ATSWA

ACCOUNTING TECHNICIANS SCHEME WEST AFRICA

STUDY TEXT

PUBLC SECTOR ACCOUNTING

ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA (ABWA)

ACCOUNTING TECHNICIANS SCHEME WEST AFRICA (ATSWA)

STUDY TEXT FOR

PUBLIC SECTOR ACCOUNTING

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DISCLAIMER

This book is published by ABWA; however, the views are entirely those of the writers.

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 textbooks 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.

FOREWORD

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
2 Economics
3 Business Law
4 Communication Skills

PART II

1 Financial Accounting
2 Public Sector Accounting
3 Quantitative Analysis
4 Information Technology

PART III

1 Principles of Auditing & Assurance
2 Cost Accounting
3 Taxation
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 a summary of sections and learning objectives 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), Institute of Chartered Accountants Sierra Leone (ICASL), Gambia Institute of Chartered Accountants (GICA) 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.
- International Accounting Standards Board (IASB) for the use of International Accounting Standards and International Financial Reporting Standards.
- 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 Text 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 2022 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:

. T.A Osonuga: Retired Director of Audit, office of Auditor-General for the Federation

- Mr. Agbeyangi Babatunde

-Dr. Emmanuel Agbede

EDITORIAL BOARD

The Editorial Board Members are:

PUBLIC SECTOR ACCOUNTING

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CHAPTER ONE

INTRODUCTION TO PUBLIC SECTOR ACCOUNTING

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f) Bases of public sector accounting
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h) Professional pronouncements on public sector accounting
i) Summary
j) End of chapter review questions

1.0 Learning objectives

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

i) Define and explain terminologies in public sector accounting.
ii) Identify the objectives of public sector accounting.
iii) Understand and appreciate the users of public sector accounting.
iv) Concepts and principles applicable to public sector accounting.
v) Bases of public sector accounting.
vi) Funding principles.
vii) Distinguish between non-profit oriented organisation and profit-oriented organisation; and
viii) Explain the objectives and details of professional pronouncements on public sector accounting.

1.1 Introduction

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. Performance measurement in the public sector is hindered by lack of profit motive, multiple objectives and presence of intangible services, whose benefits are difficult to quantify.

Also, Public sector accounting has been defined as "a process of recording, communicating, summarising, analysing and interpreting government financial statements and statistics in aggregate and details; it is concerned with the receipt, custody, disbursement and rendering of stewardship on public funds entrusted".

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 e.g. cashbook, 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**

Summarisingconcernsthebringingtogetherofalltheclassesofaccountsand 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.

1.2 Nature, objectives and characteristics 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 of the members of the public. Such establishments which are referred to as the "three tiers" Government Companies, Parastatals and other public agencies created by the Nation's Constitution, Acts of Parliament and Byelaws.

Objectives

The main objectives of public sector accounting are 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 Act and Financial Regulations. There should be due authorisation for all payments so as to avoid 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 officers 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 is full of risks and uncertainties. Therefore, mapping out strategic plans prevents an organisation from drowning in the tides. 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 on government activities. They therefore treasure prompt and accurate statistics to evaluate government performance.

e) **Evaluating the costs incurred and the benefits derivable:** In public sector organisations, it is difficult to measure costs and benefits in financial terms. 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 welfare of the citizens is well provided for.

Other objectives

i) Enhancing the appraisal of the efficiency of management.

ii) Highlighting the various sources of revenue receivable and expenditure incurred.

iii) Identifying the sources of funding for capital projects.

iv) Evaluating the economy, efficiency and effectiveness with which public sector organisations pursue their goals and objectives.

v) Ensuring that costs are matched by at least equivalent benefits accruing there from.

vi) Providing the details of outstanding long-term commitments and financial obligations.

vii) Providing the means by which actual performance may be compared with the set target.

viii) Proffering solutions to the various bottlenecks and/or problems identified.

ix) Providing the basis for decision-making.

Characteristics of public sector accounting

a) There are distinct aspects of accounting information, classification and procedures, which apply only to transactions made by the government. Examples are the budgeting system and applicable procedures, fiscal policy, accounting methods and sources of revenue. The peculiar nature of government transactions makes it desirable and indeed mandatory to treat them in accordance with specific, but cohesive and standardized measurement approaches and rules.

b) In view of the requirements to obtain legislative approval for government revenue and expenditure, budgeting largely determines the structure of Public Sector Accounting. The government sometimes finds it necessary to segregate its resources into specific or special purpose compartments, a set-up of receipts and expenditure known as 'Funds'. The method of accounting adopted in recording and measuring the Funds is referred to as 'fund accounting.'

c) Another peculiarity of government operations is that the accounting system is maintained on ''cash basis.'' Only transactions involving the movement of cash come into reckoning. Although the approach has its inadequacies, the general practice is to adopt the 'cash-basis' of accounting. All assets are written off as they are regarded consumed at the point they are paid for. Accordingly, government's statement of assets and liabilities do not contain information on tangible assets and neither is depreciation charged in the revenue and expenditure accounts.

1.3 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:

1.3.1 Internal Users and Interest Areas:

This group of users includes:

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; and

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.

1.3.2 Eternal users and areas of interest.

External users include:

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.

1.4 Concepts and principles applicable to public sector accounting

Concepts have been defined as broad basic assumptions underlying the preparation of financial statements of an enterprise. Public sector accounting is an integral but separate branch of financial accounting, sharing many concepts and principles applicable in the private sector. These concepts include ateriality, periodicity, duality, entity, historical cost and going concern.

1.5 Bases of public sector accounting

The following are the bases under which the financial statements of a public sector enterprise are compiled:

a) Cash basis.

b) Accrual basis.

c) Commitment basis.

d) Modified Cash basis; and

e) Modified Accrual basis.

1.5.1 Cash basis

It is the basis of accounting under which revenue is recorded only when cash is received, and expenditure recognised only when cash is paid, irrespective of the fact that the transactions might have occurred in the previous accounting period. This is a simple method of recording financial transactions in the public sector.

1.5.1.1. Advantages of cash basis

The advantages of cash basis include the following:

a) It is simple to understand.
b) It eliminates the existence of debtors and creditors.
c) It permits easy identification of those who authorise payments and collect revenue.

d) It allows for comparison between the amount provided in the budget and that spent.
e) It saves time and is easy to operate.
f) It permits the delegation of work in certain circumstances; and
g) The cost of tangible assets is written off in the year of purchase, resulting in fewer accounting entries.

1.5.1.2 Disadvantages of the cash basis

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

The cash basis of accounting records only stage (v) while the accrual basis takes care of stages (iii), (iv) and (v). The commitment basis records stages (ii) to (v).

b) It does not provide for depreciation since assets are written off in the year of purchase.

c) It does not convey an accurate picture of the financial affairs at the end of the year.

d) The cash basis cannot be used for economic decisions, as it tends to hide basic information, such as, information relating to tangible assets, debtors and creditors.

e) It does not accord with the ‘matching concept.’

1.5.1.3 Modified cash basis

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

1.5.2 Accrual basis

Under this basis, revenue is recorded when earned and expenditure acknowledged as liabilities when known or benefits received, notwithstanding the fact that the receipts or payments of cash have taken place wholly or partly in other accounting periods. Accrual basis is practised in the private sector and all parastatals such as, Central Bank of Nigeria, Federal Inland Revenue Service. The reason for this is that private sector concerns are profit oriented. It is therefore necessary to estimate how much profit has been earned in each period, with a view to keeping invested assets intact and making periodic distributions to shareholders by way of dividends. However, the main consideration in the public sector is improvement in the standard of living of the citizens.

1.5.2.1 Advantages of accrual basis

The advantages of accrual basis can be summarised as follows:

1. It takes a realistic view of financial transactions.
2. It reveals an accurate picture of the state of financial affairs at the end of the period.
3. It could be used for both economic and investment decision-making as all parameters for performance appraisal are available.
4. It aligns with the ‘matching concept.; and
5. It makes allowances for the diminution in the value of assets used to generate the revenue of the enterprise.

1.5.2.2. Disadvantages of accrual basis

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

1.5.3. Modified accrual basis

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

The modified accrual basis operates as follows:

Revenue is recorded when cash is received, except for:

a) Revenue which is susceptible to accrual; and
b) Revenue of a material amount, which has not been received at the time it should.

Expenditure is recorded on accrual basis, except in the cases of:

a) Disbursements for inventory items, which may be considered as expenditure at the time the items are utilised; and

b) Interest on long-term debt commonly accounted for in debt service funds and recorded as expenditure on its due date.

1.5.4 Commitment basis

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

1.5.4.1 Advantages of commitment basis

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

a) A separate payment tabulation is available when required.

b) Adjustments occurring when actual expenditure has been obtained does not affect the final accounts.

c) It is an aid to financial control. A commitment is regarded as a charge which has been made on a budget provision.

d) It takes a realistic view of financial transactions.

e) It reveals an accurate picture of the state of financial affairs at the end of the period.

f) It is used for both economic and investment decision-making,since all parameters for performance appraisals is available;

g) It aligns with the ‘matching concept; and

h) It makes allowance for the diminution in the value of assets employed to generate revenue.

1.5.4.2. Disadvantages of commitment basis

The system of commitment basis of accounting has the following disadvantages:

a) The system involves extra work. Actual figures have to be substituted for the commitment provisions to finally determine the running balances under the sub-heads of expenditure.

b) There is over-expenditure under commitment basis in the expectation that government may finally release fund to settle the legal obligations.

c) At the year end, all commitments that are the subject of unfulfilled orders will have to be written back to reflect the exact picture of the transactions which took place during the year; and

d) Balances, which ought to have lapsed in the Vote Book at the end of the year may be spent by issuing local purchase orders to exhaust the votes.

1.6 Comparison between non-profit oriented organisation and profit-oriented organisation

Basis	Non- profit oriented	Profit oriented
Profit	The main objective is to provide adequate welfare to the people at reasonable costs.	The main objective is to maximise profit
Revenue	Revenue is derived from the public in the form of taxation, fines, fees, etc.	Obtain their income principally from sales of goods and services.
Legal formation	They are created by Acts of the Legislatures i.e National /State Assemblies	Registered with Corporate Affairs Commission
Budget	The public is more interested in the annual budget than the annual report.	The public is more interested in the annual reports than the annual budgets.
Budgetary approach	Public entities are rigid on the budgetary approach	Budgets are internal affairs of these organisations.
Accounting	They strictly operate on International public sector accounting standards (IPSAS) cash or accrual. They operate substantially on fund accounting.	They strictly operate on international financial reporting standards (IFRS).The proprietary approach is adopted for their funding.
Annual general meeting	There is no annual general meeting, but government can hold public briefing on specific issues.	There is annual general meeting of the shareholders to discuss the performance of these organisations.
Dissolution	On dissolution, any income raised or asset acquired cannot be distributed; or benefit members or directors, or officers of the organisation because all the proceeds must revert to the state.	income realised on dissolution can be distributed for the benefit members, directors or officers of the organisation.

1.7 Professional pronouncements on public sector accounting

The *Inernational Accounting Standards Committee (IASC)* , formed in 1973 was the first international standards-setting body. In 2001, IASC was re-organised to become the *International Accounting Standards Board (IASB)*-an independent international standard setter.

Professional pronouncements on public sector accounting have the following objectives:

a) To develop and harmonise public sector financial reporting, accounting and auditing practices.

b) To put into practice the same accounting standards throughout the world, in order to make comparisons possible and meaningful.

c) To make guidelines available for practitioners, in order to maintain high reporting standards.

1.7.1. International Federation of Accountants (IFAC):

IFAC is the global organisation for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies.

Founded in 1977, IFAC is comprised of 173 members and associates in 129 countries and jurisdictions (including Nigeria).

The mission of IFAC is to serve the public interest by:

i) Contributing to the development, adoption and implementation of high-quality international standards and guidance;

ii) Contributing to the development of strong professional accountants;

iii) Promoting the value of professional accountants world-wide;

iv) Speaking out on accounting public interest issues.

In spite of the importance of public sector accounting in the economic development process, significant attention was not given to it. The development of the private sector depends largely on the activities in the public sector. The fact is that in developing countries as Nigeria, the public sector is not only the biggest actor but also the hub of economic activities. Moreover, the government has the responsibility for the efficient management of the environment of commercial transactions, through the maintenance of law and order and enactment of legislations. Political stability is very essential for the growth of the economy and the government has to provide the enabling environment. It is in the realisation of the foregoing and to bridge the gap between public and private sectors that many international pronouncements have been made as follows:

a) A United Nations survey was conducted, and recommendations made for improvements in the government accounting systems of ‘third world’ countries, especially in budgeting practices, training, data classifications, methods and accounting procedures.

b) In the United States of America, the National Committee on Government Accounting issued a manual titled “Government Accounting, Auditing and Financial Reporting (GAAFR).” The manual is generally referred to as “The Blue Book.” The Blue Book and other pronouncements of the committee set forth the basic accounting and reporting principles covering the following areas, viz:

   i) Basis of accounting.
   ii) Legality.
   iii) Funds and fund accounting.
   iv) Budgetary, planning and control.
   v) Tangible assets and depreciation.
   vi) Terminologies and accounting/classifications; and
   vii) Financial reporting.

In the United States, the National Committee on Government Accounting recommended the ‘accrual basis’ of accounting for public enterprises, capital projects and trust funds; the ‘modified accrual basis’ for special revenue and debt service funds and that depreciation is not chargeable on tangible assets.

Other pronouncements:

a) The International Federation of Accountants (IFAC) issued International Public sector accounting Standards, effective from year 2003.

b) The Nigerian Public Sector Auditing Standards, effective from December 1997 were issued by the Auditor General for the Federation and Auditors-General for the States.

c) The American Institute of Certified Public Accountants (AICPA) recommended that the financial statements of each governmental Unit should be prepared in accordance with the generally accepted accounting principles while supplementary schedules should accord with legal compliance.

d) The International Organisation of Supreme Audit Institutions (INTOSAI), which is the association of all Auditors-General in the world, meets annually and draws up resolutions on accounting and audit practices and procedures to be followed by member countries.

1.7.2 International Public sector accounting Standards Board

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 Enterprises (GBEs).

a) Objectives of the IPSASB

The main objective of the IPSASB is to serve the public interest by developing high quality public sector financial reporting standards.

IPSASs are the authoritative requirements established by the authoritative publications including studies, research reports and occasional papers that deal with public sector financial reporting issues.

b) **Membership of the IPSASB**

The IPSASB consists of 18 members, of which 15 are drawn from IFAC member bodies, and the remaining three are public members with expertise in public sector financial reporting. The IFAC Board on the recommendation of the IFAC Nominating Committee appoints all members of the IPSASB, including the chair and deputy chair.

c) **Due process**

IPSASB adopts a due process for the development of IPSASs that are provided the opportunity for comments by interested parties including IFAC member bodies. Auditors, preparers (including finance ministries), standards setters and individual are priorities.

IPSASB's due process for projects normally, but not necessarily takes the following stages:

i) Study of national accounting requirements and practice and exchange of views about the issues with national standard-setters.

ii) Consideration of pronouncement issued by:
   a) The International Account Standard Board (IASB);
   b) National Standard setters, regulatory authority and other authoritative bodies.
   c) Professional accounting bodies; and
   d) Other organisations interested in financing reporting in the public.

iii) Formation of Steering Committees (SC), Projects Advisory Panels (PAPS) or subcommittees to provide input to the IPSASB on a project.

iv) Publication of an exposure draft for public comment usually for at least four (4) months. This provides an opportunity for those affected by IPSASB's pronouncements and are finalised and approved by IPSAS. The exposure draft will include a basis for conclusion.

v) Consideration of all comments received within the comment period on discussion documents and exposure drafts, and to make modifications proposed Standards as considered appropriate in the light of the IPSASBs;

vi) Publication of an IPSAS which includes a basis for conclusions that explains the steps in IPSASB's due process and how the Board reached its conclusions.

The adoption of IPSASs by government will improve both the quality and comparability of financial information reported by public sector entities around the world. IPSASB recognises the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting jurisdictions. The Board encourages the adoption of IPSASs and the harmonisation of national requirements with IPSASs. Financial statements should be described as complying with IPSASs only if they comply with all requirements of each applicable IPSAS.

1.8 Summary

This chapter discussed the following:

a) Introductory aspect of public sector accounting, with emphasis on the definition, objectives, users of accounting information;
b) Concepts, principles and bases of accounting;
c) Italso addressed thedifferentground works or foundations of accounting of cash basis, accrual basis, modified accrual basis, modified cash basisandcommitment basis;
d) Comparison between Non- profit oriented organisations and profit oriented organisations; and
e) Professional pronouncements on public sector accounting.

1.9 End of chapter review questions

1.9.1 Examination type questions

Section A.

1. **One** of the following is not an external user of Public sector accounting information:

A) Members of the Legislature
B) Governments, apart from the one reporting
C) The members of the public
D) Financial institutions

E) Governments, including the one reporting

2. Which of the following is the cash basis of accounting records from the stages through which a spending decision passes?
A) Management decision to spend money
B) Issue of order or contract for the supply of goods and services
C) Supply of goods or services-acknowledgment of liability
D) Settlement of the amount of the good or service received
E) Consumption of value

3. Which of the following is **no**t a public sector organisation?
A) Federal government
B) State government
C) National Agency for Food and Drug Administration and Control
D) Nigeria Theological Seminary and Chaplaincy
E) Nigerian Civil Aviation Authority

4. **One** of the following is **not** bases under which the financial statements of a public sector enterprise are compiled:
A) Cash basis
B) Accrual basis
C) Profit maximisation basis
D) Commitment basis
E) Modified cash basis

5. Which **one** of the following is not an advantage of cash basis?
A) it is simple to understand
B) It takes a realistic view of financial transactions
C) It eliminates the existence of debtors and creditors
D) It saves time and is easy to operate
E) It allows for comparison between the amount provided in the budget and that actually spent.

6. The users of public accounting information with interest areas on evaluating the credit rating of a borrowing nation is called……………………………

7. The basis of accounting under which the books of accounts are left open for a maximum of three months after the end of the year so as to capture substantial amount of income or expenditure relating to the year just ended is called………………………

8. The accounting basis that records anticipated expenditure evidenced by a contract or a purchase order is called……………………….

9. The name of the first International Standards setting body formed in 1973 is called……………..

10. All organisations, which are created, administered and financed by government from the taxpayers' money on behalf of the members of the public, are called………………….

Section B

1. IPSASB adopts due process for the development of IPSAS and provides opportunity for comments by interested parties. Enumerate any four (4) stages of IPSASB's due process for project execution.

2. Discuss comparison between non-profit oriented organization and profit-oriented organisation under:

   (a) Profit (b) legal formation (c) Budgetary approach (d) Dissolution (e) Revenue.

3. Commitment basis records anticipated expenditure evidenced by a contract or a purchase order. Give any **three (3)** advantages and two (2) disadvantages of Commitment basis of accounting.

4. Public sector accounting has **three (3)** unique characteristics. List and explain the characteristics.

1.9.2 Suggested solutions to examination type questions

Section A

1. E.
2. E.
3. D.
4. C.
5. B
6. Financial Institution
7. Modified cash basis
8. Commitment basis
9. International Accounting Standard Committee (IASC)
10. Public sector

Section B

1. Stages of IPSASB's due process for project execution:
   a) Study of national accounting requirements and practice and exchange of views about the issues with national standard-setters;
   b) Consideration of pronouncement issued by:
      i) The International Account Standard Board (IASB);

ii) National Standard setters, regulatory authority and other authoritative bodies;

iii) Professional accounting bodies; and

iv) Other organisations interested in financing reporting in the public.

c) Formation of Steering Committees (SC), Projects Advisory Panels (PAPS) or subcommittees to provide input to the IPSASB on a project;

d) Publication of an exposure draft for public comment usually for at least four (4) months. This provides an opportunity for those affected by IPSASB's pronouncements and are finalised and approved by IPSAS. The exposure draft will include a basis for conclusion;

e) Consideration of all comments received within the comment period on discussion documents and exposure drafts, and to make modifications proposed Standards as considered appropriate in the light of the IPSASBs;

f) Publication of an IPSAS which includes a basis for conclusions that explains the steps in IPSASB's due process and how the Board reached its conclusions.

2. Comparison between non-profit oriented organisation and profit oriented organisation

Basis	**Non- profit oriented**	**Profit oriented**
Profit	The main objective is to provide adequate welfare to the people at reasonable costs.	The main objective is to maximise profit
Revenue	Revenue is derived from the public in the form of taxation, fines, fees, etc.	Obtain their income principally from sales of goods and services.
Legal formation	They are created by Acts of the Legislatures i.e National /State Assemblies	Registered with Corporate Affairs Commission
Budget	The public is more interested in the annual budget than the annual report.	The public is more interested in the annual reports than the annual budgets.
Budgetary approach	Public entities are rigid on the budgetary approach	Budgets are internal affairs of these organisations.
Accounting	They strictly operate on International public sector accounting standards	They strictly operate on international financial reporting

	(IPSAS) cash or accrual. They operate substantially on fund accounting.	standards (IFRS). The proprietary approach is adopted for their funding.
Annual general meeting	There is no annual general meeting, but government can hold public briefing on specific issues.	There is annual general meeting of the shareholders to discuss the performance of these organisations.
Dissolution	On dissolution, any income raised or asset acquired cannot be distributed; or benefit members or directors, or officers of the organisation because all the proceeds must revert to the state.	income realised on dissolution can be distributed for the benefit members, directors or officers of the organisation.

3. Advantages of Commitment basis of accounting:

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

Disadvantages of Commitment basis of accounting:

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

4. Characteristics of Public sector accounting:

a) There are distinct aspects of accounting information, classification and procedures, which apply only to transactions made by the government. Examples are the budgeting system and applicable procedures, fiscal policy, accounting methods and sources of revenue. The peculiar nature of government transactions makes it desirable and indeed mandatory to treat them in accordance with specific, but cohesive and standardized measurement approaches and rules.

b) In view of the requirements to obtain legislative approval for government revenue and expenditure, budgeting largely determines the structure of Public Sector Accounting. The government sometimes finds it necessary to segregate its resources into specific or special purpose compartments, a set-up of receipts and expenditure known as 'Funds'. The method of accounting adopted in recording and measuring the Funds is referred to as 'fund accounting.'

c) Another peculiarity of government operations is that the accounting system is maintained on ''cash basis.'' Only transactions involving the movement of cash come into reckoning. Although the approach has its inadequacies, the general practice is to adopt the 'cash-basis' of accounting. All assets are written off as they are regarded consumed at the point they are paid for. Accordingly, government's statement of assets and liabilities do not contain information on tangible assets and neither is depreciation charged in the revenue and expenditure accounts.

CHAPTER TWO

THE 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

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 Nigeria

The following regulatory frameworks govern public sector accounting:

2.2.1 Nigerian Constitution: The 1999 Constitution of the Federal Republic of Nigeria (as amended) is one of the legal frameworks that regulate the receipts and disbursements of public funds.

The sections of the Constitution quoted below are authorities on receipts and payments procedures of government, the allocation of revenue, the audit of public accounts and other financial matters. Some specific sections of the 1999 Constitution and their provisions are listed below:

Section(s)	**Details**
80and120	Establishment of the Consolidated Revenue Fund (CRF)
81and 121	Authorisation of expenditure from the CRF.
82and 122	Authorisation of expenditure in default of appropriations.
83and 123	Establishment of the Contingencies Fund.
84and 124	Remuneration of statutory officers.
84(4)and 124 (4)	Comprehensive list of statutory officers.
85and 125	Audit of public accounts
86and 126	Appointment of the Auditor General
87and 127	Tenure of office of the Auditor General
88and 128	Power to conduct investigation by the legislatures.
89and 129	Power as to matters of evidence.
149	Declaration of assets and liabilities, and oaths of office.
153	List of statutory commissions.
162	Establishment of the federation accounts
163	Allocation of other revenue.
164	Federal grants-in-aid of State revenue.
165	Cost of collection of certain duties
166	Set-off of loans made by the Federation to the State
167	Sums charged on Consolidated Revenue Fund
168	Provisions with regard to payments.

2.2.2 Finance (Control and Management) Act of 1958, CAP. F. 26 Laws of the Federation 2004

This governs the management and operation of government funds. It regulates the accounting system, the books of accounts to be kept and the procedures to be followed in the preparation of accounts and financial statements.Some specific sections of the Act and their provisions are listed below:

Section	Details
3	Legislative control and management of the public finances
4	Minister’s instructions to be complied with and powers to inspect, etc.
5	Management of Consolidated Revenue Fund
6	Authorised issues from the Consolidated Revenue Fund
7	Erroneous receipts
8	Losses
9	Authorisation of investments
10	Investments- General procedure
11	Income of investments – general
12	Fluctuation in value of investments – general
13	Annual estimates in appropriation bill
14	Supplementary provisions
15	Contingencies Fund
16	Unexpended votes to lapse
17	Provision if Appropriation Act not in force
18	Specification of certain public funds allocated by law
19	Carrying forward of annual balance
20	Interest and investment fluctuation to accrue to certain funds
21	Interest and investment fluctuation to accrue to CRF in certain cases
22	Fluctuation in value of investments
23	Rules for management of funds
24	Annual accounts of all funds

2.3 Annual and Supplementary 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

2.4 Fiscal Responsibility Act, 2007

This Act provides for prudent management of the nation’s resources and ensures long-term macro-economic stability of the national economy. It secures greater accountability and transparency in fiscal operations within a medium-term fiscal policy framework. The Act also established 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 (MTEF), annual budget, budget execution, collection of public revenue, public expenditure, debt and borrowings.

2.5 Public Procurement Act, 2007

This is an Act which established the National Council on Public Procurement (NCPP) and the Bureau of Public Procurement (BPP) as the regulatory authorities responsible for monitoring and oversight of public procurement, harmonising 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 procurement approval thresholds for the Bureau of Public Procurement, tenders boards and accounting officers for all ministries, departments and agencies.

2.6 Allocation of Revenue (Federation Account, etc.) Act, 1982 CAP. A.15 Laws of the Federation 2004

The Act prescribes the basis for distribution of revenue accruing to Federation Account between the Federal, States and Local Governments; the formula for distribution amongst the States; the proportion of the total revenue of each State to be contributed to the State Joint Local Government Account; and for other purposes connected therewith. Some specific sections of the Act and their provisions are listed below:

Section	Details
1	Distribution of the Federation Accounts, etc.
2	Formula for distribution between the Federal and State Governments
3	Formula for distribution between Local Governments
4	Proportion of revenue to be paid by each State to State Joint Local Government Account
5	Allocations under Special Funds
6	Establishment of Federation Account Allocation Committee and functions
7	Establishment of Joint Local Government Account for each State and functions
8	Limit on power of State Governments for borrowing money
9	Report by Accountants General in the Federation

2.7 The Financial Regulations (2009 Edition)

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

These are the accounting manual of government ministries and extra-ministerial departments, which deal with financial, and accounting matters. They set out the procedures and steps to be followed in treating most of government transactions.

According to FR 105, The Minister of Finance shall issue from time to time financial regulations, which shall be in accordance with existing laws and policies of government. The financial regulations so issued, shall generally apply to the federal public service, ministries, extra-ministerial offices and other arms of government.

Objectives of Financial Regulations

a) To guide the day – to- day financial operation of government MDAs.
b) To ensure appropriate system of information flow from management to finance and accounts staff.
c) To ensure prudence in carrying out government business.
d) To provide common standard, procedures and guides by which auditors and treasury inspectors can ascertain that ministries are able to control and maintain up to date records of financial transactions.
e) To promote fiscal accountability, management accountability and programme result accountability in government financial management and control.
f) To ensure the applicability of the principles of good government.

