable the entity to better discharge its accountability obligations.
IPSAS 19-Provisions, Contingent Liabilities and Contingent Assets	• Prescribes appropriate recognition criteria and measurement bases for provisions, contingent liabilities and contingent assets, and to ensure that sufficient information is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount. • This standard aims at ensuring that only genuine obligations are dealt with in the financial statements.
IPSAS 20- Related Party Disclosures	• Ensures that financial statements disclose the existence of related party relationships and transactions between the entity and its related parties. • This information is required for accountability purposes and to facilitate a better understanding of the financial position and performance of the reporting entity.
IPSAS 21 Impairment of Non-Cash-Generating Assets	• Ensure that non-cash-generating assets are carried at no more than their recoverable service amount, and to prescribe how recoverable service amount is calculated.
IPSAS 22-Disclosure of Financial Information About the General Government Sector	• Sets the disclosure requirements for governments which elect to present information about the general government sector (GGS) in their consolidated financial statements. • The disclosure of appropriate information about the GGS of a government can provide a better understanding of the relationship between the market and non-market activities of the government and between financial statements and statistical bases of financial reporting
IPSAS 23 - Revenue from Non-Exchange Transactions (Taxes and Transfers)	• Prescribes requirements for the financial reporting of revenue arising from non-exchange transactions, other than non-exchange transactions that give rise to an entity combination. • In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.
IPSAS 24- Presentation of Budget Information in Financial Statements	• Ensures that public sector entities discharge their accountability obligations and enhance the transparency of their financial statements by demonstrating compliance with the approved budget for which they are held publicly accountable and, where the budget and the financial statements are prepared on the same basis, their financial performance in achieving the budgeted results.
IPSAS 25-Employee Benefits	• Prescribes the accounting and disclosure for employee benefits. • The include: short-term benefits (wages, annual leave, sick leave, bonuses, profit-sharing and non-monetary benefits); pensions; post-employment life insurance and medical benefits;

	termination benefits and other longterm employee benefits (long-service leave, disability, deferred compensation, and bonuses and long-term profit-sharing), except for share based transactions and employee retirement benefit plans.
IPSAS 26-Impairment of Cash-Generating Assets	• Prescribes the procedures that an entity applies to determine whether a cash-generating asset is impaired and to ensure that impairment losses are recognized. • This standard also specifies when an entity shall reverse an impairment loss and prescribes disclosures.
IPSAS 27-Agriculture	i) Sets the accounting treatment and disclosures for agricultural activity. ii) Agricultural activity is the management by an entity of the biological transformation of living animals or plants (biological assets) for sale, or for distribution at no charge or for a nominal charge or for conversion into agricultural produce or into additional biological assets.
IPSAS 28- Financial Instruments: Presentation	i) This standard sets the principles for classifying and presenting financial instruments as liabilities or net assets/ equity, and for offsetting financial assets and liabilities.
IPSAS 29- Financial Instruments: Recognition and Measurement	i) Establishes principles for recognizing, derecognizing and measuring financial assets and financial liabilities. ii) All financial assets and financial liabilities, including all derivatives and certain embedded derivatives, are recognized in the statement of financial position.
IPSAS 30- Financial Instruments: Disclosures	i) Prescribes disclosures that enable financial statement users to evaluate the significance of financial instruments to an entity, the nature and extent of their risks, and how the entity manages those risks.
IPSAS 31- Intangible Assets	1. Sets the accounting treatment for intangible assets that are not dealt with specifically in another IPSAS. 2. IPSAS 31 does not apply to intangible assets acquired in an entity combination from a non-exchange transaction, and to powers and rights conferred by legislation, a constitution or by equivalent means, such as the power to tax.
IPSAS 32 - Service Concession Arrangement: Grantor	Prescribes the accounting for service concession arrangement by the grantor, a public sector entity.
IPSAS 33- First-time Adoption of Accrual Basis IPSASs	Allows sufficient time to develop reliable models for recognizing and measuring assets and liabilities during the transition period.
IPSAS 34-Separate financial statements	* The requirements for separate financial statements in IPSAS 34 are very similar to the current requirements for separate financial statements in IP-SAS 6.
IPSAS 35- Consolidated Financial Statements	* Supersedes the requirements in IPSAS 6 regarding consolidated financial statements; *Requires that control be assessed having regard to benefits and power; *Control focuses on an entity's ability to influence the nature and amount of benefits through its power over another entity; *The IPSASB decided, for public sector specific reasons, that an entity which controls an investment entity should retain this method of accounting

	for an investment entity's investments in its consolidated financial statements, regardless of whether it is itself an investment entity; *The standard no longer permits an exemption from consolidation for temporarily controlled entities;.
IPSAS 36- Investments in Associates and Joint Ventures.	*Explains the application of the equity method of accounting, used to account for investments in associates and joint ventures; *Because equity accounting must now be used when accounting for joint ventures, the title of the standard now also refers to joint ventures; *In contrast with IPSAS 7, IPSAS 36 does not permit a different accounting treatment for temporary investments.
IPSAS 37 - Joint Arrangements	*Establishes requirements for classifying joint arrangements and accounting for those different types of joint arrangements; *Requires that an entity account for its interest in a joint operation by recognizing its share of the assets, liabilities, revenue, and expenses of the joint arrangement; *Requires that joint ventures be accounted for using the equity method. Previously, IPSAS 8 permitted jointly controlled entities to be accounted for using either the equity method or proportionate consolidation.
IPSAS 38-Disclosure of interests in other entities	*Brings together the disclosures previously included in IPSASs 6–8; *Introduces new disclosure requirements, including those related to structured entities that are not consolidated and controlling interests acquired with the intention of disposal.
IPSAS Cash Basis	The Cash Basis IPSAS applies to all public sector entities that apply the cash basis of accounting, other than Government Business Enterprises (GBEs). GBEs are required to apply International Financial Reporting Standards (IFRSs) which are issued by the International Accounting Standards Board (IASB).

18.3 ACCRUAL BASIS STANDARDS

Apart from IPSAS Standard on Financial Reporting Under the Cash Basis of Accounting, all other standards are on IPSAS Accrual Basis

18.3.1 BENEFITS OF FINANCIAL REPORTING UNDER IPSAS ACCRUAL BASIS OF ACCOUNTING

The benefits derivable from the migration of public sector accounting presentation from IPSAS-CASH basis to IPSAS ACCRUAL basis are as follows:

(i) It takes a realistic view of financial transactions;

(ii) It reveals an accurate picture of the state of financial affairs at the end of the period;

(iii) It could be used for both economic and investment decision-making as all parameters for performance appraisal are available;

(iv) It aligns with the ‘matching concept;

(v) It makes allowances for the diminution in the value of assets used to generate the revenue of the enterprise;

(vi) It provides aggregate information useful in evaluating the entity’s performance in terms of service costs, efficiency and accomplishments;

(vii) The accrual method makes it easier to track receivables as well as payables;

(viii) Accrual basis accounting can provide forward-looking cash flow analysis. An entity does not have to wait to physically receive payment for goods supplied and services rendered. It continuously keeps track of revenue/ income receivable in future – a process that helps the entity to plan and make smarter business decisions;

(ix) Accrual accounting gives companies a truer depiction of their resources and financial responsibilities. This serves as an advantage because, according to Inc.com, it allows businesses to properly manage the ebb and flow of financial activity. Income and debts can be more accurately assessed with accrual accounting;

(x) Accrual accounting is effective for financial management and monitoring activities. In an accrual accounting system, companies receive a more immediate reflection of how much money they have and what they can expect to see in future expense reports. With this type of recording methodology, business analysts can look for financial trends and compute current cash flow statements on a regular basis; keeping everybody up-to-date as possible;

(xi) Highlights critical policy areas that cash accounting would not reveal e.g. private finance initiatives, long-term pension liabilities;

(xii) Shines light on long-term financial sustainability;

(xiii) Improves policy decision- making;

(xiv) Gives the external users of accounts better quality information about debtors, creditors and assets;

(xv) Allows for identification of cost of capital;

(xvi) Reduces the scope of selective accounting policies; and

(xvii) Provides valuable information about the value of assets and liabilities.

18.4 IPSAS 1 – PRESENTATION OF FINANCIAL STATEMENTS.

18.4.1 Introduction

The aim of this standard is to prescribe the format in which general purpose financial statements should be presented so that it can be compared with the entity’s financial statements of previous periods and with the financial statements of other entities in the same sector.

18.4.2 Responsibility for the preparation and presentation of financial statements

The following are the persons charged with the responsibility of preparing and presenting financial statements:

a. The Accountant-General of the Federation (for Federal accounts);
b. Accountant-General of the State (for State accounts);
c. Local Government Treasurer/Head of Finance and Accounts;
d. Head of Finance and Accounts of Ministries, Department and Agencies (MDAs).

18.4.3 Key qualities of Financial Statements

a. Financial statements must be identified clearly and distinguished from other forms of information;

b. The following information must be clearly displayed in the financial statements:
   i. The name of the reporting entity;
   ii. The reporting date and the period covered by the financial statements;
   iii. The presentation currency; and
   iv. The level of rounding.

c. Information in the financial statement should be relevant to decision-making needs of the users;

d. The financial statements should be reliable in the following respect:
   i. representing faithfully, the financial performance and the financial position of the entity being reported on;
   ii. reflect the economic substance of events and transactions (other than in their legal form);
   iii. free from material misstatement and bias;
   iv. prudent in nature of preparation; and
   v. show completeness in all material respect.

e. Comparability
   Comparability of financial statements applies to:
   i. The comparison of financial statements of different entities; and
   ii. The comparison of the financial statements of the same entity period to period.

18.4.4 Components of Financial Statements

The standard list the following as a complete set of financial statements:

(a) Statement of financial position.
(b) A statement of financial performance
(c) A statement of changes in net assets/equity
(d) A cash flow statement;
(e) A statement of comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements (when the entity makes publicly available its approved budget); and
(f) Notes, comprising of a summary of significant accounting policies and explanatory notes.

18.4.5 Statement of Financial Position

The statement is also known as Balance Sheet or Statement of Assets and Liabilities. The statement shows the entity's assets, liabilities and net assets/equity of the reporting entity. Both assets and liabilities are categorized into Current and non-current elements. The standard provides the following information should be presented on the face of the statement of financial position:

a. Property, plants and equipment
These are tangible items held in use in the production or supply of goods and services, for rental to others or for administrative purpose; and are expected to be used for more than on reporting period.

b. Investment property
These are cash generating assets held by an entity.

c. Intangible assets
These are identifiable non-monetary assets without physical substance. They are assets that can generate economic benefits but cannot be seen physically or felt.

d. Financial assets (excluding amount shown under (e), (g), (h), and (i);

e. Investment accounted for using the equity methods;
f. Inventories
These are assets in the form of materials or supplies to be consumed in the production process, in the form of materials or supplies to be consumed or distributed in the ordinary course of operations; or in the process of production for sale or distribution.
g. Recoverable from non-exchange transactions (taxes and transfers)
These are outstanding collections arising from non-exchange transactions.
h. Receivables from exchange transactions
These are outstanding collections arising from exchange transactions.
i. Cash and cash equivalents
These comprise of cash at hand, at bank and cash invested in easily convertible instruments.
j. Taxes and transfers payable;
k. Payables under exchange transactions;
l. Provisions;
m. Financial liabilities (excluding amounts shown under (j), (k), (l);
n. Non-controlling Interest, presented within net assets/equity; and
o. Net assets/equity attributable to owners of the controlling entity.

18.4.6 Statement of Financial Performance

This statement is also known as Statement of Revenue and expenses, Income Statement, Operating Statement, Profit or Loss account. The statement shows income accruing to the entity from all sources and expenditure incurred during the period. As a minimum, the statement shall include line items that present the following amounts for the period:

a. Revenue from operating activities;
b. Finance costs;
c. Share of the surplus or deficit of associates and joint ventures accounted for using the equity method;
d. Pre-tax gain and loss recognized on the disposal of assets or settlement of liabilities attributable to discontinuing operations; and
e. Surplus or deficit from operating activities;

f. Minority interest share of net surplus or deficit;
g. Extra ordinary items; and
h. Net surplus or deficit for the period.

18.4.7 Statement of changes in net assets/equity

This statement explains the changes in net assets of an entity. It details the change between the current and prior period for net assets balances. Net assets/equity refers to the residual measure in the statement of financial position (assets less liabilities). It may be positive or negative. These changes may occur due many factors including:

a. Surplus/deficit during the period;
b. Significant changes in accounting policies;
c. Correction of prior year errors;
d. Assets revaluation;
e. Effect of translation of foreign exchange transactions, etc.

18.4.8 Cash flow statement

This statement reports inflows and outflows of cash and cash equivalents during a reporting period. It serves to analyze the changes in cash and cash equivalents.

18.4.9 Statement of Accounting Policies

The statement contains the specific principles, bases conventions, rules and practices applied by the entity in preparing and presenting financial statements. These policies can be applied retrospectively and prospectively. Retrospective application is applying a new accounting policy had always been applied. Prospective application, on the other hand, is applying new accounting policies to transactions, other events and conditions occurring after the date as at which the policy was changed; and recognizing the effect of the changes in the accounting estimates in the current and future periods affected by the change.

18.4.10 Other disclosures in the financial statements

The following are the minimum disclosures in the financial statements as prescribed by IPSAS 1, supplementing the disclosures required by individual IPSAS:

a. Disclosure of the domicile and legal form of the entity
b. A description of the nature of the entity's operations;
c. A reference to the relevant legislation governing the entity's operations;
d. Disclosure of the name of the controlling entity and the ultimate controlling entity of an economic entity.

18.5. IPSAS 2 CASH FLOW STATEMENTS

18.5.1 Introduction

This standard requires the presentation of information regarding the historical changes in cash and cash equivalents of an entity by preparing a cash flow statement. The statement classifies periodic cash flows into operating, investing and financing activities. It prescribes two methods of preparing cash flows under accrual basis of accounting. These are Direct method and Indirect method. The IFRS on which the standard is based is IAS 7 on Cash Flow Statement.

18.5.2 Benefits of Cash Flow Statements

a) The cash flows of an entity is useful in assisting users to predict the future cash requirements of the entity, its ability to generate cash flows in the future and to fund changes in the scope and nature of its activities.

b) A cash flow statement also provides a means by which an entity can discharge its accountability for cash inflows and cash outflows during the reporting period.

c) A cash flow statement, when used in conjunction with other financial statements, provides information that enables users to evaluate the changes in net assets/equity of an entity, its financial structure (including its liquidity and solvency) and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities.

d) It also enhances the comparability of the reporting of operating performance by different entities because it eliminates the effects of using different accounting treatments for the same transactions and other events.

e) Historical cash flow information is often used as an indicator of the amount, timing and certainty of future cash flows.

f) It is also useful in checking the accuracy of past assessments of future cash flows.

g) Cash flow of an entity is useful in assisting users to predict

18.5.3 Operating activities

These are activities that are derived primarily from the principal generating activities of the entity. Cash flows from operating activities will include:

i. Cash receipts from taxes, levies and fines;
ii. Cash receipts from sale of goods and provision of services by the entity;
iii. Cash receipts from grants or transfers and other appropriations or other budget authority made by a central government or other public sector entities;
iv. Cash payments to suppliers for goods and services; Cash payments to other public sector entities;
v. Cash receipts from royalties, fees, commissions and other revenue;
vi. Cash payments to and on behalf of employees;
vii. Cash receipts and payments of an insurance entity for premiums and claims, annuities and other public benefits;
viii. Cash payments of local property taxes or income tax (where appropriate);
ix. Cash receipts and payments from contract held for dealing or trading purposes;
x. Cash receipts or payments in relation to litigation settlements;
xi. Cash receipts or payments from discontinued operations.

18.5.4 Investing activities

These are items on the cash flow statement that report the aggregate changes in an entity's position resulting from amount spent on investments in non-current assets such as property, plant and equipment (PPE), investment properties, financial instruments, etc. Cash flows that result in a recognized asset in the statement of financial position are eligible for classification as investing activities.

Cash flows on investing activities will include

i. Cash payments to acquire property, plant and equipment, intangibles and other long-term assets. Payments relating to capitalized development costs and self-constructed property, plant and equipment are also included;

ii. Cash receipts from sale of property plant and equipment, intangibles and other long-term assets;

iii. Cash payments to acquire equity or debt instruments of other entities and interest in joint ventures (other than payments for those instruments considered to be cash equivalents and those held for dealing or trading purposes);

iv. Cash receipts from sale of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to the cash equivalents and those held for dealing or trading purposes);

v. Cash advances and loans made to other panties (other than advances and loans made by a public financial institution);

vi. Cash receipts from the repayment of advances and loans made to other parties (other than advances and loans made by a public financial institution); Cash payments for future contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes or the payments are classified as financing activities;

vii. Cash receipts from future contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities.

viii. Cash flows from financing activities

18.5.4 Financing activities

These are activities that result in changes in the size and composition of the capital structure of a reporting entity that are not its primary business. The separate disclosure of cash flows arising from financing activities is important due to its usefulness in predicting claims on future cash flows by the provider of capital to the entity.
Cash flows on financing activities should disclose the following**:**

i. Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings;
ii. Cash repayments of amounts borrowed;
iii. Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

Note that:

i. Public sector entities are required to report separately all major classes of gross cash receipts and gross cash payments arising from investing and financing activities unless the standard expressly permits reporting cash flows on a net basis in accordance with IPSAS 2.32 – 35.

ii. Cash flows arising from transactions in a foreign currency are recorded in the entity's functional currency by applying to the foreign currency amount, the exchange rate between the functional currency and the foreign currency at the date of the cash flow.

iii. Cash flows from interests and dividends received and paid are disclosed separately and classified in a consistent manner from period to period as either operating, investing or financing activities.

iv. Cash flows arising from taxes on net surplus are classified as cash flows from operating activities unless they can be allocated to specific investing or financial activities;

v. The aggregate cash flows arising from acquisitions/disposals of subsidiaries or other entities are presented separately and classified as investing activities.

vi. IPSAS 2.56 requires that entities disclose the components of cash and cash equivalent and to present a reconciliation of the amounts in their cash flow statement with the equivalent items reported in the statement of financial position.

18.5.6 FORMATS FOR CASH FLOW STATEMENT

(a) DIRECT METHOD

STATEMENT NO. 1, FEDERAL REPUBLIC OF WAZOBIA

Cash flow statement for the year ended 31 December, 2016

	2016	**2015**
Cash flows from operating activities	N'000	N'000
Receipts		
Statutory Allocations: FAAC	x	x
Statutory Allocations: Other Agencies	x	x
Value Added Allocation	x	x
Direct Taxes	x	x
Licences and Internal Revenue:	x	x
Mining	x	x
Fees	x	x
Earnings and Sales	x	x
Sale/Rent of Government Properties	x	x
Interest and Repayment: General	x	x
Re-imbursements	x	x
Miscellaneous Expenditure Including Plea Bargain	x	x
Share of FRW Special Accounts	x	x
Total Receipts	xx	xx
Payments		
Personnel Costs	x	x
Federal Republic Contribution to Pension	x	x

Overhead Charges	x	x
Consolidated Revenue Fund Charges	x	x
Service Wide Vote Expenditure	x	x
Subvention to Parastatals	x	x
Total Payments	xx	xx
Net Cash Flow from Operating Activities	x	x
Cash Flows from Investing Activities		
Capital Expenditure – Economic Sector	x	x
Capital Expenditure – Social Service Sector	x	x
Capital Expenditure – Law and Justice	x	x
Purchase of Foreign Currency Securities	(x)	(x)
Capital Expenditure – Regional Development	x	x
Capital Expenditure – Administrative Sector	x	x
Net Cash Flow from Investing Activities	x	x
Cash flow from financing activities		
Proceeds from external loans	x	x
Proceeds from internal loans	x	x
Proceeds from development of natural resources	x	x
Repayment of External loans	(x)	(x)
Repayment of Internal loans	(x)	(x)
Net cash flow from financing activities	x	x
Movement in other cash equivalent accounts		
Increase / (decrease) in investments	x	x
Net increase / (decrease)in below – the- line items	(x)	(x)
Total cash flow from other cash equivalent accounts	x	x
Net cash for the year	x	x
Cash and cash equivalent at the beginning of year	x	x
Cash and cash equivalent at the end of year	x	x

(b) INDIRECT METHOD

MINISTRY OF INTER-GOVERNMENTAL AFFAIRS CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

	2016	**2015**
	N'000	N'000
Surplus/(deficit) from ordinary activities	x	x
Non-cash movements		
Depreciation	x	x
Amortization	x	x
Increase in provision for doubtful debts	x	x
Increase in payables	x	x
Increase in borrowings	x	x
Increase in provisions relating to employee costs	x	x
(Gains)/Losses on sale of property, plant & equipment	(x)	(x)
(Gains)/Losses on sale of investments	(x)	(x)
Increase in other current assets	(x)	(x)
Increase in investments due to revaluation	(x)	(x)
Increase in receivables	(x)	(x)
Net cash flow from operating activities	x	x

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of plant and equipment	(x)	(x)
Proceeds from sale of plant and equipment	x	x
Proceeds from sale of investment	x	x
Purchase of foreign currency securities	(x)	(x)
Net cash flows from investing activities	x	x

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from borrowings	x	x

Repayment of borrowings	(x)	(x)
Distribution/dividend to government	x	x
Net cash flows from financing activities	x	x
Net increase/(decrease) in cash and cash equivalents	x	x
Cash and cash equivalents at the beginning of year	x	x
Cash and cash equivalents at the end of year	x	x

18.6. IPSAS 3 ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

18.6.1 Introduction

The standard prescribes the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates, and corrections of errors.

18.6.2 Objective

The objective of IPSAS 3 is to prescribe the criteria for selecting and changing the accounting policies. The standard also prescribes the treatment of changes in accounting policies, the correction of errors and the change in accounting estimates. The standard has the intention to enhance the relevance and the reliability of the financial statements.

18.6.3 Scope

This standard should be applied by entities in selecting and applying accounting policies, in the applying changes to accounting policies, the change in accounting estimates and the correction of errors. IPSAS 3 applies to all public sector entities other than GBEs

18.6.4 Key definitions in IPSAS 3

a) Accounting policies

These are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

b) A change in accounting estimate

This is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with that asset or liability.

c) Prior period errors

These are omissions from, and misstatements in, an entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that was available and could reasonably be expected to have been obtained and taken into account in preparing those statements. Such errors result from mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

d) Definition of Materiality in the Standard

Materiality is defined as "Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. Users are assumed to have a reasonable knowledge of the public sector and economic activities and accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions".

e) Retrospective application

This is applying a new accounting policy to transactions, other events, and conditions as if that policy had always been applied.

18.6.5 Selecting and Applying Accounting Policies

When a Standard specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item must be determined by applying the Standard taking into consideration relevant Implementation Guidance.

In the absence of a Standard that specifically applies to a transaction, other event or condition, management is required to use its judgment in developing and applying an accounting policy that results in information that is relevant and reliable.

In making that judgment, management must refer to, and consider the applicability of the following sources in descending order:

i) the requirements and guidance in other IPSASs dealing with similar and related issues

ii) the definitions, recognition criteria and measurement criteria for assets, liabilities, revenue and expenses in other IPSAS standards

iii) most recent (a) pronouncements of other standard-setting bodies and (b) accepted public or private sector practices, to the extent that these do not conflict with the sources in extraordinary items.

a) Consistency of accounting policies

An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless a Standard or specifically requires or permits categorisation of items for which different policies may be appropriate. If a Standard requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.

b) Changes in accounting policies

An entity must apply a change in an accounting policy only if the change:

i. is required by a standard; or

ii, results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance, or cash flows.

Applying an accounting policy to a transaction or event that did not occur previously or was immaterial is not considered as a change in an accounting policy.

c) Disclosures - changes in accounting policies

Disclosures relating to changes in accounting policy from the initial application of a standard.

a. the title of the standard that caused the change
b. nature of the change in policy
c. a description of the transitional provisions and their possible effect on future periods
d. for the current period and each prior period presented, the amount of the adjustment to each line item affected
e. amount of the adjustment relating to prior periods not presented
f. if retrospective application is impracticable, explain and describe how the change in policy was applied
g. these disclosures should not be repeated in subsequent periods.

Disclosures relating to **voluntary changes** in accounting policy include:

a. nature of the change in policy
b. the reasons why applying the new accounting policy provides reliable and more relevant information
c. for the current period and each prior period presented, the amount of the adjustment to each line item affected
d. amount of the adjustment relating to prior periods not presented
e. if retrospective application is impracticable, explain and describe how the change in policy was applied
f. these disclosures should not be repeated in subsequent periods

If an entity has not applied a new standard that has been issued but is not yet effective, the entity must disclose this fact and any known or reasonably estimable information relevant to assessing the possible impact that the new IPSAS will have in the year of initial application

d) Changes in accounting estimates

Recognise the change prospectively in surplus or deficit in

a. Period of change, if it only affects that period; or
b. Period of change and future periods

However, to the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net assets/equity, it is recognised by adjusting the carrying amount of the related asset, liability, or net/assets/equity item in the period of the change.

e) Disclosures relating - changes in accounting estimates

Disclosures relating to changes in accounting policy :

a. Nature and amount of change that has an effect in the current period (or expected to have in future) Fact that the effect of future periods is not disclosed because of impracticality
b. Subsequent periods need not repeat these disclosures

f) Errors

Generally an entity is required to correct all material prior period errors retrospectively in the first set of financial statements authorized for issue.

i. restating the comparative amounts for the prior period(s) presented in which the error occurred; or
ii. if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented

If it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity must restate the opening balances of assets, liabilities, and net assets/equity for the earliest period for which retrospective restatement is practicable (which may be the current period).

Furthermore, if it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity is required to restate the comparative information to correct the error prospectively from the earliest date practicable].

Disclosures – prior period errors

Disclosures related to prior period errors concern

a. nature of the prior period error
b. for each prior period presented, if practicable, disclose the correction to each line item affected

c. amount of the correction at the beginning of earliest period presented
d. if retrospective application is impracticable, explain and describe how the error was corrected
e. subsequent periods need not to repeat these disclosures.

18.6 IPSAS 12 INVENTORIES

18.7.1 Introduction

This standard deals with the valuation and presentation of inventories in the financial statements in the context of historical cost system, the most widely adopted basis on which financial statements are presented.

The standard does not deal with inventories accumulated under long-term construction contracts. It provides 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. The IFRS on which the IPSAS is based is IAS 2 on Inventories:

18.7. 2 Definition

Inventories are assets:

a) Held for sale in the ordinary course of business;
b) In the process of production for such sale or distribution;
c) To be consumed in the production of goods or services for sale;
d) In the form of materials or supplies to be consumed or distributed in the rendering of service;
e) Held for sale or distribution in the ordinary course of operations.

18.7.3 Exceptions from the Provisions of IPSAS 12

IPSAS 12 applies for all inventories except for:

a) Work-in-progress arising under construction contract;
b) Financial instruments;
c) Biological assets related agricultural activity and agricultural produce at the point of harvest;
d) Work-in-progress of services to be provided for no or nominal consideration directly in return from the recipients.

18.7.4 Measurement of Inventories

Generally inventories should be measured at the lower of cost and net realizable value, except inventories relating to ammunitions, maintenances materials, spare-parts, strategic stockpiles (e.g. energy reserves or medicine in government hospitals and clinics) stocks of unissued currency, stamps, work-in-progress and property held for sale.

Inventories should be measured at the lower of cost and current replacement cost where they are held for:

a) Distribution at no charge or nominal charge;

b) Consumption in the production process of goods to be distributed at no charge or for a nominal charge .

The cost of inventories comprises:

i. All costs of purchase;
ii. Costs of conversion; and
iii. Other costs incurred in bringing the inventories to their present location and state.

The costs of purchase of inventories comprise:

i The purchase price;
ii. Import duties and other taxes;
iii. Transport;
iv. handling and other costs directly attributable to the acquisition of finished goods, materials and supplies.

18.7.5 Costs of Conversion

a. The costs of conversion of inventories include costs directly related to the units of production, such as direct labour, a systematic allocation of fixed and variable production overheads that are incurred in converting materials to finished goods.
b. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production: Examples of such coss are depreciation and maintenance of factory buildings and equipment, and the cost of factory management and administration.
c. Variable production overheads are those indirect costs of production that vary directly, or nearly directly with the volume of production, such as indirect materials and indirect labour.

18.7.6 Exceptions To The Costs Of Inventories

The following costs are excluded from the cost of inventories and recognized as expenses in the period in which they are incurred:

Abnormal amounts of wasted materials, labour, or other production costs;

a. Storage costs, unless those costs are necessary in the production process prior to a further production stage;
b. Administrative overheads that do not contribute to bringing inventories to their present location and conditions;
c. Selling costs.

18.7.7 Cost Formula

When applying IPSAS 12., an entity should use the same cost formula for all inventories having similar nature and use to the entity. For inventories with different nature or use, different cost formulas may be justified. A difference in geographical location of inventories (and in respective tax rules), by itself, is not sufficient to justify the use of different cost formulas.

The cost of inventories, other than those dealt with IPSAS 12.25, should be assigned by using the first-in, first-out (FIFO) or weighted average cost formulas.

iv. The FIFO formula assumes that the items of inventory are sold on first-come, first-serve basis. Consequently, the items remaining in inventory at the end of the period are those most recently purchased or produced.
The weighted-average cost formula make for the cost of each item determined by adding the purchase cost of a given item at the beginning of a period to the purchase cost of the item at the end of a given period and divide by two to give a weighted average cost. However, such average can be calculated on periodic basis, or as each additional shipment is received, depending upon the circumstances of the entity.

18.7.8 Net Realisable Value

This is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated cost necessary to make the sale, exchange or distribution

18.7.9 Accounting Entries

S/N	Details	Dr	Cr
a.	**Inventories Bought-in**		
i.	Inventory/ Stock Account	XXX	
	Account Payables		XXX
	Being purchase of inventory		
ii.	Accounts Payables	XXX	
	Cash/ Bank		XXX
	Being payments for the inventory purchased on credit		
iii.	Relevant Expenses	XXX	
	Inventory /Stock		XXX
	Being upon issuance of inventory		
b.	**Inventory Created Internally**		
i.	Inventory/ Stock Account	XXX	
	Account Payables		XXX
	Being purchase of materials		
ii.	Accounts Payables	XXX	
	Cash/ Bank		XXX
	Being payments for the materials purchased on credit		
iii.	Work-in –Progress	XXX	
	Inventory/Stock		XXX
	Being on issuance of materials to conversion site		
iv.	Finished Goods Stores Account	XXX	

	Work-in- progress Control account		XXX
	Being on full completion of the created inventory		
v.	Relevant Inventory Expenses	XXX	
	Relevant Inventory /Stock		XXX
	Being on consumption/Distribution of Finished Goods		

18.8. IPSAS 17 PROPERTY, PLANT AND EQUIPMENT

18.8.1 Introduction

Prescribes the principles for the initial recognition and subsequent accounting (determination carrying amount and the depreciation charges and impairment losses) for property, plant and equipment so that users of financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment.

18.8.2 Terms used in the standard:

The following terms are used in this standard with the meaning specified:

a. **Carrying Amount:** (for the purpose of this standard) is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

   Class of Property, Plant and Equipment: means a grouping of assets of similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements.

b. **Cost:** is the amount of cash or cash equivalents paid and fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.
c. **Depreciation:** is the systematic allocation of the depreciable amount of an asset over its useful life.
d. **Depreciable Amount:** is the cost of an asset, or other amount substituted for cost, less its residual value.
e. **Entity Specific Value**: is the present value of the cash flows an entity expects to realise from the continuing use of an asset and from its disposal at the end of its useful life or expect to incur when setting a liability.
f. **Exchange Transactions:** are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.
g. **Fair Value:** is the amount for which an asset could be exchanged or liability settled, between knowledgeable, willing parties in an arm's length transaction.
h. **An Impairment Loss** of a cash generation asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.
i. **An Impairment Loss of a Non-Cash Generating Asset** is the amount by which the carrying amount of an asset exceeds it recoverable service amount.

   Non-exchange Transactions are transactions that are not exchange transactions. In non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

j. **Property, Plant and Equipment** are tangible items that:
a. Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
b. Are expected to be used during more than one reporting period.
k. **Recoverable Amount** is the higher of a cash-generating asset's fair value less costs to sell and its value in use.
l. **Recoverable Service Amount:** is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.
m. **The Residual Value** of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.
n. **Useful Life** is

a. The period over which an asset is expected to be available for use by an entity; or
b. The number of production or similar units expected to be obtained from the asset by an entity.

Disclosure requirements

The financial statements shall disclose, for each class of property, plant and equipment recognised in the financial statements:

The measurement bases used for determining the gross carrying amount;

The depreciation method used;

The useful life of the depreciation rate used;

The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and

A reconciliation of the carrying amount at the beginning and end of the period showing;

(i) Additions;
(ii) Disposals;
(iii) Acquisition through any entity combinations;
(iv) Increases or decreases resulting from revaluations;
(v) Impairment losses recognised in surplus or deficit in accordance with IPSAS 21;
(vi) Impairment losses reversed in surplus or deficit in accordance with IPSAS 21;
(vii) Depreciation;
(viii) The net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and
(ix) Other charges.

18.8.3 Disclosure Requirements

The financial statements shall also disclose for each class of property, plant and equipment recognised in the financial statements:

(a) The existence amounts of restrictions on title, and property, plant and equipment recognised in the financial statements:
(b) The amount of expenditure recognised in the carrying amount of an item of property, plant and equipment in the course of the construction;
(c) The amount of contractual commitments for the acquisition of property, plant and equipment; and
(d) If it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items property, plant and equipment that were impaired, lost or given up that is included in surplus or deficit.

If a class of property, plant and equipment is stated at revalue amounts, the following shall be disclosed:

(a) The effective date of the revaluation;
(b) Whether an independent valuer was involved;
(c) The methods and significant assumptions applied in estimating the assets fair values
(d) The extent to which the assets' fair values were determined directly by reference to observable prices in an active market or recent market transaction on arm's length terms or were estimated using other valuation techniques;
(e) The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders or other equity holders;

(f) The sum of all revaluation surpluses for individual items of property, plant and equipment within that classes; and

g) The sum of all revaluation deficits for individual items of property, plant and equipment within that classes

18.8.4 Accounting Entries

S/N	**Details**	**Dr (N)**	**Cr (N)**
a.	**Purchase of Property, Plant and Equipment (PPE)**		
i.	PPE	XXX	
	Cash/ Bank		XXX
	Being outright acquisition with all attributable cost		
ii.	PPE	XXX	
	Account Payable		XXX
	Being PPE acquired on credit with all attributable cost		
b	**Construction of PPE by an Entity**		
i.	PPE	XXX	
	Cash/ Bank		XXX
	Being all attributable cost of construction		
ii.	PPE	XXX	
	Account Payable		XXX
	Being all attributable cost accrued		
iii.	Accounts Payable	XXX	
	Cash/Bank		XXX
	Being payment made to the Creditors		
c.	**Provision for Depreciation**		

i.	Depreciation Charges	XXX	
	Accumulated Depreciation Charges		XXX
	Being the value of wear and tear of the assets using the rates provided.		
d.	**Provision for Impairments**		
i.	Impairment Charges	XXX	
	Accumulated Impairment		XXX
	Being impairment losses computed		
e.	**Revaluation of PPE**		
i.	Revaluation Account	XXX	
	Accumulated Depreciation Charges	XXX	
	PPE		XXX
	Being the closing of carrying amount as well as the corresponding Accumulated Depreciation		
ii.	PPE	XXX	
	Revaluation Account		XXX
	Revaluation Surplus		XXX
	Being reinstatement of the current value of the PPE		
f.	**Donated or Granted PPE**		
i.	Relevant PPE	XXX	
	Donation Received/ Cash Received		XXX
	Being the fair value of the PPE		
g.	**Swapped PPE**		
i.	New PPE	XXX	

	Existing PPE		XXX
	Gain on Exchange		XXX
	Being the carrying value of New PPE that exceeded that of existing PPE		
ii.	New PPE	XXX	
	Loss on Exchange	XXX	
	Existing PPE		XXX
	Being the carrying value of New PPE that is less than that of existing PPE		
h.	**Taken over or inherited PPE (free of charge)**		
i.	PPE	XXX	
	Take off Grant/Donor		XXX
	Being the fair value of the PPE taken over or inherited.		
i.	**Disposal of PPE**		
i.	PPE Disposal Account		
	Relevant PPE Account	XXX	
	Close the account of PPE from the books		XXX
ii.	Accumulated Depreciation Charges	XXX	
	PPE Disposal Account		XXX
	Close the Accumulated Depreciation Charges account of PPE from the books		
iii.	Cash/Bank	XXX	
	PPE Disposal Account		XXX
	Gain on Disposal		XXX

	Recognition of proceeds from the sale of PPE at a profit		

18.9 IPSAS 31 INTANGIBLE ASSETS

18.9.1 INTRODUCTION

The basic objective of the standard is to prescribe the accounting treatment for intangible assets that are not treated specifically in other IPSAS. The standard requires an entity to recognized an intangible asset if certain criteria are met and also specifies how to measure the carrying amount and specific disclosures required about intangible assets.

18.9.2 Definition

An intangible asset is an identifiable non-monetary asset without physical substance. An intangible asset is identifiable when it is separable i.e. it can be separated or removed from an entity and disposed of, licensed, rented or exchanged, either individually or together with a related contract asset or liability. Examples of Intangible Assets are Copyright, Goodwill, Computer Software, Trade Marks, Research and Development Patents and Acquired Import Quotas.

18.9.3 Definition of Terms

1. **Amortization** is the systematic allocation of the depreciable amount of an intangible asset over its useful life.
2. **Development** is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, product, processes, systems or services before the start of commercial production or use.
3. **Research** is the original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.
4. **Impairment Loss** is the amount by which the carrying amount of an asset exceeds its recoverable amount.
5. **Depreciable Amount** is the cost of an asset or other amount substituted for cost less its residual value.

18.9.4 Scope

The IPSAS applies to:

(a) expenditure on advertising, training, start-up, research and development activities.
(b) legal documentation in the case of a license or patent or film.

For the determination whether an asset that incorporates both intangible and tangible elements should be treated under IPSAS 17 or as an intangible assets under IPSAS 31, an entity uses judgment to assess which element is more significant.

Exception

The standard shall be applied in accounting for tangible assets except:-

(a) Intangible assets that are within the scope of another standard
(b) Financial assets
(c) The recognition and measurement exploration and evaluation costs.
(d) Expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources
(e) Intangible assets or goodwill acquired in a business combination.
(f) Power and rights conferred by legislation, a constitution or by equivalent means.

18.9.5 **Recognition**

An intangible asset is an identifiable non-monetary asset without physical substance. An intangible asset is identifiable when it:

1. is separable i.e. it can be separated or removed from an entity and disposed of, licensed, rented or exchanged, either individually or together with a related contract asset or liability.
2. Sets the accounting treatment for intangible assets that are not dealt with specifically in another IPSAS.
3. IPSAS 31 does not apply to intangible assets acquired in an entity combination from a non-exchange transaction, and to powers and rights conferred by legislation, a constitution or by equivalent means, such as the power to tax.

18.9.6 Measurement of Intangible Assets

Initial measurement of Intangible assets

a) The initial measurement of separately acquired Intangible Assets comprises the following:

i) Its purchased price, including import duties and non refundable purchase taxes, after deducting trade discounts and rebates

ii) Any directly attributable cost of preparing the assets for its intended use

b) An intangible asset that is acquired free of charge, or for nominal consideration, through a non-exchange transaction i.e. measured at its fair value at the date it is acquired e.g. licenses to operate radio and T.V. stations, import licenses or airport landing rights.

Subsequent measurement of Intangible assets

a. For subsequent measurement of an intangible asset, an entity can decide to use the cost model or the revaluation model as its adopted accounting policy.

b. If an intangible asset is accounted for using the revaluation model, all other assets in its class shall also be accounted for using the same model.

c. An intangible asset with a finite useful life is amortised while an intangible asset with an indefinite useful life is not. Therefore, an entity is required to assess whether the useful life of an intangible asset is finite or indefinite.

d. The amortization commences when the asset is ready for use and ceases the date the asset is held for sale or derecognized whichever comes earlier.