2.8 Finance/Treasury circulars:

These are administrative tools, which are used to amend the existing provisions of Financial Regulations, public service rules and the introduction of new policy guidelines.

2.9 Revised Financial Memoranda for Local Government, 1991

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.

The objectives of the Financial Memoranda as follows:

i) To expressly highlight the implications of disbursing government fund and property without proper authority and approval;
ii) To serve as administrative guidelines which facilitate day-to-day running of local governments;
iii) To facilitate recording of local government financial transactions using the appropriate accounting method; and
iv) To serve as a learning tool for officers on first appointment or ontransfer to a new section.

The contents of Local Government Financial Memoranda

i) The format of budget and budgetary control;
ii) The financial responsibilities of the Chairman and other accounting officers of a local government;
iii) The responsibilities of the local government Secretary, Treasurer and Heads of Departments;
iv) The powers and functions of the Auditor General for Local Government;
v) The various financial offences and their respective sanctions;
vi) The means of revenue collection and control;
vii) Main books of accounts kept in the local government; and
viii) The custody, accounting and control of stores.

2.10 Other laws and regulations guiding public sector accounting

Other laws guiding public sector accounting include the following:

i) Revenue Mobilisation and Fiscal Allocation Commission Act (CAP. R. 7 LFN 2004;
ii) Pension Reform Act of 2014;
iii) The Independent Corrupt Practices and Other Related Offences Commission (ICPC) Act of 2000;
iv) Economic and Financial Crimes Commission (Establishment) Act, 2002;
v) Nigeria Extractive Industries Transparency Initiative (NEITI) Act, 2007;
vi) Ministry of Finance Incorporated (MoFI) Act of 1959;
vii) Financial Reporting Council Act, 2011;
viii) Freedom of Information Act, 2011;
ix) International Public sector accounting Standards (IPSAS)/;
x) International Financial Reporting Standards (IFRS);
xi) Code of Conduct Bureau and Tribunal Act, 1991;
xii) Money Laundering (Prohibition) Act, 1995.; and
xiii) Bye-laws of local government as related to revenue and expenditure

2.11 Constitutional and legal provisions in Ghana

2.11.1 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.

2.11.2 Ghana's Financial Administration Act No. 654 Of2003

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.

2.12 Summary

This chapter discussed the nature, constitutional, legal and administrative framework of public sector accounting.

2.13 Endofchapter review questions

2.13.1 Examination type questions

Section A

A. One of the following is **no**t part of other laws and regulations guiding Public sector accounting

a) Revenue Mobilization and Fiscal Allocation Commission Act (Act. R.7 LFN 2004)
b) Pension Reforms Act of 2014
c) Companies and Allied Matters Act 2020
d) Code of Conduct Bureau and Tribunal Act 1991
e) Financial Reporting Council Act 2011

B. Which on of the following are the administrative tools, used to amend the existing provisions of Financial Regulations, public service rules and the introduction of new policy guidelines

a) Finance/Treasury circulars
b) Financial Regulations
c) Revised Financial Memoranda for Local Government, 1991
d) Medium-Term Expenditure Framework (MTEF)
e) Fiscal ResponsibilityAct, 2007

C. One of the following is **not** among the objectives of the Financial Memoranda

a) To serve as a learning tool for officers on first appointment
b) To serve as an administrative guidelines, which facilitate day-to-day running of local government
c) To facilitate recording of local government financial transactions using appropriate accounting methods

d) To expressly highlight the implications of disbursing government funds and properties with proper approval
e) To make the Local Government Chairmen to be accountable to their various communities

D. Which of the following laws regulates financial matters, payment or withdrawal from the Consolidated Revenue Fund?
a) Fiscal Responsibility Act, 2007.
b) Public Procurement Act, 2007.
c) The Financial Regulations (2009 Edition)
d) Annual/ Supplementary Appropriation Act
e) Finance and Treasury Circulars.

E. The Act that prescribes the basis for distribution of revenue accruing to Federation Account between the Federal, States and Local Governments is known as----
a) Public Procurement Act, 2007
b) Fiscal Responsibility Act, 2007
c) Allocation of Revenue (Federation Account, etc.) Act, 1982 CAP. A.15 Laws of the Federation 2004
d) Financial Reporting Council Act, 201
e) Ministry of Finance Incorporated (MoFI) Act of 1959

6. _______________governs the management and operation of government funds

7. The Act, which provides for prudent management of the nation's resources and ensure long term macro-economic stability of the nation's economy is___________

8. The powerful control tools use in public sector fund management is____________

9. The document containing the administrative guidelines, the existing systems of checks and balances on local government financial matters is known as_________

10. The body that is charged with procurement issues as contained in the Public Procurement Act, 2007 is______________

Section B

1. The Fiscal Responsibility Act, 2007, established fiscal Responsibility Commission. You are required to state the functions of the Commission as contained in the Act

2. The Nigerian public sector finances and other related the Constitution of Federal Government of Nigeria and some other laws guide matters. List any ten (10) of such laws.

3. Financial Regulations (2009 Edition) is the accounting manual of government designed to guide the management of public funds. List the objectives of the Financial Regulations.

4. The revised Financial Memoranda for Local Government contains the administrative guidelines as well as checks and balances in local government finance. List the contents of the Local Government Financial Memoranda

2.13.2 Suggested solutions to examination type questions

Section A

1. C
2. A
3. E
4. D
5. C
6. Finance (Control and Management) Act of 1958, Cap. F. 26 Law of the Federation 2004.
7. Fiscal responsibility Act, 2007.
8. The Financial Regulations (2009 Edition)
9. Revised Financial Memoranda for Local Government, 1991.
10. Bureau of Public Procurement

Section B

1 Fiscal Responsibility Commission

The Fiscal Responsibility Act, 2007 established this Commission to carry out the following functions, among others:

i) Monitoring and enforcing the provisions of the Act, thereby promoting the economic objectives of the Nation;

ii) Disseminating standard national and international practices that will ensure greater efficiency in the allocation and management of public expenditure, revenue collection, debt control and transparency in fiscal matters;

iii) Undertaking fiscal and financial studies, analysis and diagnosis and disseminating the result to the general public.

2. Other laws guiding public sector accounting include the following:

i) Revenue Mobilisation and Fiscal Allocation Commission Act (CAP. R. 7 LFN 2004;
ii) Pension Reform Act of 2014;
iii) The Independent Corrupt Practices and Other Related Offences Commission (ICPC) Act of 2000;
iv) Economic and Financial Crimes Commission (Establishment) Act, 2002;
v) Nigeria Extractive Industries Transparency Initiative (NEITI) Act, 2007;
vi) Ministry of Finance Incorporated (MoFI) Act of 1959;
vii) Financial Reporting Council Act, 2011;
viii) Freedom of Information Act, 2011;
ix) International Public sector accounting Standards (IPSAS)/;
x) International Financial Reporting Standards (IFRS).
xi) Code of Conduct Bureau and Tribunal Act, 1991;
xii) Money Laundering (Prohibition) Act, 1995; and
xiii) Bye-laws of local government as related to revenue and expenditure.

3. Objectives of Financial Regulations are as follows:

i) To guide the day – to- day financial operation of government MDAs.
ii) To ensure appropriate system of information flow from management to finance and accounts staff.
iii) To ensure prudence in carrying out government business.
iv) To provide common standard, procedures and guides by which auditors and treasury inspectors can ascertain that ministries are able to control and maintain up to date records of financial transactions.
v) To promote fiscal accountability, management accountability and programme result accountability in government financial management and control.
vi) To ensure the applicability of the principles of good government.

4. The contents of Local Government Financial Memoranda are:

i) The format of budget and budgetary control;
ii) The financial responsibilities of the Chairman and other accounting officers of a local government;
iii) The responsibilities of the local government Secretary, Treasurer and Heads of Departments;
iv) The powers and functions of the Auditor General for Local Government;
v) The various financial offences and their respective sanctions;
vi) The means of revenue collection and control;
vii) Main books of accounts kept in the local government; and
viii) The custody, accounting and control of stores.

CHAPTER THREE

STANDARDISATION OF FEDERAL, STATE AND LOCAL GOVERNMENT REPORTING FORMATS IN NIGERIA.

Chapter contents

3.1 Introduction

3.2 National Chart of Accounts (NCOA) for General Purpose Financial Reporting (GPR) and budgeting

3.3 Financial reporting format – Cash IPSAS

3.4 Financial reporting format – Accrual IPSAS

3.5 Summary

3.6 End of chapter review questions

3.0 Learning objectives

After studying this chapter, readers should be able to understand:

(a) The purpose and process of implementation of National Chart of Accounts (NCOA);
(b) The Structure of the National Chart of Accounts*:*
(c) The Financial Reporting Format under Cash IPSAS
(d) The Financial Reporting Format under Accrual IPSAS

3.1 Introduction

Nigeria, a leading African nation with a population of over 150 million and a foremost OPEC member with a public sector dominated economy, has identified the need to consider the value of IPSAS and has implemented same in order to remain relevant in the comity of nations.

3.2 National Chart of Accounts (NCOA) For General Purpose Financial Reporting (GPRS) and budgeting

The FAAC sub-committee developed a comprehensive and standardised National Chart of Accounts. The National Chart of Accounts is an integrated budget and accounting classification system prepared primarily for the implementation of uniform accounting system that is IPSAS compliant.

3.2.1.1 Definition of NCOA:

The *National Chart of Accounts (NCOA)* may be defined as a complete list of budget and accounting *items* where each item is *uniquely* represented by a *code* and grouped into tables of *related* data for the purposes of tracking, managing and reporting budgetary and accounting items in an orderly, efficient and transparent manner.

It is also a created list of codes, which can be represented by numeric, alphabetic, or alphanumeric symbols. This is to enable the entity to define each item of revenue, expenditure, asset, liability, location and other parameters in order to give interested parties a better understanding of the entity.

3.2.2 Objectives

i) To give ample opportunity for comparability;
ii) Unification and harmonisation of coding, budgeting, accounting and reporting system;
iii) To bring about global interpretation of Nigeria General Purpose Financial Statements (GPFS);
iv) Nationally consistent financial reporting;
v) Improvement in transparency and accountability;
vi) To facilitate ease of computerisation of accounting system.

3.2.3 Features of NCOA:

NCOA is based on the following key features:

i) NCOA was designed after due consultations with all Local Government Councils, States and Federal Government of Nigeria taking into consideration their peculiar needs;
ii) Expandable/Flexible;
iii) Each item has a unique code;
iv) Used for both budgeting and accounting;
v) IPSAS cash and accrual basis compliant;
vi) Government financial statistics (GFS) 2001 compliant; and
vii) Incompliance with the classification of functions of government (COFOG).

3.2.4 Structure of National Chart of Accounts

i) **Administrative segment:** The Administrative segment assigns responsibility for each transaction whether revenue centre (receipt) or cost centre (payment).
ii) **Economic segment:** Every receipt must be from a particular source e.g. contractor registration fee. Likewise, every expense must be on a particular item or object e.g. purchase of drugs and medical supplies. It answers **"What"** question of every transaction.
iii) **Functional segment:** Functional classification categorises expenditure according to the purposes and objectives for which they are intended. Functional classification or classification by functions of government (COFOG) is defined as a detailed classification of the functions, or socio-economic objectives that general government units aim to achieve through various kinds of outlays.

i. Functional classification organises government activities according to their broad objectives or purposes (for example, education, social security, housing, etc.).Government expenditure is measured according to internationally recognised functional categories. A functional classification is especially useful in analysing the allocation of resources among sectors. Functions and sub-functions will be assigned at the point of budget and planning for every transaction or initial setup.

iv) **Programme segment:** The programme classification identifies various set of activities to meet specific policy objectives of the government e.g. Pre-primary education, poverty alleviation and food security.

v) **Funds segment:** The Fund segment addresses the "Financed by" element of a transaction. Fund refers to the various pools of resources for financing government activities. It will fast track the implementation of IPSAS particularly with respect to the full disclosure of government revenue including external assistance.

vi) **The Geographic segment:** addresses the "where" (location/station) element of every transaction. It is for location or physical existence of transaction so that an analysis of government budget and expenditure along the various geo-political zones, states, and local government councils in the country can be done. The use of geographic codes will make it easier for agencies with oversight function like monitoring and evaluation(M&E) mandates to locate projects across the country.

3.2.5 Advantages

(i) NCOA harmonised all the various COA of Federal, States and Local Government Councils to a standardised COA that will enhance the attainment of minimum reporting requirement that is in line with international best practices.

(ii) NCOA comprises the coding of items used for classification, budgeting, accounting and reporting within the financial year.

(iii) It serves to facilitate the recording of all transactions and is directly linked to General Purpose Financial Statements (GPFS).

3.3 Financial reporting format – Cash IPSAS

Financial Statements are structured representation of the financial position and financial performance of an entity, which may be the government or the private sector. GPFS are those intended to fulfil the information needs of users who are not in a position to demand reports tailored to meet their particular information needs (taxpayers, suppliers, employees etc.).

Cash basis GPFS are financial statements prepared based on cash basis of accounting. Cash basis of accounting is the recognition and recording of income and expenses only when cash (income) is actually received and the expenses are actually paid.

3.3.1 Structure of cash basis IPSAS:

IPSASB issued only one standard on cash basis IPSAS whereas 40 standards have been issued on accrual basis IPSAS. It is structured in such away that it meets with two (2) requirements namely: Mandatory requirements; and additional disclosures

i) Mandatory Requirements are requirements that are applicable to all entities preparing cash based GPFS and must be complied with by entities, which claim to be reporting in accordance with the cash basis IPSAS.

ii) Additional disclosures identify additional accounting policies and disclosures that an entity is encouraged to adopt and includes explanations of alternative methods of presenting certain information. Cash IPSAS encourages the disclosure of additional information that are useful to the understanding of the GPFS. These additional disclosures include explanations of alternative methods of presenting certain information and accounting policies.

3.3.2 Objectives of Cash Basis IPSAS:

i) Cash basis IPSAS prescribes the manner in which the GPFS on the cash basis should be presented;
ii) Accountability about the cash receipts, cash payments and cash balances;
iii) Transparency about the allocation of cash resources;
iv) Assessment of the ability of the entity togenerateadequate cash in the future;
v) Enhances comparability; and
vi) Provides a sound base for transition to the accrual basis.

3.3.3 Components of cash basis IPSAS:

Cash basis IPSAS provides presentation of the following statements in the GPFS:

i) Statement of cash receipts and payments (Cash flow Statement);
ii) Accounting policies and explanatory notes; and

iii) Comparison of budget and actual amounts.

At present the following financial statements are prepared as Financial Reports in the Public Sector in Nigeria:

i) **Statement of Consolidated Revenue Fund**: This is a statement of recurrent income and expenditure of an entity over a financial period. It shows the overall financial performance of a reporting entity after deduction of the appropriate expenses. All revenues accruing to government are paid into this account. The CRF will eventually be replaced with Statement of Financial Performance when migrated to accrual basis IPSAS.

ii) **Statement of Asset and Liabilities:** Statement of assets and liabilities presents the government's financial position at a specific point in time. It includes assets and liabilities. Assets are grouped into two categories namely liquid assets and investments and other cash assets. Liabilities are grouped into two, namely public funds and external and internal loans;

iii) **Statement of Capital Development Fund:** This is one of the Statutory Financial Statements of the three tiers of government. It shows funds transferred from the Consolidated Revenue Fund and other borrowings (loans) to finance capital oriented projects for an accounting period. It is also known as the Capital Income Statement;

iv) **Cash flow statements**: Cash flow statements (statement of receipts and payments) is one of the statements required under cash IPSAS. The cash flow statement identifies the sources of cash in flows, the items on which cash was expended during the reporting period, and the cash balance as at the reporting date. Cash flows are basically reported under three separate activities as follows: a)Operating activities; b)Investing activities; and c) Financing activities;

v) **Notes to the Accounts:** Notes are additional information to support items disclosed in the statements presented in the GPFS

vi) **Performance Reports:** These reports show the performance of a reporting entity. It compares actual performance of an entity with approved budget. Though not recognised as one of the principal statements in GPFS, it is very essential as the reports enable users to ascertain the budget performance of the reporting entity.

vii) **Statistical Report:** They are also useful to certain categories of users of GPFS for their decision-making. Statistical reports include: functional report; programme report; and geo location report ; and

viii) **Accounting policies:** Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements. They are part of the financial statements. Entities should select and apply accounting policies so that the financial statements comply with the requirements of each applicable International Public sector accounting Standard.

(i) An entity should disclose the following, if not disclosed elsewhere in information published with the financial statements:

(a) The domicile and legal form of the entity, and the jurisdiction within which it operates;

(b) A description of the nature of the entity's operations and principal activities;

(c) A reference to the relevant legislation governing the entity's operations, if any;

(d) An entity should be in a position to issue its financial statements within six months of the reporting date, although a timeframe of not more than three months is strongly encouraged.

(e) Under IPSAS cash basis, an entity should disclose the date when the financial statements were authorised for issue and who gave that authorisation. If another body has the power to amend the financial statements after issuance, the entity should disclose that fact.

3.4.1 Financial reporting format – Accrual IPSAS:

3.4.1 Definition

Accrual based GPFS are financial statements prepared based on accrual basis of accounting. It is a basis of accounting under which transactions and other events are recognised when they occur (and not only when cash or its equivalent is received or paid).

i) **Difference between GPFS- Cash and GPFS - Accrual:**
The difference between Cash and Accrual GPFS, stem from the basis of Accounting adopted by reporting entity.

(i) Under Accrual basis transactions and other events are recognised when they occur, while cash basis recognised transactions and other events when cash or its equivalent is received or paid.

(ii) Accrual based GPFS discloses information on tangible assets, accounts receivables and payables while cash based GPFS doesn't disclose them.

(iii) Accrual based GPFS also differs from cash based GPFS in terms of its components. Principal statements in accrual based GPFS are different from that of cash based.

ii) **Components of accrual based GPFS:**
IPSAS 1 covers presentation of financial statements as a whole while issues of recognition, measurement and presentation of line items in the financial statements are covered by other issued standards (IPSAS 2-41)

A complete set of accrual based GPFS includes the following components:

(a) **Statement of financial position:** Statement of financial position is a statement that shows assets, liabilities and net assets/equity of an entity. Both assets and liabilities are categorised as current and non -current in the statement of financial position.

(i) **Current Assets** include the following: Cash and its equivalents; receivables; inventories; prepayments; and other current assets.

(ii) **Non-current assets** is made up of loans granted (receivables); investments; infrastructure; plant and equipment; investment property; plant and equipment; and intangible assets.

(iii) **Current liabilities include** deposits; short term loans and advances; unremitted deductions; accrued expenses; and current portion of borrowings.

(iv) **Non- current liabilities are** made up of public funds and long-term borrowings.

All the above sub-groupings as a minimum requirement must be disclosed at the face of the statement of financial position. Assets are however treated in the financial position net of all provisions while details are disclosed in the notes to the financial statements.

(b) **Statement of financial performance:** The statement of financial performance (income and expenditure accounts) shows income accrued to the entity from all sources and expenditure incurred during the period. As a minimum requirement, the statement of financial performance should include the following line items:

(i) Revenue from operating activities;
(ii) Surplus or deficit from operating activities;
(iii) Finance costs;
(iv) Share of net surpluses or deficits of associates and joint ventures accounted for using the equity method;
(v) Surplus or deficit from ordinary activities**;**
(vi) Extraordinary items;
(vii) Minority interest share of net surplus or deficit; and
(viii) Net surplus or deficit for the period.

The expenses are classified either by nature or by their function within the entity. If an entity decides to classify expenses by function, it must also provide a presentation by nature of expenses in the notes.

(c) **Statement of Cash flow** is one of the statements required by IPSAS 1 to be presented in GPFS. The cash flow statement identifies the sources of cash in flows, the items on which cash was expended during the reporting period, and the cash balance as at the reporting date. The preparation and presentation of cash flow is covered by IPSAS 2

Cash flows are basically reported under three (3) separate activities as follows:

Operating activities- activities of an entity, that are not investing or financing activities. These are day-to-day activities of an entity.

Investing activities- the acquisition and disposal of long term assets and other investments not included in cash equivalent

Financial activities- activities that result in changes in the size and composition of the co ‘cntributed capital and borrowings

Cash flow of an entity must fall within the above three activities

IPSAS2 recognises two methods of preparing cash flow, which is direct and indirect method.

(a) Direct method, major classes of gross cash receipts and gross cash payments are disclosed. Entities using direct method should provide a reconciliation of the surplus/deficit with the net cash from operating activities; and

(b) Indirect method, net surplus/deficit is adjusted for the effect of, for instance transactions of non-cash nature like depreciation.

IPSAS 2 however recommended direct method.

(d) **Statement of changes in net assets/equity:** Net assets/equity refers to assets less liability.

Net assets/equity is financed by reserves, accumulated surpluses/deficit, minority interest etc. the statement is important in GPFS because it enables users to ascertain causes for movement in net equity of an entity.

Changes in net assets/equity are therefore normally caused by:

i. Significant changes in accounting policies
ii. Correction of prior years’ errors
iii. Revaluation of the assets
iv. Surplus or deficit for the period
v. Changes in currency translation.

(e) **Notes and other disclosures to GPFS:**

Notes and other disclosures to GPFS are additional information presented in GPFS to enables users understand the financial statements better and compare them with those of other entities. Notes include narrative descriptions or more detailed schedules or analyses of amounts shown on the face of the statement of financial performance, statement of financial position, cash flow statement and statements of changes in net assets/equity, as well as additional information such as contingent liabilities and commitments.

IPSAS has not specifically provided formats for preparation of notes and other disclosures to the financial statements but as a minimum requirement, notes are normally presented in the following order:

i. Statement of the compliance with IPSAS;
ii. Statement of the measurement basis (bases) and accounting policies applied;
iii. Supporting information for items presented on the face of each financial statement in the order in which each line item and each financial statement is presented; and
iv. Other disclosures, including contingencies, commitments and other financial disclosures and non-financial disclosures.

(f) **Statement of Accounting Policies**: Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements. They are part of the financial statements. Entities should select and apply accounting policies so that the financial statements comply with all the requirements of each applicable international public sector accounting standard (IPSAS)

3.5.1 Summary

This chapter discussed the implementation and structure of National Chart of Accounts (NCOA). It also discussed the use of NCOA andfinancial reporting format under Cash and Accrual IPSAS.

3.6 End of chapter review questions

3.6.1 Examination type questions

Section A.

1 One of the following is not a user of the National Chart of Accounts (NCOA)

A Finance/ Accounts officer in ministries/MDA

B Legislators and other Political leaders
C Nigeria Bottling Company Plc.
D Donors and other development partners
E Budget/Planning Officers in ministries/MDA

2. One of the following is not a member of the Law & Justice sector of the NCOA;
A Judicial Council
B National Population Commission
C Ministry of Justice
D Independence Corrupt Practice and Related Offences Commission
E Code of Conduct Bureau

3. Revenue of a government entity should be classified by fund and its source to provide the necessary information. One of the following is not among the necessary information
A Prepare and control the budget
B Conduct independent examination of financial statements and schedules
C Record the collection of revenues
D Prepare financial statements and schedules
E Prepare financial statistics

4. Which of the following is NOT among the structure of NCOA?
A Functional segment
B Historic segment
C Geographic segment
D Programme segment
E Economic segment

5. The following except **one** are objectives of Cash Basis IPSAS
A Accountability regarding cash receipts, cash payments and cash balances
B Transparency on allocation of cash resources
C Enhances comparability
D Recognises transactions when it occurs not minding when it is paid for
E Provides a sound base for transition to the accrual basis

6. The National Chart of Accounts was developed by______________________

7. That document which gives a complete list of budget and accounting items, uniquely represented by a code is known as ________________________

8. The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements is known as___________________________
9. Functional report, programme report and geo-location reports are integral part of____________________

10. The statement which shows funds transferred from the Consolidated Revenue Fund and other borrowings to finance capital projects is called_________________

Section B

1 Cash basis GPFS are financial statements prepared based on cash basis accounting. Name any five financial statement prepared as financial reports in the public sector in Nigeria and explain any three of them.
2 Cash basis and accrual basis IPSAS are two financial standards used in the public sector financial reporting. Identify the differences between GPFS-Cash and GPFS-Accrual.
3 Statement of financial performance shows income and expenses incurred by a government business entity (GBE). List eight (8) line items contained in the statement of financial performance.
4 State the causes leading to changes in net assets/equity during the preparation of GPFS in the public sector. Also, give the order in which Notes to GPFS is arranged.
5 IPSAS 2 covers the preparation and presentation of statement of cashflow. You are required to state and explain the separate activities in under which cash flows are reported

3.6.2 Suggested solutions to examination type questions

Section A

1. C
2. B
3. B
4. B
5. D
6. FAAC Sub-committee
7. National Chart of Accounts
8. Statement of accounting policies
9. Statistical report
10. Statement of capital development

Section B

1. Financial statements to be prepared as financial reports in the Public sector in Nigeria:

a. **Statement of Consolidated Revenue Fund**: This is a statement of recurrent income and expenditure of an entity over a financial period. It shows the overall financial performance of a reporting entity after deduction of the appropriate expenses. All revenues accruing to government are paid into this account. The CRF will eventually be replaced with Statement of Financial Performance when migrated to accrual basis IPSAS.
b. **Statement of Asset and Liabilities:** Statement of assets and liabilities presents the government's financial position at a specific point in time. It includes assets and liabilities. Assets are grouped into two categories namely liquid assets and investments and other cash assets. Liabilities are grouped into two, namely public funds and external and internal loans;
c. **Statement of Capital Development Fund:** This is one of the Statutory Financial Statements of the three tiers of government. It shows funds transferred from the Consolidated Revenue Fund and other borrowings (loans) to finance capital oriented projects for an accounting period. It is also known as the Capital Income Statement;
d. **Cash flow statements**: Cash flow statements (statement of receipts and payments) is one of the statements required under cash IPSAS. The cash flow statement identifies the sources of cash in flows, the items on which cash was expended during the reporting period, and the cash balance as at the reporting date. Cash flows are basically reported under three separate activities as follows: a)Operating activities; b)Investing activities; and c) Financing activities;
e. **Notes to the accounts:** Notes are additional information to support items disclosed in the statements presented in the GPFS
f. **Performance Reports:** These reports show the performance of a reporting entity. It compares actual performance of an entity with approved budget. Though not recognised as one of the principal statements in GPFS, it is very essential as the reports enable users to ascertain the budget performance of the reporting entity.
g. **Statistical report:** They are also useful to certain categories of users of GPFS for their decision making. Statistical reports include: functional report; programme report; and geo location report; and
h. **Accounting policies:** Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements. They are part of the financial statements. Entities should select and apply accounting policies so that the financial statements comply with the requirements of each applicable International Public sector accounting Standard.

i. An entity should disclose the following, if not disclosed elsewhere in information published with the financial statements:

4 The domicile and legal form of the entity, and the jurisdiction within which it operates;

5 A description of the nature of the entity's operations and principal activities;

6 A reference to the relevant legislation governing the entity's operations, if any;

7 An entity should be in a position to issue its financial statements within six months of the reporting date, although a timeframe of not more than three months is strongly encouraged.

8 Under IPSAS cash basis, an entity should disclose the date when the financial statements were authorised for issue and who gave that authorisation. If another body has the power to amend the financial statements after issuance, the entity should disclose that fact.

9 The following are the main differences between GPFS-Cash and GPFS-Accrual:

2 The difference between Cash and Accrual GPFS, stem from the basis of Accounting adopted by reporting entity.

(a) Under Accrual basis transactions and other events are recognised when they occur, while cash basis recognised transactions and other events when cash or its equivalent is received or paid.

(b) Accrual based GPFS discloses information on tangible assets, accounts receivables and payables while cash based GPFS doesn't disclose them.

(c) Accrual based GPFS also differs from cash based GPFS in terms of its components. Principal statements in accrual based GPFS are different from that of cash based.

3 The line items contained in the Statement of Financial Performance are as follows:

(a) Revenue from operating activities;
(b) Surplus or deficit from operating activities;
(c) Finance costs;
(d) Share of net surpluses or deficits of associates and joint ventures accounted for using the equity method;
(e) Surplus or deficit from ordinary activities**;**
(f) Extraordinary items;
(g) Minority interest share of net surplus or deficit; and
(h) Net surplus or deficit for the period.

4 The order in which notes to GPFS is arranged:

i. Statement of the compliance with IPSAS;
ii. Statement of the measurement basis (bases) and accounting policies applied;
iii. Supporting information for items presented on the face of each financial statement in the order in which each line item and each financial statement is presented; and
iv. Other disclosures, including contingencies, commitments and other financial disclosures and non-financial disclosures.

5 Cash flows are basically reported under three(3) separate activities as follows:

i. **Operating activities:-** activities of an entity, that are not investing or financing activities of an entity. These are day – to – day activities of an entity

ii. **Investing activities:-** the acquisition and disposal of long term assets and other investments not include in cash equivalent

iii. **Financing activities:-** activities that result in changes in the size and composition of the contributed capital borrowings.

CHAPTER FOUR

PENSIONS AND GRATUITY

Chapter contents

4.0 Learning objectives

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4.10 General obligations of the Pension Fund Administrator and Pension Fund Custodian.

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4.14 Investment of pension funds and restricted investments

4.15 Deficiencies of Pension Reform Act, 2014

4.16 Pension Transitional Arrangements Directorate (PTAD)

4.17 Offences, penalties and enforcement

4.18 Summary

4.19 End of chapter review questions

4.0 Learning objectives

After studying this chapter readers shouldbe able to:

(a) Discuss the provisions of 1999 Constitutional.
(b) The Armed Forces Pension Act No 103 of 1979 as amended by CAP 119 and 212 LFN 2004
(c) Outline the objectives of Pension Reform Act 2014.
(d) Identify the categories of people exempted from Pension Reform Act 2014
(e) Discuss the powers and functions of the key pension administration institutions
(f) Discuss offences, penalties and enforcement

4.1 Definition of terms

(a) **Pension:** It is a monthly payment made to a retired officer who has served for a statutory period. Pension is payable for a minimum period of five years or till death.
(b) **Gratuity:** It is a lump sum of money paid once to a retired officer who has served for the minimum of 5 years in service.
(c) **Pensionable Emoluments:** It is the gross salary (basic salary and allowances) attached to a retiring officer’s substantive rank.

(d) **Withdrawal of service:** This is the cessation of service after an officer has served for a minimum of 5 years, but below 10 years, qualifying him only for gratuity.

(e) **Retirement:** It is the cessation of service after an officer has served for a minimum of 10 years, qualifying the person for gratuity and pension.

(f) **Qualifying Service:** Means service after an officer has served for a period of not less than the minimum qualifying years, which is 5 years for gratuity and 10 years for gratuity and pension. Qualifying service determines the qualification or otherwise of the person for pension and gratuity.

(g) **Next of Kin:** Means those persons whose names were furnished by the deceased officer on his record of service kept in the Records Office of the Establishment or furnished by him to the Ministry, in writing, at any time before his death.

(h) **Public Service:** Means any service or employment under the government of the federation in a civil position, recognised as such by the establishment. It shall include employment declared as Approved Service, by the Pension Act (as updated).

4.2 1999 Constitutional provisions

(a) 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."

(b) Section 173 (4) of the Constitution stipulates, "Pensions in respect of service in the public service of the Federation shall not be taxed."

(c) 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."

(d) Section 84 (6) of the Constitution states that ''any pension granted by virtue of subsection (5) of this section shall be a charge upon the Consolidated Revenue Fund of the Federation."

4.3 The Armed Forces Act No. 103 of 1979

'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

Under the Armed Forces Act No. 103 of 1979 quoted above, the considerations for the calculation of war service years are:

(i) Each completed year of war service shall count as two years.

(ii) Period of war service exceeding 4 months but below 6 months is counted as 6 months.

(iii) Period of war service below 4 months is counted as 6 months.

(iv) Period of war service exceeding 6 months is counted as 1 year.

(v) 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

An officer, who has served 14 years, 8 months and 10 days is deemed to have rendered 15 years in 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.

The rates of contributions to the scheme by the military staff are

(a) 12.5% of the basic salary and allowances by the government

(b) 8% of the basic salary and allowances by the military staff.

4.4 Pension Reform Act 2014

This Act repeals the Pension Reform Act 2004 and the Act continues to govern and regulate the administration of uniform contributory pension scheme for both the public and private sectors in Nigeria. The provisions of this Act shall apply to:

(a) Any employment in the Public service of the Federation, the Public Service of the Federal Capital Territory, the public service of state governments, the public service of local government councils and the private sector;

(b) In the case of the private sector, the scheme shall apply to employees who are in the employment of an organisation in which there are 15 or more employees; and

(c) Employees of organisations with less than three employees as well as self-employed persons shall be entitled to participate under the scheme in accordance with guidelines issued by the Commission.

4.4.1 Objectives of the new Pension Reform Act, 2014

(a) Establish a uniform set of rules, regulations and standard for the administrationand payments of retirement benefits for the public service of the Federation, the public service of the Federal Capital Territory, the public service of state governments, the public service of local government councils and the private sector.

(b) Make provision for the smooth operation of the contributory pension scheme.

(c) Ensure that every person who worked in either the public service of the Federation, the public service of the Federal Capital Territory, the public service of state governments, the public service of the local government Councils and the private sector receives his retirement benefits as and when due and

(d) Assists improvident individuals by ensuring that they save in order to cater for their livelihood during old age.

4.4.2 The rates of contributions to the scheme

(a) The contribution for any employee to which this Act applies shall be made in the following rates relating to his monthly emoluments:

(a) A minimum of 10% by the employer.

(b) A minimum of 8 % by the employee.

(c) 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.

(d) The rates of contribution may, upon agreement between any employer and employee, be revised upwards, from time to time, and the Commission shall be notified of such revision.

(e) Any employee may, in addition to the total contributions being made by him and his employer, make voluntary contributions to his retirement savings account.

(f) Notwithstanding any of the provisions of this Act, an employer may agree on the payment of additional benefits to the employee upon retirement; or elect to bear the full responsibility of the scheme provided that in such case, the employer's contribution shall not be less than 20% of the monthly emoluments of the employee.

(g) 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.

(h) Where the employer failed, refused or omitted to make payment as and when due, the employer shall make arrangement to effect the payment of claims arising from the death of any staff in its employment during the period

4.4.3 Exemption from new Pension Reform Act 2014- S 5 (1)

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 the 25th day of June 2004 and has 3 or less years to retire (i.e. Fully Funded Pension Scheme);

(c) Any person who falls within the provisions of (a) and (b) above shall continue to derive retirement benefit under such existing pension scheme as provided for in the Second Schedule to this Act attached below;and

(d) Where an officer exempted under (b) above dies in service or in the course of duty, the Federal Government Pension Transitional Arrangements Directorate and the Federal Capital Territory Pension Transitional Arrangements Directorate shall cause to be paid, en-bloc, his next- of- kin or designated survivors, a gratuity and pension to which the officer would have been entitled at the date of his death calculated on the basis of applicable computations under the existing Pay-As-You-Go Pension scheme of the public service of the Federation and Federal Capital Territory

Computation of retirement benefits

Formula for calculation of pensions and gratuity in respect of retirement(Non contributory)

Year of Qualifying service	Gratuity as percentage of final pay	Pension as percentage of final pay	Year of Qualifying service enrolment	Gratuity as percentage of total final enrolment	Pension as percentage of total final enrolment
-----	-----	-----	5	100	-----
-----	-----	-----	6	108	-----
-----	-----	-----	7	116	-----
-----	-----	-----	8	124	-----
-----	-----	-----	9	132	-----
10	100	-----	10	100	30
11	110	-----	11	108	32
12	120	-----	12	116	34
13	130	-----	13	124	36
14	140	-----	14	132	38
15	100	30	15	140	40
16	110	32	16	148	42

17	120	34	17	156	44
18	130	36	18	164	46
19	140	38	19	172	48
20	150	40	20	180	50
21	160	42	21	188	52
22	170	44	22	196	54
23	180	46	23	204	56
24	190	48	24	212	58
25	200	50	25	220	60
26	210	52	26	228	62
27	220	54	27	236	64
28	230	56	28	244	66
29	240	58	29	252	68
30	250	60	30	260	70
31	260	62	31	268	72
32	270	64	32	276	74
33	280	66	33	284	76
34	290	68	34	292	78
35	300	70	35	300	80

4.4.4 Supervision of retirement benefits of employees exempted from the scheme.

(a) The administration of the retirement benefits of the categories of employees exempted from the Scheme under section 5(1)(b) of this Act shall be subject to the supervision and regulation of the Commission.

(b) In the case of professors covered by the Universities (Miscellaneous Provisions) (Amendment) Act, 2012 and category of political appointees entitled, by virtue of their terms and conditions of employment, to retire with full benefits, the Commission shall issue guidelines to regulate the administration of their retirement benefits provided that any shortfall shall be funded from budgetary allocations by the employer.

(c) The Accountant-General of the Federation and the FCT Treasury, as the case may be, subject to the framework developed jointly with the

Commission, shall make payments of retirement benefits directly into individual bank accounts of retired persons covered under section *5* (1)(b) of this Act and details of such payment shall be submitted to the Commission and the Pension Transitional Arrangements Directorate of the Federation and Federal Capital Territory established under sections 42 and 44 of this Act respectively.

4.4.5 Retirement benefits

4.4.5.1 Payment of retirement benefits

(i) A holder of retirement savings account shall upon retirement or attaining the age of 50 years, whichever is later, utilise the balance standing to the credit of his retirement savings account for the following benefits:

(a) Programmed monthly or quarterly withdrawals calculated on the basis of an expected life span;

(b) Withdrawal of a lump sum from the total amount credited to his retirement savings account provided that the amount left after the lump sum withdrawal shall be sufficient to procure a programmed fund withdrawals or annuity for life in accordance with extant guidelines issued by the Commission, from time to time;

(c) Annuity for life purchased from a life insurance company licensed by the National Insurance Commission with monthly or quarterly payments;

(d) Professors covered by the Universities (Miscellaneous Provisions (Amendment) Act, 2012 shall be according to the University Act; or

(e) Other categories of employees entitled, by virtue of their terms and conditions of employment, to retire with full retirement benefits shall still apply

(ii) 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.

(iii) Where an employee has accessed the amount standing in his retirement savings account pursuant to (ii) above, such employee shall subsequently access the balance in the retirement savings account in accordance with (i) above.

4.4.5.2 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.

4.4.5.3 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.

4.4.5.5 Exemption from taxes

(a) Contributions to the scheme areexempted from taxes under this Actand shall form part of tax deductible expenses in the computation of tax payable by an employer or employee under the relevant income tax law.

(b) All interests, dividends, profits, investment and other income accruable to pension funds and assets under this Act shall not be taxable.

(c) Any amount payable as a retirement benefit under this Act shall not be taxable.

(d) 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.

4.5 Retirement Savings Account (RSA)

4.5.1 Retirement Savings Account (RSA) and remittance of contribution

i. Every employee to whom this Act applies shall maintain an account, (in this Act referred to as "Retirement Savings Account") in his name with any Pension Fund Administrator of his choice.
ii. The employee shall notify his employer of the Pension Fund Administrator chosen and the identity of the retirement savings account opened under (a) above.
iii. The employer shall:

(i) Deduct at source the monthly contribution of the employee; and

(ii) Not later than 7 working days from the day the employee is paid his salary, remit an amount comprising the employee's contribution under paragraph (i) of this subsection and the employer's contribution to the Pension Fund Custodian specified by the Pension Fund Administrator of the employee.

iv. Upon receipt of the contributions remitted under (c) (ii) above, the Pension Fund Custodian shall notify the Pension Fund Administrator who shall cause to be credited the retirement savings account of the employee for whom the employer had made the payment;

v. 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 such employee for the remittance of his pension contributions;

vi. An employer who fails to deduct or remit the contributions within the time stipulated in subsection (c) (ii) above shall, in addition to making the remittance already due, be liable to a penalty to be stipulated by the Commission;

vii. The penalty referred to in (f) above shall not be less than 2% 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 retirement savings account, as the case may be;

viii. An employee shall not have access to his retirement savings account or have any dealing with the Pension Fund Custodian with respect to the retirement savings account except through the Pension Fund Administrator;and

ix. The Commission shall determine the cost of recovery of un-remitted contributions and the sources to defray the cost, which may include the amount recovered as penalty pursuant to subsection (6) of this section.

4.5.2 Contributions of the Federal Government and Federal Capital Territory Administration.

i. The contributions of the Federal Government and Federal Capital Territory Administration to the retirement benefits of employees of the Public Service of the Federation under section 11 (3) of this Act shall be a charge on the Consolidated Revenue Fund of the Federation and Revenue Fund of the Federal Capital Territory respectively.

ii. The Accountant-General of the Federation and Federal Capital Territory Treasury shall make the deductions of the contributions mentioned in subsection (a) above.

4.5.3 Transfer of account from one Pension Fund Administrator to another.

Subject to guidelines issued by the Commission, a holder of a retirement savings account maintained under this Act may not, more than once in a year, transfer his account from one Pension Fund Administrator to another.

4.5.4 Transfer from one employment to another.

Where an employee transfers his employment from one employer or organisation to another, the same retirement savings account shall continue to be maintained by the employee or be transferred subject to section 13 of this Act (i.e. 6.5.3 above).

4.5.5 Transfer of entitlement from defined benefits scheme into the scheme.

(a) As from 25 June, 2004, being the commencement of the Pension Reform Act 2004, the accrued pension right to retirement benefits of any employee who is already under any pension scheme existing before the commencement of that Act and has over 3 years to retire shall:-

(i) In the case of employees of the Public Service of the Federation where the scheme is unfunded, be recognised in the form of an amount acknowledged through the issuance of Federal Government Retirement Benefits Bonds by the Debt Management Office in favour of the employees and the bond issued under this subsection shall be redeemed upon the retirement of the employee in accordance with Section 39 of this Act and the amount so redeemed shall be added to the balance of the retirement savings account of the employee and applied in accordance with the provisions of Section 7 of this Act;

(ii) In the case of employees of the Federal Capital Territory where the scheme is unfunded, be recognised in the form of an amount acknowledged through the issuance of a bond to be known as Federal Capital Territory Retirement Benefits Bonds, in favour of the employees and the bond issued under this subsection shall be redeemed upon retirement of the employee in accordance with Section 39 of this Act and the amount so redeemed shall be added to the balance in the retirement savings account of the employee and applied in accordance with the provisions of Section 7 of this Act; and

(iii) In the case of the employees of the Public Service of the Federation, Federal Capital Territory or in the Private Sector, where the scheme is funded, credit the Retirement Savings Accounts of the employees with any fund to which each employee is entitled and in the event of an insufficiency of funds to meet this liability the shortfall shall immediately become a debt of the relevant employer and shall have priority over any other claim.

(b) Where there is such a debt the employer shall immediately issue a written acknowledgement of the debt to the relevant employee and take steps to meet the shortfall and such debt shall not be affected by the provisions of any limitation law in force for the time being.

(c) The employer shall notify the Commission of any written acknowledgment that arises under (i)(c) above and any step taken or planned to meet the shortfall.

(d) The accrued pension rights and entitlements of employees of the Public Service of the Federation as provided for under (i) above shall be reviewed by the Federal Government of Nigeria from time to time in line with the provisions of Section 173(3) of the Constitution of the Federal Republic of Nigeria 1999 (as amended), provided that the variation so derived from the salary reviews shall be provided by the Federal Government and credited directly into retirement savings account of individual retiree.

(e) The accrued pension rights and entitlements of employees of the Federal Capital Territory as provided for under (i) above shall be reviewed by the Federal Capital Territory from time to time in line with the provisions of Section 173(3) of the Constitution of the Federal Republic of Nigeria 1999 (as amended), provided that the variation so derived from respective salary reviews shall be provided by the Federal Capital Territory and credited directly into retirement savings account of individual retiree.

4.5.6 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 who retired and is less than 50 years, on the advice of a 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;

(c) If the officer is retired due to his total or permanent disability either of mind or body;

(d) 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;

(e) 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; and

(f) Without prejudice to (a) above, any employee who disengages or is disengaged from employment before the age of *50* years and is unable to secure another employment within four months of such disengagement may make withdrawal from his retirement savings account in accordance with the provisions of Section 7(2) and (3) of this Act.

4.5.7 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.

4.5.8 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 the Pension Fund Commission should review such a decision.

4.6 National Pension Commission

4.6.1 Objectives

The principal objective of the Commission, according to the Pension Reforms Act, 2014, is “to regulate, supervise and ensure the effective administration of pension matters in Nigeria.”

Other objectives of establishing the National Pension Commission are to:

(a) 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) assist improvident individuals by ensuring that they save in order to cater for their livelihood during old age; and

(c) 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.

4.6.2 Powers of the Commission

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 benefits;
(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; and
(j) Do such other things, which in its opinion are necessary to ensure the efficient performance of the functions of the Commission.

4.6.5 Functions of the Commission

The functions of the Pension Commission as stated in S.23 of the Act are to:

(a) Regulate and supervise the scheme established under this Act;
(b) Issue guidelines for the investment of pension funds;
(c) 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) Establish standards, rules and guidelines for the management of the pension funds under this Act;
(e) Ensure the maintenance of a National Data Bank on all pension matters;
(f) Carry out public awareness and education on the establishment and management of the scheme;
(g) Promote capacity building and institutional strengthening of pension fund administrators and custodians;
(h) Receive and investigate complaints of impropriety levelled against any pension fund administrator, custodian or employer or any of their staff or agents; and

(i) 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.

4.6.4 Composition of National Pension Commission

The Commission comprises:

(a) A part-time chairman in possession of a University degree or its equivalent and 20 years experience.

(b) A Director-General who shall be the Chief Executive Officer of the Commission and in possession of appropriate professional skills with not less than twenty years cognate experience.

(c) Four (4) full time Commissioners, who shall each possess professional skills and not less than 20 years cognate experience in Finance, Investment, Accounting, Pension Management, Business Administration or Actuarial Science.

(d) **Representatives of:**

- (i) Head of the Civil Service of the Federation;
- (ii) The Federal Ministry of Finance;
- (iii) The Nigeria Union of Pensioners;
- (iv) The Nigeria Employers' Consultative Association;
- (v) The Central Bank of Nigeria;
- (vi) The Nigeria Labour Congress;
- (vii) The Securities and Exchange Commission;
- (viii) Trade Union Congress of Nigeria;
- (ix) Nigeria Exchange Group Plc (NGX) formally Nigerian Stock Exchange; and
- (x) National Insurance Commission.

4.7 Pension Fund Administration

4.7.1 Application for a licence as Pension Fund Administrator.

A person proposing to operate as a Pension Fund Administrator shall apply to the Commission for a licence in such form and with the payment of such fees as may be prescribed by the Commission from time to time. The Commission may, if satisfied that the applicant meets the requirements set out in 6.9.2 below or Section 60 of this Act, issue a licence to the applicant to operate as a Pension Fund Administrator subject to such terms and conditions as the Commission may consider expedient and necessary in the circumstances.

4.7.2 Requirements for licence as a Pension Fund Administrator.

(a) An application for licence to operate as a Pension Fund Administrator shall not be granted unless the applicant:

4. Is a limited liability company incorporated under the Companies and Allied Matters Act whose object is to manage pension funds;
5. Has a minimum paid up share capital of such sum as maybe prescribed, from time to time, by the Commission;
6. Satisfies the Commission that it has the professional capacity to manage pension funds and administer retirement benefits;
7. Has never been a manager or administrator of any fund which was mismanaged or has been in distress due to any fault, either fully or partially, of the Pension Fund Administrator or any of its subscribers, directors or officers;
8. Undertakes to the satisfaction of the Commission, that it shall not be engaged in any business other than the management of pension funds; and
9. Satisfies any additional requirement or condition as may be prescribed, from time to time; by the Commission.

(b) All companies and institutions already engaged in the management of pension funds who are not licensed by the Commission shall, at the commencement of this Act, compute and credit all contributions to the Retirement Savings Account opened by them for each contributor including distributable income.

(c) All companies and institutions referred to in sub-section (ii) of this section shall transfer all pension funds and assets held by them to Pension Fund Administrators and Pension Fund Custodians as may be determined by the Commission.

(d) Pursuant to the provisions of Section 116 of the Companies and Allied Matters Act, the voting rights of every shareholder in a Pension Fund Administrator or Pension Fund Custodian shall be proportionate to his contribution to the paid-up share capital of the Pension Fund Administrator or Pension Fund Custodian.

4.7.3 Functions of Pension Fund Administrators

Only Pension Fund Administrators licensed by the Commission shall manage pension funds.

The Pension Fund Administrators shall carry out the following functions:

(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; and

(g) carry out other functions as National Pension Funds Commission may assign from time to time.

4.7.4 Prohibited transactions.

A Pension Fund Administrator shall not:

(a) hold any pension fund or asset;

(b) keep any pension fund or asset with a Pension Fund Custodian in whom the Pension Fund Administrator has any business interest, share or any relationship whatsoever;

(c) engage in any business transaction or trade in any manner with the Pension Fund Administrator as a counterpart or with the subsidiary in relation to pension fund or assets; and

(d) divert or convert pension funds and assets as well as any income or brokerage, commission arising from the investment of pension fund or asset or by any other means.

4.7.5 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 `mark-to-market' 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.

4.8 Pension Fund Custodians

4.8.1 Application for licence as Pension Fund Custodian.

A person proposing to act as a custodian of pension funds shall apply to the Commission for a licence in such form with the payment of such fees as may be prescribed by the Commission, from time to time. The Commission may, if satisfied that the applicant meets the requirements set out in 6.10.2 below or Section 62 of this Act, issue a licence to the applicant to carry out the functions of a Pension Fund Custodian prescribed under Section 46 of this Act.

4.8.2 Requirements for a licence as Pension Fund Custodian.

Application for license to act as a Pension Fund Custodian shall not be approved by the Commission unless such applicant:

(a) Is a limited liability company incorporated under the Companies and Allied Matters Act by a licensed financial institution with sole object of keeping custody of pension fund and retirement benefits' assets;

(b) Has a minimum paid capital of such sum that may be prescribed by the Commission from time to time and is wholly owned by a licensed financial institution with net worth of a minimum of ₦25,000,000,000 or as may be prescribed from time to time;

(c) Shows that the parent company has issued a guarantee to the full sum and *value* of the cash float of pension funds and the Commission, from time to time, may determine assets held by the Pension Fund Custodian,

(d) Undertakes to hold the pension fund assets to the exclusive order of the Pension Fund Administrator on trust for the respective employees as may be instructed by the Pension Fund Administrator appointed by each employee;

(e) Has never been a custodian of any fund which was mismanaged or has been in distress due to any default of the Pension Fund Custodian; and

(f) Satisfies such additional requirements as may be prescribed from time to time, by the Commission.

4.8.3 Functions of Pension Fund Custodian

Section 57 of Pension Reforms Act of 2014 states that Pension Fund Custodian 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;
f. Undertake statistical analysis on the investments and returns on investments with respect to pension funds in its custody and provide data and information to the Pension Fund Administrator and the Commission;
g. Execute in favour of the Pension Fund Administrator relevant proxy for the purpose of voting in relation to the investments; and
h. Carry out other functions as may be prescribed by regulations and guidelines issued by the Commission, from time to time.

4.8.4 Specific obligation of the Pension Fund Custodian.

The Pension Fund Custodian shall:

(a) Maintain all pension funds and assets in its custody to the exclusive order of the relevant Pension Fund Administrator and the Commission;
(b) Utilise any pension fund or assets in *its* custody to meet its own financial obligation to any person whatsoever; and
(c) Not divert or convert pension funds and assets as well as any income or brokerage, commission arising from the investment of pension fund or asset or by any other means.

4.9 Refusal and revocation of licence of Pension Fund Administrators and Custodians

The Commission may refuse to issue a licence to any applicant where it is satisfied that:

(a) The information contained in the application for grant of licence is false or untrue in any material particular;

(b) The application does not meet the requirements prescribed by this Act or the Commission for grant of license; or

(c) The licence of the applicant had earlier been revoked by the Commission under any of the conditions mentioned in Section 64 of this Act.

Where the Commission refuses to register any Pension Fund Administrator or Pension Fund Custodian, it shall notify the applicant in the prescribed form, specifying the reasons for such refusal.

The Commission may revoke a licence issued to a Pension Fund Administrator or Pension Fund Custodian, where it discovers that:

(a) A statement was made in connection with the application, which the applicant knew or ought to have known to be false, untrue or misleading in any material particular;

(b) The applicant or licensee is subject to an insolvency proceeding or is likely to be wound up or otherwise dissolved;

(c) The conduct of affairs of the Pension Fund Administrator or Pension Fund Custodian does not conform to the provisions of this Act or any regulations made pursuant to this Act;

(d) Any event occurs which renders the Pension Fund Administrator or Pension Fund Custodian unable to manage the pension funds or take custody of the pension funds as the case may be; or

(e) The Pension Fund Administrator or Pension Fund Custodian is in breach of any condition attached to the licence issued by the Commission.

The Commission shall, before revoking any licence, give:

(i) The Pension Fund Administrator or Pension Fund Custodian at least seven calendar days notice of its intention and shall consider any representations made to it in writing by the Pension Fund Administrator or Pension Fund Custodian within that period before the revocation;

(ii) The notice of the revocation shall be in the prescribed form and shall specify the reasons for the-revocation of licence;

(iii) The revocation of licence of a Pension Fund Administrator or Pension Fund Custodian shall not in any way prejudice the entitlements of any beneficiary of the retirement savings account under the Scheme and other approved schemes;

(iv) Notwithstanding the provisions of the Companies and Allied Matters Act, the Commission shall in its revocation order, withdraw the powers of the board of the Pension Fund Administrator or Pension Fund Custodian over the pension funds and assets held or administered by the company and may appoint administrators with relevant qualifications who shall superintend the transfer of the assets and funds held or administered by the Company and exercise the powers of the board where necessary in accordance with this Act;

(v) Cause the Retirement Savings Accounts being managed by the Pension Fund Administrator whose licence was revoked to be transferred to another Pension Fund Administrator or administrators as the case may be;

(vi) Transfer the pension fund and assets being held by a Pension Fund Custodian whose licence were revoked to another Pension Fund Custodian; and

(vii) The Commission shall publish by notice in the Federal Gazette, the list of the Pension Fund Administrators or Pension Fund Custodians whose licenses have been revoked.

4.10 General obligations of the Pension Fund Administrator and Pension Fund Custodian.

The Pension Fund Administrator and Pension Fund Custodian shall:

(a) Ensure that the pension fund is at all times managed or held in accordance with the provisions of this Act regulations or guidelines made hereunder and any directive given by the Commission;

(b) Take reasonable care to ensure that the management or custody of the pension funds is carried out in the best interests of the retirement savings account holders;

(c) Report to the Commission, as soon as practicable, any unusual occurrence with respect to the pension funds which in his view could adversely affect the rights of the owner of a retirement savings account under the Scheme;

(d) Report to the Commission, *as* soon as reasonably practicable, if an employer is in default of remittance of any contribution and such remittance remains due for a period of more than 14 days;

(e) Subject to the guidelines issued by the Commission and upon the request of an employee, transfer the retirement savings account promptly to another Pension Fund Administrator; and

(f) Provide annual fidelity insurance cover for its staff to the full value of the pension funds and assets managed or held as may be determined by the Commission.