18.9.7 Disclosure

b) Intangible Assets shall be disclosed at the face of statement of financial position in the GPFS

c) In addition, an entity shall disclose the following for each class of intangible assets, distinguishing between internally generated Intangible Assets and other Intangible Assets:

a. Whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortization rates used;

iv) The amortization methods used for Intangible Assets with finite useful lives;

v) The gross carrying amount and any accumulated amortization (aggregated with accumulated impairment losses) at the beginning and end of the period;

vi) The line item(s) of the statement of financial performance in which any amortization of Intangible Assets is included;

vii) A reconciliation of the carrying amount at the beginning and end of the period showing:

- Additions, indicating separately those from internal development and those acquired separately;
- Assets classified as held for sale or included in a disposal group classified as held for sale in accordance with the relevant international accounting standards dealing with non-current assets held for sale and discontinued operations and other disposals;
- Increases or decreases during the period resulting from revaluations.
- Impairment losses recognized in surplus or deficit during the period
- Impairment losses reversed in surplus or deficit during the period
- Any amortization recognized during the period;
- Net exchange differences arising on the translation of the

financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity; and

- Other changes in the carrying amount during the period.

18.6 Accounting Entries

S/N	Details	DR	CR
a.	**Purchase of Intangible Assets**		
i.	Intangible Assets	XXX	
	Cash/Bank		XXX
	Being an outright purchase of Intangible assets with all attributable cost		
ii.	Intangible Assets	XXX	
	Accounts Payables		XXX
	Being an Intangible assets acquired on credit with all attributable accrued		
iii	Accounts Payables	XXX	
	Cash/Bank		XXX
	Being payment for Intangible assets acquired on credit with all attributable cost.		
b.	**Internally Generated Intangible Assets (Development Cost)**		
i.	Intangible Assets	XXX	
	Cash/Bank		XXX
	Being an outright purchase of Intangible assets with all attributable cost		
ii.	Intangible Assets	XXX	
	Accounts Payables		XXX
	Being an Intangible assets acquired on credit with all attributable accrued		
iii.	Accounts Payables	XXX	
	Cash/Bank		XXX
	Being payment for Intangible assets acquired on credit with all attributable cost is finally made		
c.	**Intangible Assets from Aids and Grants**		
i.	Intangible Assets		
	Aids and Grants		
	Being an Intangible assets donated at fair value		

d.	**Swapped Intangible Assets**		
	New Intangible Assets	XXX	
	Existing Intangible Assets		XXX
	Gain on Exchange		XXX
	Being gain on swapped Intangible assets with the new one		
	New Intangible Assets	XXX	
	Loss on Exchange	XXX	
	Existing Intangible Assets		XXX
	Being loss on swapped Intangible assets with the new one		
e.	**Amortization Charges**		
i.	Amortization Charges	XXX	
	Accumulated Amortization Charges		XXX
	Being Amortization Charges with Finite useful life span		
f.	**Recognition of Impairment losses on Intangible Assets**		
i.	Impairment Charges	XXX	
	Accumulated Impairment Charges		XXX
	Being recognition of Impairment loss		
g.	**Disposal of Intangible Assets**		
i.	Intangible Asset Disposal Account	XXX	
	Relevant Intangible Asset		XXX
	With the carrying amount		
ii.	Accumulated Amortization Account	XXX	
	Intangible Asset Disposal Account		XXX
	With carrying amount of accumulated amortization		
iii.	Cash/ Bank	XXX	
	Intangible Asset Disposal Account		XXX
	With proceeds from disposal of the Intangible Assets		
iv.	Loss on Disposal	XXX	
	Intangible Asset Disposal Account		XXX
	Recognition of Loss on Disposal		
h.	**Revaluation of Intangible Assets**		
	Relevant Intangible Assets	XXX	

	Relevant Revaluation Reserve Account		XXX
	With the value of appreciation computed		

18.10 IPSAS CASH BASIS- Financial Reporting Under the Cash Basis of Accounting..

18.10.1 Introduction

It establishes requirements for the preparation and presentation of a statement of cash receipts, payments and supporting accounting policy notes. It also includes encouraged disclosures that enhance the cash basis report.

18.10.2 Objective

The objective of the standard is to develop requirements for the disclosure of information about external assistance when the cash basis of financial reporting is adopted.

The project applies to all public sector entities that are recipients of external assistance and prepare and present their general purpose financial statements under the cash basis of accounting as defined in the Cash Basis IPSAS.
The Cash Basis IPSAS applies to all public sector entities that apply the cash basis of accounting, other than Government Business Enterprises (GBEs). GBEs are required to apply International Financial Reporting Standards (IFRSs) which are issued by the International Accounting Standards Board (IASB).

18.10.3 Definitions of Terms

The following terms are used in this Standard with the meaning specified:

- **i.** **Cash** comprises cash on hand, demand deposits and cash equivalents.
- **ii.** **Cash basis** means a basis of accounting that recognizes transactions and other events only when cash is received or paid.
- **iii.** **Cash equivalents** are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
- **iv.** **Cash flows** are inflows and outflows of cash.
- **v.** **Cash payments** are cash outflows.
- **vi.** **Cash receipts** are cash inflows.
- **vii.** **Control of cash** arises when the entity can use or otherwise benefit from the cash in pursuit of its objectives and can exclude or regulate the access of others to that benefit.

viii. **Control of an entity**: An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.

ix. **Controlled entity** is an entity that is under the control of another entity (known as the controlling entity).

18.11 SUMMARY

The chapter discussed the International Public Sector Accounting Standards (IPSAS) in general terms and also focus on IPSAS 1, 2, 3, 12, 17, 31 and Cash Basis IPSAS

18.12 END OF CHAPTER REVIEW QUESTIONS

Short-answer Questions

1. The systematic allocation of the depreciable amount of an asset over its useful life is________________________
2. The amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impaired losses is known as _________________
3. An identifiable non-monetary asset without physical substance is known as _____________________
4. What is the name given to an entity that is under the control of another entity?
5. What is retrospective application under IPSAS 17?

Multiple –choice Questions

1. The following EXCEPT ONE are the key information that must be clearly displayed in the financial statements:
   A. The name of the reporting entity
   B. The level of rounding
   C. The presentation currency
   D. The reporting date and the period covered
   E. The name of the accountant of the company

2. The following EXCEPT ONE are some of the statements in a set of financial statements of an entity:
   A. Statement of net assets/equity
   B. Statement of financial performance
   C. Statement of loans and advances

D. Statement of financial position

E. Cash flow statement

3. Information relating to intangible assets can be found in this statement:

A. Cash flow statement

B. Statement of financial position

C. Statement of net assets//equity

D. Statement of financial performance

E. Statement of comparison of budgets and actual amounts

4. Cash receipts from royalties, fees, commissions and other revenue are items to be found in:

A. Cash flows from investing activities

B. Cash flows from financing activities

C. Cash flows from operating activities

D. Cash and cash equivalents

E. Disallowed operating expenses

5. The following EXCEPT ONE are disclosures relating to changes in accounting policy from the initial application of the standard:

A. Amount of the adjustment relating to prior period not presented

B. The title of the standard that cause the change

C. description of the transitional provisions and their possible effect on future period

D. The nature of the change in policy

E. Changes in accounting policy

Section B

1. In line with IPSAS 1, financial statements must be identified clearly and distinguished from other forms of information.
    a. What are the information that must be clearly displayed in the financial statements?
    b. Give any four (4) persons charged with the responsibility of preparing and presenting financial statement.
    c. Enumerate the factors that will make financial statements to be reliable documents.

2a. List any ten (10) information that can be found on the face of Statement of financial position.

2b. State any five (5) line items that can be found in the Statement of financial performance.

3. IPSAS 2 is based on Cash flow statement.
   a. List any six (6) items that are contained in the operating activities.
   b. State any five (5) investing activities that are in cash flow statement.
   c. Give any four (4) financing activities in a cash flow statement.

4. In relation to IPSAS 12 Inventories,
   a. Mention any four (4) components cost of inventories
   b. Give any three (3) examples of cost of conversion of inventories.

5. IPSAS 17 is based on Property, Plant and Equipment. Explain the following term in relation to the standard:
   a. Exchange transactions
   b. Non-exchange transactions
   c. The residual value
   d. Useful life
   e. An impairment loss.

Solution to Practice Questions

Section A

Short Answers

1. Depreciation
2. Carrying amount
3. Intangible assets
4. Controlled Entity
5. Retrospective application involves applying a new accounting policy to transactions, other events, and condition as if that policy had always been applied.

Multiple Choice Questions

1. E
2. C
3. B
4. C
5. E

Section B

1a. The information that must be clearly displayed in the financial statements are as follows:

i. The name of the reporting entity;
ii. The reporting date and the period covered by the financial statements;
iii. The presentation currency; and
iv The level of rounding.

1b. Four persons charged with the responsibility for preparing and presenting financial statements are:

i. The Accountant-General of the Federation (for Federal accounts);
ii. Accountant-General of the State (for State accounts);
iii. Local Government Treasurer/Head of Finance and Accounts;
iv. Head of Finance and Accounts of Ministries, Department and Agencies (MDAs).

1c. The following are the factors that will make financial statements to be reliable documents:

i. representing faithfully, the financial performance and the financial position of the entity being reported on;
ii. reflect the economic substance of events and transactions (other than in their legal form);
iii. free from material misstatement and bias;
iv. prudent in nature of preparation; and
v. show completeness in all material respect.

2a. Information that can be found on the face of Statement of financial position are as follows:

i. Property, plants and equipment.
ii. Investment property
iii. Intangible assets
iv. Financial assets (excluding amount shown under (e), (g), (h), and (i);
v. Investment accounted for using the equity methods;
vi. Inventories
vii. Recoverable from non-exchange transactions (taxes and transfers)
viii. Receivables from exchange transactions
ix. Cash and cash equivalents
x. Taxes and transfers payable;
xi. Payables under exchange transactions;
xii. Provisions;
xiii. Financial liabilities (excluding amounts shown under (j), (k), (l);
xiv. Non-controlling Interest, presented within net assets/equity; and
xv. Net assets/equity attributable to owners of the controlling entity.

2b Line items that can be found in the Statement of financial performance:

i. Revenue from operating activities;
ii. Finance costs;
iii. Share of the surplus or deficit of associates and joint ventures accounted for using the equity method;

iv. Pre-tax gain and loss recognized on the disposal of assets or settlement of liabilities attributable to discontinuing operations; and
v. Surplus or deficit from operating activities;
vi. Minority interest share of net surplus or deficit;
vii. Extra ordinary items; and
viii. Net surplus or deficit for the period.

3a. Items that can be found in operating activities:

i. Cash receipts from taxes, levies and fines;
ii. Cash receipts from sale of goods and provision of services by the entity;
iii. Cash receipts from grants or transfers and other appropriations or other budget authority made by a central government or other public sector entities;
iv. Cash payments to suppliers for goods and services; Cash payments to other public sector entities;
v. Cash receipts from royalties, fees, commissions and other revenue;
vi. Cash payments to and on behalf of employees;
vii. Cash receipts and payments of an insurance entity for premiums and claims, annuities and other public benefits;
viii. Cash payments of local property taxes or income tax (where appropriate);
ix. Cash receipts and payments from contract held for dealing or trading purposes;
x. Cash receipts or payments in relation to litigation settlements;
xi. Cash receipts or payments from discontinued operations.

3b. Investing activities that can be found in the Cash flow statement are:

i. Cash payments to acquire property, plant and equipment, intangibles and other long-term assets. Payments relating to capitalized development costs and self-constructed property, plant and equipment are also included;
ii. Cash receipts from sale of property plant and equipment, intangibles and other long-term assets;
iii. Cash payments to acquire equity or debt instruments of other entities and interest in joint ventures (other than payments for those instruments considered to be cash equivalents and those held for dealing or trading purposes);
iv. Cash receipts from sale of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to the cash equivalents and those held for dealing or trading purposes);
v. Cash advances and loans made to other panties (other than advances and loans made by a public financial institution);

vi. Cash receipts from the repayment of advances and loans made to other parties (other than advances and loans made by a public financial institution); Cash payments for future contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes or the payments are classified as financing activities;

vii. Cash receipts from future contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities.

viii. Cash flows from financing activities

4a. Four components of cost of inventories are:

i. All costs of purchase;
ii. Costs of conversion; and
iii. Other costs incurred in bringing the inventories to their present location and state.

4b. Examples of cost of conversion of inventories are:

i. The costs of conversion of inventories include costs directly related to the units of production, such as direct labour, a systematic allocation of fixed and variable production overheads that are incurred in converting materials to finished goods.

ii. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production: Examples of such costs are depreciation and maintenance of factory buildings and equipment, and the cost of factory management and administration.

iii. Variable production overheads are those indirect costs of production that vary directly, or nearly directly with the volume of production, such as indirect materials and indirect labour.

5a. Exchange Transactions**:** are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

5b. Non-exchange Transactions are transactions that are not exchange transactions. In non-exchange transaction, an entity either receives value from another entity /0another entity without directly receiving approximately equal value in exchange.

5c. The Residual Value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

5d. Useful Life is The period over which an asset is expected to be available for use by an entity; or The number of production or similar units expected to be obtained from the asset by an entity

5e. An Impairment Loss of a cash generation asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

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CHAPTER NINETEEN

ETHICAL CONSIDERATIONS IN PUBLIC SECTOR

CHAPTER CONTENTS

a. Learning Objectives
b. Fiscal Responsibility Act, 2007
c. Economic and Financial Crimes Commission (EFCC) Act. 2002
d. Independent Corrupt Practices and Other Related Offences Commission {ICPC}Act 200
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n The Security Exchange and Investment Tribunal Act, 1999
o Money Laundering Prohibition Act, 2011
p Public Complaints Commission
q. The Financial Reporting Council Of Nigeria Act, 2011
r. Summary
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19.0 LEARNING OBJECTIVES

At the end of this chapter, readers should be able to;

a. State the respective Acts that established the various ethical bodies in Government Accounting.

b. State the Composition of the Bodies

c. Enumerate the powers and functions of the organisations.

d. Understand the application of e-payments, e-receipts and e-tickets.

19.1 FISCAL RESPONSIBILITY ACT, 2007

The Act was enacted on the 30th of July, 2007, by the National Assembly of the Federal Republic of Nigeria.

19.1.1 ESTABLISHMENT OF THE FISCAL RESPONSIBILITY COMMISSION BY THE ACT

There shall be established a body to be known as the Fiscal Responsibility Commission by the Act.
The Commission shall be a body corporate with perpetual succession and a common seal and may sue and be sued in the corporate name.

19.1.2 FUNCTIONS OF FISCAL THE RESPONSIBILITY COMMISSION

(a) To compel any person or government institution to disclose information relating to public revenue and expenditure.

(b) To cause an investigation into whether any person has violated any provisions of the Acts.

(c) To forward a report of any investigation against any person to the Attorney-General of the Federation for possible prosecution.

(d) To monitor and enforce the provisions of this Act.

(e) To undertake fiscal and financial studies, analysis and disseminate the results to the general public.

(f) To disseminate standard practices that will result in the effective allocation and management of public expenditure, revenue allocation and transparency as they affect fiscal matters.

19.1.3 FUNDING OF THE COMMISSION

a. The commission shall establish and maintain a fund from which shall be discharged all expenditure incurred by the Commission.

b. There shall be credited to the fund the budgetary allocation from the Federal Government and grants from any other source.

19.1.4 COMPOSTION OF THE COMMISSION

a) A Chairman, who shall be the Chief Executive and Accounting Officer of the Commission.

b) One member from and representing

   i) The organised private sector

   ii) Civil society – engaged in cases relating to probity, transparency and good governance.

   iii) The organised labour.

   iv) Federal Ministry of Finance – of a level not below the rank of a Director.

   v) Each geo-political zones of the country namely:- North Central, North East, North West, South East, South - South and South West.

19.1.5 QUALIFICATIONS AND APPOINTMENTS OF MEMBERS TO THE COMMISSION

a. All members of the Commission shall be persons of unquestionable integrity

b. All members shall possess qualifications of not less than 10 years cognate post-qualification experience.

c. The Chairman and other members of the Commission, other than the ex-officio members, shall be appointed by the President, subject to confirmation by the Senate.

d. The Chairman and members of the Commission representing the six geo-political zones shall be full-time members.

19.1.6 TENURE OF THE MEMBERS OF THE COMMISSION

The Chairman and members of the Commission shall hold office for a single term of six years.

19.1.7 POWERS OF THE COMMISISON

a. Power to provide general policy guidelines for the implementation of the functions of the Commission

b. Power to supervise the implementation of the policies of the Commission

c. Power to appoint employees required for the Commission.

d. Power to determine and approve the terms and conditions of service, including the disciplinary measures for the employees of the Commission.

e. Power to fix the remuneration, allowances and benefits of the employees of the Commission.

f. Power to regulate its proceedings in respect of meetings, notices and keeping of minutes as may be determined by the Commission.

g. Power to perform any other functions as may be deemed to ensure efficient performance of the Commission.

19.1.8 CESSATION TO HOLD OFFICE BY MEMBERS OF THE COMMISSION

Irrespective of the provisions of section 5 (2) of the act, a member of the Commission shall cease to hold office if:

a) He comes bankrupt

b) He reaches an official compromise with his creditors

c) He is convicted of a felony or any offence involving dishonesty, corruption or fraud

d) He is incapable of carrying out the functions of the Commission either by reason of ill-health, insanity or physical impairment

e) He is found guilty of serious misconduct in his line of duties

f) He resigns his appointment by a notice written by him

19.2 CODE OF CONDUCT BUREAU

Part I of the Third Schedule of the 1999 Constitution established the Code of Conduct Bureau.

19.2.1 COMPOSITION OF THE CODE OF CONDUCT BUREAU

Code of Conduct Bureau shall consist of the following:

i. A Chairman
ii. Nine 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.
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.

19.2.2 POWERS OF CODE OF CONDUCT BUREAU

The Code of Conduct Bureau was set up to:

a) Receive declarations by public officers made under paragraph 12 of Part I of the 5th 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.

f) Investigate the complaints above and where appropriate, refer such matters to the Code of Conduct Tribunal.

g) To carry out any other function as may be conferred upon it by the National Assembly.

19.2.3 PUNISHMENT BY THE CODE OF CONDUCT TRIBUNAL ON ANY PUBLIC OFFICER GUILTY OF ANY OF THE PROVISIONS OF THE

CODE OF CONDUCT BUREAU

(a) Vacation of office seat in any Legislative House

(b) Prosecution of the public officer in a court of law

(c) Disqualification frown membership of a Legislative House and from holding any public office for a period not exceeding ten years.

(d) Serve penalties imposed by any law where the conduct is a criminal offence

(e) Seizure and forfeiture to the State any property acquired through the abuse or corruption of office.

19.2.4 GENERAL

1. Any appeal by an officer found guilty of contravention of the provisions of the code of conduct shall be directed to the Court of Appeal.
2. Prerogative of mercy shall not apply to any punishment imposed by the Tribunal.

19.3 ECONOMIC AND FINANCIAL CRIMES COMMISSION (EFCC) ACT 2002

The EFCC is the body that is established with the responsibility of investigating and the enforcement of all laws against economic and financial crimes in all its ramifications.

19.3.1 COMPOSITION OF EFCC

According to the Act of Parliament No. 5 of December 2002, the Commission shall consist of the following members:

a) A Chairman, who shall be the Chief Executive and Accounting Officer of the Commission and shall be 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 Central Bank or his representative

d) A representative each of the following Federal Ministries not below the rank of Director;

   i. Foreign Affairs Ministry
   ii. Ministry of Finance
   iii. Ministry of 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, Nigeria Postal Service

k) The Chairman, Nigeria Communication Commission

l) The Comptroller-General, Nigeria Customs Service

m) The Comptroller-General, Nigeria Immigration Service

n) A representative of Nigeria Police Force, not below the rank of Assistant Inspector- General.

o) Four eminent Nigerians with vast experience in finance, banking or accounting.