(g) Render to the Commission reports of any fraud, forgery or theft, which occurs in its organization in a format approved by the Commission.

(h) Employ any person whose name is on the list maintained by the Commission under section 74 (2) of this Act, unless with the prior approval of the Commission

(i) Except with the prior consent of the Commission in writing, no Pension Fund Administrator or Pension Fund Custodian shall enter into any agreement or arrangement for the:

   (a) Sale or transfer of significant shareholding of the Pension Fund Administrator or Pension Fund Custodian which is capable of causing a change in the shareholding structure of the Pension Fund Administrator or Pension Fund Custodian;

   (b) Restructuring of its share capital;

   (c) Amalgamation or merger of the Pension Fund Administrator or Pension Fund Custodian with any other Pension Fund Administrator or Pension Fund Custodian;

   (d) Restructuring of the Pension Fund Administrator or Pension Fund Custodian; or

   (e) Employment a management agent or transfer its business to any agent

A Pension Fund Administrator or Pension Fund Custodian who fails to comply with any of the above provisions (Sections 73, 74 and 75 of this Act) shall pay a penalty of ₦1,000,000 to the Commission for every violation. The Commission may also impose additional penalties including removal of any top management staff of the Pension Fund Administrator or the Pension Fund Custodian who had knowledge or ought to have knowledge of the offences.

4.11 Appointment of chief executive officers and compliance officer for Pension Fund Administrators and Pension Fund Custodians

The chief executive officer, directors and management staff of a Pension Fund Administrator or Pension Fund Custodian shall:

(a) Not be appointed without the prior written approval of the Commission.

(b) Execute the code of conduct form as may be provided by the Commission from time to time.

(c) Notwithstanding subsections (a) and (b) above, the Commission may suspend or direct the resignation and/or sack of any Chief Executive Officer Director or Management staff of any Pension Fund Administrator or Pension Fund Custodian found to have grossly disregarded the provisions of this Act.

4.11.1 Appointment of compliance officer

Every Pension Fund Administrator and Pension Fund Custodian shall employ a compliance officer who shall:

(a) Be responsible for ensuring compliance with the provisions of this Act rules and regulations made there under and the internal rules and regulations made by the Pension Fund Administrator or the Pension Fund Custodian;

(b) Have relevant professional and cognate experience;

(c) Report to the chief executive officer of the Pension Fund Administrator or the Pension Fund Custodian and the Commission on any non – compliance by the Pension Fund Administrator or Pension Fund Custodian; and

(d) Liaise with the Commission with regard to any matter which, in the opinion of the Commission, will enhance the compliance of the Pension Fund Administrator and Pension Fund Custodian with the provisions of this Act and guidelines issued there under.

4.12 Statutory Reserve Fund, Pension Protection Fund and Pension Fund administrative expenses

4.12.1 Statutory Reserve Fund:

Every Pension Fund Administrator shall maintain a Statutory Reserve Fund as contingency fund to meet any claim for which the Pension Fund Administrator may be liable as may be determined by the Commission. The Statutory Reserve Fund shall be credited annually with 12.5% of the net profit after tax or such other percentage of the net profit as the Commission may, from time to time, stipulate.

The Commission shall also establish and maintain a fund to be known as the Pension Protection Fund for the benefits of eligible pensioners covered by any pension scheme established, approved or recognized under this Act.

4.12.2 Pension Protection Fund: The Pension Protection Fund shall consist of -

(a) An annual subvention of 1% of the total monthly wage bill payable to employees in the Public Service of the Federation towards the funding of the minimum guaranteed pension;

(b) Annual pension protection levy paid by the Commission and all licensed pension operators at a rate to be determined by the Commission, from time to time; and

(c) Income from investment of the Pension Protection Fund.

The Commission shall utilise the Pension Protection Fund for:

(a) The funding of the minimum guaranteed pension pursuant to section 84 of this Act;

(b) The payment of compensation to eligible pensioners for shortfall or financial losses arising from investment activities; and

(c) Any other purpose deserving protection with the Pension Protection Fund as the Commission may, from time to time, determine.

The Commission shall make regulations governing the operations of the Pension Protection Fund, fund management and custody, eligibility criteria and related matters.

4.12.3 Pension Fund administrative expenses.

(a) All income earned from investment of pension funds under this Act shall be credited to the individual Retirement Saving Accounts of beneficiaries.

(b) All fees, charges, costs and expenses on transactions made and properly delineated by the Pension Fund Administrators shall be debited from the pension fund, in line with regulations issued by the Commission, from time to time.

(c) The Commission shall ensure that *all* information in brochures, advertisements, promotional materials and claims of Pension Fund Administrators are truthful in every way without omission of any fact which may make the information contained therein misleading, false or deceptive.

4.13 Minimum pension guarantee.

(a) All Retirement Savings Account holders who have contributed to a licensed Pension Fund Administrator for a number of years to be specified by the Commission shall be entitled to a guaranteed minimum pension as may be specified from time to time by the Commission.

(b) The Nigeria Social Insurance Trust Fund shall continue to provide every eligible citizen of Nigeria and legal resident social security insurance services other than pension in accordance with the Nigeria Social Insurance Trust Fund Act.

(c) The Nigeria Social Insurance Trust Fund Act shall be deemed amended in all particulars to bring it in full compliance with this Act.

4.14 Investment of pension funds and restricted investments

4.14.1 Investment of pension funds

All contributions are to be invested by the PFA with the objectives of safety and maintenance of fair returns on amount invested. Pension funds and assets shall only be invested in accordance with regulations and guidelines issued by the Commission, from time to time.

Pension funds and assets shall be invested in any of the following:

(i) Bonds, bills and other securities issued or guaranteed by the Federal Government and the Central Bank of Nigeria;

(ii) Bonds, bills and other securities issued by the States and Local Governments;

(iii) Bonds, debentures, redeemable preference shares and other debt instruments issued by corporate entities and listed on a Stock Exchange registered under the Investments and Securities Act;

(iv) Ordinary shares of public limited companies listed on a securities exchange registered under the Investments and Securities Act;

(v) Bank deposits and bank securities;

(vi) Investment certificates of closed-end investment fund or hybrid investment funds listed on a securities exchange registered under the Investments and Securities Act with good track records of earning;

(vii) Units sold by open-end investment funds or specialist open-end investment funds registered under the Investments and Securities Act;

(viii) Real estate development investments; or

(ix) Specialist investment funds and such other financial instruments as the Commission may approve from time to time.

4.14.2 Restricted investments

(a) A Pension Fund Administrator shall not invest pension fund or assets in shares or Restricted investment other securities issued by the Pension Fund Administrator or its Pension Fund Custodian; anda shareholder of the Pension Fund Administrator or its Pension Fund Custodian.

(b) A Pension Fund Administrator shall not sell:

i. Pension fund assets to itself, any shareholder, director, affiliate, subsidiary, associate, related party or company of the Pension Fund Administrator, any employee of the Pension Fund Administrator, affiliates of any shareholder of the Pension Fund Administrator, or the Pension Fund Custodian holding pension fund assets to the order of the Pension Fund Administrator and any related party to the Pension Fund Custodian;
ii. Utilise pension fund to purchase assets from the persons mentioned in subsection (a) of this section; and
iii. Apply pension fund assets under its management by way of loans and credits or as collateral for any loan taken by a holder of retirement savings account or any person whatsoever.

4.14.3 Supervision and examination of Pension Fund Administrators and Pension Fund Custodians on investments

Any Pension Fund Administrator who fails to comply with any provision of this Act shall be liable to a penalty of not be less than ₦500,000 for each day that the non-compliance continues and the Pension Fund Administrator shall forfeit the profit from that investment to the beneficiaries of the Retirement Savings Accounts and where the investment has led to a loss, the Pension Fund Administrator shall be made to make up for the loss.

4.15 Deficiencies of Pension Reform Act, 2014

(a) **Scope and coverage:** The Scheme applies to employees in both the public and private sectors. Mandatory contribution is applicable to organisations in which there are 15 or more employees (previously 5 employees).This effectively reduces the number of employers and employees that are likely to benefit from the scheme. Given the low level of contributors under the Scheme, this change is counter-productive.

(b) **Basis of contribution:** Contributions are now to be based on 'monthly emoluments' being the total emolument as defined in the employee's contract of employment provided it is not less than the total of the employee's basic salary, housing and transport allowance. This definition is vague and could be interpreted to mean that all items that are paid on a monthly basis (in addition to basic, housing and transport) would form part of the base on which the pension rates are applied. This potentially larger base could well mean that many employers will see an increase of over 100% in their pension contribution obligations while employees' net pay will reduce unless their employers chose to increase their salaries to accommodate the additional contribution.

(c) **Rates of contribution:** The rates of contributions to be made under the new Scheme by both the employer and employee are a minimum of 10% and 8% respectively (7.5% of the employee's monthly basic, housing and transport allowances by both parties under the repealed Act). Again, this will increase the cost of employment and may force many employers to take drastic measures such as rationalisation of staff strength.

(d) **Commencement date**: The Pension Reform Act 2014 (Act) was signed into law by the President on 1 July 2014 with the same date as commencement date, does not give room for transition arrangement and proper planning by affected employers.

(e) **Gaps in coverage:** Only employers with a minimum of 15 employees are required to contribute to the new Scheme. The Act provides that in the case of private organisations with less than 3 employees participation in the Scheme would be governed by guidelines issued by the National Pension Commission (PenCom). However, the Act is silent on the applicability of the Scheme to private organisations with more than 3 but less than 15 employees. Also what happens to employers with 5 to 14 employees regarding their past contributions under the old Act?

(f) **Sole contribution by employers:** The Act provides that an employer can take full responsibility of the contribution but in that case, the contribution shall not be less than 20% of the employee's monthly emolument. This provision contradicts the combined contribution by both parties of 18%. Employers will therefore be discouraged from taking full responsibility.

4.16 Pension Transitional Arrangements Directorate (PTAD)

Pension Transitional Arrangement Directorate (PTAD) is responsible for the pension administration of the Defined Benefit Scheme (DBS). PTAD was established to address the numerous pensioners’ complaints that border on issues such as non-payment of monthly pension, short payment of pension and gratuity, removal of name on pension payment voucher, non-payment of harmonised pension arrears, irregular payment of federal pensions and non receipt of pension after retirement, etc. Empowered by Section 30, Sub-section (2a) of the Amended Pension Reform Act, 2004, and it will take over the management of three of the offices presently running the old pension scheme. These are the Civil Service Pension Department, the Police Pension Office and the Customs, Immigration and Prisons Pension Office (CIPPO).

Sections 42 and 44 of Pension Reform Act 2014 established Pension Transitional Arrangements Directorate for public service of the Federation and Pension Transitional Arrangements Directorate for the Federal Capital Territory respectively.

i. **Functions of Pension Transitional Arrangements Directorate for public service of the Federation and Federal Capital Territory**

(a) Implementation of policies, rules and regulations relating to pension matters under the Defined Benefit Scheme (DBS).

(b) Ensure accurate payments are made to authentic Pensioners under the Civil Service jurisdiction.

(c) Facilitate the maintenance of an accurate and comprehensive database of pensioners under its jurisdiction.

(d) Management and maintenance of pensioners’ records & files.

(e) Prepare budgetary estimates for existing pensioners as well as outstanding liabilities and benefits of pensioners with genuine complaints.

(f) Prepare and submit the Monthly Payroll of Civil Service Pensioners and issue payment instructions to the Office of the Accountant General of the Federation, OAGF through the GIFMIS platform for direct payment to pensioners.

(g) Respond to pensioners’ complaints, relating but not limited to, non-/under-/over-payment of pensions, gratuities, death benefits, etc.

(h) Carry out monthly payment analysis and payroll review and ascertain deficits in pension payments.

(i) Prepayment audit of all payment vouchers.

(j) Compliance audit to ensure government financial rules and regulations are complied with in all financial transactions.

(k) Review of Financial Statements – Transcripts, bank reconciliations, pensioners' statement of claims etc.

(l) Safeguarding the assets of the department.

(m) Periodic examination of systems and processes, certification of payment vouchers and other accounting books and records by use of Internal Audit Stamp.

(n) Production of monthly audit reports.

(o) Collaborate with Pension Support and ensure periodic verification of civil service pensioners.

4.16.2 Powers of the Commission over Pension Transitional Arrangements Directorate for public service of the Federation and Federal Capital Territory

The Commission shall have power to:

(a) Regulate and supervise the activities of the Federal Government Pension Transitional Arrangements Directorate and the Federal Capital Territory Pension Transitional Arrangements Directorate to ensure compliance with the provisions of this Act;

(b) Intervene to administer and render technical support and advice on the management of the various Pension Transition Administration Directorates as per the directive of the President of the Federal Republic; and

(c) Ensure that the Federal Government Pension Transitional Arrangements Directorate and the Federal Capital Territory Pension Transitional Arrangements Directorate operate under the rules, regulations and directives issued by the Commission from time to time.

4.17 Offences, penalties and enforcement powers

4.17.1 Offences and penalties.

(a) A person who contravenes any of the provisions of this Act commits an offence and where no penalty is prescribed, shall be liable on conviction to a fine of not less than ₦250,000 or to a term of not less than one year imprisonment or to both fine and imprisonment.

(b) Any person or body who attempts to commit any offence specified in this Act commits an offence and is liable, on conviction, to the same punishment as is prescribed for the full offence in the Act. Offences and penalties.

(c) Without prejudice to Section 174 of the Constitution of the Federal Republic of Nigeria 1999 (as amended), the Commission may compound any offence provided for under this Act by accepting an amount less than the fine provided for the offence under this Act

(d) A Pension Fund Administrator, Pension Fund Custodian that reimburses or pays for a staff, officer or director directly or indirectly a fine imposed under this Act commits an offence and is liable on conviction to a fine of not less than ₦5,000,000 and also forfeits the amount repaid or reimbursed to the staff, officer or director.

4.17.2 Penalties for misappropriation of pension fund

(i) Prison term of 10 years plus fine of 3 times the amount misappropriated.

(ii) Forfeiture of the entire asset and properties or fund with accrued interest or the proceeds of any unlawful activity under the Act in his / her possession.

(iii) The Act also criminalises any re-imbursement or payment by a PFA or by Pension Fund Custodian (PFC), to a staff, officer or director upon whom a fine has been imposed (the minimum fine being ₦5m).

(iv) For Pension Fund Custodian (PFC), the minimum fine is ₦10m (upon conviction) where the PFC falls to hold the funds to the exclusive preserve of the Pension Fund Administrative and National Pension Commission PENCOM, or where if applied the funds to meet its own financial obligations (in the case of Direct - ₦5m or 5 years imprisonment or both).

(v) A Pension Fund Administrator, Pension Fund Custodian, any person or body who refuses to produce any book, account, document or voucher; give any information or explanation required by an examiner; or with intend to defraud, produces any book, account, document or voucher, or gives any information or explanation, which is false or misleading in any material particular; or supplies information which he knows to be false or supplies the information recklessly as to its truth or falsity, commits an offence under this Act and shall on conviction be liable to a fine not Jess than ₦200,000 or to imprisonment for a term of not less than three years or to both such fine and imprisonment for every false or misleading information given and where the offence continues to a fine not less than ₦100,000 for every day the offence continues,

(vi) Where an offence under this Act is committed by a body corporate, the body corporate or every-

    (i) Director, manager, secretary or other officers of the body corporate;

    (ii) Person who was purporting to act in such capacity mentioned in paragraph (a) of this section, who had knowledge or believed to have had knowledge of the commission of the offence and who did not exercise due diligence to ensure compliance with this Act shall be deemed to have committed the offence and shall be proceeded against in accordance with this Act.

(iii) Notwithstanding the provisions of any other law, the Commission may, in addition to the penalties stipulated under this Act, impose additional sanctions on the board, any director, management, manager or officer of a Pension Fund Administrator or Pension Fund Custodian that violates any of the provisions of this Act.

4.18 Summary

The institutional and legal framework for pension administration was discussed in details. Pension Reform Act 2014 treats extensively 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.

4.19 End of chapter review questions

4.19.1 Examination type questions

1. The following except **one** are the objectives of the new Pension Reform Act, 2014

A To establish a uniform set of rules, regulations and standards for the administration of pension –related matters in Nigeria

B To assist improvident individuals by ensuring that they save towards their inactive years, after active service

C To make provision for the smooth operation of the contributory pension scheme

D To give a bulk amount to employees at retirement without recourse to contribution from salary

E To ensure that every public service employees and private sector employees receives his retirement benefits as and when due.

2. The following except **one** are the categories of persons exempted from the Contributory Pension Scheme

A The categories of person mentioned in section 291 of the Nigerian constitution including members of the armed forces, the intelligent and secret services of the federation

B An employee who is entitled to retirement benefits under any pension scheme existing before 25th day of June 2004 and has less than three (3) years to retire

C Any person who falls within (a) and (b) above shall continue to derive retirement benefit under such existing pension scheme as provided in the second scheme as provided in the second schedule of the Act

D The Chairman of any ministry, department and agencies (MDA)

E The President of the Federal Republic of Nigeria.

3. The contribution for any employee to which the Pension Reform Act, 2014 applies shall be made in one of the following:

A A minimum of 10% by the employer and a minimum of 5% by the employee

B A minimum of 7.5% by the employer and a minimum of 7.5% by the employee

C A minimum of 12.5% by the employer and a minimum of 7.5% by the employee

D A minimum of 10% by the employer and a minimum of 8% by the employee

E A minimum of 10% by the employer and a minimum of 10% by the employer

4. Which of the following is NOT a condition governing withdrawal from the Scheme?

A Withdrawal from the Scheme can only occur when staff has attained 35years in service

B Withdrawal cannot be carried out by an employee until the attainment of 50years of age

C Where the officer is retired as a result of total or permanent disability either of mind or body

D Where an employee disengage or he is disengaged before the age of 50years and could not secure another employment within four months of such disengagement can make withdrawal from his retirement savings account

E Where the Medical Board certifies that an employee who was once not medically fit, such employee may re-enter the Scheme upon securing another employment.

5. The following EXCEPT ONE are exemptions form taxes in line with PRA 2014

   A Contributions to the scheme are exempted from taxes under this Act and shall form part of tax deductible expenses in the computation of tax payable by an employer or employee under the relevant income tax law.
   B All interests, dividends, profits, investment and other income accruable to pension funds and assets under this Act shall not be taxable.
   C Any amount payable as a retirement benefit under this Act shall not be taxable.
   D 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.
   E Income of high net-worth private individuals in the various industries.

6. The gross salary (basic and allowances) attached to a retiring officer's substantive rank is known as__________________________

7. The rates of contributions to the Pension scheme by the military are_________ and______________.

8. The rate of contributions by an employee and his or her employer according to PRA, 2014 are________________ and_____________________.

9. At the death of an employee, his entitlement under the life insurance company shall be paid into his________________________.

10. The supposed qualifications and year of experience of the Part-time Chairman of the National Pension Commission are____________ and _____________.

Section B

1. National Pension Commission is the established body charged with overseeing all pension related matters in Nigeria. List any ten (10) functions of the Commission.
2. Enumerate any ten (10) powers of the National Pension Commission.
3. Itemize the composition of the National Pension Commission.
4. List the requirements for licensing a Pension fund administrator. List the various investment outlets where pension funds shall be invested in accordance with PRA 2014.
5. Sections 42 and 44 of Pension Reform Act 2014 established Pension Transitional Arrangements Directorate (PTAD) for public service of the

Federation and Pension Transitional Arrangements Directorate for the Federal Capital Territory respectively. You are required to state **eight** functions PTAD and **three** powers of the Commission over Pension Transitional Arrangements Directorate for public service of the Federation and Federal Capital Territory

4.19.2 Suggested solutions to examination type questions

Section A

1. D
2. D
3. D
4. A
5. E
6. Pensionable emoluments
7. 12.5% of the basic salary and allowances by the government and 8% of the basic salary and allowances by the military staff
8. 10% of the basic salary by the employer and 8% of the basic salary by the employee
9. Retirement savings account
10. A university degree or its equivalent; 20years

Section B

- Functions of the National Pension Commission:

The functions of the Pension Commission as stated in S.23 of the Act are to:

(j) regulate and supervise the scheme established under this Act;
(k) issue guidelines for the investment of pension funds;
(l) 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;
(m) establish standards, rules and guidelines for the management of the pension funds under this Act;
(n) ensure the maintenance of a National Data Bank on all pension matters;
(o) carry out public awareness and education on the establishment and management of the scheme;
(p) promote capacity building and institutional strengthening of pension fund administrators and custodians;
(q) receive and investigate complaints of impropriety levelled against any pension fund administrator, custodian or employer or any of their staff or agents; and
(r) 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.

- The following are the powers of the National Pension Commission:

The Commission shall have power to:

(k) Formulate, direct and oversee the overall policy on pension matters in Nigeria;

(l) Fix the terms and conditions of service, including remuneration of the employees of the Commission;

(m) Request or call for information from any employer or pension administrator or custodian or any other person or institution on matters relating to retirement benefits;

(n) Charge and collect such fees, levies or penalties, as may be specified by the Commission;

(o) 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;

(p) Establish standards, rules and regulations for the management of the pension funds;

(q) Investigate any Pension Fund Administrator, custodian or other party involved in the management of pension funds;

(r) Impose administrative sanctions or fines on erring employers or Pension Fund Administrators or Custodians;

(s) 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; and

(t) Do such other things, which in its opinion are necessary to ensure the efficient performance of the functions of the Commission.

- The composition of the National Pension Commission is as follows:

The Commission comprises:

(e) A part-time chairman in possession of a University degree or its equivalent and 20 years' experience.

(f) 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.

(g) 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.

(h) **Representatives of:**

i. Head of the Civil Service of the Federation;
ii. The Federal Ministry of Finance;
iii. The Nigeria Union of Pensioners;
iv. The Nigeria Employers' Consultative Association;
v. The Central Bank of Nigeria;
vi. The Nigeria Labour Congress;
vii. The Securities and Exchange Commission;
viii. Trade Union Congress of Nigeria;
ix. Nigerian Exchange Group Plc (NGX) formerly Nigerian Stock Exchange; and
x. National Insurance Commission.

4a. The following are the requirements for licensing a pension Fund Administrator:

i. An application for licence to operate as a Pension Fund Administrator shall not be granted unless the applicant:
i. Is a limited liability company incorporated under the Companies and Allied Matters Act whose object is to manage pension funds;
ii. Has a minimum paid up share capital of such sum as maybe prescribed, from time to time, by the Commission;
iii. Satisfies the Commission that it has the professional capacity to manage pension funds and administer retirement benefits;
iv. Has never been a manager or administrator of any fund which was mismanaged or has been in distress due to any fault, either fully or partially, of the Pension Fund Administrator or any of its subscribers, directors or officers;
v. Undertakes to the satisfaction of the Commission, that it shall not be engaged in any business other than the management of pension funds; and
vi. Satisfies any additional requirement or condition as may be prescribed, from time to time; by the Commission.
ii. All companies and institutions already engaged in the management of pension funds who are not licensed by the Commission shall, at the commencement of this Act, compute and credit all contributions to the Retirement Savings Account opened by them for each contributor including distributable income.
iii. All companies and institutions referred to in sub-section (ii) of this section shall transfer all pension funds and assets held by them to Pension Fund Administrators and Pension Fund Custodians as may be determined by the Commission.
iv. Pursuant to the provisions of Section 116 of the Companies and Allied Matters Act, the voting rights of every shareholder in a Pension Fund Administrator or Pension Fund Custodian shall be

proportionate to his contribution to the paid-up share capital of the Pension Fund Administrator or Pension Fund Custodian.

4b. Pension funds in the custody of pension fund administrator shall be invested in the following investment outlets:

Pension funds and assets shall be invested in any of the following:

j. Bonds, bills and other securities issued or guaranteed by the Federal Government and the Central Bank of Nigeria;
k. Bonds, bills and other securities issued by the states and local governments;
l. Bonds, debentures, redeemable preference shares and other debt instruments issued by corporate entities and listed on a Stock Exchange registered under the Investments and Securities Act;
m. Ordinary shares of public limited companies listed on a securities exchange registered under the Investments and Securities Act;
n. Bank deposits and bank securities;
o. Investment certificates of closed-end investment fund or hybrid investment funds listed on a securities exchange registered under the Investments and Securities Act with good track records of earning;
p. Units sold by open-end investment funds or specialist open-end investment funds registered under the Investments and Securities Act;
q. Real estate development investments; or
r. Specialist investment funds and such other financial instruments as the Commission may approve from time to time.

5 **Functions of Pension Transitional Arrangements Directorate for public service of the Federation and Federal Capital Territory**

a) Implementation of policies, rules and regulations relating to pension matters under the Defined Benefit Scheme (DBS).
b) Ensure accurate payments are made to authentic Pensioners under the Civil Service jurisdiction.
c) Facilitate the maintenance of an accurate and comprehensive database of pensioners under its jurisdiction.
d) Management and maintenance of pensioners' records & files.
e) Prepare budgetary estimates for existing pensioners as well as outstanding liabilities and benefits of pensioners with genuine complaints.
f) Prepare and submit the Monthly Payroll of Civil Service Pensioners and issue payment instructions to the Office of the Accountant General of the Federation, OAGF through the GIFMIS platform for direct payment to pensioners.
g) Respond to pensioners' complaints, relating but not limited to, non-/under-/over-payment of pensions, gratuities, death benefits, etc.

h) Carry out monthly payment analysis and payroll review and ascertain deficits in pension payments.
i) Prepayment audit of all payment vouchers.
j) Compliance audit to ensure government financial rules and regulations are complied with in all financial transactions.
k) Review of Financial Statements – Transcripts, bank reconciliations, pensioners' statement of claims etc.
l) Safeguarding the assets of the department.
m) Periodic examination of systems and processes, certification of payment vouchers and other accounting books and records by use of Internal Audit Stamp.
n) Production of monthly audit reports.
o) Collaborate with Pension Support and ensure periodic verification of civil service pensioners.

Powers of the Commission over Pension Transitional Arrangements Directorate for public service of the Federation and Federal Capital Territory

The Commission shall have power to:

i. Regulate and supervise the activities of the Federal Government Pension Transitional Arrangements Directorate and the Federal Capital Territory Pension Transitional Arrangements Directorate to ensure compliance with the provisions of this Act;
ii. Intervene to administer and render technical support and advice on the management of the various Pension Transition Administration Directorates as per the directive of the President of the Federal Republic; and
iii. Ensure that the Federal Government Pension Transitional Arrangements Directorate and the Federal Capital Territory Pension Transitional Arrangements Directorate operate under the rules, regulations and directives issued by the Commission from time to time.

CHAPTER FIVE

PLANNING AND BUDGETING IN THE PUBLIC SECTOR

Chapter contents

5.0 Learning objectives

After studying this chapter, the reader should be able to:

(1) Discuss the provisions of The medium term expenditure framework (MTEF);

(2) Define budget and explain the different methods of preparing it;

(3) Describe budget implementation in the public sector; and

(4) Explain budgetary control measures.

5.1 Introduction

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

(a) As a guide for the present and future;

(b) To plan, control and estimate the amount of receipts and expenditure during a specified period;

(c) To distribute limited resources;

(d) To motivate managers towards the achievement of corporate goals;

(e) As a means of evaluating performance;

(f) To inform managers about the operations and results of their areas of responsibility; and

(g) As a standard of measurement for the purpose of controlling on-going economic endeavours.

Government units that generate revenue through taxes and other sources use the budget to control their operations. A government budget shows authorised appropriations and estimated revenue. Many however, perceive budget as a restraining or impending factor, hence, people seem to develop a negative attitude towards budgeting.

5.2 Medium-term expenditure framework (MTEF)

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

Section 11 of the Fiscal Responsibility Act, 2007 states that the Federal Government in consultation with the States would:

(a) Prepare and submit to the National Assembly a medium-term expenditure framework for the next three financial years on which the National Assembly will deliberate. This would have to be done not later than six months from the commencement of the Act.

(b) Subsequently, not later than four months before the next financial year,- commences a Medium-Term Expenditure Framework for the next three financial years will be prepared for the National Assembly's consideration.

5.2.1. Objectives of MTEF

The objectives of MTEF are:

(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 expenditure (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 expenditure 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 programmes.

5.2.2 Content of the Medium-term expenditure framework

The MTEF shall contain the following:

(a) A macro-economic framework setting out the three financial years, the underlying assumptions and an evaluation and analysis of the macro-economic projection for the preceding three financial years;

(b) Fiscal strategy document setting out:

- (i) Federal Government's medium-term financial objectives;
- (ii) The policies of the Federal Government for the Medium Term relating to taxation, recurrent expenditure borrowings, lending and investment and other liabilities;
- (iii) The strategies, economic, social and developmental priorities of government for the next three financial years;
- (iv) An explanation of the financial objectives, strategic, economic, social and developmental priorities and fiscal measures;

(c) An expenditure and revenue frameworks which set out:

- (i) Estimates of aggregate revenue for the Federation for each financial year, based on the pre-determined commodity Reference Price adopted and tax revenue projections;
- (ii) Aggregate expenditure for each of the next three financial years;
- (iii) Minimum capital expenditure projection for the Federation for each of the next three financial years;

(iv) Aggregate tax expenditure projection for the Federation for each of the next three financial years.

(d) A consolidated Debt Statement indicating and describing the fiscal significance of the debt liability and measures to reduce the liability;

(e) A statement on the nature and fiscal significance of contingent liabilities and quasi-fiscal activities and measures to offset the crystallization of such liabilities.

The estimates and expenditure in (c) (i – iv) above should be:

(i) Based on reliable and consistent data;

(ii) Targeted at achieving the macro-economic projection;

(iii) Consistent with and derive from the underlying assumptions contained in the fiscal strategy document.

5.2.3 Annual budgets and the Medium-term expenditure framework

The Medium-Term Expenditure Framework shall be the basis for the preparation of the estimates of revenue and expenditure to be presented to the National Assembly.

The annual budget must be accompanied by:

(a) A copy of the underlying revenue and expenditure profile for the next two years;

(b) A report setting out actual and budgeted revenue and expenditure with a detailed analysis of the performance of the budget for the 18 months up to June of the preceding financial year;

(c) A fiscal target broken down into monthly collection targets;

(d) Measures of cost, cost control and evaluation of result of programmes financed with budgetary resources;

(e) A fiscal target document derived from the underlying Medium – Term Expenditure Framework setting out the following targets for the relevant financial year:

(i) Target inflation rate

(ii) Target fiscal account balances

(iii) Any other development targets deemed appropriate.

(f) A Fiscal Risk document evaluating the fiscal and other related risks to the annual budget and specifying measures to be taken to offset the occurrence of such risks.

5.2.4 Preparation of the Medium-term expenditure framework

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

(i) A Macro-economic framework,
(ii) A Fiscal strategy paper,
(iii) An expenditure and revenue framework,
(iv) A consolidated debt statement and
(v) A statement on contingent liabilities

The Minister will be responsible for preparing the Medium-Term Expenditure Framework. In doing this, he may hold public consultations on:

(i) The macro-economic framework.
(ii) Fiscal strategy document.
(iii) The strategic, economic, social and developmental priorities of government.
(iv) Such other matters, as he may deem necessary.

The consultation should be open to the public, the press, the citizens, organisations, group of citizens, etc.

The Minister shall seek inputs from the following organisations:

(i) National Planning Commission.

(ii) Joint Planning Commission.

(iii) National Commission on Development Planning.

(iv) National Economic Commission.

(v) National Assembly.

(vi) Central Bank of Nigeria.

(vii) National Bureau of Statistics.

(viii) Revenue Mobilization Allocation and Fiscal Commission.

The Minister shall before the end of the second quarter of each financial year, present the Medium Term Expenditure Framework to the Federal Executive Council for consideration and endorsement. The Medium Term Expenditure Framework as endorsed by the Federal Executive Council shall take effect upon approval by the National Assembly.

Any adjustment to Medium term expenditure framework shall be limited to:

i. The correction of manifest error; and
ii. Changes in the fiscal indicators, which in the opinion of the President are significant.

5.2.5 Format of Medium - term expenditure framework in Nigeria

Fiscal Item	**Approved Budget for the Current Year. (i.e. Year 1)**	**Actual as at end of the month of submission to NASS in Year 1**	**Year 2 Forecast**	**Year 3 Projection**	**Year 4 Projection**
Oil Production Volume (‘M barrels per day)	Xxxx	Xxxx	xxxx	xxxx	xxxx
Average budget price per barrel (in USD)					
Average exchange rate					
Federally collectible revenue:	**N’billion**	**N’billion**	**N’billion**	**N’billion**	**N’billion**
Gross oil revenue	xxxx	Xxxx	xxxx	xxxx	xxxx
Gross non-oil revenue	xxxx	Xxxx	xxxx	xxxx	xxxx
Federation account inflows:	**xxxx**	**Xxxx**	**xxxx**	**xxxx**	**xxxx**
Crude oil sales	xxxx	Xxxx	xxxx	xxxx	xxxx
Gas sales	xxxx	Xxxx	xxxx	xxxx	xxxx
Petroleum profit	xxxx	Xxxx	xxxx	xxxx	xxxx
Gas income @30% CITA	xxxx	Xxxx	xxxx	xxxx	xxxx
Oil royalties	xxxx	Xxxx	xxxx	xxxx	xxxx

Gas royalties	xxxx	Xxxx	xxxx	xxxx	xxxx
Net oil and gas revenue less cost, deduction and 13 derivation	xxxx	Xxxx	xxxx	xxxx	xxxx
Net Solid mineral revenue after derivation	xxxx	Xxxx	xxxx	xxxx	xxxx
Total non-oil revenue	xxxx	Xxxx	xxxx	xxxx	xxxx
Total FGN's retained revenue	**xxxx**	**Xxxx**	**xxxx**	**xxxx**	**xxxx**
Statutory transfer	xxxx	Xxxx	xxxx	xxxx	xxxx
Sinking fund to retire maturing loan	xxxx	Xxxx	xxxx	xxxx	xxxx
Recurrent expenditure.	xxxx	Xxxx	xxxx	xxxx	xxxx
Special intervention (conditional cash transfer, home grown school feeding program, post NYSC entrepreneurial development.	xxxx	Xxxx	xxxx	xxxx	xxxx
Capital expenditure.	xxxx	Xxxx	xxxx	xxxx	xxxx
Total FGN Exp.	**xxxx**	**Xxxx**	**xxxx**	**xxxx**	**xxxx**
Fiscal deficit	xxxx	Xxxx	xxxx	xxxx	xxxx
GDP	xxxx	Xxxx	xxxx	xxxx	xxxx

Share of capital as % of Non-debt exp.	xxxx	Xxxx	xxxx	xxxx	xxxx
Share of capital as % of total exp.	xxxx	Xxxx	xxxx	xxxx	xxxx
Share of recurrent as % of total exp.	xxxx	Xxxx	xxxx	xxxx	xxxx
Financing:	**xxxx**	**Xxxx**	**xxxx**	**xxxx**	**xxxx**
Sales of government properties, privatisation and FGN share of signature bonus	xxxx	Xxxx	xxxx	xxxx	xxxx
Recoveries of misappropriated funds	xxxx	Xxxx	xxxx	xxxx	xxxx
Borrowings	xxxx	Xxxx	xxxx	xxxx	xxxx
Total financing	xxxx	Xxxx	xxxx	xxxx	xxxx
Grand total (Revenue+ Financing)	**xxxx**	**Xxxx**	**xxxx**	**xxxx**	**xxxx**
Financing deficit	**xxxx**	**Xxxx**	**xxxx**	**xxxx**	**xxxx**

5.2.6 Risks 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 be devilled 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

5.3 Objectives and purposes of budget

5.3.1 Objective of budget

In all government units, the executive arm prepares the budget and submits it to the legislative arm for review, modifications and approval. The approved budget serves as a basis for the activities of that government unit for the fiscal period under review. There are four main purposes, which a government budget serves. These may be enumerated as follows:

(a) A budget is an economic and financial document. It highlights government's policies, which are designed to promote economic growth, full employment and enhance the quality of life of the citizenry;

(b) It is a useful guide for the allocation of available resources;

(c) Through the legislature, the executive arm uses the budget as a means of accountability for the fundearlier entrusted and the newly approved appropriations; and

(d) A budget isa request by the executive arm of government to the legislature to collect and disburse funds.

5.3.2 Uses of budget

Budgets are used for the following:

(a) **Planning**

Budgets are used for planning. Budgets are plans to which monetary values are assigned to what are to be achieved in a determinable future time, for example, a year.

(b) **Communication**

Budgets assist in communicating horizontally and vertically. When budgets are being prepared, individuals, groups, communities and associations will inform government about their areas of interests. This is 'upward communication.' When the budget is approved, Government reads it to the members of the public and publishes it in the newspapers. This is 'communicating downwards'.

(c) **Motivation**

A budget is a target to be achieved. Government motivates the staff through promotions and improved conditions of service, for assisting in the full and successful implementation of the budget.

(d) **Standard for measurement of performance**

Since a budget is a target, it is a measure of performance. What is achieved is recorded and compared with the target of performance set. The process of implementation draws management attention to problem areas.

(e) **Evaluation of economic and social policy**

Budgets are used to solve the social problems of inflation and unemployment.

(f) **Cost reduction technique**

Evaluation of operations and procedures may result in cost savings.

5.4 Budgeting with the National Chart of Accounts (NCOA)

The classification code- forms the basis for budgeting and budgetary control mechanism. Therefore, for a country, state or local government to achieve a reasonable level of success in accountability, transparency, performance evaluation and adherence to Appropriation Act, the application of unified chart of accounts is paramount.

5.4.1 National Chart of Accounts structure for budgeting

(i) **Administrative segment**: The administrative classification identifies the entity that is responsible for the public funds projection–such as the Ministry of Education, Health and Women Affairs or, at a lower level, schools and hospitals.

(ii) **Economic segment**–The economic classification identifies the type of revenue and expenditure budgeted in a particular period, examples are salaries, goods and services, transfer and interest due.

(iii) **Functional segment**: The functional classification or classification by functions of government is a detailed classification of the functions or socio-economic objectives, that general government unitsaims to achieve through various outlays. It therefore, organises government activities according to their broad objectives or purposes.

(iv) **Programme segment**- The programme classification identifies various set of activities to meet specific policy objectives of the government e.g. Pre-primary education, poverty alleviation and food security

(v) **Funds segment-** The fund classification identifies the sources of funding government activities.

(vi) **Geographical segment-** The geographical classification is used to identify the geographical location of an entity (MDAs)or a project so that an analysis of government budget along various zones, states and local government areas in the country can be done.

5.4.2 Steps for budgeting with National Chart of Accounts

All the six segments of the chart of accounts must be completed on the budget entries, even if the value for a given segment is inactive. Only numeric values can be budgeted. The following steps should be followed when using the Chart of Accounts for budgeting:

(i) Identify the government institutions (cost and revenue centres)from the hierarchy of administrative list and codes provided in the chart of accounts;
(ii) Identify the economic items that would be executed during the fiscal year;
(iii) Identify the functions intended to be performed by government institutions (revenue and cost centres);
(iv) Identifythe programmes intended to be carriedout by the government institutions;
(v) Determine the sources of financing the budgeted amount for each budget line; and
(vi) Identify the planned location for the economic transactions or government institutions.

5.4.3 Format for annual budgeting with chart of accounts

(i) Revenue budget
(ii) Recurrent budget
(iii) Capital budget
(iv) Summary of total revenue budget
(v) Summary of recurrent expenditure budget
(vi) Summary of independent revenue budget by MDAs
(vii) Summary of total recurrent expenditure by MDAs
(viii) Summary of total capital receipts budget by MDAs
(ix) Consolidated budget summary

5.5 Procedure for preparation and approval of budgets

The budgeting process is a cycle of events which occur sequentially every year and which result in the approved budget. In ministries and extra-ministerial departments, budget preparation and approval undergo three levels.

5.5.1 The ministerial or Pre-treasury board phase

Before the issuance of the budget preparation guidelines, the Ministry of Finance and Planning (or the Ministry of Finance at the State level) receives policy pronouncements from the Presidency (or the State Governor). The guidelines are subsequently issued by the Ministry of Budget and Planning or Finance, in form of a call circular. When the various Ministries, Extra-ministerial departments and agencies receive the call circular, a committee on ‘Advance Proposals’ is set up. The Committee, which acts as Pre-Treasury Board is headed by the Permanent

Secretary, Ministry of Finance and Planning (at the Federal Level) or Ministry of Finance, Budget and Planning (at the State Level). The Committee (or Pre-Treasury Board) is charged with the appraisal of the various budget proposals received, in the light of fund available The requirements, having received provisional approval, are transmitted to the Presidency or Treasury Board (headed by the State Governor).

Note: The budget office of the Ministry of Finance issues a call circular to all agencies of government, requesting them to submit their revenue and expenditure estimates for the succeeding year.

Functions of the budget office of the federation

For preparation of the annual estimates and the formulation of the fiscal, monetary and other policies, which are needed to support the economy, the budget office of the federation performs the following functions:

(a) Developing reasoned economic assumptions and forecasts;

(b) Issuing budget guidelines to the Ministries and extra-ministerial departments;

(c) Acting as the liaison between the Presidency, Ministries, Departments and Agencies (MDAs) during the budget preparation;

(d) Compiling total revenue and expenditure estimates;

(e) Drafting the budget speech;

(f) Supervising and controlling the implementation of the budget;

(g) Monitoring and evaluating the performance of programmes funded through the government budget;

(h) Assessing the impact of the budget on the economy;

(i) Developing formats of returns aimed at ensuring cost effectiveness in the use of government resources; and

(j) Carrying out research on budget utilisation and the attainment of National or State objectives.

5.5.2 Executive council phase

The draft estimates are presented to the cabinet members known as the Council of Ministers or the Executive Council for further consideration and approval. Members of the Executive Council are usually the Nation's President, Vice-President (Governor and Deputy Governor at the State level), Secretary to the government, all the Ministers (Commissioners at the State level) and Head of Service., The draft estimates is then sent to the National Assembly or the State Legislature, in the form of an Appropriation Bill.

5.5.3 Legislative phase

The President of Nigeria or State Governor presents the budget package and speech to the National Assembly (the joint meeting of the two Houses) or House of Assembly at the State government level. The meeting is known as the "Budget Session." In each House, there is a Standing Committee, which considers the budget proposals. Each arm of the National Assembly or the State House of Assembly approves the budget. Where there are discrepancies or divergent opinions on some items, the two Houses appoint a Finance Committee, which will resolve the issues and the resolution of the Finance Committee is final. The final stage is the consideration of the budget proposals at a joint session of the two Houses of the National Assembly.

5.5.4 Presidential/Governor's assent

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

5.6 Methods of preparing budget by government in Nigeria

The budgeting approach used by government to allocate funds for a succeeding year is the incremental or 'line-item' method. This approach is oriented to expenditure, itemising proposed disbursements under different heads and sub-heads of the various Ministries and Extra-ministerial departments. The expenditure side of the 'line-item' or incremental budget is made up of personnel emoluments, other charges and capital or developmental items.

5.6.1 Traditional/Line items/Incremental budgeting

The traditional budgeting method, which is also called 'incremental budgeting', involves using last year's figure as a base and adding a percentage to it to arrive at this year's budget. The percentage added is based essentially on three factors, namely:

(a) Trend of economic event;

(b) Inflation; and

(c) The available funds.

Budgeting in government is made up of two main elements. The first is the procedure of budgeting, which consists the practices, documentations, and norms, which govern the preparation, approval, implementation, and review of the budget. The second is the budgeting system, which has to do with the management process. This provides for the purchase, allocation and use of available resources by setting in advance operational criteria, which result in the achievement of corporate goals.

The line item budgeting system has the following features:

(a) The budget gives prominence to the Ministries and Extra-ministerial departments for which the budget is beingprepared, while little or no attention is given to the end results for which the funds are provided;

(b) The current year's budget is arrived at through routine and incremental reasoning, and not by scientific analysis; and

(c) The main thrust of the budget is the achievement of control and accountability.

Advantages of line-item budgeting method

These include:

(a) It is simple to understand and operate;

(b) It suits the country's level of development, where there is paucity of data;

(c) It is cheaper to produce;

(d) It encourages the continuity of projects;

(e) The method ensures that budget is translated in monetary language and relates to the relevant activities/operations; and

(f) Allocations into heads and sub-heads facilitate the monitoring of performance.

Disadvantages of the 'line-item' budgeting method

The drawbacks of 'line-item' budgetingare:

(a) The method allows past errors to be carried forward. It is therefore not efficient in its operations;

(b) Detailed scrutiny is not contained in the budget. The budget preparation is consequently not well researched;

(c) It fails to clarify the cost of alternative methods of achieving programmed objectives;

(d) It results in continual growth budget totals leading to inflation, as opposed to serious economic needs;

(e) It fails to fund new programmes of high priority on a sufficiently reasonable scale; and

(f) The method does not clearly spell out the relationship between capital and recurrent expenditure. The approach is based on organisational set-ups rather than programmes.

5.6.2 ‘Zero-Based Budgeting’ technique (ZBB)

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

In government, the three key users of the ‘Zero-Based’ budgeting technique are:

(a) The Legislature.

(b) The Executive.

(c) The various Ministries, Extra-ministerial departments and parastatals.

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

(a) Identification of ‘decision units’ and formulating operational plans. The entire Ministry or Parastatal is divided into smaller components called `decision units;’

(b) Analysing the whole budget into ‘decision packages’, based on the ‘decision-units’, to which costs are assigned and to the alternative ways of executing the same operation. It also involves assessing the effect of not performing the activity at all. Different levels of performance between the minimum and maximum points are evaluated so as to obtain optimality;

(c) Ranking the ‘decision packages’ covering the activities, both new and existing, in a competitive manner;

(d) Determination of the ‘cut-off’ point, to choose the packages which can be included and those to be rejected; and

(e) Priortisation of the packages, to highlight the ones which fit in with the available resources.

Advantages of ZBB

The following advantages have been associated with the use of ‘Zero Based’ budgeting:

(a) It acts as a tool for change from which benefits are likely to accrue;

(b) It allows for optimum allocation of resources. This is made possible by the formulation of alternative courses of action and evaluating each on its own merit. Resources are therefore allocated by need and benefit accruing, rather than political or emotional considerations;

(c) It creates questioning attitude instead of assuming that current practice maximises expected money value. Wasteful spending is thereby reduced;

(d) It provides a better yardstick for the measurement of performance;

(e) The technique allows for the participation of the various organs of the decision unit;

(f) It focuses attention on the future rather than the past; old and new projects are therefore appraised on the same basis;.

(g) Under 'Zero-Based' budgeting, important projects can continue to receive funds, owing to their viability; and

(h) It is good for profit-oriented projects.

Disadvantages/problems of ZBB

The following are the disadvantages of using ZBB:

(a) Lack of and sometimes-unreliable data may inhibit or undermine the usefulness of this approach in the less developed economic environment as ours;

(b) It may cause a major shift in resource allocation;

(c) Bureaucrats often do not trust the approach and hence frustrate its effectiveness;

(d) In determining decision packages, there is, sometimes, the problem of fixing the minimum level of expenditure;

(e) It involves the task of analysing and ranking a lot of data and information, which a number of civil servants find difficult to manage. This situation is further complicated by lack of qualified and competent personnel in the public sector, to handle the application of this technique;

(f) There is a need to make accounting structure conform to the 'Zero-Based' philosophy, for the purposes of evaluation and control. This may necessitate a general review, overhauling, adding or scrapping of activities and functions; and

(g) It is not so good for recurrent expenditure. It has not been successful in the public sector.

5.6.3 Planning, programming and budgeting system (PPBS).

Planning, programming and budgeting systems is a budgeting approach, which is based on systems theory, output and objective orientation, with substantial emphasis on resource allocation based on the principle of economic analysis. The technique is not based on the traditional organisational structure but on programmes, which involve grouping of activitieswith common objectives.

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

The main steps in PPBS

(a) Identification and enumeration of goals and objectives of the organisation.

(b) Defining the total system in detail, including objectives, environment, available resources, the programmes and their objectives, etc.

(c) Planning and analysis: These involve continuous process of developing, comparing and analysing alternative programmes, so as to evolve the most appropriate package for the organisation.

(d) Development of the appropriate measures of performance for the programmes of the organisation.

(e) Programming and budgeting: The agreed package of "programmes" complete with resource requirements and expected results are expressed in the form of "programmed budgets".

(f) Reporting and controlling: planning, programming and budgeting system requires sophisticated information service, which is able to monitor the progress made towards meeting the organisational objectives. Performance evaluation, therefore, emphasises the attainment or non-attainment of the desired objectives, rather than the amount spent, which is the focus in traditional budgeting system.

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

Advantages of PPBS

The advantages of the technique are:

(a) Provides information on the objectives of the organisation;

(b) Lays emphasis on long-term effects;

(c) Achieves effective use of budgeted resources and anticipated performance;

(d) Ensures rational decision-making and forces those seeking budgetary allocations to consider alternatives; and

(e) Leads to rapid economic development.

5.6.4Performance budgeting

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

The essential features of a performance budgeting system are as follows:

(a) Classification of budgets in terms of functions and activities;

(b) Measurement of work done or output provided by each activity;

(c) Expression of the budget in a way which allows direct comparison between a project's cost and the anticipated income or benefit; and

(d) Monitoring of actual cost and performance against the budgeted results or expectations.

5.6.5 Rolling plan or continuous budgets

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

Nigeria started adopting Rolling Plan from the year 1990 with "1990 to 1992" Rolling Plan.

5.7 Factors, which militate against the budgeting system in the public sector in Nigeria

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

(a) **Human element**

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

(b) **Uncertainties underlying data inputs**

There are 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 database also hamstrings reliable forecasts.

(c) **The type of project for which budget is prepared**

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

(d) **The problem of inflation**

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

(e) **Political, social and cultural elements.**

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

(f) **Changing government policies.**

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

(g) **The problem of debt management and optimal use of limited resources**.

There is the challenge of striking a balance between which parts of the nation's resources should be used for servicing debts and the amount that should be utilised for economic development.

(h) **Low agricultural output.**

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

(i) **Fiscal indiscipline.**

Most government officers are always maximising their budget. 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 increase allocation in the subsequent year, with little or nothing to show as a proof of what has happened in the current year.

5.8 Budgetary control

It is the whole system of controls - financial or otherwise - to ensure that income and expenditure are in line with the budget and that wastage is reduced to the barest minimum. Budgetary control is a positive and integral part of a public sector organisation's planning and appraisal activities so as to achieve the set objectives. In other words, budgetary control is a process of comparing the actual with budgeted activity, resulting in a variance, which could be favourable or adverse.

5.8.1 Objectives of budgetary control

The objectives of budgetary control arelistedas follows:

(a) To combine the ideas of all levels of management in the preparation of budgets.

(b) To co-ordinate all the activities of a business or organisation.

(c) To centralise control.

(d) To decentralise responsibility to each manager.

(e) To act as a guide for management decision when unforeseeable conditions affect the budgets.

(f) To plan and control income and expenditure so that maximum benefit is achieved.

(g) To channel capital expenditure in the most profitable manner;

(h) To ensure that sufficient working capital or cash is available for the efficient operation of the business or organisation;

(i) To provide a yardstick against which actual results can be compared; and

(j) To show management where action is needed to remedy a situation.

5.9 IPSAS 24 - Presentation of budget information in financial statements

This standard requires a comparison between budgeted amount and the actual amount arising from execution of the budget to be included in the financial statements of entities, which are required tomake the government accountable to the public. The standard also requires disclosure and explanation on the reasons for material differences between the budgeted and actual amount. Compliance with the requirements of this standard will ensure that public sector entities discharge their accountability obligations and enhance the transparency of their financial statements by demonstrating compliance with the approved budget(s) for which they are held publicly accountable and, where the budget(s) and the financial statements are prepared on the same basis, their financial performance in achieving the budgeted results.

5.9.1 Definitions

The following terms are used in this standard with the meanings specified:

(i) **Accounting basis** means the accrual or cash basis of accounting as defined in the accrual basis IPSASs and Cash basis IPSAS.

(ii) **Annual budget** means an approved budget for one year. It does not include published forward estimates or projections for periods beyond the budget period.

(iii) **Appropriation** is an authorisation granted by a legislative body to allocate funds for purpose specified by the legislature or similar authority.

(iv) **Approved budget** means the expenditure authority derived from laws, appropriation bills, government ordinances and other decisions related to the anticipated revenue or receipts for the budgetary period.

(v) **Budgetary basis** means the accrual, cash or other basis of accounting adopted in the budget that has been approved by the legislative body.

(vi) **Comparable basis** means the actual amounts presented on the same entities, for the same accounting basis, same classification basis, for the same entities and for the same period as the approved budget.

(vii) **Final budget** is the original budget adjusted for all reserves, carry over amounts, transfer, allocations, supplemental appropriations, and other authorised legislative, or similar authority, changes applicable to the budget period. Published forward estimates or projections for periods beyond the budget period.

(viii) **Original budget** is the initial approved budget for the budget period.

5.9.2 Presentation of a comparison of budget and actual amounts

Subject to the requirement of the paragraph below (presentation and disclosure), an entity shall present a comparison of the budgeted amount on which it is held publicly accountable and actual amount either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with IPSASs. The comparison of budgeted and actual amounts shall bepresented separately for each level of legislative oversight:

(a) The original and final budgeted amounts;

(b) The actual amount on a comparable basis; and

(c) By way of the note disclosure, an explanation of material differences between the budget in which the entity is held publicly accountable and actual amount, unless such explanation is included in other public documents issued in conjunction with the financial statements and a cross reference to those documents is made in the notes.

5.9.3 Presentation and disclosure

An entity shall present a comparison of budgeted and actual amounts as an additional budget column in the primary financial statements only where the financial statements and the budget are prepared on a comparable basis.

5.9.4 Changes from original to final budget

An entity shall present an explanation on whether changes between the original and final budget are as a consequence of reallocations within the budget, or other factors as follows:

(a) By way of note disclosure in the financial statements; or
(b) In a report issued before, at the same time as, or in conjunction with the financial statements, and shall include a cross reference to the report in the notes to the financial statements.

5.9.5 Note disclosure of budgetary basis, period and scope

(a) An entity shall explain in notes to the financial statements the budgetary basis and classification basis adopted in the budget.
(b) An entity shall disclose by way of notes to the financial statements the period of the approved budget.
(c) An entity shall identify by way of notes to the financial statements the entities included in the approved budget.

5.9.6 Reconciliation of actual amount on a comparable basis and actual amount in the financial statements

The actual amount presented on a comparable basis to the budget in accordance with the paragraph above (comparable basis) shall, where the financial statements and budget are not prepared on a comparable basis, be reconciled with the actual amount presented in the financial statements, identifying separately any basis, timing and entity differences as follows:

(a) If the actual basis is adopted for the budget, total revenue, total expense and net cash flow from operating activities, investing activities and financing activities; or
(b) If a basis other than the accrual basis is adopted for the budget, net cash flow from operating activities, investing activities and financing activities

The reconciliation shall be disclosed on the face of the statement of comparison of budget and actual amounts or in the notes to the financial statements.