19.3.2 FUNCTIONS OF EFFCC

a. Enforcement and due administration of the provisions of the Act.

b. Investigation of reported cases of financial crimes such as Advance Fee Fraud {419}, money laundering, counterfeiting, illegal charge transfer, contract scam, forgery of financial instrument, issuance of dud cheques, etc.

c. Adoption of measures to identify, trace, freeze confiscate or seize proceeds derived from terrorist activities.

d. Adoption of measures to identify, trace, freeze and seize proceeds derived from financial crime-related offences.

e. Adoption of measures to eradicate and prevent the commission of economic and financial crimes with a view to identifying individuals, corporate bodies or groups involved.

f. Determination of the extent of financial loss and such other losses by government, private individuals" and organisations.

g. Collaboration with government bodies within and outside Nigeria in carrying out the functions of the Act.

h. Dealing with matters connected with extradition, deportation and mutual, legal or other assistance between Nigeria and any other country involving economic and financial crimes.

i. The collection, analysis and dissemination of all reports relating to suspicious financial transactions to all relevant government bodies.

j. Carrying out and sustaining public enlightenment campaign against economic and financial crimes within and outside Nigeria.

19.3.3 POWERS OF THE COMMISSION

Under paragraph 6 of the Act, the Commission has power to:-

i. Conduct investigation or cause investigation to be conducted as to whether any person has committed an offence under the Act.
ii. Cause investigation to be conducted into the property 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
iii. Power to enforce the provisions of
    a. The Bank and Other Financial Institution Act 1991 (as amended)
    b. The Failed banks (Recovery of Debts) Finance Malpractices in Banks Act 1994 (as amended)
    c. The Advance Fee Fraud and other Related Offences Act 1994
    d. The Money Laundry ACT 1995
    e. The Miscellaneous Offences Act

19.4 INDEPENDENT CORRUPT PRACTICES AND OTHER RELATED OFFENCES COMMISSION {ICPC} ACT, 2000

The ICPC was established by the Corrupt Practices and Other Related Offences Act, 2000. This Commission is a body corporate endowed with perpetual succession. It has a common seal and is juristic, that is, may sue and be sued in its corporate name.

19.4.1 COMPOSITION OF THE COMMISSION

The Commission shall consist of a Chairman and twelve other members, two of whom shall come from each of the six geo-political zones as follows:

a. A legal practitioner with at least 10 years post call experience.
b. A retired judge of a superior court of record
c. A retired police officer not below the rank of commissioner of police
d. A retired public servant not below the rank of a Director
e. A woman
f. A chartered accountant
g. A youth not less than 21or more than 30 years of age at the time of his or her appointment.

The Chairman shall be a person who held or qualified to hold office as a judge of a superior court of record in Nigeria.

19.4.2 APPOINTMENT OF MEMBERS

The Chairman and members of the Commission must be persons of unquestionable integrity, shall be appointed by the president and confirmed by the Senate.

They are however not to commence the discharge of their duties until they have declared their assets and liabilities as prescribed in the Constitution of the Federal Republic of Nigeria.

19.4.3 TENURE

The Chairman is to hold office for 5 years and may be reappointed for another term of 5 years, while other members shall hold office for 4 years and can be reappointed for another 4 years.

19.4.4 DUTIES / FUNCTIONS OF ICPC

i) To receive and investigate any report of the conspiracy by any person or group of persons who have committed or attempt to commit an offence under the Act.

ii) To prosecute those who are found to have committed any offence under the Act after the investigation.

iii) To examine the systems, practices and procedures of public bodies such as Ministries, State, local government or any parastatals.

iv) To give supervisory advice to public bodies whose practice systems and procedures are likely to be susceptible to fraud or corruption

v) To advise, educate and help any officer, agent, board or parastatals on the set of programmes that can be embarked upon to eliminate or reduce to the nearest minimum, the incidence of fraud and corruption.

vi) To intimate the Accounting Officers in the public bodies of any changes effected in the procedures and systems of administration as it concerns their Ministries, Parastatals or Departments.

vii) To educate the public bodies on the methods of detecting, preventing and arresting fraud, bribery, corruption and related offence in their Ministries Parastatals or Departments.

viii) To educate the public against offences such as bribery, corruption, forgery, impersonation, advance fee fraud and other related offences.

ix) To instruct the executives on how to detect, prevent and reduce to acceptable, level, incidence of corruption and related offences.

x) To involve the general public in waging war against corruption.

19.5 DIFFERENCES BETWEEN EFCC AND ICPC

1. The EFCC is primarily charged with the responsibility of enforcing laws relating to banking, money laundering, Advance Fee Fraud{419} miscellaneous offences and other related offences **while** the ICPC is to enforce laws relating to fraud, corruption and embezzlement of funds in relation to public services.

2. The EFCC does not have any time limitation as to when a crime was committed **while** the ICPC is limited in time to those offences committed from year 2000.

The EFCC has power to prosecute directly without recourse to the Attorney General's Office **while** the ICPC can only prosecute through the Attorney-General's Office.

19.6 THE SECURITIES AND EXCHANGE COMMISSION (SEC) ACT 2007

The body established under the Securities and Exchange Act no. 29 of 2007. It came into existence upon the Investments and Securities Act, 1999, as the apex regulatory organ for the Nigerian Capital Market. They also to regulate the market for the protection of maintenance of fair, efficient and transparent market reduction of risks in the system and related issues.

The Legal Status – Juristic Nature of the Commission

The Commission is a body corporate with perpetual succession and a common seal. It may sue and be sued, in its corporate name.

19.6.1 Composition of the Board of the Commission

The Commission has a Board which is made up of:

(a) a part-time Chairman;
(b) the Director-General and Chief executives as Accounting officer;
(c) three full time Commissioners;
(d) a representative of the Federal Ministry of Finance
(e) a representative of the Central Bank of Nigeria; and
(f) two part-time Commissioners, one of whom shall be a legal practitioner qualified to practice in Nigeria with ten years post call experience.

A person shall not be qualified for appointment to the Board of the Commission unless he is fit and proper person and

(a) in the case of the Chairman or Director-General of the Commission, he has a university degree or its equivalent with not less than 15 years cognate experience in capital market operations;

(b) in the case of any other member apart from an ex-officio member, he should be a holder of a university degree or its equivalent, with not less than 12 years cognate experience in capital market operations or legal practice as the case may be; and

(c) in the case of an ex-officio member, he is not below the rank of a director in the Ministry or Central Bank of Nigeria, as the case may be.

19.6.2 Duties of the Board

(a) Formulate general policies for the regulation and development of the capital market and the achievement and exercise of the functions of the Commission;

(b) approve the audited and management accounts of the Commission as may be presented to it by the management;

(c) appoint Auditors for the Commission;

(d) consider and approve the annual budget of the Commission as may be presented to it by the management;

(e) establish zonal offices of the Commission; and

(f) carry out such other activities as are necessary and expedient for the purposes of achieving the objectives of the Commission.

19.6.3 Recommendation of the Director-General

(a) The Board shall on the recommendation of the Director-General, approve the duties of the full time Commissioners.

(b) Also approve the reassignment of the full time Commissioners by the Director- General.

19.6.4 Appointment and Tenure of office of the Board members

(a) The Director-General and the three full time Commissioners are appointed by the President, upon the recommendation of the Minister and confirmation by the Senate.

(b) The Director-General holds office for a period of 5 years in the first instance and appointable for a further period of five years.

(c) The three full time Commissioners hold office in the first instance for a period of four years and are reappointable for a further term of four years.

(d) The Chairman and part-time Commissioners (apart-from the ex-officio Commissioners) each holds office for a term of four years and no more.

(e) Notwithstanding the provisions of the subsections 14.9.5 (a) and (b) of this section, the President may extend the tenure of office of the Director-General and any of the Commissioners whose term of office has expired until a successor to such Director-General or Commissioner is appointed.

The Director-General and the full time Commissioners shall devote their full time to the service of the Commission. While holding office they shall not hold any other office or employment, except where appointed by virtue of their office in the Commission into the membership of the Board of any agency of the government in Nigeria or any international organization to which the Commission is a member or an affiliate.

The Director-General or, in his absence, one of the Commissioners nominated by the Director-General is responsible for the day-to-day management and administration of the Commission and is answerable to the Board of the Commission.

19.6.5 Disqualification and cessation of appointment

(a) A member of the Board shall cease to hold office if he

(i) is of unsound mind ;
(ii) becomes bankrupt or makes a compromise with creditors; (iii) is convicted of a felony or any offence involving dishonesty;
(iv) is guilty of serious misconduct in relation to his duties; or
(v) is a person who has a professional qualification, and is disqualified or suspended (other than at his own request) from practising his profession in any part of Nigeria by the order of any competent authority made in respect of him personally.

(b) The President has the power at any time and upon the recommendation of the Minister to remove a person to whom subsection (a) of this section applies, provided no full time member of the Board of the Commission is removed from office without the approval of the Senate.

19.6.6 Remuneration and allowances of members of the Board

(a) The Director-General and the three full-time Commissioners shall be paid such remuneration and allowances as may be determined by the Board of the Commission.

(b) The allowances for the part-time members shall be in accordance with the prevailing guidelines on remuneration for part-time members of public bodies issued by the appropriate agency of the Federal Government.

19.6.7 Quorum for Board Meetings

(a) Meetings of the Board of the Commissioners shall be paid such remuneration and allowances as may be determined by the Board of the Commission.

(b) The Chairman shall preside at every meeting of the Commission and in his absence, the members present at such meeting shall appoint one of their members to preside.

(c) The five members of the Board shall form a quorum at any meeting, two of whom shall be non-executive members.

(d) Unless as otherwise provided in this Act, decisions shall be by a simple majority of the vote of the members present but, in case of equality of vote, the presiding chairman shall a casting vote.

19.6.8 Functions and Powers of the Commission

The Commission is the apex regulatory organisation for the Nigerian capital market carries out the functions and exercises all the powers prescribed in this Act and, in particular

(a) regulates investments and securities business in Nigeria;

(b) registers and regulates securities exchanges, capital trade points, futures, options and derivatives exchanges, commodity exchanges and any other recognised investment exchange;

(c) regulates all offers of securities by public companies and entities; (d) registers securities of public companies;

(e) renders assistance as may be deemed necessary to promoters and investors wishing to establish securities exchanges and capital trade points;

(f) prepares adequate guidelines and organises training programmes. It disseminates information necessary for the establishment of securities exchanges and capital trade points;

(g) registers and regulates corporate and individual capital market operators as defined in the Act;

(h) registers and regulates the workings of venture capital funds and collective investments schemes in whatever form;

(i) facilitates the establishment of a nationwide system for securities trading in the Nigerian capital market so as to protect investors and maintain fair and orderly markets;

(j) facilitates the linking of all markets in securities with information and communication technology facilities;

(k) acts in the public interest, having regard to the protection of investors and the maintenance of fair and orderly markets. To this end it establishes a nationwide trust scheme to compensate investors whose losses are not covered under the investors protection funds administered by securities exchanges and capital trade points;

(l) keeps and maintains a register of foreign portfolio investments;

(m) registers and regulates securities depository companies, clearing and settlement companies, custodians of assets and securities, credit rating agencies and such other agencies and intermediaries;

(n) protects the integrity of the securities market against all forms of abuses including insider dealing;

(o) promotes and registers self-regulatory organisations including securities exchanges, capital trade points and capital market trade associations to which it may delegate its powers;

(p) reviews, approves and regulates mergers, acquisitions, takeovers and all forms of business combinations and affected transactions of all companies as defined in the Act;

(q) authorises and regulates cross-border securities transactions;

(r) calls for information from and inspects, conducts, inquiries and audit of securities exchanges, capital market operators, collective investment schemes and all other regulated entities;

(s) promotes investors" education and the training of all categories of intermediaries in the securities industry;

(t) calls for, or furnish to any person, such information as may be considered necessary by it for the efficient discharge of its functions;

(u) levies fees, penalties and administrative costs of proceedings or other charges on any person in relation to investments and securities business in Nigeria in accordance with the provisions of this Act;

(v) intervenes in the management and control of capital market operators which it considers has failed, is failing or in crisis including entering into the premises and doing whatsoever the Commission deems necessary for the protection of investors;

(w) enters and seals up the premises of persons illegally carrying on capital market operations;

(x) in furtherance of its role of protecting the integrity of the securities market, seeks judicial order to freeze the assets (including bank accounts) of any person whose assets were derived from the violation of the Act, or any securities law or regulation in Nigeria or other jurisdictions;

(y) relates effectively with domestic and foreign regulators and supervisors of other financial institutions including entering into co-operative agreement on matters of common interest;

(z) conducts research into all or any aspect of the securities industry;

(aa) prevent fraudulent and unfair trade practices relating to the securities industry;

(bb) disqualifies persons considered unfit from being employed in any arm of the securities industry;

(cc) advises the Minister on all matters relating to the securities industry;

(dd) performs such other functions and exercises such other power not inconsistent with this Act as are necessary or expedient for giving full effect to the provisions of this Act;

(de) acquiring holds on disposes of any property, movable or immovable for the purpose of carrying out any of its functions under this Act.

19.7 THE SECURITY EXCHANGE AND INVESTMENTS TRIBUNAL ACT 1999

19.7.1 Definition

A Tribunal is a group of people who are appointed to give judgements, on particular issues. It is a court of justice or arbitration appointed to adjudicate in certain matters.

The Investment and Securities Tribunal was created under Act no.45 of 1999, as a specialised Body. The factors which informed the creation of the Body include the following:

(a) By their nature capital market disputes are very technical, requiring of specialised handling. The Tribunal, for example, adjudicates in the disputes between quoted companies and regulators (Securities Exchanges). Normal Courts are ill-equipped to handle capital market issues.

(b) Subjecting capital market cases to normal court procedures may take a lot of time. The delay caused may compound losses in capital market issues such as share values.

(c) Cost of litigation and access to Courts may be unaffordable.

(d) Tribunals undertake “pre-trial“ hearings which tend to narrow down areas of dispute.

19.7.2 Membership/Appointment/Quorum/Tenure/Removal:

The membership of Investments and Securities Tribunal is made up of nine(9) persons who are referred to as "capital market assessors". They are people who are versed in the laws, regulations, norms, practices and procedures of the capital market.

The Chairman of the Tribunal is a legal practitioner of at least fifteen (15) years, versed in capital market issues.

The appointment into and removal from the Tribunal is by the Minister of Finance. To give legitimacy and legal backing to the Tribunals deliberations and meetings there must be quorum of five (5) persons present.

The tenure of the appointees is five (5) years, from commencement or upon attainment of seventy (70) years of age. The Secretary of the Tribunal who serves as the Head of the Secretariat is appointed.

19.8 MONEY LAUNDERING PROHIBITION ACT 2011

19.8.1 Definition

"Money Laundering" is defined as exchanging money or assets that were obtained criminally for money or assets which are clean. The clean money or assets do not have an obvious link with any criminal activities. Money laundering also includes money which is used to fund terrorism, regardless of it is obtained.

Prevention of Money Laundering

19.8.2 Limitation of the amount of cash payment

Except in a transaction through a financial institution, no person shall make or accept cash payment of a sum greater than:-

(a) ₦500,000 or its equivalent, in the case of an individual;

(b) ₦2million or its equivalent, in the case of a body corporate

19.8.3 Obligation to report international transfers of funds and securities

(a) A transfer to or from a foreign country of funds or securities of a sum greater than US $10,000 or its equivalent should be reported to the Central Bank of Nigeria (in this Act referred to as "the Central Bank")

(b) A report made under „a" above should include an indication of the nature and amount of the transfer, and the names and addresses of the sender and receiver of the funds or securities.

19.8.4 Regulation of over-the-counter exchange transactions

(a) A person whose usual business is the carrying out of „over-the-counter" exchange transactions should:-

(i) before starting his business, submit to the Central Bank a declaration of his activity;

(ii) prior to any business transaction involving a sum greater than US $100,000 or its equivalent with a customer identifies the customer by requiring him to present an authentic document bearing his photograph;

(iii) record all transactions under this section in chronological order, indicating each customer's surnames, forenames and addresses in a register numbered and initiated by an officer authorised by the Central Bank for that purpose;

(b) A register kept under subsection (iii) of this section shall be reserved for a period of at least ten years after the last transaction recorded in the register.

19.8.5 Duties incumbent upon casinos

(a) A casino shall:-

(i) verify the identity of a gambler, who buys, brings into or exchanges chips or tokens, by requiring the gambler to present an authentic document bearing his names and address;

(ii) record all transactions under this section in chronological order indicating:-

(i) the nature and amount involved in each transaction; and

(ii) each gambler"s surname, forenames and address,

In a register numbered and initialled by an officer authorised by the Federal Ministry of Commerce for that purpose.

(b) A register kept under subsection (1)(b) of this section shall be preserved for a period of at least ten years after the last transaction recorded in the register.

19.8.6 Identification of customers

(a) A financial institution shall verify its customer‟s identity and address before opening an account for, issuing a passbook to, entering into a fiduciary transaction with, renting a safe deposit box to or establishing any other business relationship with the customer.

(b) An individual shall be required to provide proof of his:-

(i) identity, by presenting to the financial institution a valid original copy of an official document bearing his names and photograph;

(ii) Address, by presenting to the financial institution valid originals of receipts issued within the previous three months by public utilities.

(c) A body corporate is required to provide proof of its identity by presenting its certificate of incorporation and other valid official documents dating from less than three months before the date of the transaction and attesting the existence of the body corporate.

(d) The manager, employee or assignee delegated by a body corporate to open or operate an account shall be required to produce not only the documents specified in subsection (2) of this section, but also proof of the power of attorney granted to him.

(e) A casual customer shall be identified in the same way as in subsection (2) of this section for any transaction involving a sum greater than ₦500,000 or its equivalent whether the transaction is carried out in one or more transactions that seem to be connected, and if the amount is unknown at the start of the transaction, the customer shall be identified as soon as the amount is known or is greater than ₦500,000.

(f) Where a financial institution suspects that the amount involved in a transaction relates to the laundering of drug money, it shall require identification of a customer not-withstanding that the amount involved in the transaction is less than ₦500,000.

(g) If it appears that a customer may not be acting on his own account, the financial institution shall seek from the customer and by any other reasonable means, information about the true identity of the principal.

19.8.7 Special surveillance of certain transactions

(a) When a transaction, whether or not it relates to the laundering of drug money

(i) involves a sum greater than ₦500,000 or its equivalent, in the case of an individual or ₦2 million or its equivalent, in the case of a body corporate;

(ii) is surrounded by conditions of unusual or unjustified complexity; and

(iii) appears to have no economic justification or lawful objective.

(b) If the financial institution decides to carry out the transactions, it shall:-

(i) draw up a written report containing all relevant information on the matters mentioned in paragraphs (a), (b), and (c) of subsection (1) of this section together with the identity of the principal and, where applicable, of the beneficiary or beneficiaries;

(ii) take appropriate action to prevent the laundering of drug money; and

(iii) send a copy of the report and action taken to the Central Bank.

19.8.8 Preservation of records

A financial institution shall preserve and keep at the disposal of the authorities specified in section 8 of Act:-

(a) the record of a customer"s identification, for a period of at least ten years after the closure of the accounts or the severance of relations with the customer; and

(b) the record of a transaction carried out by a customer and the report provided for in section 14.15.7 above, for a period of at least ten years after carrying out the transaction or making of the report, as the case may be.

19.8.9 Communication of information

The records referred to in section 14.15.8 above shall be communicated only to the Central Bank, the National Drug Law Enforcement Agency (in this Act referred to as "the Agency"), judicial authorities, customs officers and such other persons as the Central Bank may, from time to time, by order published in the *Gazette*, specify.

19.8.10 Arousing awareness among employees of financial institutions

A financial institution shall develop programmes to combat the laundering of drug money, including:-

(a) the designation of compliance officers at its management level in its headquarters, each branch and local office;
(b) an on-going training programme for its employees;
(c) the centralisation of the information collected; and
(d) the establishment of an internal audit unit to ensure compliance with and test the effectiveness of the measures taken to apply the provisions of this Act.

19.8.11 Mandatory disclosure by financial institutions

(1) Notwithstanding anything to the contrary in any other enactment, a financial institution or casino shall disclose and report to the Agency in writing, within seven days, any single transaction, lodgement or transfer of funds in excess of:-

(a) ₦500,000 or its equivalent, in the case of an individual; and

(b) ₦2 million or its equivalent, in the case of a body corporate

(2) A person, other than a financial institution or casino, may voluntarily give information on any transaction, lodgement or transfer of funds in excess of:-

(3) The Agency shall acknowledge receipt of any disclosure, report of information received under this section and may collect such additional information as it may deem necessary.

(4) The acknowledgment of receipt shall be sent to the financial institution within the time allowed for the transaction to be carried out and it may be accompanied by a stop notice deferring the transaction for a period not exceeding 72 hours.

(5) If the acknowledgment of receipt is not accompanied by a stop notice, or if, when the stop notice expires, the order specified in subsection (6) of this section to block the transaction has not reached the financial institution, the financial institution may carry out the transaction.

(6) When it is not possible to determine the origin of the funds within the period of stoppage of the transaction, the Federal High Court may, at the request of the Agency, order that the funds, accounts or securities referred to in the report be blocked.

(7) An order made by the Federal High Court under subsection (6) of this section shall be enforceable forthwith.

19.8.12 Liability of directors, etc., of financial institutions

Where funds are blocked under section 14.15.11 above and there is evidence of conspiracy with the owner of the funds, the financial institution shall not be relieved of liability under this Act and criminal proceedings, for the laundering of drug money, may be brought against its director and employees involved in the conspiracy.

19.8.13 Surveillance of bank accounts, etc.

(1) The Agency may, in order to identify and locate narcotic drugs and psychotropic substances, proceeds, property, objects or other things related to the commission of an offence under this Act or the National

Drug Law Enforcement Agency Act:- (1989 No. 48. Cap. N30)

(a) place any bank account and account comparable to a bank account under surveillance;

(b) place under surveillance or tap any telephone line;

(c) have access to any computer system; and

(d) obtain communication of any authentic instrument or private contract, together with all banks, financial and commercial records.

When the account, telephone line or computer system is used or may be used by any person suspected of performing or taking part in a transaction involving the proceeds, property or things or when the instrument, contract or record concerns or may concern the transaction.

(2) Banking secrecy shall not be invoked as a reason for objecting to the measures set out in subsection (1) of this section, or for refusing to be a witness to facts likely to constitute an offence under this Act or the National Drug Law Enforcement Agency Act.

19.8.14 Determination of flow of transactions, etc.

The Agency shall, in consultation with the Central Bank and the Corporate Affairs Commission, determine the flow of transactions and identity of beneficiaries affected by this Act, including the beneficiaries of individual accounts and of corporate accounts.

19.8.15 Money Laundering offences

(1) A person who:-

(a) converts or transfers resources or property derived directly or indirectly from illicit traffic in narcotic drugs or psychotropic substances, with the aim of either concealing or disguising the illicit origin of the resources or property, or aiding any person involved in the illicit traffic of narcotic drugs or psychotropic substances to evade the legal consequences of his action; or

(b) collaborates in concealing or disguising the genuine nature, origin, location, disposition, movement or ownership of the resources, property or rights thereto derived directly or indirectly from illicit traffic in narcotic drugs or psychotropic substances, is guilty of an offence under this section and liable on conviction to imprisonment for a term of not less than fifteen years or more than 25 years.

(2) A person shall be guilty of an offence under subsection (1) of this section and be subject to the penalty specified in that subsection notwithstanding that the various acts constituting the offence were committed in different countries.

19.8.16 Other offences

(1) Without prejudice to the penalties provided for illicit traffic in narcotic drugs or psychotropic substances and for the laundering of drug money, any person:-

(a) Director or employee of a financial institution who warns or in any other way intimates the owner of the funds involved in the transaction referred to in section 10 of this Act about the report he is required to make or the action taken on it or who refrains from making the report as required under that section; or

(b) who destroys or removes a register or record required to be kept under this Act; or

(c) who carries out or attempts under a false identity to carry out, any of the transactions specified in section 1 to 5 of this Act; or

(d) who makes or accepts cash payments greater than the amount authorised under this Act; or

(e) who fails to report an international transfer of funds or securities required to be reported under this Act; or

(f) who being a director or an employee of a bureau de change, casino or financial institution, contravenes the provisions of section 2, 3, 4, 5 or 10 this Act, is guilty of an offence under this section

(2) A person who is found guilty of an offence under subsection (1) of this section is liable on conviction:-

(a) in the case of an offence under paragraphs (a) to (c) of that subsection, to imprisonment for a term of not less than fifteen years or more than 25 years;

(b) in the case of paragraphs (d) to (f), where the offender:-

(i) is an individual, to a fine of not less than ₦250,000 or more than ₦1 Million or a term of imprisonment of not less than fifteen years or more than 25 years or to both such fine and imprisonment;

(ii) is a bureau de change, casino, lending establishment, financial institution or any other body corporate, to a fine of not less than ₦250,000 or more than ₦1 million.

(3) A person found guilty of an offence under this section may also be banned permanently or for a period of five years from exercising the profession which provided the opportunity for the offence to be committed.

(4) A person found guilty of an offence under this paragraph (*d), (e) or (f)* of subsection (1) of this section shall not be affected by the provisions of sections 18, 19, 20 and 25 of the National Drug Law Enforcement Agency Act. (Cap. N30)

(5) When as a result of a serious oversight or a flaw in the internal control procedures, a financial institution or person designated in section 10, or a *bureau de change* or casino fails to meet any of the obligations imposed on it by this Act, the disciplinary authority responsible for the institution, casino *bureau de change* or the person`s profession may take such action as is in conformity with its professional and administrative regulations as it may deem necessary.

19.8.17 Conspiracy, aiding, etc.

A person who:-

(a) conspires with, aids, abets, or counsels any other person to commit an offence;

(b) attempts to commit or is an accessory to an act or offence; or

(c) incites, procures or induces any other person by any means whatsoever to commit an offence, Under this Act, is guilty of the offence and liable on conviction to the same punishment as is prescribed for that offence under this Act.

19.8.18 Offences by bodies corporate

(1) Where an offence under this Act which has been committed by a body corporate is proved to have been committed on the instigation or with the connivance of or attributable to any neglect on the part of a director, manager, secretary or other similar officer of the body corporate, or any person purporting to act in any such capacity, the officer of the body corporate, or any person purporting to act in any such capacity, the officer as well as the body corporate, where practicable, shall be deemed to be guilty of that offence and shall be liable to be proceeded against and punished accordingly.

(2) Where a body corporate is convicted of an offence under this Act, the court may order that the body corporate shall thereupon and without any further assurance, but for such order, be wound up and all its assets and properties forfeited to the Federal Government.

19.8.19 Trial of offences

(1) The Federal High Court shall have exclusive jurisdiction to try offences under this Act. (1999 No. 62)

(2) The Federal High Court shall have power to impose the penalties provided in this Act. (1999 No. 62)

(3) In any trial for an offence under this Act, the fact that an accused person is in possession of pecuniary resources or property for which he cannot satisfactorily account and which is disproportionate to his known sources of income, or that he had at or about the time of the alleged offence obtained an accretion to his pecuniary resources or property for which he cannot satisfactory account, may be proved and may be taken into consideration by the Federal High Court as

corroborating the testimony of any witness in such trial. (1999 N0. 62)

PART III (Miscellaneous)

19.8.20 Power to demand and obtain records, etc

For the purposes of this Act, the Director of Investigations or an officer of the Agency authorised by regulations in that behalf may demand, obtain and inspect the books and records of a financial institution to confirm compliance with the provisions of this Act.

Money Laundering Act

19.8.21 Obstruction of the Agency or authorised officers

A person who wilfully obstructs the Agency or any authorised officer in the exercise of the powers conferred on the Agency by this Act is guilty of an offence under this section and liable on conviction**.**

19.8.22 Repeal of section 13 of Cap. N30

Section 13 of the National Drug Law Enforcement Agency Act is hereby repealed.

19.8.23 Interpretation

In this Act, unless the context otherwise requires:-

"**Agency"** means the National Drug Law Enforcement Agency;

"**Central Bank"** means the Central Bank of Nigeria;

"**Financial Institution** "means a bank or other financial institution as defined

in the Banks and Other Financial Institutions Act. (Cap. B3)

19.9 PUBLIC COMPLAINTS COMMISSION

19.9.1 Introduction

The Public Complaints Commission (Nigeria's Ombudsman) was established by the Federal Government of Nigeria, by virtue of Decree No 31 of 1975 which was amended by decree No. 21 of 1979. The Decree became part of the 1979 Constitution of Nigeria and is now Cap. P37 LFN 2004.

Appointment, Tenure of Office, etc of Chief Commission and Commissioners

The Commission may establish such number of branches of its offices in the country as may be approved by the National Assembly. A Chief Commissioner (for the Head Office at Abuja) and other Commissions (for the States) are appointed by the National Assembly, for three (3) years in the first instance. They are eligible for re-appointment for a second term of three (3) years, after which they vacate offices.

A commissioner may be removed by the National Assembly at any time. While in office, a commissioner is not expected to hold any other remunerated office, whether in the public or private sector.

19.9.2 COMMISION’S MANDATE

These may be stated as follows:

(a) To investigate and conduct research in Ministries and Departments, private companies and on officials of these Bodies.

(b) To investigate administrative procedures of any court of law in Nigeria

(c) To report crimes in the course or after investigation.

(d) To report any erring officer for disciplinary action.

(e) To interpret policies of Government and advise her and companies.

(f) To make public reports after investigation.

(g) To have access to all information.

(h) To make recommendations especially after pro-active

19.9.3 Powers and Duties of Commissioner

(1) All Commissioners shall be responsible to the National Assembly but the Chief Commissioner shall be responsible for coordinating the work of all other Commissioners.

(2) A Commissioner shall have power to investigate either on his own initiative or following complaints lodged before him by any person, any administrative action taken by:

(a) any Department or Ministry of the Federal or any State (howsoever designated) set up in any State of the Federation.

(b) any statutory corporation or public institution set up by any Government in Nigeria.

(c) any company incorporated under or pursuant to the Companies and Allied Matters Act whether owned by any Government aforesaid or by private individuals in Nigeria or otherwise howsoever; or

(d) any officer or servant of any of the aforementioned bodies.

(3) For the purposes of this Act.

(a) the Chief Commissioner may determine the manner by which complaints are to be lodged.

(b) any Commissioner may decide in his absolute discretion whether and if so, in what manner he should notify the public if his action or intended action in any particular case.

(c) any Commissioner shall have access to all information necessary for the efficient performance of his duties under this act and for this purpose may visit and inspect any premises belonging to any person or body mentioned in subsection (2) of this section.

(d) every Commissioner shall ensure that administrative action by any person or body mentioned in subsection (2) will not result in the commitment of any act of injustice against any citizen of Nigeria or any other person resident in Nigeria and for that purpose he shall investigate with special care administrative acts which are or appear to be:

(i) contrary to any law or regulations

(ii) mistaken in law or arbitrary in the ascertainment of fact.

(iii) unreasonable, unfair, oppressive or inconsistent with the general functions of administrative organs.

(iv) otherwise objectionable; and

(e) a Commissioner shall be competent to investigate administrative procedures of any court or law in Nigeria.

(4) where concurrent complaints are lodged with more than one Commissioner, the Chief Commissioner shall decide which Commissioner shall deal with the matter and his decision thereon shall be final.

(5) all Commissioners and all the staff of the Commission shall maintain secrecy in respect of matters so designated by reason of source or content so however that a commissioner may, in any report made by him disclose such matters as, in his opinion, ought to be disclosed, in order to establish grounds for his conclusions and recommendations.

(6) in the exercise of the powers conferred upon a commissioner by this section, the commissioner shall not be subject to the direction or control of any other person or authority.

(7) it shall be the duty of anybody or person required by a commissioner to furnish information pursuant to subsection (3) (c) of this section to comply with such requirement not later than thirty days from receipt thereof.

6 (1) A commissioner shall not investigate any matter

(a) that is clearly outside his terms of reference

(b) that is pending before the National Assembly, the National Council of State or the National Council of Ministers

(c) that is pending before any court of law in Nigeria

(d) relating to anything done or purported to be done in respect of any member of the Armed Forces in Nigeria or the Nigeria Police under the Nigerian Army Act, the Navy Act, the Air Force, or the Police Act as the case may be.

19.10 THE FINANCIAL REPORTING COUNCIL OF NIGERIA ACT 2011

19.10.1 ESTABLISHMENT

There is established the Financial Reporting Council of Nigeria

The Council shall be :

i. a body corporate with perpetual succession and a common seal ; and

ii. may sue and be sued in its corporate name.

The Council may acquire, hold or dispose of any property, moveable or immoveable, for the purpose of carrying out its function

19.10.2 COMPOSITION

There is established for the Council, a Board (in this Act referred to as "*the Board*") which shall have overall control of the Council.

The Board shall consist of :

(*a*) a Chairman who shall be a professional accountant with considerable professional experience in accounting practices ;

(*b*) two representatives from the Association of National Accountants of Nigeria ; and

(*c*) two representatives from the Institute of Chartered Accountants of Nigeria ;

(*d*) one representative from each of the following :

(*i*) Office of the Accountant General of the Federation ;

(*ii*) Office of the Auditor General for the Federation ;

(*iii*) Central Bank of Nigeria ;

(iv) Chartered Institute of Stockbrokers ;

(*iv*) Chartered Institute of Taxation of Nigeria ;

(*vi*) Corporate Affairs Commission ;

(*vii*) Federal Inland Revenue Service ;

(*viii*) Federal Ministry of Commerce ;

(*ix*) Federal Ministry of Finance ;

(*x*) Nigerian Accounting Association ;

(*xi*) Nigerian Association of Chambers of Commerce, Industries, Mines and Agriculture ;

(*xii*) Nigerian Deposit Insurance Corporation ;

(*xiii*) Nigerian Institute of Estate Surveyors and Valuers ;

(*xiv*) Securities and Exchange Commission ;

(*xv*) National Insurance Commission ;

(*xvi*) Nigerian Stock Exchange ;

(*xvii*) National Pension Commission ; and

(*e*) the Executive Secretary of the Council.

The Chairman shall be appointed by the President, on the recommendation of the Minister and the members shall be recommended by their various professionals or statutory bodies to the Minister for appointment by the President.

(2) The Chairman and other members of the Board shall each hold office : for a term of 4 years in the first instance and may be reappointed for a further term of 4 years and no more ; and on such terms and conditions as may be specified in their letters of Appointment :provided that in appointing the Chairman and the Executive Secretary, due cognizance shall be taken to ensure fair representation of accounting bodies established by Acts of National Assembly.

19.10.3 CEASATION OF MEMBERSHIP

A person shall not be appointed or continue to hold office as a member of the Board if—

(*a*) he becomes bankrupt, suspends payment or compounds with his creditors ;

(*b*) he is convicted of a felony or any offence involving dishonesty or fraud ;

(*c*) he becomes of unsound mind, or incapable of carrying out his duties ; and

(*d*) he is guilty of serious misconduct in relation to his duties ; and

(*e*) in the case of a person who possessed professional qualifications, he is disqualified or suspended, other than at his own request, from practising his profession in any part of the world by an order of a competent authority made in respect of that member.

19.10.4 DISQUALIFICATION FROM MEMBERSHIP.

The seat of a member shall become vacant if—

(*a*) he resigns ;

(*b*) he becomes disqualified from membership under section 4 of this Act ;

(*c*) he no longer holds the office by virtue of which he became a member ;

(*d*) he has been absent from 3 consecutive meetings or 3 quarters of the meetings of the

Board during a financial year without any leave from :

(*i*) the Minister, in the case of the Chairman ; or

(*ii*) the Chairman, in the case of any other Board member.

A member of the Board may resign his appointment by a notice in writing, addressed to the President, and that member shall, on the date of receipt of the notice by the President, cease to be a member of the Board, or if the President is satisfied that it is not in the interest of the Board or in the interest of the public for the person appointed to continue in office, the president may on the recommendation of the Minister, notify the person in writing to that effect. A vacancy of the seat of a member created by virtue of sections 4 and 5 shall be filled not later than 30 days from the date of the occurrence of the vacancy. A person appointed under sub-section (1) of this section shall hold office for the remainder of the term for which the vacating member was appointed.

19.10.5 POWERS OF THE COUNCIL

The Council shall have powers to do all things necessary for or in connection with the performance of its functions.

The Council shall have the power to :

(*a*) enforce and approve enforcement of compliance with accounting, auditing, corporate governance and financial reporting standards in Nigeria ;

(*b*) enter into such contracts as may be necessary or expedient for the purpose of discharging its functions ;

(*c*) borrow such sums of money or raise such loans as it may require for the purpose of discharging its functions ;

(*d*) co-operate with, or become a member or an affiliate of any similar international body the objects or functions of which are similar to, or connected with those of the Council ;

(*e*) exercise such powers as are necessary or expedient for giving effect to the provisions of the Act ;

(*f*) require management assessment of internal controls, including Information Systems controls with independent attestation ;

(*g*) require code of ethics for financial officers and certification of financial statement by Chief Executive Officer and Chief Financial Officer ;

(*h*) require entities to provide real time disclosures on material changes in financial conditions or operations ; and

(*i*) pronounce forfeiture, by Chief Executive Officers and Chief Financial Officers, of certain bonuses received from the company and profits realized from the sale of company shares owned by them, where the company is required to prepare an accounting restatement.

19.10.6 FUNCTIONS OF THE COUNCIL.

The Council shall—

(*a*) develop and publish accounting and financial reporting standards to be observed in the preparation of financial statement of public interest entities ;

(*b*) review, promote and enforce compliance with the accounting and financial reporting standards adopted by the Council ;

(*c*) receive notices of non-compliance with approved standards from preparers, users, other third parties or auditors of financial statements ;

(*d*) receive copies of annual reports and financial statements of public interest entities from preparers within 60 days of the approval of the Board ;

(*e*) advise the Federal Government on matters relating to accounting and financial reporting standards ;

(*f*) maintain a register of professional accountants and other professionals engaged in the financial reporting process ;

(*g*) monitor compliance with the reporting requirements specified in the adopted code of corporate governance ;

(*h*) promote compliance with the adopted standards issued by the International Federation of Accountants and International Accounting Standards Board ;

(*i*) monitor and promote education, research and training in the fields of accounting, auditing, financial reporting and corporate governance ;

(*j*) conduct practice reviews of registered professionals ;

(*k*) review financial statements and reports of public interest entities ;

(*l*) enforce compliance with the Act and the rules of the Council on registered professionals and the affected public interest entities ;

(*m*) establish such systems, schemes or engage in any relevant activity, either alone or in conjunction with any other organization or agency, whether local or international, for the discharge of its functions ;

(*n*) receive copies of all qualified reports together with detailed explanations for such qualifications from auditors of the financial statements within a period of 30 days from the date of such qualification and such reports shall not be announced to the public until all accounting issues relating to the reports are resolved by the Council ;

(*o*) adopt and keep up-to-date accounting and financial reporting standards, and ensure consistency between standards issued and the International Financial Reporting Standards ;

(*p*) specify, in the accounting and financial reporting standards, the minimum requirements for recognition, measurement, presentation and disclosure in annual financial statements, group annual financial statements or other financial reports which every public interest entity shall comply with, in the preparation of financial statements and reports ;

(*q*) develop or adopt and keep up-to-date auditing standards issued by relevant professional bodies and ensure consistency between the standards issued and the auditing standards and pronouncements of the International Auditing and Assurance Standards Board

(*r*) perform such other functions which in the opinion of the Board are necessary or expedient to ensure the efficient performance of the functions of the Council.

19.10.7 FUNCTIONS OF THE BOARD.

The Board shall—

(*a*) determine broad strategies and priorities ;

(*b*) set out budget, secure the necessary funding and monitor expenditure ;

(*c*) appoint the Directors and other senior management staff ;

(*d*) oversee the delivery by each directorate of their functions, through regular reports from the directorates' coordinating directors ;

(*e*) oversee the performance of the executive through regular reports from the Chief Executive Officer ;

(*f*) ensure that the Council and its directorates achieve high levels of accountability and transparency ;

(*g*) undertake annual assessment of the risks to the success of the operations of the Council and oversee the necessary risk mitigation plan

(*h*) undertake annual evaluation of its own performance, and that of its committees and operating bodies, against its objectives, including a reviewof the schedule of matters reserved to the Board.