5.9.7 Format of presentation of budget information in financial statements

Federal Government of Nigeria

Extract statement of financial performance showing budget information for the year ended December 31 20XX

Previous Year	**Description**	**Current year**	**Final budget for current year**	**Supplementary budget**	**Original budget**	**Difference between original and actual**
₦	**Receipts**	₦	₦	₦	₦	₦
X	Taxation	X	X	X	X	X
X	Aid agreements					X
X	International agencies	X	X	X	X	X
X	Other grants and aids	X	X	X	X	X
X	Proceeds: Borrowing	X	X	X	X	X
X	Proceeds: Disposal of plant and equipment	X	X	X	X	X
X	Trading activities	X	X	X	X	X
X	Other receipts	X	X	X	X	X
X	**Total receipts**	**X**	**X**	**X**	**X**	X
	Payments					
(X)	Health	(X)	(X)	(X)	(X)	X
(X)	Education	(X)	(X)	(X)	(X)	X
(X)	Public order/safety	(X)	(X)	(X)	(X)	X
(X)	Social protection	(X)	(X)	(X)	(X)	X
(X)	Defence	(X)	(X)	(X)	(X)	X
(X)	Housing and community amenities	(X)	(X)	(X)	(X)	X
(X)	Recreational, cultural and religion	(X)	(X)	(X)	(X)	X
(X)	Economic affairs	(X)	(X)	(X)	(X)	X
(X)	Other	(X)	(X)	(X)	(X)	X
(X)	**Total payments**	**(X)**	**(X)**	**(X)**	**(X)**	**X**
X	**Net receipts/(payments)**	**X**	**X**	**X**	**X**	**X**

5.10 Summary

A government budget is prepared periodically for the approval of the National or State Assembly before implementation. Budgeting and budgetary control are powerful tools for sound financial management, most especially in the public sector where there is great emphasis on economy, efficiency, effectiveness, probity and accountability.

5.11 End of chapter review questions

5.11.1 Examination type questions

1 One of the following will be responsible for preparing the Medium – Term Expenditure Framework :

A. Accountant – General of the Federation
B. Chairman National Economic Commission
C. Governor of Central Bank
D. Minister of Finance, Budget and National Planning
E. National Bureau of Statistics

2 One of the following methods involves using last year's figure as a base and adding a percentage to it to arrive at this year's budget:

A. Line – item Budgeting System
B. Traditional/Incremental Budgeting System
C. Planning Programming Budgeting System
D. Programme Performance Budgeting System
E. Zero – based Budgeting System

3. One of the following is responsible for the issuance of Budget Call Circular at the beginning of the 3rd Quarter at the Federal level:

1 President
2 National Assembly
3 Budget Offices
4 Ministry of Finance
5 Accountant – General of the Federation

2. The following except **one** are included in the format for annual budgeting with the Charts of Accounts

A Summary of contracts obtained by the reporting entity

B Recurrent budget

C Revenue budget

D Consolidated budget summary

E Summary of total capital receipts budget by MDAs

3. Which of the following is **not** a function of the Budget Office of the Federation?

   A Developing reasoned economic assumptions and forecast

   B Issuing budget guidelines to ministries and extra-ministerial departments

   C Compiling total revenue and expenditure estimates

   D Determining the amount to be included in the estimates submitted and ratified by the National Assembly

   E Drafting the budget speech

6 A medium term, high level strategic plan of the Nigerian federal government, usually for three years, is known as ____________________.

(i) Developing formats of returns aimed at ensuring cost effectiveness in the use of government resources is one of the function of __________________.

(ii) A budget in which government intends to incur more expenditure or more spending than revenue to be generated from taxes and other sources is called …………………..

(iii) The use of last year's figure as a base and adding a percentage to it to arrive at the current year budget is known as _______________________.

(iv) An unjustified amount or unnecessary increase in an Estimate made by Ministry or Department while preparing their estimate (Budget) for the purpose of escaping an anticipated arbitrary cut that be made by Ministry of Finance (Budget & Planning) while scrutinizing their estimate is called……….

Section B

(i) Cash management is one of the challenges of Treasuries all over the world.

1. Identify any FOUR objectives of cash planning and management
2. 18,000,000 citizens inhabit NEMBE State. The state is expected to generate revenue from different sources. The following details are provided for the 2021 fiscal year.

(i) The number of taxable adults residing in the State is 5,000,000. The rate of tax payable per resident is ₦25,000 per taxable adults on average per annum.

(ii) There are 45,000 industries, which are expected to pay land use charge of ₦15,000 per industry.

(iii) There are 4,500,000 residential buildings expected to pay land use charge of ₦ 7,500 per house per annum.

(iv) The modern markets built by the State Government will generate #20,000 per annum per stall and ₦ 8,000 per annum per seller and hawkers operating in the markets. There are 5,000 modern stalls and 450,000 sellers and hawker that are assumed to be operators of the markets in any year. The local governments within the areas of location of the markets are entitled to 50% of revenue generated from the markets.

(v) There are 10,000 mass transit buses owned by the State Government, each of which generates ₦8,000 per business day. Assume 28 business days in a month.

(vi) The State expects the following additional revenue in the year:

Statutory allocation from the Federation Account	₦45,000,000
Miscellaneous Revenue	₦5,000,000

Required:

Compute the revenue budget of Nembe State Government for the fiscal year 2021. (Show your workings)

(ii) 'Zero-based' budgeting (ZBB) involves the use of decision-package approach.

a. List the five basic events, which ZBB is classified.
b. Enumerate thethree challenges associated with the 'Zero-based' Budgeting system (ZBBS).

(iii) Planning, programming Budgeting System (PPBS) is anchored on systems theory, output and objective orientation. Enumerate the main steps involved in PPBS.

(iv) Budgeting is a compulsory function that cut across all the facets of the public sector. List and explain the factors, which militate against the budgeting system in the public sector in Nigeria.

(v) You are required to state and explain the structure for Budgeting with the NCOA and state the steps that should be taking to ensure completeness of using the NCOA.

5.11.2 Suggested solutions to examination type questions

Section A

(a) D
(b) B
(c) D
(d) A
(e) D
(f) MTEF
(g) Budget Office of the Federation
(h) Deficit budgeting
(i) Incremental budgeting
(j) Budget padding

Section B

1. (a)The objectives of cash planning and management are to:

   i. Facilitate budget execution by ensuring that fund is available at the right time;
   ii. Enable government to anticipate the funding gap that may arise in government implementation so that adequate arrangements that would minimize borrowing cost can be put in place;
   iii. Minimise idle cash by investing any surplus fund to yield good returns;
   iv. Ensure that government contracts are awarded only when funds are available in line with 2007 Public Procurement Act;
   v. Ensure effective monitoring and reconciliation of government relevant statutory accounts;
   vi. Promote transparent and fraud resistant government operation.

(b) **Mende State Government**

Revenue budget for 2021 fiscal year

Details	**Amount**	**Amount**
	₦' million	**₦' million**
Statutory allocation from Federation Account		45,000
Income tax (W i.)		125,000
Land use charges (Industrial building) (W. ii)		675
Land use charges (Residential building) (W. iii)		33,750
Stalls revenue (W. iv)	100	
Revenue from sellers and hawkers (W. v)	3,600	
Total revenue from stalls, sellers & hawkers	**3,700**	
Less: Local government entitlements (50% of N3,700 million)	1,850	
Net revenue from stalls, sellers & hawkers		1,850
Revenue from mass transit buses (W. vi)		26,880
Miscellaneous Revenue		5,000
Total revenue		**238,155**

Workings ₦' Million

i. Income Tax (5,000,000 x #25,000)
125,000

ii. Land Use Charges (Industrial Building) (45,000 x #15,000) 675

iii. Land Use Charges (Residential Buildings) (4,500,000 x #7,500) 33.750

iv. Stalls Revenue (5,000x#20,000) 100

Revenue from Sellers and Hawkers (450,000 x #8,000) 3,600

v. Revenue from Mass Transit Buses (10,000 x28 x12 x#8,000) 26,880

2 (a) The basic events that in which ZBB is classified are:

i. Identification of 'decision units' and formulating operational plans. The entire Ministry or Parastatal is divided into smaller components called `decision units;'
ii. Analysing the whole budget into 'decision packages', based on the 'decision-units', to which costs are assigned and to the alternative ways of executing the same operation. It also involves assessing the effect of not performing the activity at all. Different levels of performance between the minimum and maximum points are evaluated so as to obtain optimality;
iii. Ranking the 'decision packages' covering the activities, both new and existing, in a competitive manner;
iv. Determination of the 'cut-off' point, to choose the packages which can be included and those to be rejected; and
v. Priortisation of the packages, to highlight the ones which fit in with the available resources.

(b) The basic challenges associated with Zero-based budgeting System:

i. Lack of and sometimes-unreliable data may inhibit or undermine the usefulness of this approach in the less developed economic environment as ours;
ii. It may cause a major shift in resource allocation;
iii. Bureaucrats often do not trust the approach and hence frustrate its effectiveness;
iv. In determining decision packages, there is, sometimes, the problem of fixing the minimum level of expenditure;
v. It involves the task of analysing and ranking a lot of data and information, which a number of civil servants find difficult to manage. This situation is further complicated by lack of qualified and competent personnel in the public sector, to handle the application of this technique;
vi. There is a need to make accounting structure conform to the 'Zero-Based' philosophy, for the purposes of evaluation and control. This

may necessitate a general review, overhauling, adding or scrapping of activities and functions; and

vii. It is not so good for recurrent expenditure. It has not been successful in the public sector.

3. The following are the main steps involved in PPBS:

i. Identification and enumeration of goals and objectives of the organisation.
ii. Defining the total system in detail, including objectives, environment, available resources, the programmes and their objectives, etc.
iii. Planning and analysis: These involve continuous process of developing, comparing and analysing alternative programmes, so as to evolve the most appropriate package for the organisation.
iv. Development of the appropriate measures of performance for the programmes of the organisation.
v. Programming and budgeting: The agreed package of "programmes" complete with resource requirements and expected results are expressed in the form of "programmed budgets".
vi. Reporting and controlling: planning, programming and budgeting system requires sophisticated information service, which is able to monitor the progress made towards meeting the organisational objectives. Performance evaluation, therefore, emphasises the attainment or non-attainment of the desired objectives, rather than the amount spent, which is the focus in traditional budgeting system.
vii. Development in each year, of a multi-year programme and financial plan.

4. Factors that militate against the budgeting system in the Public sector in Nigeria:

(a) **Human element**

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

(b) **Uncertainties underlying data inputs**

There are 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 database also hamstrings reliable forecasts.

(c) **The type of project for which budget is prepared**

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

(d) **The problem of inflation**

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

(e) **Political, social and cultural elements.**

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

(f) **Changing government policies.**

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

(g) **The problem of debt management and optimal use of limited resources**.

There is the challenge of striking a balance between which parts of the nation's resources should be used for servicing debts and the amount that should be utilised for economic development.

(h) **Low agricultural output.**

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

(i) **Fiscal indiscipline.**

Most government officers are always maximising their budget. 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 increase allocation in the subsequent year, with little or nothing to show as a proof of what has happened in the current year.

5 **National Chart of Accounts structure for budgeting**

(a) **Administrative segment**- The administrative classification identifies the entity that is responsible for the public funds projection–such as the Ministry of Education, Health and Women Affairs or, at a lower level, schools and hospitals.

(b) **Economic segment**–The economic classification identifies the type of revenue and expenditure budgeted in a particular period, examples are salaries, goods and services, transfer and interest due.

(c) **Functional segment**– The functional classification or classification by functions of government is a detailed classification of the functions or socio-economic objectives, that general government units aims to achieve through various outlays. It therefore, organises government activities according to their broad objectives or purposes.

(d) **Programme segment-** The programme classification identifies various set of activities to meet specific policy objectives of the government e.g. Pre-primary education, poverty alleviation and food security

(e) **Funds segment-** The fund classification identifies the sources of funding government activities.

(f) **Geographical segment-** The geographical classification is used to identify the geographical location of an entity (MDAs) or a project so that an analysis of government budget along various zones, states and local government areas in the country can be done.

Steps for budgeting with National Chart of Accounts

All the six segments of the chart of accounts must be completed on the budget entries, even if the value for a given segment is inactive. Only numeric values can be budgeted. The following steps should be followed when using the Chart of Accounts for budgeting:

i. Identify the government institutions (cost and revenue centres) from the hierarchy of administrative list and codes provided in the chart of accounts;
ii. Identify the economic items that would be executed during the fiscal year;
iii. Identify the functions intended to be performed by government institutions (revenue and cost centres);
iv. Identify the programmes intended to be carried out by the government institutions;
v. Determine the sources of financing the budgeted amount for each budget line; and
vi. Identify the planned location for the economic transactions or government institutions.

CHAPTER SIX

FINANCIAL RESPONSIBILITIES OF PUBLIC SECTOR OFFICERS AND AUTHORISATION OF GOVERNMENT EXPENDITURE

Chapter contents

Financial responsibilities of public sector officers

6.0 Learning objectives

After studying this chapter, readers should be able to:

(a) Identify the various finance officers, their powers, functions and responsibilities; and

(b) Identify and discuss the various financial authorities responsible for the efficient implementation of the budget.

6.1 Introduction

Government Official 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 andCouncillors.

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

Warrants can be divided into two groups:

(a) Recurrent expenditure warrants

(b) Capital expenditure warrants.

Financial responsibilities of public sector officers

6.2 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.

6.2.1 Appointment Minister Of Finance

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

6.2.2FunctionsMinister 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 Ministries 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. RelatingwithrelevantInternationalOrganisationsandFinancialInstitutions 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).

6.3 Accountant General of the Federation (AGF)

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

6.3.1 Powers/Duties of the Accountant-General of the Federation

According to Government Financial Regulations 106 (2009 Edition), the Accountant General of the Federation has the following duties:

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

(b) Power to request for information and explanation necessary for his duties; and

(c) Power to carry out special/ad-hoc investigations in any Ministry, Department and agency (MDA).

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 payment 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 inventories;

(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.

6.4 Auditor General for the Federation (AuGF)

In accordance with the provisions of Government Financial Regulations, this is the officer responsible under the 1999 Constitution of the Federation, for the audit and reports on the public accounts of the Federation, including all persons and bodies established by law entrusted with the receipts, custody, issue, sale, transfer or delivery of any stamps, securities, inventories 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; and

(d) Essential records are maintained, and the rules and procedures applied are sufficient to safeguard public property and funds.

6.4.1 Appointment and removal

The appointment and removal of the Auditor - General for the Federation (State) is legally recognised in S.86 (1) of the 1999 Constitution of the Federal Republic of Nigeria, as follows:

(a) Appointed by Mr. President, subject to confirmation by the Senate;
(b) The above appointment is based on the recommendation of the Federal Civil Service Commission; and
(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).

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6.4.2 Powers/functions of the Auditor General for the Federation

In accordance with government regulations, the Auditor-General for the Federation has the following powers:

(a) Power of access to books and records of all Ministries, Departments and Agencies (MDAs), 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 MDA.

(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

(a) A list of qualified and experienced auditors from which the bodies shall appoint their external auditors and
(b) Guidelines on the level of fees to be paid to the external auditors.
(c) 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 these 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:

(i) Financial audit in accordance with extant laws in order to determine whether government accounts have been satisfactorily and faithfully kept;
(ii) Appropriation audit- to ensure that funds are expended as appropriated by the National Assembly;
(iii) 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;
(iv) Power to carry out the audit of foreign missions
(v) Value-for-Money (Performance) audit – to ascertain the level of economy, efficiency and effectiveness derived from government projects and programmes.

6.4.3 Scope of work

The scope of work of the Auditor General include:

(i) Audit of the books, accounts and records of federal ministries, extra-ministerial offices and other arms of government;
(ii) Vetting, commenting and certifying audited accounts of all Parastatals and government statutory corporations in accordance with the Constitution of the Federation;
(iii) 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;
(iv) Audit of the Accountant General's Annual Financial Statements;
(v) Auditing and certifying the Federation Account;
(vi) Deliberation, verification and reporting on reported cases of loss of funds, inventories, plants and equipment as stipulated in the Financial Regulations;
(vii) Pre and post auditing of the payment of pensions and gratuities of the retired military and civilian personnel;

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

(ix) Revenue audit of all government institutions.

6.4.4 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 form is conduct.

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

d S84(3): His remuneration and salaries as well as conditions of service other than allowances, shall not be altered to his detriment after his appointment.

6.4.5 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:-

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

6.5 Auditor-General for State Government

The Office of the State Auditor-General is an Establishment with statutory and constitutional functions. Its powers and responsibilities are derived from the1999 constitution of the Federal Republic of Nigeria.

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

6.5.1 Appointment of Auditor-General for 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.

6.5.2 Functions and Responsibilities of Auditor-General for State Governments

- He is to ensure that public establishments are keeping adequate accounts.
- 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.
- It is his responsibility to ensure that essential records are kept and the procedures applied are to safeguard and control public assets and cash.
- To audit public accounts of the State and all officers and courts of the State.
- Issuance of Annual Statutory Audit Reports in accordance with the
- Constitution of the Federal Republic of Nigeria.
- To certify computations of pensions and gratuities of retiring public officers.
- To monitor and evaluate all government projects.
- To liaise with the Public Accounts Committee of the State House of Assembly on matters brought to the notice of the House.
- To recommend the remuneration payable to appointed external auditors of government corporations, commissions, authorities and agencies established by law.
- To receive and review the reports of the external auditors of government corporations, etc.
- To carryout special audit or investigation on the three arms i.e. the executive, the legislative and the judiciary of the State Government.

6.6 Accounting officers

In accordance with Government Financial Regulations, Accounting Officers are the Permanent Secretaries of the MDAs. They are saddled with the responsibility of the day-to-day financial affairs of the Ministries and extra-ministerial departments.

6.6.1 Functions of the accounting officer

The term “Accounting Officer” means the Permanent Secretary of a ministry or the head of extra-ministerial office and other arms of government who is in full control of, and is responsible for human, material and financial resources, which are critical inputs in the management of an organisation. Accounting officer shall:

(i) Be responsible for safeguarding of public funds and the regularity and propriety of expenditure under his control;

(ii) Observe and comply fully with the checks and balances spelt out in the existing Financial Regulations which govern receipts and disbursement of Public Funds and other assets entrusted to his care and shall be liable for any breach thereof;

(iii) Note that his accountability does not cease by virtue of his leaving office and that he may be called upon at any time to account for his tenure as accounting officer;

(iv) Ensuring that proper budgetary and accounting systems are established and maintained to enhance internal control, accountability and transparency;

(v) Ensuring that the essential management control tools are put in place to minimise waste and fraud;

(vi) Rendering monthly and other financial accounting returns and transcripts to the Accountant General of the Federation required by the Financial Regulations;

(vii) Ensuring the safety and proper maintenance of all government assets under his care;

(viii) Ensuring personal appearance before the Public Accounts Committee to answer audit queries to ministry/extra-ministerial department or agency;

(ix) Ensuring accurate collection and accounting for all public moneys received and expended;

(x) Ensuring prudence in the expenditure of public funds;

(xi) Ensuring proper assessments, fees, rates and charges are made where necessary;

(xii) Ensuring internal guides, rules, regulations, procedures are adequately provided for the security and effective check on the assessment, collection and accounting for revenue;

(xiii) Ensuring that any losses of revenue are promptly reported and investigated;

(xiv) Ensuring that all revenue collected are compared with the budgeted estimates with a view to highlighting the variances, positive or otherwise and the reasons for them; and

(xv) Ensuring that any revenue collected are not spent, but remitted to the appropriate authorities promptly.

In compliance with their special role under the Public Procurement Act, all accounting officers of ministries, extra – ministerial offices and other arms of government are hereby charged with the following responsibilities. They shall:

a) Preside over the activities of their tenders' boards for the proper planning and evaluation of tenders and execution of procurements;

b) Ensure that adequate appropriation is available for procurements in their annual budget;

c) Integrate their entity's procurement expenditure into its yearly budget;

d) Ensure the establishment of a procurement planning committee over whose activities they shall preside;

e) Constitute a procurement evaluation committee for the efficient evaluation of tenders;

f) Constitute a Procurement Committee;

g) Render annual returns of procurement records to the Bureau of Public Procurement;

h) Liaise with the Bureau of Public Procurements to ensure the implementation of its regulations; and

i) Ensure compliance with the provisions of the Public Procurement Act by their organisations, failing which they shall be personally liable for any breach or contravention thereof, whether or not such breach or contravention was caused by them in person, their subordinates or any person to whom they may have delegated their responsibilities.

6.7 Sub-accounting officer

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

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

6.7.1 Functions of the sub-accounting officer

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

(a) Ensuring that the proper system of accounts as prescribed by the Accountant General is established;

(b) Exercising supervision over the receipts of public revenue and ensuring prompt collection;

(c) Promptly bringing into account, under the proper heads and sub-heads of the estimates or other approved classifications, all receipts, whether revenue or otherwise;

(d) Ensuring that proper provision is made for safe keeping of public funds, securities, stamps, receipts, tickets, licences and other valuable documents;

(e) Exercising supervision over all officers under his authority who are entrusted with the receipts and expenditure of public funds and taking precautions by putting in place efficient checks against the occurrence of fraud, embezzlement and carelessness;

(f) Supervising the expenditure of Government and ensuring that no payment is made without proper authorisation;

(g) Promptly charging in his accounts under proper Heads and Sub-Heads all disbursements;

(h) Checking all cash and stamps in his care to reconcile the amounts with the balances in the cashbook and stamp register;

(i) Promptly bringing to account as a receipt, any cash or stamp found in excess of the balance shown in the cashbook or stamp register;

(j) Making good any minor deficiency not caused by theft or fraud, in the cash or stamps, for which he is responsible and thereafter reporting in writing to the Minister of Finance;

(k) Promptly preparing such financial statements as are required by law or the Minister of Finance; and

(l) Maintenance of cashbook

6.8 Officer controlling expenditure

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

6.8.1 Functions of officer controlling expenditure

(a) Supervision of government expenditure and ensuring that no payment is made without proper authority.

(b) Promptly charging in his accounts under proper Heads and Sub-heads all disbursements.

(c) Ensuring that all books are correctly posted and kept up to date.

(d) Producing when required by the Accountant General and the Auditor-General, all cash, stamps, etc., in his custody.

(e) Ensuring that funds are available under the appropriate Head and Sub-heads, to meet payments of specific vouchers.

(f) Effective monitoring of government expenditure.

(g) Ensuring that there is no extra-budgetary spending.

(h) Ensuring that there is adequate security over the custody of public funds.

(i) Maintenance of the vote book.

6.9 Budget office of the federation

The Minister of Finance, through the Budget Office of the Federation, shall monitor and evaluate the implementation of the annual budget, assess the attainment of fiscal targets and report to the Fiscal Responsibility Commission and the Joint Finance Committee of the National Assembly. In implementing their annual budgets, state and local governments may adopt those provisions. For preparation of the Annual Estimates and the formulation of the fiscal, monetary and other policies which are needed to support the economy, the Ministry of Budget and Planning performs the following functions:

(a) Developing reasoned economic assumptions and forecasts;
(b) Issuing budget guidelines to the Ministries and Extra-Ministerial departments;
(c) Acting as the liaison between the Presidency, Ministries and Extra-ministerial departments during the budget preparation;
(d) Compiling total revenue and expenditure estimates;
(e) Drafting the budget speech;
(f) Supervising and controlling the implementation of the budget;
(g) Monitoring and evaluating the performance of programmes funded through the Government budget;
(h) Assessing the impact of the budget on the economy;
(i) Developing formats of returns aimed at ensuring cost effectiveness in the use of Government resources; and
(j) Carrying out research on budget utilisation and the attainment of National or State objectives.

Authorisation of government expenditure

6.10 Concept and classes of warrants

W**arrant** 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

i. From money available for the particular expenditure,
ii. Under strict scrutiny of the responsible official of government, and
iii. The right type of expenditure as authorised by Parliament.

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 is 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. 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.

6.10.1 Recurrent expenditure warrants

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

i. **Annual general warrant (A.G.W.) of recurrent expenditure:**
This authorises 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 authorises 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 authorises 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 Warrant must first be issued by the Minister of Finance to authorise the Accountant General, to transfer necessary funds from the Contingencies Fund to the Consolidated Revenue Fund. Thereafter, a Supplementary (Contingencies) Warrant must be issued, authorising 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 virement should:

a. Be in writing;
b. State that a particular sub-head is in deficit;
c. State that another sub-head is in surplus;
d. Indicate that both sub-heads are within the same economic Head;
e. State that after the transfers, the other sub-heads will not be in deficit; and
f. State that Virement Warrants are not sought to create new sub-heads.

(g) **Supplementary (Statutory) expenditure warrants:**

Supplementary (Statutory) Expenditure Warrants authorise 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.

(h) **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.

6.10.2 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:

(a) **Development fund annual general warrant (DFAGW):**
This authorises 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 the 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 Honourable Minister of Finance (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 and DFSGW, i.e. it is the release of funds, which the Honourable Minister of Finance (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 (DFSW):**

A DFSW is issued in exceptional cases where:

(i) Virement is not possible; and

(ii) Provision for the release of additional funds reveals such high degree of urgency that the release of funds cannot be postponed until a Supplementary Capital Estimate is approved. If the issue of fund is postponed, it will cause serious injury to the public interest. The amount to be expended under this Warrant must not exceed the balance of the Development Fund remaining after all other expenditure provided for in the Capital Estimate has 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; and

(iii) It cannot be used to provide funds for new projects

6.11 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.

e) The Treasuries have merged with the accounts or finance divisions of MDAs, RCCs and MMDAs.

f) Each Ministry in Ghana has its own Accounts/Finance department, which also performs the treasury functions

g) Each Regional Co-coordinating Council has its Finance Directorate that also performs treasury functions at Regional Level

h) Each District Assembly has its Finance Office that performs treasury functions at the District Level.

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

j) 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.

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

l) Each District Assembly has one Consolidated Fund sub-account (i.e.138special 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.

6.11.1 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 centredispatches PurchaseOrder to supplier.

6.12 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.

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.

6.13 End of chapter review questions

6.13.1 Examination type questions

Section A

A. **One** of the following is not among the officials that have attained positions by way of experience, hard work, efficiency, and cannot be arbitrarily removed:

A Accountant –General

B Local Government Chairman

C Auditor- General for the federation

D Accounting Officer

E Federal Pay Officer

B. The functions of officer controlling expenditure, include the followings except for **one**:

A Supervision of government expenditure and ensuring that no payment is made without proper authority

B Ensuring that all books are correctly posted and kept up to date

C Promptly charging in his accounts under proper heads and sub-heads all disbursement

D Maintenance of cashbook

E Ensuring that all books are correctly posted

C. **One** of the following is not among the listed functions of the Auditor-General for the Federation as per Financial Regulation 109 (2009)

A Appropriation audit

B Comment on the annual accounts and auditor's report thereon for corporations and bodies established by an Act of the National Assembly

C Financial control unit

D Powers to carry out the audit of foreign missions

E Value for money (performance) audit

4 The following are the functions of the Minister of Finance **except**.

1. The preparation of annual estimates of revenue and expenditure of the Federal Government
2. The formulation of all policies relating to fiscal and monetary matters
3. The execution of all capital projects that cut across regions of the Nigerian nation
4. The supervision of all matters in connection with the allocation of revenue to the three tiers of Federal, State and Local Government
5. The stabilization of the value of Nigerian currency both internally and externally

5. The following are the functions of the Accountant-General of the Federation **except**

1. Serve as the Chief Accounting Officer for the receipts and payment of the government of the Federation
2. Supervise the accounts of federal ministries, extra-ministerial offices and other arms of government
3. Manage federal government investments
4. Maintains and operates the Federation account
5. Comment on their annual accounts andauditors reports of governmentstatutorycorporations,commissions etc.