19.10.8 OBJECTIVES OF THE COUNCIL

The objectives of the Council shall be to—

(*a*) protect investors and other stakeholders interest ;

(*b*) give guidance on issues relating to financial reporting and corporate governance to bodies listed in sections 2 (2) (*b*), (*c*) and (*d*) of this Act ;

(*c*) ensure good corporate governance practices in the public and private sectors of the Nigerian economy ;

(*d*) ensure accuracy and reliability of financial reports and corporate disclosures, pursuant to the various laws and regulations currently inexistences ;

(*e*) harmonize activities of relevant professional and regulatory bodies as relating to Corporate Governance and Financial Reporting.

19.11 SUMMARY

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.

19.12 END-OF-CHAPTER REVIEW QUESTIONS

Section A

1. The Commission responsible for compelling any person or government institution to disclose information relating to public revenue and expenditure is

A. Economic and Financial Crimes Commission
B. Fiscal Responsibility Commission
C. Audit Committee
D. Public Complaints Commission
E. Security Service Commission

2. Which of the following tiers of government funds the Fiscal Responsibility Commission?

A. The Local Government
B. The State Government
C. The Federal Government
D. The National Assembly
E. The Local Council Legislature

3. Who of the following will serves as the Chairman of the National Council on Public Procurement?

A. The Auditor-General for Federation
B. The Accountant-General of the Federation
C. The Revenue Collector D.
The Minister of Finance E.
The Budget officer

4. Which of the following Ministries has a representative on the Board of the EFCC?

A. Ministry of Education
B. Ministry of Power and Steel
C. Ministry of Works
D. Ministry of Agriculture
E. Ministry of Justice

5. The body established by Act of Parliament No 5 of December, 2002, which has the power to enforce the provisions of the Bank and Other Financial Institution Act is called..................

6. The ICPC composition has a Chairman and twelve other members, two of whom shall come each from..................

7. The Chairman of the ICPC is required, according to the Corrupt Practices and other Related Offences Act, 2000, to hold office for a maximum of................ years aggregate on re-election.

8. The Body that has the power to prosecute directly without recourse to the Attorney-General,s office is........................

9. The Securities and Exchange Commission was established by............ after the repeal of Investment and Securities Act, 1999.

10. The means of effecting payment for and receipts of government business transactions through on-line transfer is called.............

Section B

1. (a) The Fiscal Responsibility Commission was established by the Fiscal Responsibility Act 2007 – Outline the following
   - (i) Composition of the Commission
   - (ii) Qualification and appointment of members to the Commission

   (b) State **SIX** each of the functions and powers of the Commission.

2. The Public Procurement Act 2007 established the National Council on Public Procurement.

Required:

(i) State the composition of the Council
(ii) List **SIX** functions of the Council
(b)i. What are the objectives of the Bureau of Public Procurement?
ii. List **EIGHT** each of the powers and functions of the Public Procurement

3.(a) Part 1 of the Third Schedule of 1999 Constitution established the Code of Conduct Bureau
   - (i) State the composition of the Code of Conduct Bureau
   - (ii) State **SIX** powers of the Code of Conduct Bureau

(b) Outline the punishment which can be imposed by the Code of Conduct Tribunal, where a public officer is found guilty of contravention of any of the provisions of the Code of Conduct.

4(a) The EFCC was established by Act No 5 of 2002 to combat economic and financial crimes in Nigeria.

Required:
   - (i) Outline the composition of the Commission
   - (ii) Enumerate **EIGHT** functions of the Commission.
   - (iii) In line with paragraph 6 of the Act, state **THREE** powers of the Commission

(b)i The ICPC was established by the corrupt practices and other Related Offences Act, 2000. State the composition of the Commission.

ii. State **EIGHT** functions of the Commission

iii. Compare and contrast the EFCC and ICPC

SOLUTION TO END OF CHAPTER REVIEW QUESTIONS

Section A

1. B
2. C
3. D
4. E
5. EFCC
6. Six-geo-political zones of the Nation
7. 10 years
8. EFCC
9. Investment and Securities Act 2007
10. E-payment

Section B

1. a (i) **COMPOSTION OF THE COMMISSION**
   - A Chairman, who shall be the Chief Executive and Accounting Officer of the Commission.
   - One member from and representing
   - The organised private sector
   - Civil society – engaged in cases relating to probity, transparency and good governance.
   - The organised labour.
     - Federal Ministry of Finance – of a level not below the rank of a Director.
     - Each geo-political zones of the country namely:- North Central, North East, North West, South East, South South and South West.

(ii) **QUALIFICATION AND APPOINTMENT OF MEMBERS TO THE COMMISSION**

- All members of the commission shall be persons of unquestionable integrity

- All members must possess qualifications of not less than 10 years cognate post qualification experience.
- The Chairman and other members of the commission other than the ex-officio members shall be appointed by the President subject to confirmation by the Senate.
- The Chairman and members of the commission representing the six geo-political zones shall be full time members.

b (i) **FUNCTIONS OF FISCAL RESPONSIBILITY COMMISSION**

- To compel any person or government institution to disclose information relating to public revenues and expenditure.
- To cause an investigation into whether any person has violated any provisions of the Acts.
- To forward a report of any investigation against any person to the Attorney-General of the Federation for possible prosecution.
- To monitor and enforce the provisions of this Act.
- To undertake fiscal and financial studies, analysis and disseminate the result to the general public.
- To disseminate standard practices that will result in the Effective allocation and management of public expenditure, revenue

(ii) **POWERS OF THE COMMISISON**

- Power to provide general policy guidelines for the implementation of the functions of the commission
- Power to supervise the implementation of the policies of the commission
- Power to appoint employee required for of the commission.
- Power to determine and approve the terms and conditions of service including the disciplinary measures for the employees of the commission.
- Power to fix the remuneration, allowances and benefits of the employees of the commission.
- Power to regulate its proceedings in respect if meetings, notices and keeping of minutes as may be determined by the commission.
- Power to perform any other functions as may be deemed to ensure efficient performance of the commission.

2.a (i) **COMPOSITION OF THE NATIONAL COUNCIL ON PUBLIC PROCUREMENT**

The Council shall consist of:

- The Minister of Finance as Chairman
- The Attorney-General and Minister of Justice of the Federation
- The Secretary to the Government of the Federation

- The Head of Service of the Federation
- The Economic Adviser to the President
- Six-Part-Time members to represent:
  - Nigeria Institute of Purchase and Supply Management
  - Nigeria Bar Association
  - Nigeria Association of Chambers of Commerce, Industry, Mines and Agriculture
  - Nigeria Society of Engineers
  - Civil Society
  - The Media

The Director-General of the Bureau who shall be the Secretary of the Council.

(ii) **FUNCTIONS OF THE NATIONAL COUNCIL ON PUBLIC PROCUREMENT**

- To consider, approve and amend the monetary issues relating to the Act.
- To consider and approve policies on public procurement
- To approve the appointment of the Director of the Bureau
- To receive, review, consider and approve the audited accounts of the Bureau of Public Procurement
- To approve changes in the procurement process to adapt to improvements in modern technology
- To perform such other functions as may be deemed necessary to achieve the objectives of the Act.

This is established by the Public Procurement Act 2007

2 b (i) **OBJECTIVES OF THE BUREAU OF PUBLIC PROCUREMENT**

- The harmonisation of existing government policies and practices on public procurement
- The establishment of pricing standards and benchmarks
- Ensuring the application of fair, competitive, transparent and standard practices for the procurement and disposal of public assets and services
- The attainment of transparency, competitiveness and professionalism in the public section procurement system

b (ii)- **FUNCTIONS OF THE BUREAU OF PUBLIC PROCUREMENT**

- To formulate the general policies and guidelines relating to public sector procurement.
- To supervise the implementation of established procurement policies.
- To monitor the prices of tendered items and keep a national database of standard process.
- To publish the details of major contracts in the procurement journal.
- To publish papers and electronic editions of the procurement journal.

- To maintain a national database of the particulars and classification and categorisation of federal contractors and service providers.
- To collate and maintain in a database for all federal procurement plans and information.
- To undertake procurement research and survey.
- To organise training and development programmes for procurement professionals.
- To prepare and update standard biding and contract document.
- To prevent fraudulent and unfair procurement and where necessary apply administrative sanctions.
- To review the procurement and award of contract procedures of every entity to which the Act applies.

b ii.- **POWERS OF THE BUREAU OF PUBLIC PROCUREMENT**

The bureau shall have the power to:

- To review and or inspect any procurement transaction to ensure compliance with the provisions of the Act.
- To review and determine whether any procuring entity has violated any provision of this Act.
- To stop and blacklist any supplier, contractor or service provider that contravene any provision of this Act.
- To maintain a national database of federal contractors and service providers.
- To maintain a list of firms and persons that have been debarred from participating in public procurement activity and publish them in the procurement journals.
- To investigate any aspect of any procurement proceeding where a breach, default, mismanagement and or collusion has been alleged, reported or proved against a procuring entity or service provider.
- To recommend to the Council where there are persistent breaches of this Act or regulations for suspension, replacement, discipline and temporary transfer of any officer of any procuring entity or of the Council.
- To act upon complaints in accordance with the procedures set out in this Act.
- To nullify the whole or any part of any procurement proceeding or award which in contravention of this Act.
- To enter into contract or partnership with any company, firm or person which in its opinion will facilitate the discharge of its functions.

3 (i) **COMPOSITION OF THE CODE OF CONDUCT BUREAU**

Code of Conduct Bureau shall consist of the following:

i. A Chairman

ii. Nine other member each of whom at the time of appointment shall not be less than fifty year of age and vacate his office on attaining the age of seventy years.
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.

ii **POWERS OF CODE OF CONDUCT BUREAU**

The code of Conduct bureau was set up to:

a) Receive declarations by public officers made under paragraph 12 of Part I of the 5^{th} schedule of the 1999 constitution.
b) Examine the declarations in accordance with the requirement of the code of conduct or any law.
c) Retain custody of such declaration and make them available for inspection by any citizen of Nigeria on such items 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 complains about non-compliance with or breach of the provisions of the code of conduct or any law in relation thereto.
f) Investigate the complain above and where appropriate refer such matters to the Code of Conduct Tribunal.
g) To carry out any other function as may be conferred upon it by the National Assembly.

b. **PUNISHMENT BY THE CODE OF CONDUCT TRIBUNAL ON ANY PUBLIC OFFICER GUILTY OF ANY OF THE PROVISIONS OF THE CODE OF CONDUCT BUREAU**

1. Vacation of office seat in any legislative house
2. Prosecution of the public officer in a court of law
3. Disqualification frown membership of a Legislative House and from holding any public office for a period not exceeding ten years.
4. Serve penalties imposed by any law where the conduct is a criminal offence
5. Seizure and forfeiture to the state any property acquired through the abuse or corruption of office.

4(a) **COMPOSITION OF ECONOMIC AND FINANCIAL CRIMES COMMISSION (EFCC)**

According to the Act of parliament No. 5 of December 2002, the Commission shall consist of the following members:

a) A chairman, who shall be the chief executive and Accounting Officer of the Commission and shall be 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 Central Bank or his representative

d) A representative each of the following Federal Ministries not below the rank of Director;
   i. Foreign Affairs Ministry
   ii. Ministry of Finance
   iii. Ministry of 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, Nigeria Postal Service

k) The Chairman, Nigeria Communication Commission

l) The Comptroller General, Nigeria Customs Service

m) The Comptroller General, Nigeria Immigration Service

n) A representative of Nigeria Police Force not below the rank of Assistant Inspector General.

o) Four eminent Nigerians with vast experience in finance, banking or accounting.

(ii) **FUNCTIONS OF EFCC**

a. Enforcement and due administration of the provisions of the Act.

b. Investigation of reported cases of financial crimes such as Advance Fee Fraud {419}, money laundering, counterfeiting, illegal charge transfer, contract scam, forgery of financial instrument, issuance of dud cheques etc.

c. Adoption of measures to identify, trace, freeze confiscate or seize proceeds derived from terrorist activities.

d. Adoption of measures to identify, trace, freeze and seize proceeds derived from financial crime related offences.

e. Adoption of measures to eradicate and prevent the commission of economic and financial crimes with a view to identifying individuals, corporate bodies or groups involved.

f. Determination of the extent of financial loss and such other losses by government, private individuals' and organisations.
g. Collaboration with government bodies within and outside Nigeria in carrying out the functions of the Act.
h. Dealing with matters connected with extradition, deportation and mutual, legal or other assistance between Nigeria and any other country involving economic and financial crimes.
i. The collection, analysis and dissemination of all reports relating to suspicious financial transactions to all relevant government bodies.
j. Carrying out and sustaining public enlightenment campaign against economic and financial crimes within and outside Nigeria.

iii **POWERS OF THE COMMISSION**

Under paragraph 6 of the Act, the Commission has power to:-

a. Conduct investigation or cause investigation to be conducted as to whether any person has committed an offence under the Act.
b. Cause investigation to be conducted into the properties of any person if it appears to the Commission that the person lifestyle and exter of his properties are not justified by his source of income
c. Power to enforce the provisions of
   i. The Bank and Other Financial Institution Act 1991 (as amended)
   ii. The Failed banks (Recovery of Debts) Finance Malpractices in Banks Act 1994 (as amended)
   iii. The advance fee fraud and other related offence Act 1994
   iv. The money laundry ACT 1995
   v. The Miscellaneous offence Act

b. (i) **COMPOSITION OF THE INDEPENDENT CORRUPT PRACTICES AND OTHER RELATED CRIMES** COMMISSION {ICPC}

The Commission shall consist of a chairman and twelve other members, two of whom shall come from each of the six geo-political zones as follows:

a. A legal practitioner with at least 10 years post call experience.
b. A retired judge of a superior court of record
c. A retired police officer not below the rank of commissioner of police
d. A retired public servant not below the rank of a director
e. A woman
f. A chartered accountant
g. A youth not less than 21or more than 30 years of age at the time of his or her appointment.

The Chairman shall be a person who held or qualified to hold office as a judge of a superior court of record in Nigeria.

ii FUNCTIONS OF ICPC

a. To receive and investigate any report of the conspiracy by any person or group of person who have committed or attempt to commit an offence under the Act.
b. To prosecute those who are found to have committed any offence under the Act after the investigation.
c. To examine the systems, practice and procedures of public bodies such as Ministries, state, local government or any parastatals.
d. To give supervisory advice to public bodies whose practice systems and procedures are likely to be susceptible to fraud or corruption
e. To advise, educate and help any officer, Agent, board or parastatals on the set of programmes that can be embarked upon to eliminate or reduce to the nearest minimum, the incidence of fraud and corruption.
f. To intimate the Accounting Officers in the public bodies of any changes effected in the procedures and systems of administration as it concerns their Ministries, Parastatals or Departments.
g. To educate the public bodies on the methods of detecting, preventing and arresting fraud, bribery, corruption and related offence in their Ministries parastatals or Department.
h. To educate the public against offences likely bribery, corruption, forgery, impersonation, advance fee fraud and other related offences.
i. To instruct the executives on how to detect, prevent and reduce to acceptable, level, incidence of corruption and related offences.
j. To involve the general public in waging war against corruption.

iii DIFFERENCES BETWEEN EFCC AND ICPC

a. The EFCC is primarily charged with the responsibility of enforcing laws relating to banking, money laundering, Advance Fee Fraud{419} miscellaneous offences and other related offences **while** the ICPC is to enforce laws relating to fraud, corruption and embezzlement of funds in relation to public services.

b. The EFCC does not have any time limitation as to when a crime was committed **while** the ICPC is limited in time to those offences committed from year 2000.

c. The EFCC has power to prosecute directly without recourse to the Attorney General's Office **while** the ICPC can only prosecute through the Attorney General's Office.

CHAPTER TWENTY

PUBLIC SECTOR AUDIT AND AUTHORITY

CHAPTER CONTENTS

20.0 LEARNING OBJECTIVES

After studying this chapter, readers should be able to:-

a. Understand the nature of audit procedures in public sector organisations.

b. Appreciate and understand the technicalities of value-for-Money Audit.

c. Understand how to conduct the audit of government companies and parastatals.

d. Understand how to carry out contract, pension etc audits in government business environment.

e. Understand corporate governance as relating to the roles of management/directors and auditors.

20.1 INTRODUCTION

Public sector is the foremost driver of the economy of any country, with the amount of resources – human and material – committed. The enormity of inputs – money, men and materials – calls for auditing, in the quest for stewardship rendering to the taxpayers. At the apex of the verification process is the Auditor – General for the Federation of Nigeria who, under section 85 of the 1999 Constitution is to ensure that the Executive arm of Government is carrying out its avowed duties with probity,

efficiency, effectiveness and accountability. At the State Level, section 125 of the Constitution caters for the appointment of Auditors – General who replicate the symbol and the role of their Federal counterpart. Public sector auditing is appreciated in the following three major areas of:

(a) A**u**dit of the Treasury Accounts, prepared by the Accountant – General of the Federation.

(b) Audit of the accounts of Corporations, Boards agencies Ministries and Departments at State and Federal Government levels.

20.2 NATURE OF AUDIT/EXTERNAL AND INTERNAL AUDITS

The nature and significance of audit have been highlighted in chapter 14 of this study pack. The 1999 Constitution of Nigeria prescribes the need for the managers of the Nation perform with diligence, candour, professionalism and accountability for independent appraisal.

20.2.1 External and Internal Audits

These are supportive mechanisms to monitor the prudence and caution of the stewards who run the country's affairs, before irreparable damage is done to governance. The topics of external and internal audits have been treated under 14:4:1 to 14:4:3 of the study pack.

20.3 KINDS OF PUBLIC SECTOR AUDIT

Public sector audit is in the following realms:

20.3.1 Audit of the accounts of Federal, State and Local Governments

The Auditor-General for the Federation works within Ninety days of receipts of the Accountant – General's financial statements and submits his report to each House of the National Assembly. Section 85(4) of the 1999 Constitution empowers the Auditor – General to conduct periodic checks of all government statutory corporations, commissions, authorities, agencies, including all persons and bodies established by an Act of the National Assembly."

At the State level, under section 125(5) of the constitution, the Auditor-General has the same number of days to report on the Accountant General"s financial statements and annual accounts to the House of assembly for the appropriate committee for public accounts to consider. Section 125(4) of the 1999 Constitution stipulates that the state Auditor-General has power to conduct periodic checks of all government statutory corporations, commissions, authorities, agencies, including all persons and bodies established by a law of the House of Assembly of the State".

There is the appointment of Auditor-General for Local Governments in each State of the Federation whose role, duties and responsibilities are the same as for the Auditor-

General for the Federation and the state, as discussed above.

20.3.2 Audit of the accounts of corporations, boards and government companies.

The organisations, under their enabling laws, have the right to appoint statutory (external) auditors under the guidance of the State or Federal Auditor-General. The latter also influences the scale of fees payable to the external auditors and has the right to appraise the audited accounts and comment on them. The role of the internal auditor is that of a watchdog of the agency's resources since he is in the establishment all the time. He monitors the effectiveness or otherwise of the existing internal control procedures. The internal auditor performs also „helper role‟ by drawing the attention of management to areas of deficiencies which call for remedy. The statutory (external) auditor is an independent analyst who is disbbed as a coroner because his work is at the end of a year is a post-mortem exercise.

20.3.3 Value – for – Money Audit

It is known by British classification as performance audit. Some authorities refer to it as audit of economy, efficiency and effectiveness" The audit is carried out to determine whether or not a public sector organisation is acquiring or managing its resources which include money, men and materials, economically (cheaply, but not at the expense of quality), efficiently (of the right specification for maximum output) and effectively (for the achievement of the set goals). The evaluation of value-for-money‟ is a procedural audit of the efforts made by management to get the best service or quality product for each naira outlay of the taxpayer‟s money. Bulk purchasing of goods, for example, from producers rather than retailers appears a way of getting value for money in terms of reduced prices and quality acquisition. The drive of this technique is to eliminate or drastically reduce waste, extravagance and fraud.

20.3.4 Conducting specialised Audits of projects on Contracts/Regulatory Audit

Public procurement Act, 2007 imposes obligations on all public sector establishments to comply with the stipulations of the law in acquiring goods and services within the specified thresholds of naira outlay by the appropriate organs of Government. The office of the Auditor-General for the Federation has a project Audit Division which carries out value-for-money audit of projects. This unit conducts compliance audit, using such data as the 1999 Constitution, public Procurement Act of 2007, Appropriation Acts, Budgets and Financial Regulations.