6. The public sector officer charged with the control and management of public fund of the Federation is ___________________________

7. The Chief Accounting Officer saddled with the general supervision of the accounts of all Ministries, Extra-ministerial departments and the preparation of annual financial statements of the nation is _______________________

8. The remuneration of the Auditor-General for the Federation shall be drawn from _________________

9. Authorisations issued by the Minister of Finance to disburse from the Consolidation Revenue Fund is known as __________________

10. The warrant issued for additional personal emolument and other services provided for in the approved supplementary estimate is known as ______________________

Section B

i. Warrant is a document used by the Ministry of Finance to authorize money for spending by government departments and agencies. List and explain any five (5) Warrants under Recurrent Expenditure Warrants.
ii. Sub-accounting officers are entrusted with the receipts, custody and disbursements of public funds. Enumerate the basic functions of Sub-accounting officers.
iii. The officer controlling expenditure is saddled with the responsibility of monitoring government expenditure and ensuring that there is no extra-budgetary spending. List other major functions of Officer controlling Expenditure.
iv. The budget office of the Federation keeps records of both local and external debt profile of the government. List the main functions of the Budget Office.

6.13.2 Suggested solutions to examination type questions

Section A

1. B
2. D
3. C
4. E
5. E
6. Minister of Finance
7. Accountant-General of the Federation
8. Consolidated Revenue Fund
9. Recurrent Expenditure Warrant
10. Supplementary general Warrant

Section B

1 Warrants under Recurrent Expenditure are as follows:

a. Annual general warrant (A.G.W.) of recurrent expenditure:
This authorises the Accountant General of the Federation to release funds for the payment also authorises the officers of personal emolument and other services provided for in the approved estimate/budget. It is 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 authorises 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 Warrant must first be issued by the Minister of Finance to authorise the Accountant General, to transfer necessary funds from the Contingencies Fund to the Consolidated Revenue Fund. Thereafter, a Supplementary (Contingencies) Warrant must be issued, authorising 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 virement 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; and

vi. State that Virement Warrants are not sought to create new sub-heads

g. Supplementary (Statutory) expenditure warrants:

Supplementary (Statutory) Expenditure Warrants authorise 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.

h. 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.

2. Basic functions of Sub-accounting officers

(a) Ensuring that the proper system of accounts as prescribed by the Accountant General is established;

(b) Exercising supervision over the receipts of public revenue and ensuring prompt collection;

(c) Promptly bringing into account, under the proper heads and sub-heads of the estimates or other approved classifications, all receipts, whether revenue or otherwise;

(d) Ensuring that proper provision is made for safe keeping of public funds, securities, stamps, receipts, tickets, licences and other valuable documents;

(e) Exercising supervision over all officers under his authority who are entrusted with the receipts and expenditure of public funds and taking precautions by putting in place efficient checks against the occurrence of fraud, embezzlement and carelessness;

(f) Supervising the expenditure of Government and ensuring that no payment is made without proper authorisation;

(g) Promptly charging in his accounts under proper Heads and Sub-Heads all disbursements;

(h) Checking all cash and stamps in his care to reconcile the amounts with the balances in the cashbook and stamp register;

(i) Promptly bringing to account as a receipt, any cash or stamp found in excess of the balance shown in the cashbook or stamp register;

(j) Making good any minor deficiency not caused by theft or fraud, in the cash or stamps, for which he is responsible and thereafter reporting in writing to the Minister of Finance;

(k) Promptly preparing such financial statements as are required by law or the Minister of Finance; and

(l) Maintenance of cashbook

3. Major functions of Officer controlling expenditure

(a) Supervision of government expenditure and ensuring that no payment is made without proper authority.

(b) Promptly charging in his accounts under proper Heads and Sub-heads all disbursements.

(c) Ensuring that all books are correctly posted and kept up to date.

(d) Producing when required by the Accountant General and the Auditor-General, all cash, stamps, etc., in his custody.

(e) Ensuring that funds are available under the appropriate Head and Sub-heads, to meet payments of specific vouchers.

(f) Effective monitoring of government expenditure.

(g) Ensuring that there is no extra-budgetary spending.

(h) Ensuring that there is adequate security over the custody of public funds.

(i) Maintenance of the vote book.

4. The main functions of the Budget Office

a. Developing reasoned economic assumptions and forecasts;
b. Issuing budget guidelines to the Ministries and Extra-Ministerial departments;
c. Acting as the liaison between the Presidency, Ministries and Extra-ministerial departments during the budget preparation;
d. Compiling total revenue and expenditure estimates;
e. Drafting the budget speech;
f. Supervising and controlling the implementation of the budget;
g. Monitoring and evaluating the performance of programmes funded through the government budget;
h. Assessing the impact of the budget on the economy;
i. Developing formats of returns aimed at ensuring cost effectiveness in the use of Government resources; and
j. Carrying out research on budget utilisation and the attainment of National or State objectives.

CHAPTER SEVEN

PREPARATION OF VOUCHERS AND THEIR USES

Chapter contents

7.0 Learning objectives

After studying this chapter readers should be able to:

1. Identify the various types of vouchers in use;
2. State the essential features of a valid voucher;

3. Explain the duties of the Accounting officers with respect to the use of payment vouchers;
4. Explain the procedure for approval of payroll by the Accountant- General; and
5. Discuss the action of salaries, cash office and Internal Audit Section on payroll.

7.1 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.

7.2 Classification of vouchers

Vouchers may be classified into four as follows:

(a) Payment Vouchers;

(b) Receipt Vouchers;

(c) Adjustment Vouchers; and

(d) Journal vouchers

7.2.1 Payment vouchers

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

Preparation 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

7.2.1.1 Essential features of a valid payment voucher

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

(a) Date of the voucher, which indicates its life span;

(b) Classification code according to National Chart of Accounts (NCOA) of expenditure;

(c) Amount in words and figures;

(d) Voucher number;

(e) Description of payment;

(f) Name and address of payee / beneficiary;

(g) Supporting documents, such as local purchase orders, invoices, store receipt vouchers and contract agreements;

(h) Authority, such as the signature of the officer controlling expenditure and the type of Warrant which will release the money;

(i) Signature of the cashier;

(j) Signature of the payee;

(k) Voucher certification, which indicates the following, in a box:

Prepared by:...
Checked by:..
Entered into Vote Book by:............................
Passed by:..
Paid by:..
Authorised by:..

(l) Mandate number; and

(m) Cashier's stamp 'PAID' which prevents re-presentation of the voucher for payment.

Format of a Payment Voucher

Head... Station:............................……….

Sub-Head...….

Voucher Serial No.......................... Amount ₦:.....................................

Name of Beneficiary:..

Address:...……

Date	**Description of payment**	**Rate**	**Amount payable**
		₦	**₦**

- Authorised: (i) Warrant...
  (ii) Officer Controlling Expenditure............................
- Amount in words...
- Signature of payee...
- Signature of Cashier...

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

....

Signature of Officer Authorising Expenditure

7.2.1.2 Rules guiding issuance of payment vouchers

According to Financial Regulations, a sub-accounting officer may not make payment against a voucher unless:

(a) The voucher is certified for payment by the officer who is authorised to do

(b) The voucher is stamped "checked and passed" for payment and duly signed by the checking officer, stating the name of his station;

(c) The voucher is stamped, "Entered in the Vote Book" and the Officer keeping the Vote Book duly signs it;

Government Financial Regulations specify the rules, which should be strictly observed in the preparation of payment vouchers, as follows:

i. Vouchers shall be made in ink or ballpoint pens or indelible pencils or shall be typewritten. All copies must be legible;

ii. No erasure of any kind, whether in typescript or manuscript. Use of correcting fluid is not allowed; and

iii. A single thick horizontal line shall be drawn immediately before and immediately after the Naira (₦) figure. Where it appears in words, space shall not be allowed.

Where a payment voucher is presented to the sub-treasury or cash office for the purpose of obtaining cash for payment to be made elsewhere, as in the case of payment of salaries, a cheque/cash order form has to be signed by the Officer authorising the voucher, bearing the signature of the Officer authorised to receive the cheque or cash. A separate cheque/cash order form is required for each voucher.

7.2.1.3 Loss of a payment voucher

Where a payment voucher is reported lost, the following procedures should be followed:

(a) Prompt investigation should be carried out;

(b) It should be established whether payment has been made on it or not;

(c) It should be ascertained whether or not the cash drawn is still on hand; and

(d) A report should be made by the accounting officer to the Accountant General, stating the circumstances of the loss.

7.2.1.4 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	DeptPV No.	Description	Amount	Signature

7.2.1.5 Format of a payment voucher

Logo of Federal or State Government **Name of Ministry/Department/Parastatal**   **NCOA……………………………   Station…………………………...** **Voucher No………………   Date………………………………** **Amount ₦………………………..**

	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		
	Total		

- Authority– (i) The warrant that released the money

  (ii) Signature of officer controlling expenditure

- Amount (in words) ....
- Signature of Payee...
- Signature of Cashier...

7.2.2 Receipt vouchers

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

7.2.2.1 Format of receipt voucher.

NCOA code---------- Receipt No ------------
Date -----------------------

Received from --
-

The sum of ---
--

Being payment for:____

Signature of cashier:____

Signature of the Payee:____

7.2.3 Adjustment vouchers

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

Adjustment voucher is used in any of the following circumstances:

(a) Payment for Inter-Ministerial Services;

(b) Correction of accounting errors arising from misclassification;

(c) Ultimate allocation of unallocated inventories; and

(d) Carrying out adjustments or transfers between accounts.

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

The following particulars are required on an adjustment voucher:

(a) Reason for the transfer or adjustment, with full reference to the original debit or credit being adjusted;

(b) Voucher number;

(c) Month of Account; and

(d) Particulars of treasury or audit Query, where the adjustment is as a result of such an investigation.

7.2.4 Journal vouchers

Journal entries 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)

7.2.4.1 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.

7.2.4.2 Principal journal voucher (PJV)

This is primarily used for the following:

a. To correct accounts that has been miss-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"

7.3 Payroll accounting in the public sector

7.3.1 Procedure for approval by Accountant- General

The Accountant General must approve the procedure and method to be employed by Federal Ministries, Departments and Units for the recording and the calculation of personal emoluments.

The standard payroll system to be applied in all offices, unless otherwise provided under FR 1518 shall be such as to ensure that maintenance of the following records will be made in a single operation.

(a) Personal Emolument Record
(b) Payroll in duplicate together with a bank paying-in-advice slip
(c) Pay statement to be issued to the individual officer.

The above provision shall be applied irrespective of whether the system is computerised or not. The officer controlling expenditure shall ensure that the Standard Personal Emoluments Records shall show the following:

(a) Standard rate of pay of the officer;
(b) Incremental Rate;
(c) Standard Allowance;
(d) Salary and other advances issued;
(e) Tax, P.A.Y.E;
(f) Gross emoluments;
(g) Standard deductions from emoluments; and
(h) Net emoluments payable.

7.3.2 Custody of personal emoluments records cards (PERC)

Where the accounting system is manual, the Head, Finance and Accounts shall ensure that the Personal Emoluments Records Cards are kept under strict security arrangements.

The PERC shall always be kept under lock and key in a fire resistant cabinet, safe or strong room when not in use.

It is mandatory for every officer to complete the Personal Emolument Record form annually who must be certified by the head of department or other designated officer.

The completed personal emolument form shall be the basis for opening the group registers, which must be audited before the inclusion of any officer in the payroll.

7.3.3 Action by salaries section on payroll

The payroll section shall ensure that the following actions are taken:

(a) Effect necessary entries in the Personnel Emolument Records of each employee in the payroll, e.g. basic salary for the month, deductions and net salary payable;

(b) Aggregate all entries made in (a) above and raise Treasury Form 209 (Advice of deduction from salary) to take care of deductions and TF 1 (Other charges payment vouchers) for the on-payment vouchers in favour of the relevant beneficiaries;

(c) The Treasury Form 209 and TF 1 raised shall be classified to the appropriate below – the-line classification code;

(d) A summary payment voucher Treasury Form shall be raised on pay point basis to capture the total basic salaries and allowances due to arrive at the gross amount due to all officers in a pay-point, the total deductions and the net amount payable;

(e) Process Cash-Order Form in accordance with the provision of Financial Regulations;

(f) Effect necessary entries in the Personnel Emolument Voucher, register and vote book;

(g) Carry out internal check of payroll entries and vouchers to ensure accuracy of postings taking into consideration vacation in officers' salaries monthly;

(h) Compare and reconcile the figures computed by the salaries and wages section with the figures in the variation sheet for a given month;

(i) The officer controlling expenditure after agreeing the figures therein with those in the variation control sheet shall sign all summary voucher and Treasury Form 209;and

(j) Thereafter the payrolls supported with summary vouchers, TF 209 and on-payment vouchers shall be forwarded to the Internal Audit Unit.

7.3.4 Action by internal audit unit

On receipt of payrolls from the salary and wages section, the Internal Audit Unit shall carry out the following actions:

(a) Ascertain the accuracy of entries in the Personnel Emolument Records of officers and the payroll by examining them in details to ensure that variations if any in the emolument of staff are correctly stated;

(b) Examine all summary vouchers, and other relevant supporting documents to ensure accuracy of all deductions and net salaries payable to individual officers;

(c) Ensure that gross salaries payable as reflected in the summary vouchers agree with the figures in the Variation Control Sheets; and

(d) Extract copies of summary vouchers and other supporting documents for record purpose.

7.3.5 Action by cash office

(a) Check payroll summary voucher and other supporting documents against entries in the forwarding schedules from the Internal Audit Unit to ensure that all relevant documents are complete.

(b) Sort and allocate Treasury Payment Voucher number to Summary Vouchers and on-payment vouchers and treasury receipt vouchers in respect of TF 209.

(c) Stamp all summary vouchers and on-payment vouchers with a "PAID" stamp for the month of account.

(d) Draw cheques for the net amount payable in the summary payment voucher in favour of the bank through which payment is to be made.

(e) Draw cheques due to various agencies as reflected in the on payment vouchers.

(f) Post all payment vouchers and/Treasury Receipt Vouchers separately in a salary cashbook, balance the cashbook and reconcile with bank statement monthly.

7.4 Summary

This chapter discussed payment vouchers, receipt vouchers and adjustment vouchers. Emphasis was stressed on the essential features of valid vouchers and the duties of the Accounting Officers with respect to payment vouchers. The actions to be taken in the event of loss of payment vouchers were also discussed.

7.5 End of chapter review questions

7.5.1 Examination type questions

Section A

1. **One** of the following is responsible to take custody of Personnel Emoluments Records Cards (PERC) where the accounting system is manual

   A. Revenue Collector

B. Imprest holder
C. Accountant General
D. Head of Finance and Account
E. Cashier

2. **One** of the following must approve the procedure and method to be employed by Federal ministries, Departments and Units for the recording and the calculation of personal emoluments
   A. Minister of Finance
   B. Budget Officer of the Federation
   C. Accounting Officer
   D. Accountant General
   E. National Assembly

3. The standard Personal Emoluments Record shall show the following except for **one**
   A. Standard rate of pay of the officer
   B. Incremental Rate
   C. Next-of-kin of the officer
   D. Salary and other advances issued
   E. Tax, P.A.Y.E.

4. Adjustment voucher is used in any of the following circumstances with the exception of **one**
   A. Payment for Inter-ministerial services
   B. Payment for on-going projects
   C. Correction of accounting errors arising from misclassification
   D. Ultimate allocation of unallocated inventories
   E. Carrying and adjustments or transfers between accounts

5. **One** of the following is not a component of receipt voucher
   A. NCOA code
   B. Commitment balance
   C. Received from
   D. Date
   E. Receipts No

6. According to Financial Regulation 605 of January 2009, a payment voucher shall be operated by …………………….
7. Documentary evidence of payment or receipt of money which is available for future reference, accounting and auditing purposes is called ……………..;
8. A process used for effecting transfers from one account to the other without involving physical movement is called ……………
9. The office that is responsible to ascertain the accuracy of entries in the Personnel Emolument Records of officers and the payroll by examining them in details to

ensure that variations if any in the emolument of staff are correctly stated is called ………………..

10. Before any receipt into the Government purse can be regarded as an authentic receipt voucher, the attached Treasury Receipt Book 6 must be supported with …………..

Section B

1. A valid payment voucher must contain the full particulars of services rendered or goods purchased. List any ten (10) essential features of a well-prepared payment voucher.
2. You are required to state the procedures that should be followed where a payment voucher is reported lost and action to be taken by cash office
3. In compliance with their special role under the Public Procurement Act, you are required to state the responsibilities that the accounting officers of ministries, extra- ministerial offices and other arms of government are charged to comply with
4. The following were discovery made by the Accountant-General of OGUDU State while checking the books of accounts of the State.
    a. On the 31st May, 2019, a double payment of N1,950,000 was made to Sango Plc for a contract executed on maintenance of office complex. The discovery was made in December of the same year.
    b. A fraudulent withdrawal of the sum of N950,000 from the account of the State Emergency Relief Agency was made in the month of August 2019 and discovered in the month of December of the same year.
    c. The sum of N1,300,000 initially charged to Motor Vehicle Advance Account had been abandoned.
    d. The sum of N3,500,000 revenue that should have been collected by the government had been abandoned.
    e. A erroneous overpayment of N76,000 was made in 2018 and charged to CRF but was discovered in 2019.

Required: Record the above discoveries and transactions using Journal

7.5.2 Suggested solutions to examination type questions

Section A

1. D
2. D
3. C
4. B
5. B
6. Officer Controlling Vote
7. Voucher
8. Journal entries

9. Internal Audit Unit
10. Treasury Form 15 (Pay in form)

Section B

1. A valid payment voucher must contain the full particulars of such services rendered or goods purchased like date, serial number, quantity and price. It has to be supported by relevant documents such as invoices, local purchase orders and letter of authority

The following are the essential features of a well – prepared Payment Voucher:

a. Date of the voucher, which indicates its life span
b. Classification code according to National Chart of Account (NCOA) of expenditure
c. Amount in words and figures
d. Voucher Number
e. Description of payment
f. Name and address of Payee/beneficiary
g. Supporting documents, such as local purchase orders, invoices, store receipt vouchers and contract agreements
h. Authority, such as the signature of the officer controlling expenditure and the type of Warrant which will release the money
i. Signature of the Cashier
j. Signature of the Payee
k. Voucher Certification- showing Prepared by; Checked by; Entered into Vote book by; Paid by and Authorised by
l. Cashier's stamp 'PAID'

2. The following are the rules to be observed when preparing a payment voucher:

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

When a payment voucher is reported lost, the following procedures should be followed:

a. Prompt investigation should be carried out;
b. It should be established whether payment has been made on it or not;
c. It should be ascertained whether or not the cash drawn is still on hand; and
d. A report should be made by the accounting officer to the Accountant General, stating the circumstances of the loss.

3. They shall:

a. Ensure that adequate appropriation is available for procurements in their annual budget
b. Integrate their entity's procurement expenditure into its yearly budget
c. Ensure the establishment of a procurement planning committee over
d. whose activities they preside
e. Constitute a Procurement Evaluation Committee for the efficient evaluation of tenders
f. Constitute a Procurement Committee
g. Render annual returns of procurement records to the Bureau of Public Procurements
h. Liaise with the Bureau of Public Procurements to ensure the implementation of its regulations
i. Ensure compliance with the provisions of the Public Procurement Act by their organizations, failing which they shall be personally liable for any breach or contravention thereof, whether or not such breach or contravention was caused by them in person, their subordinates or any person to whom they may have delegated their responsibilities

4 Journal Entries

		DR(₦)	CR(₦)
31 Dec. 2019	Cash account	1,950,000	
	Sango Plc		1,950,000
	Being refund of overpayment		
	Made on 31 May, 2019.		
31 Dec. 2019	Cash account	950,000	
	Emergency Relief Agency		950,000
	Being refund of amount		
	Fraudulently withdrawn by		

	the Agency		
31 Dec 2019	Bad debt account	1,300,000	
	Motor vehicle Advances a/c		1,300,000
	Being abandonment of the Amount charged to Motor Vehicle account		
31 Dec. 2019	Bad debt account	3,500,000	
	Revenue receivable a/c		3,500,000
	Being revenue receivable now abandoned		
31 Dec. 2019	Cash account	76,000	
	CRF account		76,000
	Being erroneous overpayment Recovered		

CHAPTER EIGHT

SOURCES OF GOVERNMENT REVENUE

Chapter contents

8.0 Learning objectives

After studying this chapter, readers should be able to:

(a) Identify the general sources of government revenue;
(b) Discuss the major revenue collection agencies of the government.
(c) 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;
(d) Trace the transfer of appropriations from the Federation Account and the Consolidated Revenue Fund, into the Development Fund and Contingency Fund; and

(e) Discuss the different revenue fund/account and prepare them with relevant information.

(f) Establish the procedures adopted to estimate governments "revenue needs in Ghana

8.1 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.

8.2 Funding principles in Nigeria

Fund accounting is one of the fundamental principles underlying public sector accounting. For stewardship purposes, the income of government is categorised 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."

8.2.1 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 (PTDF), Trust and Agency Fund and Pension Trust Fund.

8.2.2 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.

8.3 Government revenue and sources

Government revenue refers to the income generated by government from various sources. The following are the general sources of government revenue:

(i) **Taxation** is a compulsory levy imposed by the government, for which citizens receive no direct benefit. The levy is usually payable at different rates depending on the nature of economic activity conducted by an individual or firm.

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

(iii) **Fines:** refer to the penalties imposed by government against law breaches, i.e. any person or firm 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.

(iv) **Grant:** refer to non-repayable 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.

(v) **Foreign investment:** sometimes government may decide to invest beyond its boundary provided there is a proof for sustainable and profitability cash flow. The amount obtained from such investment constitutes revenue to the particular government.

(vi) **Public debt or borrowing:** becomes an important source of receipt 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.

(vii) **Sales of national assets:** selling national assets through privatisation programmes has 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.

8.4 Revenue collection agencies in Nigeria

Several agencies are responsible for revenue collection from the various sources discussed above for the government in Nigeria. The major ones are discussed as follows:

8.4.1 Nigerian National Petroleum Corporation (NNPC)

NNPC has sole responsibility for upstream and downstream developments, and is also charged with regulation and supervision of the oil industry on behalf of the government. In 1988, the corporation was commercialised and broken into 11 strategic business units, covering the entire spectrum of oil industry operations: exploration and production; gas development; refining; distribution; petrochemicals; engineering; and commercial investments. Its specific functions and roles include *inter alia*:

(i) Exploration and production, refining, purchasing and marketing of petroleum and its by-products;
(ii) Providing and operating pipelines, tanker-ships and other facilities for the conveyance of crude oil;
(iii) Constructing, equipping and maintaining tank farms;
(iv) Research and development; and
(v) 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.

The organisation is responsible for the foreign sales of crude oil and gas, domestic sales of crude oil and gas and miscellaneous revenue inform of investment income from fixed deposit on federation and excess crude oil account.

8.4.2 Federal Inland Revenue Service (FIRS)

The FIRS is to control and administer the different taxes (Companies Income Tax Act, Hydrocarbon Tax, and Value Added Tax Act; Personal Income Tax Act in respect of, 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.

8.4.3 States Board 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 is 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) Supervising the collection of all revenues due to the State Government with other ministries, extra Ministerial Department, Parastatals and government companies;

(c) Revising all obsolete rates collectable by the Board and initiate review and advise the governor on it;

(d) Liaising 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) Administering the provisions of the Personal Income Tax Act 1993 as amended and relevant tax laws in the State; and

(f) General control of 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.

8.4.4 Department of Petroleum Resources (DPR)

DPR has the statutory responsibility of ensuring compliance with 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:

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

(ii) Monitoring the Petroleum Industry operations to ensure that they are in line with national goals and aspirations including those relating to flaring and domestic gas supply obligations;

(iii) Ensuring that health safety and environment regulations conform to national and international best oil field practice;

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

(v) Advising government and relevant agencies on technical matters and public policies that may have impact on the administration and petroleum activities;

(vi) Processing industry applications for leases, licences and permits;

(vii) Ensuring timely and accurate payments of rents, royalties and other revenues due to government; and

(viii) Maintaining and administering the National Data Repository (NDR).

The organisation is responsible for the collection of royalty on crude oil and gas, rentals, penalty on gas flared, signature bonuses and miscellaneous incomes into federation account.

8.4.5 Nigeria Customs Service (NCS)

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

Core functions: The two core functions are:

(a) Collection of revenue i.e. import and excise duties and accounting for revenues collected; and
(b) Prevention and suppression of smuggling.

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:

(i) Illegal commercial activities and trade in illicit goods, e.g. import of fake and sub-standard goods
(ii) Infraction on intellectual property rights
(iii) Illegal international trade in endangered species
(iv) Illegal trade in arms and ammunition
(v) Money laundering
(vi) Traffic of illicit drugs
(vii) Illegal trade in cultural Artefacts.
(viii) Importation of pornographic materials
(ix) Importation of toxic and hazardous substances.

8.5 Federation Accounts Allocation Committee (FAAC.)

Allocation of Revenue (Federation Account, etc.) set up federation Accounts Allocation Committee (FAAC). Act. Cap. A15, LFN 2004. The Committee is 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 sessions, namely

(a) Technical session

(b) Plenary session

8.5.1 Membership of Federation Accounts Allocation Committee (FAAC) technical session

(a) Accountant-General of the Federation- Chairman

(b) States' Accountant General

(c) Representatives of the following 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

8.5.2 Functions of technical session

(i) To consider the accounting returns of revenue collecting agencies
(ii) To deliberate and consider the revenue available for distribution
(iii) To make recommendation to the plenary session for the adoption of the revenue to be shared to the three tiers of the government
(iv) To consider any other issues sent from the plenary session.

8.5.3 Membership of Federation Accounts Allocation Committee (FAAC) plenary session

(a) The Honourable Minister of Finance- Chairman

(b) The States' Commissioners of Finance

(c) The Accountant-General of the Federation

(d) The States Accountant-General

(e) Representatives of the thirteen organisations mentioned under membership of Federation Accounts Allocation Committee (FAAC) technical session

(f) The Permanent Secretary of the Federal Ministry of Finance or such officer as may be designated by the said Minister shall be the Secretary to the Committee.

8.5.4 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.

8.6 State Joint Local Government Account Allocation Committee (SJLGAAC).

The 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 local governments in the states, in accordance with the 1999 Constitution, using stipulated criteria which include Equality, Population, Primary School Enrolment and Internally Generated Revenue.

8.6.1 Composition

i. The commissioner charged with the responsibility for local government in the state to be the chairman thereof;

iv. The chairman of each local government council in the state;

v. Two representatives of the Accountant General of the Federation;

vi. A representative of the Accountant General of the State;

vii. Two persons to be appointed by the Governor of the State; and

viii. The Permanent Secretary of the State Ministry charged with responsibility for local government or such officer as may be designated by the said Commissioner shall be the Secretary to the Committee.

8.6.2 Functions

The functions of the Committee shall be to ensure that:

- Allocations made to the local government councils in the state from the Federation Account and from the state concerned are promptly paid into the State Joint Local Government Account; and
- Distributed to local government councils in accordance with the provisions of any law made in that behalf by the House of Assembly of the State.

8.7 Revenue Mobilisation, Allocation and Fiscal Commission (RMAFC)

Revenue Mobilisation Allocation and Fiscal Commission Act 1989 established the Commission.