20.3.5 Audit of Gratuities and Pensions

Auditing the payment of gratuities and pensions is to ensure that the claims are bonafide and free from errors and manipulation. The audit is conducted by the pensions unit of Auditor-General‟s Office. Documents required for the verification and authentication include completed pension forms, certified true copy of record of service, debt clearance certificate, photocopy of letter of promotion to the last grade and photocopy of letter of notice of retirement and acceptance.

20.3.6 Audit of Defence and Security Agencies

The transactions and accounts of the Ministry of Defence and security agencies are handled by the Defence and security Division of the Auditor – General‟s Office, under sections 214 to 216 on the Police Force and 217 to 220 on the Armed Forces, of the 1999 Constitution.

20.3.7 Investigative Audits on Fraud and Corruption

There may be probe panels on suspected frauds and acts of corruption. There will be the requirement to have panels drawn from a cross section of professionals to conduct incisive investigations and come up with all the facts and figures that can be relied for offenders to be identified and punished.

20.3.8 Audit of Nigerian Foreign Missions and Agencies

The Office of the Auditor-General has a unit headed by a director which handles the audit of Nigeria‟s foreign missions and agencies. The Internal Audit Division of the Federal Ministry of Foreign Affairs plays a supportive role in the prevention and detection of errors and frauds, and the elimination of extravagance.

20.3.9 Due Process Audit

With the promulgation of the Public Procurement Act of 2007, the drive of the Federal Government of Nigeria is to safeguard the taxpayer‟s money from waste and fraud. Consequently, efficient, integrity-oriented monitoring, enforcement of transparency, probity accountability and value-for money spending are called for as a rule. There is a unit in the Office of the Auditor-General for the Federation, headed by a director, which is working hand-in-hand with the budget Monitoring and pricing

Intelligence Unit in the presidency.

20.4. FINANCIAL AND REGULATORY AUDIT

The two audit concepts stated above are discussed, as follows:

20.4.1 Financial Audit

Financial audit is one in which is carried out so as to ensure that the financial and accounting controls are efficient and that payments are effected only for goods and services of the right quantity and quality ordered and delivered. The technique measures the extent to which the financial statements generated are in consonance with the underlying records, and reflect a true and fair picture during the period under review.

20.4.2 Regulatory Audit

This is „Compliance Audit? It poses questions as, "is the expenditure duly authorised, In accordance with the financial regulations?" "Is there sufficient fund under the head and sub-head of the budgeted expenditure?"

The documents which the compliance auditor may require for conducting his assignment includes the 1999 Nigerian Constitution, Civil service rules, treasury circulars, financial regulations and appropriation Acts.

20.5 VALUE-FOR-MONEY AUDIT

Value-for-money is the idea which seeks maximum benefit from the disposal of scarce resources in the pursuit of public well being. It ensures that programmes and activities are carried out at the least possible cost, but with maximum advantage accruing. In pursuit of these goals, there are three, forerunners, to be achieved. These are economy, „efficiency and effectiveness, briefly discussed as follows:

a. **Economy**

This addresses how economically management acquires resources in the needed quantity and quality at the lowest possible costs.

b. **Efficiency**

There are two ways at looking at „efficiency". The first application is that a given or required level of production is achieved at the minimum outlay of inputs on resources. The second outlook is that maximum qualitative output is obtained with the least expenditure of resources.

c. **Effectiveness**

The concept of effectiveness ensures that the production from a given activity achieves the desired goals set out.

There is interrelationship between the three concepts, discussed above. They are the tripod on which "value-for-money" pursuit rests. „Economy" addresses the issue of thrift and cost management. "Efficiency focuses on "doing a thing well" at the least possible cost. An operation is efficiently conducted if reduced costs are used to obtain a given quantity of output on a specified level of cost has obtained increased output. Effectiveness is finding the right thing to do and doing it well. There is no effectiveness in diligently producing bicycles if the market demand is for motor cars.

20.5.1 Economy and Efficiency Audit

This is an appraisal of economy and efficiency, to bring into the public glare cases of wastefulness, over-invoicing or unrewarding outlay of resources.

20.5.2 Effectiveness Audit

This is an assessment of whether programmes executed to fulfil laid out policy goals have indeed achieved the set objectives. The concept is also referred to as programme results Audit.

20.6 THE AUDITOR, ACCOUNTING AND INTERNAL CONTROL CONCEPT

These may be briefly discussed, as follows:

An Auditor as appreciated earlier is a professional in his field, preferably a Chartered Accountant who verifies the accuracy and integrity of the accounting records and expresses his opinion on the truth and fairness in objectivity or otherwise of the financial statements prepared there from.

Accounting generally is the art of rendering stewardship in respect of the resources placed in one"s care or managed on behalf of another person or group of individuals. From the standpoint of accountancy there are two other definitions, as follows:

(a) Accounting is the science and art of recording, classifying and summarising financial statistics and information. It includes the interpretation of the results obtained for decision making and performance control.

(b) Accounting is the process of identifying, measuring and transmitting public economic information to the members of the public.

Internal control has been defined as "not only internal check and internal audit but the whole system of control, financial or otherwise, established by the management in order to carry on the business in an orderly manner, safeguard its assets and secure as far as possible the accuracy and reliability of its records." It is an embracing term concerned with the safeguard of assets, ensuring accuracy and reliability of records and business conduct in accordance with the law and morality.

20.6.1 Components of Internal Control

The components of internal control included the following:

(a) **Internal check:** This is allocation of duties in such a way that no single individual performs an operation from the meeting to the end. Under this concept, custody, authority, disbursement and recording procedures are distributed that the work of one person is complementary to, or capable of being cross checked by that of another individual, so that errors and frauds can be prevented or detected early.

(b) **Internal Audit**

It is an independent appraisal function within an establishment concerned with the review of the financial accounting and other operations, for constructive and protective service to management. Internal audit evaluates the adequacy or otherwise of the existing internal controls, highlights the inadequacies observed and recommends improvements.

(c) **Administration and Personnel Controls:**

There should be rules and regulations for everybody to obey. The right number and calibre of people should be employed. "Merit" should be the yardstick throughout the organisation. Remuneration and incentives should flow with the level of responsibility carried, technical competence and academic attainments. For motivation, the principle should be "carrot in front and stick at the back" staff should be made happy, but not at the cost of discipline. Recreation and training facilities should be available.

(d) Security Controls

The computer room and other sensitive places should be insulated from indiscriminate entry and exit; there should be burglary proof installations. Patrol and other security personnel should be available for surveillance of the organisation. All movable property should be indentured and inventoried.

(e) Management Controls

These include reviews of systems generally comparison of budgets with actual performance; highlighting divergences and taking corrective measures. Another aspect is segregating administration, personnel and disciplinary units. No official should superintend two units at a time, so as to remove tyranny and oppression.

(f) Accounting Controls

Avoidance of spending extra-budgeted. Effecting ledger postings promptly and extracting Trial balance. Preparation of final accounts on schedule. Electronic receipting and payment of money. Prompt preparation of bank reconciliation statements.

20.7 AUDIT PLANNING

Audit planning embraces reviewing previous year"s work, carefully laying out how he go about the work of the current year, developing a general strategy or approach for the anticipated nature, extent of the audit and the logistics men and materials needed. It includes understanding of the variables such as the environment, the political, economic, legal and social situations that might be prevalent. Audit planning enables the auditor to determine the extent to which controls are reliable. Planning enables the auditor to prepare audit programmes and budget.

20.8 COMPUTER AUDIT

It is worthy of note that the conventional ideas of auditing still apply irrespective of the system of recording and processing transactions. The realisation of the existence of computer environment enables the auditor to consider the following special events:

a. The necessity of using staff who have information technology knowledge and skills.

b. The possibility of having to rely on the existing internal controls and the special computer assisted techniques which can be used.

c. How audit work can be timed to make sure that data to be inputted is readily available for use.

d. The possibility of the problems of visible evidence loss and systematic errors.

20.8.1 MAIN PROBLEMS FACING THE AUDITOR

The main problems associated with computer audit may be briefly discussed, thus:

(a) The auditor has to understand and master how the system processes and procedures accounting data and what controls are operating.

(b) The possibility of loss of a visible audit trail, arising from the reduction in the quantity of printed output. The audit trail is the facility used to trace all transactions through a system from source, to completion (that i, inclusion in a summary figure in the accounts). In view of the fact that management is not exerting control by verifying the individual items processed, computer generated totals analyses and balances are not printed out.

20.8.2 TECHNIQUES WHICH THE AUDITOR USES TO OVERCOME THE PROBLEMS

The techniques include:

(a) Clerical or „manual‟ re-creation of totals from the source documents such as cash books and bank statements.

(b) Obtaining printouts of information, strictly for the auditor‟s use.

(c) Carrying out tests on a totals basis, instead of tracing individual items (for example, comparing analyses with those of previous periods and budgets).

(d) Resorting to the use of computer assisted audit techniques.

(e) Adopting alternative methods (for example, when movements making up stock balances cannot be evaluated, stock taking procedures may be tested).

(f) Using programmed interrogation facilities under which records stored on file are printed out, selectively, by means of a direct request.

20.9 TYPES OF COMPUTER AUDIT

There are two types of computer audit. These are "auditing round the computer" and "auditing through the area". These are briefly discussed, as follow:

20.9.1 **Auditing Round the Computer**

It was traditionally believed that auditors could perform their duties without bothering themselves with the detailed knowledge of what transpired inside the computer. This is "auditing round the computer. Under this approach or concept, auditors would concentrate solely on the input and the emerging output. The procedures of audit included checking authorisation, coding, control totals of input and vouching the output with source documents and clerical controls.

This has many drawbacks which include the following:

- Heavy consumption of paper, computer and printer time.
- The approach has lost its meaning to modern-day technological advancement.
- The complexity of computer system has brought about corresponding loss in audit trail. The loss is un-imaginable with mere "auditing round the computer.
- It is difficult to test the completeness of output in the absence of control totals.

20.9.2 "Auditing Through the Computer"

This approach involves examination of the details of processing aspects of the computer system to ascertain to what extent the controls are in the system sufficient to generate correct and controls complete processing of all input data. Computer-Assisted Audit Techniques (CAATS) are necessary to strengthen the computer audit exercise. They consist of computer programmes which are used by an auditor to

- Execute audit work on the file"s contents.
- Read magnetic files.
- Extract specified information from the files.

20 COMPUTER AUDIT PROCEDURE

The peculiarity of computer-operated accounting environment is that the auditors are availed opportunities of the computer of the organisation or another, to facilitate the performance of the audit work.

Computer Assisted Audit Technique (CAATS) are names of the instruments used in this way. The major categories of computer Assisted Audit Techniques are:

20.10.1 Audit Software: These are programs of computer used for audit purposes, for the verification of the contents of the company's computer file.

20.10.2 Test Data: Data are utilized by the auditors for the computer processing to evaluate the operation of the computer programs of the organization.

20.10.3 The Approach of the Audit: The approach may be briefly discussed, as follows:

(a) Planning the Audit

The planning procedures of the reporting partner include:

- Consulting with the computer audit unit as to the best approach to be adopted.
- Determining the timing and incidence of audit tests.
- Setting audit objectives for each test.
- Considering the use of the specialist services offered by the computer audit section.
- Considering the techniques that can be applied by general audit staff.

b) Controlling the audit work

There ought to be procedures mapped out for:

- Budgeted time on the application of special Techniques.
- Controlling the results emerging from the various tests conducted and following up in the areas where additional assurance is required.

(c) **Recording the Audit Work Done**

Computer Auditing requires:

- A file on the "background to the installation", which will supply details of software, hardware and data processing standards in use and staffing of the data processing unit.
- A permanent file for each system application which will supply, among other things:
  - (i) Systems output and input files and processes.
  - (ii) In non-technical and understandable expression, the aims and objectives of the system.
  - (iii) Descriptions of systems showing:

(1) Source program listing

(2) Flow charts for clerical systems

(3) Block diagram and (or decision tables)

(4) Flow charts for computer systems (Overview charts).

(iv) Specimen layouts of each item stated above.

(v) Internal control questionnaires. The specially designed questionnaires are a future of any systems permanent file. They are used to ascertain and evaluate the system.

20.11 FRAUD AND CORRUPTION

"Fraud" has been defined by the Auditing practice Committee of Accountancy Bodies in the United Kingdom as the "use of deception to obtain an unjust or illegal financial advantage and/or theft, whether or not accompanied by misstatement of accounting records or the accounts."

A "malpractice is an unprofessional or improper conduct which may or may not involve the use of being deception, with a view to make unlawful gain. Malpractices are fraudulent actions.

"Corruption is the quality or description of (impure) dishonest, debase. Corruption and Fraud are malpractices. Consequently, they are criminal and debase. A corrupt system does not reward.
Merit: Mediocrities run its affairs, as wrong people are in the right places.

20.11.1 TYPES OF FRAUD

(a) Recording of transactions without substance, reason or logic.
(b) Misapplication of accounting policies.
(c) Misappropriation of assets such as cash and goods.
(d) Falsification or alteration of records or documents.
(e) Omission or suppression of the effects of transactions from documents or records.
(f) Tax and revenue defalcations involving some agencies of Government.

Individual citizens and companies falsify their tax returns to pay less to the Revenue Services.

(g) Insider dealings: In some Companies, members of Top Management float business which receive goods as wholesalers at or below cost, thereby crippling the economy of the organisations concerned.
(h) Advance fee fraud: Dishonest individuals trick the members of the public into depositing money for goods which are never supplied.

(i) "Round tripping": This is done by using forged documents to buy foreign exchange at the official rate and diverting the money to the "black" or parallel market, where it is sold at big illicit profit.

(j) Unauthorised withdrawal or diversion of funds from customers" accounts and some banks, deposits made by the members of the public are being diverted to the accounts of fraudulent customers with the connivance of bank officials.

20.12 PREVENTING FRAUD AND CORRUPTION

Prevention of fraud and conception is difficult to achieve in the face of quite a number of factors such as the unfair social justice system, inequalities, ethnicity and tribalism. Nonetheless, commission of fraud and corruption can be reduced drastically, based upon the following expectations:-

(a) The gap between the poor and the rich should be closed. There should be employment opportunities, social security and reduction in the cost of living.
(b) Organisations should enhance their internal control systems, to safeguard human and non-human assets.
(c) Efficient and Effective personnel management by:
    (i) Employing the right number and calibre of staff
    (ii) Proper screening of applicants for employment. References should be obtained and gaps in the employment history investigated.
    (iii) Study of the peculiarities of individuals, particularly their lifestyles.
    (iv) Annual leave should be utilised and no solitary overtime permitted.
    (v) Introduction of e-receipt and e-payment measures.
    (vi) Good remuneration and incentives for the personnel.
    (vii) Periodic rotation of staff
    (viii) Introduction and encouragement of internal check procedures.

(d) No arrears of bank reconciliation preparations.
(e) "Not for me alone, but for others, should be the guiding spirit of the workforce.
(f) Justice and fair play should be equitably dispensed.

20.13 SUMMARY

The chapter treated public sector audit, external and internal audits, different types of public sector audit, computer audit, fraud and corruption and prevention. It discussed corporate management with particular emphasis on the roles of directors and auditors.

20.14 REVISION QUESTIONS

1. The code of Ethics for professional Accountants and Auditors states that the virtue of integrity transcends mere..............................

2. When different people are handled differently to match the emerging situations this is the ....concept.

3. The use of deception to obtain an unjust advantage is a................. act.

4. When the auditor does not bother himself with what transpires inside the computer, what is that approach called?

5. What is the allocation of duties in such a way that no single individual performs an operation from the beginning to the end called?

6. What is another name for Regulatory Audit?

7. The foremost driver of a country"s economy is the................. sector.

8. “Audit of economy, efficiency and effectiveness” is also called.............Audit

9. What is the exercise of ensuring that disbursement controls are efficient called?

10. What is “finding the right thing to do and doing it well” called?

SUGGESTED SOLUTIONS

1. Honesty; truthfulness
2. Fairness or Rationality
3. Fraudulent or dishonest
4. “Auditing-Round-The-Computer
5. Internal Check
6. Compliance Audit

7. Public

8. “Value-for-Money

9. Financial Audit

10. Effectiveness

EXAMINATION TYPE QUESTIONS AND SUGGESTED SOLUTIONS

SECTION A **(50 Marks)**

PART 1 MULTIPLE – CHOICE QUESTION

1. The objective of Public Sector Accounting is ....

(i) Ascertaining the economy, efficiency and effectiveness with which the taxpayers‟ money is managed.

(ii) Evaluating the worthwhileness of transactions and their compliance with financial regulations and appropriation Acts and providing information for performance appraisal.

(iii) Obtaining information on how much is provided for capital projects.

(A) I Only
(B) II Only
(C) III Only
(D) I and II
(E) I, II and III

2. Which basis of accounting records financial transactions only when cash is received or paid?

(A) Commitment Basis
(B) Modified Accrual Basis
(C) Cash Basis
(D) Accrual Basis
(E). Modified Cash Basis

3. Under what regulatory framework is Public Sector Accounting grounded?

(i). The Audit Ordinance of 1956

(ii). The Treasury Circulars and Financial Regulations

(iii). The 1999 Constitution of the Federal Republic of Nigeria

(iv). The finance (Control and Management) Act of 1958 (Cap 144, LFN 2004)

(A). I, II, III and IV

(B). I, II and III

(C). II and III

(D). I and II

(E). (iii) and (iv)

4. Into what account are the proceeds of the pay-as-you-earn of the Armed forces, foreign service officers and residents of the Federal Capital Territory paid?

(A). Contingency Fund Account

(B). Consolidated Revenue Fund Account

(C). Development Fund Account

(D). Special Fund Account

(E). Federation Account

5. The Departmental Vote Expenditure Allocation (DVEA) Book assist in

(i). Highlighting the uncommitted balance at a glance.

(ii). Showing Outstanding indebtedness.

(iii). Keeping track of government expenditure

(A). I Only

(B). II Only

(C). III Only

(D). I, II and III

(E). I and II

6. As stated in the Financial Regulations, which of the following is true of the role of the Accountant-General of the Federation of Nigeria?

(i). Operates the Federation Account

(ii). He is the Accounting Officer of the receipts and Payments of Government of Nigeria.

(iii). Prepare and presents the statutory financial statements of the Federal Government.

(A). I Only

(B). II Only

(C). III Only

(D). II and III

(E). III and III

7. The development Fund collects revenue from

(i). Consolidated Revenue Fund

(ii). Internal loans

(iii). External loans

(iv). External grants

(A). I,II,III and IV

(B). II,III and IV

(C). III and IV

(D). I and II

(E). I and III

8. An expenditure Warrant which empowers the Accountant-General of the Federation to fund the payment of salaries as approved in the budget is..

(i). Provisional General warrant

(ii). Supplementary General Warrant

(iii). Annual General Warrant

(A) I Only

(B) II Only

(C) III Only

(D) I and II Only

(E) II and III

9. One of the following uses monetary and fiscal measures of control over public

expenditure.

(A) The Ministry of Finance

(B) The Legislature

(C) The Executive

(D) The Extra-Ministerial Departments

(E) The Treasury

10. One of the following organs approves the Budget of Nigeria.?

(A) The Ministry of Finance

(B) The House of Representatives

(C) The Senate

(D) The National Assembly

(E) The Public Account Committee

11. One of the following evidences the collection of money

A. Adjustment voucher

B. Payment Voucher

C. Journal Proper Voucher

D. Receipt Voucher

E. Journal Voucher

12. What is the purpose of an Adjustment Voucher? (i)

To correct Misposting

(ii) To allocate Unallocated Stores

(iii). To sort out transactions between Ministries. A. I and II

B. I, II and III C. II and III

D. II Only

E. III Only

13. When a payment voucher is reported lost

(i). Do an investigation whether fraud has happened

(ii). Find out whether payment has been effected

(iii). Ascertain whether cash withdrawn from bank is still at hand

A. I and II

B. I, II and III

C. II and III

D. II Only

E. III Only

14. In the Office, limit is imposed on the amount of cash holding so as to

(i) Ensure protection over the Ministry‟s funds.

(ii) Minimise the incidents of fraud commission.

(iii). Reduce the size of losses from fire or burglary.

A. I Only

B. II Only

C. I,II and III

D. I and II

E. II and III

15. The difference between the bank statement balance and that of the cash book may be ascribed to...

(i) Bank Charges

(ii) Wrong Posting

(iii). Standing Orders given to the bank

A. III Only

B. II Only

C. I, II and III

D. I Only

E. II and III

16. Which of the following International Public Sector Accounting Standards discusses the preparation and presentation of Cash flow statements?

A. IPSAS 6

B. IPSAS 5

C. IPSAS 4

D. IPSAS 3

E. IPSAS 2

17. What is the minimum age retirement for joining public service?

A. 12 years

B. 15 years

C. 18 years

D. 21 years

E. 27 years

18. Under the pension Reform Act, 2004, except on the ground of ill-health, at what age is an employee allowed to have access to his contributions?

A. 60 years

B. 55 years

C. 40 years

D. 35 years

E. 50 years

19. The functions of the Accounting Officer of a Ministry include:

(i) Establishing and managing efficient and effective internal control system.

(ii) Ensuring that all revenue due is collected and accounted for.

(iii) Ensuring that all payments made are for goods and services provided for.

A) I, II and III

B) I and II

C) II and III

D) I Only

E) II Only

20. According to Financial Regulation No. 109 of January, 2009 the functions of the Auditor-General for the Federation of Nigeria include:

(i) Ensuring that funds are utilised as approved by the National Assembly.

(ii) Value-for-Money Audit

(iii) Audit of the Accountant-General's yearly financial statements.

A) I, II and III

B) II and III

C) I and III

D) I Only

E) II Only

21. Which of the following is true of a revenue collector?

(i) He is to safeguard all public money, securities and paper money entrusted. (ii) He is responsible to the Accounting officer of the Ministry.

(iii) He classifies all his collections under various heads and sub-heads.

A. III Only B.

II Only C. I

Only

D. I, II and III E.

II and III

22. In line with section 84 of the Constitution of the Federal Republic of Nigeria, the following officers" remuneration and allowances are directly charged to the consolidated Revenue fund, except those of the:

A. President

B. President and Judge of the Customary Court of Appeal of a State.

C. Inspector-General of Police

D. Chief Justice of Federation

E. Auditor-General for the Federation

23. All the following, except ONE, belong to the Executive arm of Government.

A. Minister.

B. A Local Government Treasurer.

C. A State Governor.

D. The president of the senate.

E. The President of Ghana.

24. In a parastatal's accounting, which of the following is not revenue expenditure?

A. Salaries and Allowances.

B. Maintenance cost of Motor Vehicles.

C. Building Construction Cost.

D. Stationery Cost.

E. Printing Cost.

25. In Ghana, internally generated revenue items include;

(i) Fees collected by the Passport Office of the Ministry of Foreign

Affairs.

(ii) Academic facility user Fees (AFVF) of the Universities.

(ii) Product Testing Fees received by the Standards Board.

(iii) Fees collected by the Vehicle Examination and Licensing Department.

A. I, II and III

B. I, II, III and IV

C. II and III

D. I and III

E. I and IV

26. Which **ONE** of the following is not ceded revenue item given to the District Assemblies in Ghana?

A. Rates and levies on animals.

B. Entertainment Duty.

C. Casino Collections.

D. Betting Tax.

E. Advertisement Tax.

27. The following are the advantages, except ONE, of fund accounting:

A. It ensures financial Control.

B. It is used to highlight government policy.

C. It lends itself to ease of operations.

D. It facilitates coordination and planning of operations

E. Assets are written off in the years of purchase.

28. The money which is set aside by Government to support projects which are financed by foreign donations is

A. Revolving Fund

B. Intra-governmental Service Fund.

C. Debt Service Fund

D. Counterpart Fund

E. Capital Project Fund

29. The Federal Government of Nigeria approve the following agencies to collect revenue **EXCEPT:**

A. Nigerian National Petroleum Corporation.

B. Federal Inland Revenue Service.

C. Nigeria Railway Corporation

D. Nigeria Customs Service

E. Nigerian Prisons Service.

SOLUTION TO MULTIPLE CHOICE QUESTIONS

SECTION A

1) **E**
2) **C**
3) **A**
4) **B**
5) **D**
6) **E**
7) **A**
8) **C**
9) **B**
10) **D**
11) **D**
12) **B**
13) **B**
14) **C**
15) **C**
16) **E**
17) **B**
18) **E**
19) **A**
20) **A**
21) **D**
22) **C**
23) **D**

24) C

25) B

26) A

27) E

28) D

29) E

PART II SHORT ANSWER QUESTIONS

1. What is the procedure by which fund is transferred from one subhead to another, within the same head of expenditure is called?
2. The principle of double entry says that for every debit entry there is a corresponding .... entry
3. What is the fund kept by Government to cater for unforeseen and natural disaster?
4. What is the document which is similar to journals in the private sector and is utilised in Government for correcting errors?
5. Another name for a Trial Balance is................................
6. What imprest is retired immediately the purpose for which it is granted is achieved?
7. What is the technique for ensuring that there is strict compliance with the openness, competitiveness and cost accuracy, rules and procedures in the awards of public contracts?
8. In the operation of selective tenders, the number of contractors competing should not be less than........................
9. What stock Valuation method makes issues at the price of the most recent purchase made?
10. The fund which is set aside on a contract to meet expenses on defects later detected is..................................
11. Which account keeps the accruing revenue shared by the three tiers of Government of Nigeria?
12. Under what provision of the Constitution of 1999 of Nigeria are the salaries of statutory officers charged directly to the Consolidated Revenue Fund?

13. Who issues Warrants to incur expenditure from the contingencies Fund?
14. Sales of goods and provision of services are examples of ....activities for the preparation of cashflow statements.
15. Recurrent expenditure of Government is chargeable to the .... Fund
16. Who is the Accounting Officer of a Local Government?
17. The procedure to ensure efficient and effective collection of government money is known as..........................
18. Membership of the fiscal Responsibility Commission includes .... representatives from the (geo-political zones of Nigeria.
19. Parastatals are legal persons which can sue and be ....
20. The assessment of whether Public Sector (Programmes executed have indeed achieved the set objectives is .... audit.

SOLUTION TO SHORT ANSWERS

1. Virement
2. Credit
3. Contingencies Fund
4. Adjustment voucher
5. Transcript
6. Special Imprest
7. Due process
8. Five (5)
9. LIFO (Last in First Out)
10. Retention money
11. Federation Account
12. Section 84
13. Minister of Finance
14. Operating
15. Consolidated Revenue Fund
16. Chairman
17. Revenue Control
18. Six (6)
19. Sued
20. Effectiveness

EXAMINATION TYPE QUESTIONS AND SUGGESTED SOLUTIONS

SECTION B **50 MARKS**

Six (6) questions, out of which candidates are expected to answer any four attracting $12\frac{1}{2}$ Marks

The following information have been extracted from the books of ONAIYANU LOCAL GOVERNMENT for the year ended 31 Dec, 2016:

<u>ASSETS AND LIABILITIES</u>	**N'000**
Cash at hand	42
Bank Balance	228
Fixed deposit	25,000
Ordinary shares in Agbelere Ltd	29,810
Other Investments	10,000
Advances:	
Motor Vehicles	200
Motor Cycles	120
Deposit Liabilities	1,000
Deposits:	
Land	2,000
Houses	1,000
Savings Account	50

You are given the following additional information on the revenue and expenditure for the year:

Head	Description	Amount(N"000)
1001	Licences	13,000
1002	Fees	25,000
1003	Fines	14,000
1004	Rent on Property	16,500
1005	Taxes	42,750
1006	Interest on investment	250
1007	Interest on Fixed deposit	120

2001	Personnel Department	18,780
2002	Accounts Department	9,320
2003	Office of the Chairman	13,540
2004	Public Relations Department	1,190
1008	Statutory Allocation	50,560
1009	General Grants	40,440
2005	Cottage Hospital	7,000
2007	Agriculture Department	22,000
1010	Sale of yam tubers	120
2008	Office of the Secretary	31,000
1011	Miscellaneous	50,000
2009	Capital Expenditure	100‟000

The General Revenue Balance on 1st January, 2016 was N1,000,000. The accounts were coded „1‟ for revenue and „2‟ for expenditure.

Prepare;

(a). Statement of Revenue and Expenditure for the year ended 31 December, 2016.

(b). Statement of Assets and Liabilities as at that date.

Suggested Solution

ONIYANU LOCAL GOVERNMENT

(a). Statement of Revenue and Expenditure

For the year ended 31 December,2011

REVENUE:

Head	Description	N‟000	N‟000
1001	Licences	13,000	
1002	Fees	125,000	
1003	Fines	14,000	
1004	Rent on property	16,500	
1005	Taxes	42,750	
1006	Interest on Investment	250	
1007	Interest on Fixed Dep.	120	
	Deposits		
1008	Statutory Allocation	50,560	
1009	General Grants	40,440	

1010	Sale of yam tuber	120	
1011	Miscellaneous Receipts	50,000	
			352,740
EXPENDITURE			
2001	Personnel Department	18,780	
2002	Accounts Department	9,320	
2003	Office of the Chairman	13,540	
2004	Public Relation Dept.	1,190	
2005	Cottage Hospital	7,000	
2006	Agriculture Dept.	105,460	
2007	Office of the Secretary	31,000	
2008	Capital Expenditure	100,000	
			(286,290)
Excess of Revenue Over Expenditure			66,450
General Revenue Balance c/f			1,000
General Revenue Balance b/f			67,450

(B) Statement of Assets and Liabilities

As at 31 December, 2016

ASSETS	N"000
Ordinary Shares in Agbelere Ltd	29,810
Other Investments	10,000
Fixed Deposit	25,000
Advances	
Motor Vehicles	200
Motor Cycles	120
Deposits	
Land	2,000
Houses	1,000
Savings Account	50
Bank	228
Cash	42
	68,450
PRESENTED BY:	
Deposit Liabilities	1,000
General Revenue Balance	67,450
	68,450

Total $12^{1/}{}_{2}$ Marks

Question 2

The bank column of the cash book of OLUSY College of Education of Idanre State of Nigeria showed a debt balance of ₦10,632,400. When the bank statement had a credit balance of N16,549,004. Further examination of available records has revealed the following:

(i) Direct credits to the bank:

		₦
(i)	Monthly subvention by Government	6,000,000
(ii)	Dividend Warrants:	
	Guinness Nig. Plc	25,024
	Nigerian Breweries Plc	30,210
(iii)	Interest on fixed deposit	36,600
(iv)	Interest received on Treasury Bills	52,000

(2) Direct Debits at the bank:

		₦
(i)	Bank charges (COT)	60,600
(ii)	Standing order on insurance policy	32,000
(iii).	Charges for cheque book	2,630

(3) A payment by cheque of N45,000 was wrongly posted to the debit side of the Cash book.

(4) The particulars of unpresented cheques are:

	₦
OXB12	700,000
OXB16	21,000
OXB27	49,000

(5) Uncredited cheques were:

Slip	1024	419,000
Slip	651	281,000
Slip	147	112,000

You are required to prepare:

(a)Adjusted Cash Book

(b) Bank Reconciliation Statement as at 31st December, 2016. (12 1/2 Marks)

Suggested Solution to Question 2

OLUSY COLLEGE OF EDUCATION

Adjusted Cash Book

	₦		₦
Balance b//d	10,632,400	Bank Charges (COT)	60,600
Subvention from govt.	6,000,000	Standing Order:	
Dividend Warrants:		Insurance premium	32,000
Guinness Nig Plc	25,024	Bank Charges for cheque book	2,630
Nigerian Breweries plc	30,210		
Interest on fixed deposit	36,600	Correction of wrong posting	90,000
Interest on Treasury Bills	52,000	Balance c/d	16,591,004
	16,776,234		16,776,234
Balance b/d	16,591,004		

(b) Bank Reconciliation statement As at 31st December, 2016

			₦
Balance as per Adjusted Cash Book			16,591,004
Add Unpresented cheques:			
		N	
	OXB12	700,000	
	OXB16	21,000	
	OXB27	49,000	770,000
			17,361,004
Less Uncredited Deposits:		N	
Slip	1024	419,000	
Slip	651	281,000	
Slip	147	112,000	812,000
Balance as per bank statement			16,549,004

$12^{1/}{}_{2}$ Marks

QUESTION 3

(a). List out EIGHT functions of a Local Government Treasurer $8^{1/}{}_{2}$ Marks

(b). Enumerate FOUR main books of accounts which the Finance Department of a Local government in Nigeria is required to keep. 4 Marks

Suggested solution to Question 3

(a). <u>The duties of a Local Government Treasurer</u>

1. He is answerable for the administration control of the department of finance of the Local government.
2. The treasurer ensures that all receipt books are kept in safe custody.
3. The treasurer makes adequate arrangements for the safe custody of the council's cash resources and other corporate assets.
4. He generates efficient and effective management information reports on the financial position of the council.
5. He is a signatory to the bank accounts and payment vouchers of the local government.
6. The treasurer has the custody of all the bonds executed by the council's employees.
7. The treasurer being the Head of the Finance department, is responsible for the budgetary control and supervision of all the accounts in the local government.
8. He is the Chief Accounts officer of the local government and by that fact, the Secretary of the Budget Committee.
9. He is to ensure that in all receipts and payments of Council funds there is strict compliance with the laid down rules and stipulations of the financial memoranda.

$8^1/_2$Marks

(b). Main books of accounts of a local government

These are:

(i) Departmental Vote Expenditure Accounts Books

(ii) Departmental Vote Revenue Accounts Book

(iii) Cash Book

(iv) Main Ledger Accounts Book

(v) Advance Accounts Ledger

(vi) Deposit Accounts Ledger

(vii) Receipt Book Register

(viii) Adjustment Record

(ix) Investment Accounts Ledger

Total $12^1/_2$ Marks

Question 4

Write short notes on the following:

(a). Financial Audit (5 Marks)

(b). Regulatory Audit (5 Marks)

(c). Effectiveness Audit ($2^{1/}{}_2$ Marks)

Total $12^1/_2$ Marks

Marks

Suggested Solution to Question 4

(a). **Financial Audit**

Financial audit is carried out to ensure that the financial and accounting controls put in place are working efficiently and that payments are made only for goods and services acquired and delivered, in the right quantity and quality. It measures the extent to which the financial statements prepared accord with the underlying records and are of true and fair picture, during the period under review, on a note of credibility. 5 Marks

(b). This technique is also referred to as „Compliance Audit". The searchlight of this audit technique is the legality of the transaction undertaken. It satisfies itself in this enquiry by asking such questions as, "is the expenditure duly authorised in accordance with the financial regulations?" "Has the expenditure been provided for under the relevant head and subhead, in the Appropriation Act?" For Regulatory Audit exercises to be carried out the documents which are needed include the 1999 Constitution of Nigeria, Treasury circulars, Financial regulations and Appropriation Acts. 5 Marks

(c). Effectiveness Audit

Effectiveness Audit assess programmes or projects carried out to ascertain whether or not they achieve the set objectives. Hence the concept is also referred to as programme Results Audit. It condemns the misapplication of efforts or resources. For example, it advocates that there is no financial and economic wisdom in brilliantly producing motorcycles when the market demand is for NISSAN Cars. $2^1/_2$ Marks

Question 5

The Ministry of Agriculture of Orileowu State is considering the pursuit of a small scale commercial farming. It mobilised N900,000 as „start-up" fund on 2 January, 2017. For the first seven months of the new year, the Ministry projects its scale of operations, as follows:

Year	Sale of farm produce	Input Purchases	Salaries and Allowances of Workmen	Other Expenses
2016	**N'000**	**N'000**	**N'000**	**N'000**
January	4,000	2,500	1,200	60
February	5,000	3,200	1,900	50
March	7,200	2,500	1,300	60
April	6,000	3,000	1,100	55
May	6,500	3,300	1,000	55
June	5,500	2,700	1,800	50
July	5,300	3,500	1,700	50

Sale and purchase transactions are paid for in the months following the bargain.

The Honourable Commissioner for Finance is little apprehensible about the prospect of the venture.

You are required to prepare the Venture's cash budget for February to July 2017.

Suggested Solution to Question 5

MINISTRY OF AGRICULTURE

ORILEOWU STATE

CASH BUDGET FOR FEBRUARY TO JULY, 2017

	February ₦'000	March ₦'000	April ₦'000	May ₦'000	June ₦'000	July ₦'000
RECEIPTS						
Balance b/f	(360)	(8,090)	(7,650)	(4,105)	(2,160)	(810)
Sales	4,000	5,000	7,200	6,000	6,500	5,500
(a)	(3,640)	(3,090)	(450)	1,895	4,340	4,690
Creditors	2,500	3,200	2,500	3,000	3,300	2,700
Salaries/Allowances	1,900	1,300	1,100	1,000	1,800	1,700
Other Expenses	50	60	55	55	50	50
(b)	4,450	4,560	3,655	4,055	5,150	4,450
Balance c/f (a) – (b)	(8,090)	(7,650)	(4,150)	(2,160)	(810)	240

Working

Cash-in-hand, 1st February, 2016:

	₦	
Capital introduced, 02/01/2012		900,000
Less January payments		
Salaries and Allowance	1,200,000	
Other Expenses	60,000	
	1,260,000	
Overdrawn balance, 1st February 2016	(360,000)	

Question 6

You are the Accountant for the Ministry of Women Affairs. The following information have been extracted from the records of the Ministry for the month of December, 2017:

Balance brought forward from November, 2017

	N
Bank (debit)	1,500,000
Cash (debit)	2,400

Revenue collected during the month of December, 2011:

ABOVE THE LINE

Classification	Description	Amount (₦)
06/1	Other Internal Revenue (Bank)	60,000
06/2	Licence (Bank)	100,000
07/1	Royalty on Agric land (Bank)	4,000
07/2	Water Rate (Cash)	6,000
10/8	Cash collection for tenders	14,000
11/13	Registration Fees from Contractors (Cash)	10,000
12/11	Rent on Junior Staff Quarters (Cash)	3,600
12/12	Rent on Senior Staff Quarters (Cash)	5,000

BELOW THE LINE

2011	Cash Repayment of Salary Advance	6,000
3011	Cash Repayment of Spectacle Advance	2,000

ABOVE THE LINE

Classification	Description	Amount (₦)
24/1	Personnel Cost (Bank)	600,000
24/2	Transport and Travelling (Bank)	100,000
24/3	Stationary (Bank)	200,000
24/4	Utilities (Cash)	8,000

BELOW THE LINE

2011	Salary Advance (Bank)	8,000
3011	Spectacle Advance (Cash)	3,000

You are required to prepare the Ministry’s Transcript for the month of December, 2011

Suggested Solution No 6
MINISTRY OF WOMEN AFFAIRS TRANSCRIPT FOR THE MONTH OF DECEMBER 2017

HEAD	SUB-HEAD	DESCRIPTION	AMOUNT ₦	SUB-TOTAL ₦	TOTAL ₦	HEAD	SUB-HEAD	DESCRIPTION	TOTAL ₦	SUB-TOTAL ₦	TOTAL ₦
		Balance b/f	1,500,000					Balance b/f	NIL	NIL	NIL
			2,400	1,502,400	1,502,400	24	01	Personnel Cost	600,000		
06	01	Other internal Revenue	60,000				02	Transport and Travelling	**100,000**		
06	02	Licence Total for head 06	100,000	160,000			03	Stationery	200,000		
07	01	Royalty	4,000				04	Utilities	8,000		
07	02	Water rate total for head 07	6,000				05	Mice of Motor Vehicle	6,000	914,000	
		Total for head 07	10,000	10,000				Total for head 24			
10	08	Tender fees	14,000	14,000				BELOW THE LINE			
11	13	Registration fees	10,000	10,000			2011	Salary advance	8,000		
12	11	Rent on Junior Quarters Senior Staff Quarters	3,600 5,000	8,600			3011	Spectacle advance	3,000		
		BELOW THE LINE						Total for below the line Total payment balance c/f		11,000	
		Salary advance Spectacle	6,000								**925,000**
		Total for below the Line	2,000	8,000							**788,000**
		Total revenue			210,600						
					1,713,000						1,713,000

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