8.7.1 Composition of the Commission

The Commission shall consist of a chairman and one member from each State of the Federation and the Federal Capital Territory, Abuja, who are persons of unquestionable integrity with requisite qualifications and experience, to be appointed by the President.

8.7.2 Powers of the Commission

The Commission shall have power to:

(i) Monitor the accruals to and disbursement of revenue from the Federation Account;

(ii) Review, from time to time, the revenue allocation formulae and principles in operation to ensure conformity with changing realities;

(iii) Advise the federal, state and local governments on fiscal efficiency and methods by which their revenue is to be increased;

(iv) Determine the remuneration appropriate to the holders of the offices as specified in Parts A and BoF the First Schedule to this Act;

(v) Make recommendations and submit its finding by a report thereto to the government of the Federation or of the State, as the case may be, regarding the formula for the distribution of the Federation Accounts and the Local Government Accounts;

(vi) Discharge such other functions as maybe conferred on the Commission by the Constitution of the Federal Republic of Nigeria, this Act, or any other Act of the National Assembly;

(vii) Be a statutory member of each of the following Government Agencies:

   a. The Federation Account Allocation Committee;
   b. The Local Government Joint Account Allocation Committee;
   c. The Joint Tax Board;
   d. The Niger-Delta Development Commission; and

e. The Commission on Ecological Fund;

(viii) Have the power to demand and obtain regular and relevant information, data or returns from any government agencies including the following, that is:

(i) The Nigerian National Petroleum Corporation;

(ii) The Nigerian Customs Service;

(iii) The Federal Board of Inland Revenue;

(iv) The Central Bank of Nigeria; and

(v) The Federal Ministry of Finance.

8.8 Sources and classifications of government revenue in Nigeria

The Federal Government derives its revenue from different sources, The 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.

8.8.1 Federation account revenue heads

Section 162 of the 1999 Constitution of the Federal Republic of Nigeria established the Federation Account. 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.

8.8.2 Sources of revenue payable to the federation account

The revenue that accrues into the federation account and Value-added tax (VAT) currently comes from the following oil and non-oil sources as follows:

S/N	**Source of revenue**	**Type of revenue**
I.	NNPC	Crude oil export, gas export, domestic crude oil and gas and sale of refined products (up-streams and down-streams)

II.	Nigeria Customs Service	Import duties, export duties, excise duties and fees
III.	Department of Petroleum Resources	Oil royalties, penalties for gas flaring, rent of oil fields, and other miscellaneous revenues
IV.	Federal Inland Revenue Service	Petroleum Profit/Hydrocarbon Taxes, Company Income Taxes, Capital Gains Taxes
V.	Federal Ministry of Mines and Solid Mineral Development	Fees on mining fields and sales of solid minerals

8.8.3 Sharing of federation account revenue

The amount standing to the credit of the Federation Account, less the sum equivalent to 13% of the revenue accruing to the Federation Account directly from any natural resources as a first line charge for distribution to the beneficiaries of the derivation funds in accordance with the Constitution shall, be distributed among Federal, State Governments and Local Government Councils in each state of the Federation as follows:

S/N	**Tier**	**Sharing ratio**
		%
i.	Federal government of Nigeria	52.68
ii.	State governments in Nigeria	26.72
iii.	Local governments in Nigeria	20.60
	Total	**100**

The Federal government‘s share is further distributed as follows:

Consolidated Revenue Fund (CRF)	48.50%
Federal Capital Territory (FCT)	1.00%
Development of Natural Resources	1.68%
Share of Derivation and Ecology	1.00%

Notes:

(i) 13% of revenue derived from natural resources / oil sources goes to the States from which it is obtained, in consonance with the principle of derivation.

(ii) 7% and 4% of the gross revenue in the Federation Account are allocated to the Customs Service and Federal Inland Revenue Services, respectively. Also, 4% is paid to Department of Petroleum resources, which is under Ministry of Petroleum resources as cost of collection on, revenue derived from Royalty on crude oil and gas, rentals, penalty on gas flared, signature bonuses and miscellaneous incomes.

(iii) 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.

i. The remaining balance in the Federation Account distributable pool is shared between the three tiers of governments.

i. 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%.

ii. The Local Government allocation from the net balance is shared between the 774 Local Governments in Nigeria.

iii. 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%

8.8.4 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). The presnt rate is 7.5%. The Net amount is divided as follows:

i)	Federal Government	15%
ii)	States Governments	35%
iii)	Local Governments	50%

8.8.5 Federal government account or Consolidated Revenue Fund (CRF)

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

Analysis of the various sources of revenue payable to CRF

Analyses of various sources of income are given below:

a. Direct allocation from the Federation Account at the prevailing rate.

b. **Direct taxes:** These include PAYE of the Armed Forces and Police Personnel and Foreign Service Officers

c. **Licence and internal revenue:** These are realised from the issues of licences, e.g. arms and ammunition licence fees, goldsmith licence fees, radio and T.V Licence fees, gold dealer's licence fees.

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

e. **Fees:** They are fees received on services rendered by Government officials, e.g., court fees, court fines and medical fees.

f. **Earnings and sales:** Earnings and sales are derived from the use and subsequent disposal of Government property, e.g. sales of inventories, publications and stamps, commission on money order and poundage on postal orders.

g. **Rent of government property:** The incomes include rent on Government quarters, land and buildings.

h. **Interest and 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. **Interest and repayments (State):** They are interest and repayment of loans granted to the State Governments.

j. **Armed forces:** The sales of Armed Forces' property such as old vehicles and inventories constitute revenue.

k. **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. **Miscellaneous:** These are other sources of revenue, apart from those stated above. Examples are overpayments refunded, lapsed deposits.

Charges to the Consolidated Revenue Fund (CRF)

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; and
    (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.

8.8.6 Development Fund (DF)

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 and 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,:

(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 stated 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.

Charges from the Development Fund (DF)

The charges from the development fund may also be categorised into four main classes, as follows:

(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.

8.8.7 Contingency Fund (CF)

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 natural disasters. The Contingency Fund derives its income from the Consolidated Revenue Fund.

Charges on the Contingency Fund (CF)

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 8.1

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

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

Inflows	**₦' billion**
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	52.68%
State Government	26.72%
Local Government	20.6%

Suggested Solutions 8-1

(a) Federation Account for the month ended 31/1/200x

	₦' billion
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:	**₦' billion**
Fed. Govt. 52.68% of 151,900,000	80,020,920
State Govts. 26.72% of 151,900,000	40,587,680
Local Govts. 20.6% of 151,900,000	31,291,400

151,900,000

(b) **Consolidated Revenue Fund for the month ended 31/12/200X**

Inflows PAYE tax deductions from the emoluments of the following:

			₦' billion	₦' billion
(i)	Armed Forces Personnel		400,000	
(ii)	Police Personnel		30,000	
	430,000			
	Dividends from Federal			
	Government Investments			120,000
	Share from Federation Account		80,020,920	
	Total income			**80,570,920**

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		**62,750,920**

8.9 Sources of State and Local Government Finance (Ghana)

State/Central government

8.9.1 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.

Taxis 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 taxis 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:

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

8.9.2 Local government/District Assembly Revenue (Ghana)

8.9.3 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 decent realisation period. The revenue items include casino revenue, betting and advertisement taxes and entertainment duty

8.9.4 Locally generated revenue (Ghana)

The revenues items that district assemblies generate locally include:

(i) Rates and levies on animals such as cattle
(ii) Taxes on the income of self-employed persons/businesses as auto mechanics
(iii) Interests on Investments
(iv) Profits from trading activities and projects
(v) Collections on vehicle licences for carts, wagons, trucks, bicycles, etc.
(vi) 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.
(vii) General and specific grants from both local and foreign donors

8.9.5 Loans and grants (Ghana)

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.

Grants

These are money 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 <u>specific grant</u> is not for any particular purpose, such as building a community school for a village. It is also called programme or project support.

A <u>general grant</u> 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 donor spool their resources together. The fund pooled together is referred to as "multi-donor budget support"(MDBS).

8.9.6 Other public money (Ghana)

The categories here embrace:

(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

8.9.7 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.

8.9.8 Revenue estimation (Ghana)

Ghana's Financial Administration Regulation, Section159, 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.

8.9.9 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, in spite of the classifications stated above; government does accountability through public accounts.

8.9.10 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 (Section74 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) Astatementoftransactionsduringtheyearandananalysisofthepositionat 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 maybe required by any enactment.

Keeper of public accounts

TheRegulationsrequirethattheControllerandAccountant-Generalpreparesand keeps the Public accounts in Ghana.

8.9.11 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)

5.9.12 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 inventories and other financial businesses.

Keeper of other government accounts

The regulations require that the heads of departments in the relevant Ministries, Departments and Agencies keeps such records.

5.9.13 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.

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 tax payer's money and other revenue. Accounting systems are therefore setup 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.

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:

- 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
- That may, under an Act of Parliament, be retained by the department;

or

- 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 120 of the 1999 Federal Constitution specifies the Consolidated Revenue Fund as the main Fund in to 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 (Article177). In Nigeria, the setting up of a Contingency Fund is authorised in Section 123(1) of the Federal Constitution.

(d) 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 include 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 are 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 specific loan redemption, in such away 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) Counter part fund

This is a fund, which is established by governments to support projects, which are financed by foreign donations. Either cash or goods make foreign donations. 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 Parliamentof1993.

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 least5% 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) **Stabilisation fund**: It is also referred to as Revenue Fund. The fund is set aside by Government to be used later if there is any falling 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.

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

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

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

8.14 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) Where the MDA or state government or local government is not operating e-collection of revenue, there must be prompt lodgement 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.

8.15 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.

8.16 End of chapter review questions

8.16.1 Examination type questions

Section A

1. Charges/outlet of funds from the consolidated revenue fund could be summarized as follows:

A. All recurrent expenditure Heads in the approved estimates
B. Salaries and allowances of Statutory officers
C. Pension and Gratuity
  (i) I only
  (ii) II only
  (iii) III only
  (iv) I, II and III
  (v) I and II only

2. The general sources of government revenue include the following EXCEPT

A. Taxation
B. Fines
C. Foreign investment
D. Ordinary shares
E. Public debt

3. The revenue collection agencies of federal government are the following EXCEPT

A. Nigerian Customs Service
B. State Internal Revenue Service
C. Federal Inland Revenue Service
D. Nigerian National Petroleum Corporation
E. Department of Petroleum Resource

4. Membership of Federation Accounts Allocation Committee (FAAC) technical session include the following except ONE
A. Federal Ministry of Finance
B. Department of Petroleum Resources (DPR)
C. Central Bank of Nigeria
D. Office of the Auditor-General for the Federation
E. Office of Head of the Service of the Federation

5. Functions of technical session include the following except ONE
A. To consider the accounting returns of revenue collecting agencies
B. To submit annual report of its performance/activities to the National Assembly
C. To deliberate and consider the revenue available for distribution
D. To make recommendation to the plenary session for adoption of the revenue to be shared to the three tiers of government

E. To consider any other issues sent from the plenary session

6. Funds used to account for the resources derived from the business activities of government and its agencies such as Parastatal is called …………..
7. A compulsory levy imposed by the government for which citizens received no direct benefit is called ………………..
8. The State Joint Local Government Account Allocation Committee is set up to distribute allocation to local governments from the federation account and…………..(%) of the internally generated revenue of the appropriate state government
9. The expenditure incurred for the provision and maintenance of infrastructural amenities such as road and bridge construction are contained in _____________
10. he fund set up to meet unforeseen expenditure in urgent situations occasioned by natural disasters is called __________________

Section B

1. Prepare the Statement of Consolidated Revenue Fund as at 31 December 2021 from the following data related to financial transactions of JOJO Federal Republic for the year 2021

	₦'000
Balance as at 1st Jan 2021	6,292
Treasury bills issued 1st Jan to 31st December 2021	7,114
Treasury bills repaid 1st Jan to 31st December 2021	6,518
Transfer to contingencies fund	3,400
Issues from contingencies fund	3,000
Total Revenue received 1st Jan to 31st December 2021	35,554
Recurrent expenditure from 1st Jan to 31st December 2021	28,897
Transfer to Development Fund	3,400
Appreciation arising from valuation of securities	44

2 Revenue Mobilization Allocation and Fiscal Commission (RMAFC) Act was established in 1989.

A. State the composition of the commission?
B. State the powers that the commission can exercise

3. You are required to:
i) State the stipulated criteria for sharing revenue allocations to the local governments in accordance with the 1999 Constitution of Nigeria
ii) State the composition of the State Joint Local Government Account Allocation Committee (SJLGA)
iii) State the functions of the Committee

4. Consolidated Revenue Fund (CRF) was a creation of Section 80 of the Nigerian 1999 Constitution.
    1 List and explain the various revenue payable to the CRF
    2 What are the charges against the CRF?

8.16.2 Suggested solutions to examination type questions

Section A

1. A
2. D
3. B
4. D
5. B
6. Proprietary
7. Taxation
8. 10%.
9. Summary of capital expenditure payments
10. Contingency funds.

Section B

1

JOJO Federal Republic

Statement of Consolidated Revenue Fund As at 31 December 2021

	₦'000	₦'000
Balance b/f		6,292
Treasury bills issued Jan-Dec	7,114	
Treasury bills repaid Jan-Dec	(6,518)	596
Issues from Contingencies Fund		3,000
Transfer from Contingencies Fund	(3,400)	(400)
Total revenue received Jan-Dec		35,554
Appreciation arising from Securities		44
		42,086
Recurrent Expenditure, Jan-Dec 2021		28,897
Transfer to Development Fund	3,400	(32,297)
Balance carried forward		9,789

2.a. Composition of Revenue Mobilisation, Allocation and Fiscal Commission (RMAFC) are:

i. A chairman
ii. One member from each State of the Federation and the Federal Capital Territory, Abuja, who are persons of unquestionable integrity with requisite qualifications and experience, to be appointed by the President.

2b. Powers of RMAFC are as follows:

(a) Monitor the accruals to and disbursement of revenue from the Federation Account;

(b) Review, from time to time, the revenue allocation formulae and principles in operation to ensure conformity with changing realities;

(c) Advise the federal, state and local governments on fiscal efficiency and methods by which their revenue is to be increased;

(d) Determine the remuneration appropriate to the holders of the offices as specified in Parts A and BoF the First Schedule to this Act;

(e) Make recommendations and submit its finding by a report thereto to the government of the Federation or of the State, as the case may be, regarding the formula for the distribution of the Federation Accounts and the Local Government Accounts;

(f) Discharge such other functions as maybe conferred on the Commission by the Constitution of the Federal Republic of Nigeria, this Act, or any other Act of the National Assembly;

(g) Be a statutory member of each of the following Government Agencies:

  i. The Federation Account Allocation Committee;
  ii. The Local Government Joint Account Allocation Committee;
  iii. The Joint Tax Board;
  iv. The Niger-Delta Development Commission; and
  v. The Commission on Ecological Fund;
  vi. Have the power to demand and obtain regular and relevant information, data or returns from any government agencies including the following, that is:
    (a) The Nigerian National Petroleum Corporation;
    (b) The Nigerian Customs Service;
    (c) he Federal Board of Inland Revenue;
    (d) The Central Bank of Nigeria; and
    (e) The Federal Ministry of Finance.

3(a) In accordance with the 1999 Constitution of Nigeria, revenue are shared to the local governments in the states using stipulated criteria: Equality, Population, Primary School Enrolment and Internally Generated Revenue.

(b) Composition of the State Joint Local Government Allocation Committee (SJLGA)

(i) The Commissioner charged with the responsibility for local government in the state to be the chairman thereof

(ii) The chairman of each local government council in the state

(iii) Two representatives of the Accountant-General of the Federation

(iv) A representative of the Accountant-General of the State

(v) Two persons to be appointed by the Governor

(vi) The Permanent Secretary of the State Ministry charged with the responsibility for local government or such officer as may be designated by the said Commissioner, shall be the secretary to the Committee

(c) Functions of the Committee shall be to ensure:

(i) Allocations made to the local government councils in the state concerned are promptly paid into the State Joint Local government councils in accordance with provisions of any law made in that behalf by the House of Assembly of the state

(ii) Distributed to local government councils in accordance with the provisions of any law made in that behalf by the House of Assembly of the state

4a. The following are the revenue payable to the Consolidated Revenue Fund (CRF):

(a) Direct allocation from the Federation Account at the prevailing rate;

(b) Direct taxes: These include PAYE of the Armed Forces and Police Personnel and Foreign Service Officers;

(c) Licence and internal revenue: These are realised from the issues of licences, e.g. arms and ammunition licence fees, goldsmith licence fees, radio and T.V Licence fees, gold dealer's licence fees;

(d) Mining: These include mining fees, rent of crown lands, royalties on gold, tin, iron ore, and coal mines;

(e) Fees: They are fees received on services rendered by Government officials, e.g., court fees, court fines and medical fees;

(f) Earnings and sales: Earnings and sales are derived from the use and subsequent disposal of Government property, e.g. sales of inventories, publications and stamps, commission on money order and poundage on postal orders;

(g) Rent of government property: The incomes include rent on Government quarters, land and buildings;

(h) Interest and 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) Interest and repayments (State): They are interest and repayment of loans granted to the State Governments;

(j) Armed forces: The sales of Armed Forces' property such as old vehicles and inventories constitute revenue;

(k) Reimbursements: These are refunds for services rendered to the state and local government councils, Public Corporations and other Statutory Bodies by the Federal Government officers. Examples are reimbursements of audit fees and refunds of overpayments made to Government workers;

I. Miscellaneous: These are other sources of revenue, apart from those stated above. Examples are overpayments refunded, lapsed deposits.

4b. The following are the charges against the CRF

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; and
x. Chief Justice and Justices of the Supreme Court.

iii. Pension and Gratuity. These are the entitlements of both statutory and non-statutory officers, including members of the Armed Forces.

CHAPTER NINE

PROCUREMENTPROCEDURES IN THE PUBLIC SECTOR

Chapter contents

9.0 Learning objectives

After studying this chapter, the reader should be able to:

(i) Explain `Construction Contract.'
(ii) Describe the procedures for awarding contracts;
(iii) Justify the role of Tender Boards in the award of contracts and procurements;
(iv) Explain the accounting procedure for construction contracts and procurements; and
(v) Discuss the powers and duties of the National Council on Public Procurements and the Bureau of Public Procurement

9.1 Introduction

The chapter discusses the procedures for awarding contracts and making procurements in the public sector. It highlights the requirements of the Public Procurement Act, 2007 and the implementation of the electronic payment system.

Construction Contract refers to the execution of a building and civil engineering projects, mechanical and electrical engineering installations and other fabrications normally evidenced by agreements between two or more parties.

In government, a construction contract is a capital project, which is normally financed by appropriations from the Capital Development Fund.

9.2 Due process procedures

Dueprocessisthemechanismforensuringstrictcompliancewiththeopenness, 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.

9.2.1 Benefits of due process are to:

a) Safe guard public funds and assets.
b) Improve the system of planning and diligent project analysis leading to the accuracy of costing and prioritisation of investments.
c) Improve fiscal management through more efficient and effective expenditure.
d) Improve the technical efficiency through un-impaired and enhanced information flow
e) Enhance transparency and accountability in governance.
f) Rebuild public confidence in government financial activities.
g) As certain that Government receives value for money expended.
h) As it applies the principle of competition and moderate costs, it saves money for Government, which can be employed in other sectors.
i) Re-instates, hither to lost confidence and trust in foreign investors, who believed that the country is corrupt and that no genuine business can be transacted in Nigeria.
j) Remove the erroneous belief that contracts are awarded on the basis of whom you know and not what you know", contract is awarded on the consideration of price competitiveness, expertise and probity but not political connections.

9.3 The Tenders' Board on contracts

A tender is a proposal for the supply of some services or goods. It is usually made and presented as a result of an invitation. It is legally accepted as an offer for acceptance.

The Tenders Board is the assemblage of public officers constituted to handle public tenders in respect of all government contract works and or services.

Government policy on procurement and award of contracts in all Ministries and Extra-Ministerial Departments was introduced in the year 2001, on the strength of Federal Ministry of Finance's circular no. F15775 of June 27, 2001.

9.3.1 Types of Tenders' Boards

The Departmental Tenders Board and the Federal Tenders Board have been abrogated. The Permanent Secretaries and Ministerial Tenders Board now assume the functions, respectively. Contracts of works, services and purchases of up to five million naira (₦5,000,000) can be approved by the Permanent Secretary/Chief Executive without open competitive tendering. However, at least three relevant written quotations should be obtained from suitably qualified contractors/suppliers. All expenditure incurred under this policy should be documented and reported to the Honourable Minister on quarterly basis for information.

9.3.2. Ministerial Tenders Board

The set-up may be discussed, as follows:

Composition of Tenders Boards

Ministry:	Chairman:	Permanent Secretary
	Members:	Heads of Departments
Parastatals:	Chairman:	Chief Executive Officers
	Members:	Heads of Departments

9.3.3 Armed Forces/Ministry of Defence Tenders Board composition

The composition of the Board is:

(i) The Chairman of the Armed Forces/Ministry of Defence Tenders Board shall be the Permanent Secretary, Ministry of Defence.
(ii) Other members are representatives of the Army, Navy, Air Force and the Director of Finance and Accounts of the Ministry of Defence.

9.3.4 Nigeria Police Tenders and Purchasing Board (Ministerial)

According to Government Financial Regulations and the Ministry of Finance's circular No. F15775 of June 27, 2001, the composition of the Board is:

(a) The Chairman shall be the Permanent Secretary, Police Affairs.
(b) Other members are:

i. The Deputy Inspector-General of Police (Finance and Administration).
ii. All the Heads of Departments.
iii. The Head of Finance and Accounts Department.

i. Revised guidelines and thresholds on public procurements

According to circular Ref. No. PROC/OSGF/BPP/709/85 of 19th January 2022 issued by the Secretary to the Government of the Federation, the Federal Government has approved a review of the existing guidelines and thresholds on public procurements. The revised guidelines and thresholds are for service-wide application and special application to the Federal Ministry of Petroleum in relation to Nigerian National Petroleum Corporation (NNPC) expenditure. The revised guidelines are as follows

Procurement Approval Thresholds for Bureau of Public Procurement, Tenders Boards and Accounting Officers (PSs and (CEOs) for all Ministries, Departments and Agencies

(a) **Approved prior review thresholds for service wide - Application**

Approving Authority/"No objection" to award	**Goods**	**Works**	**Non consultant/ Consultancy Services**
BPP issue "No objection" to contract award	₦300 million and above	N1.5 billion and above	N300 million and above
Ministerial Tenders Board	N20 million and above but less than N100 million	N30 million and above but less than N1.5 billion	N20 million and above but less than N300 million
Parastatal Tenders Board	N10 million and above but less than N50 million	N5 million and above but less than N500 million	N20 million and above but less than N500 million
Accounting Officer: Permanent Secretary	Less than N20 million	Less than N30 million	Less than N30 million
Accounting Officer: Director General/CEO	Less than N10 million	Less than N20 million	Less than N20 million

(b) **Revised special financial limits and thresholds, procurement methods and thresholds of application and for expenditure related to the Nigerian National Petroleum Corporation, which is in US Dollar and is self - adjusting to reflect the prevailing Naira equivalent values**

Approving Authority/"No objection" to award	**Special works**
BPP issue "No objection" and FEC approves	US$20m and above
Ministerial Tenders Board (NNPC Tenders Board	US$10m and above but less than US$20m
Group Headquarters/Tenders Board	US$4m and above but less than US$10m for GEC NNPC
Parastatal Tenders Board (Refinery and Petrochemicals/Exploration and Production/Corporate Supply Chain Tenders Boards)	US$2m and above but less than US$4m for Supply Chain Tenders Boards) SBU B/GED/(DEXCOM)
Parastatal Tenders Board (Minor Refinery and Petrochemicals/Exploration and Production/Corporate Supply Chain Tenders Boards)	US$0.5 m and above but less than US$2m for Supply Chain Tenders Boards) SBU MD/MT/(MEXCOM)
Parastatal Tenders Board (Business Unit Refinery and Petrochemicals/Exploration and Production/Corporate Supply Chain Tenders Boards)	US$0.10 M and above but less than (US$0.5m) for Supply Chain Tenders Boards) SBU ED/MT/(DIVCOM
Accounting Officer: Permanent Secretary/ Group Managing Director at CHQ Level	Less than USD0.3 m
Accounting Officer: Director General/CEO (Managing Directors at SBU Level)	Less than USD0.10m

(c) **Procurement method and thresholds of application**

Procurement/Selection method and prequalification	Goods	Works	Non consultant services	Consultant services
International/National Competitive Bidding	₦300 million and above	₦1.5 billion and above	₦300 million and above	Not Applicable
National Competitive Bidding	₦20 million and above but less than ₦ 300 million	₦30 million and above but less than ₦ 1.5 billion	₦20 million and above but less than ₦300 million	Not Applicable
Request for quotation	Less than ₦ 20 million	Less than ₦30 million	Less than ₦20 million	Not Applicable
Shopping (Market Survey)	Less than ₦ 5 million	Less than ₦5 million	Less than ₦5 million	Not Applicable
Single Source/Direct Contracting (Minor Value Procurements)	Less than ₦1 million	Less than ₦1 million	Less than ₦1 million	Less than ₦1 million
Prequalification	₦100 million and above	₦300 million and above	₦ 100 million and above	Not Applicable
Quality and Cost Based	Not Applicable	Not Applicable	Not Applicable	Less than ₦50 million
Consultant Qualifications	Not Applicable	Not Applicable	Not Applicable	Less than ₦50 million
Least Cost	Not Applicable	Not Applicable	Not Applicable	Less than ₦50 million

9.3.6 Federal Executive Council

By the current approved revised threshold for Service-Wide application, the approval limit for the BPP and Federal Executive Council is:

(i) Goods N100, 000,000 and above
(ii) Works N500, 000,000 and above
(iii) Non-consultancy N100, 000,000 and above

(iv)	Consultancy	N100, 000,000 and above

9.3.7 Tender splitting

Government's Financial Regulation regards it as "an offence for any public officer to deliberately split tenders, contracts of works, purchases procurement or services so as to circumvent the provisions of this chapter and the circular earlier referred to. Such breach of the rules will be severely dealt with by a competent disciplinary authority".

9.3.8 Operation of tender boards

When approval has been obtained in respect of a contract for the supply of goods and/or services and availability of fund confirmed, the Tenders Board Secretariat will be informed of the magnitude of the amount so required. The Secretary to the relevant Board will inform the Chairman as to when the contract will be slated for consideration.

Where the Board meets periodically, the Secretary will present the issue at such a meeting. However, where the contract award necessitates any urgency, an emergency meeting may be summoned.

9.3.9 Notice of invitation

At it's meeting, the Board orders a notice of invitation to tender for the contract to be put up. Such notice will include all necessary details in respect of the jobs/services to be awarded. Where the use of tender forms applies the information disclosed in the notice may be limited while the form will contain the details. The media through which such notice shall be published includes one official gazette and/or the national newspapers and magazines. The notice board of the offices of the Ministry concerned shall also be used in displaying the advertisement. A specific date is always given as closing date for the submission of tenders.

9.3.10 Deposit for tender

Where deposit is required before a tender form is submitted, it may be required that a Treasury receipt for the required amount is attached to it before the form is considered at all. Sometimes, the treasury receipt or the amount paid by the depositor is confirmed before the tender form is issued.

9.3.11 Tender procedure

Tenders are usually submitted in sealed envelopes to the Secretariat of the Tenders Board. At the close of the notice of invitation to tender, the Secretary under the close supervision of the chairman or a member deputising for him will open the Tenders. They will be numbered serially and authenticated by the initials of the

Secretary, with the dates indicated. The tenders will thus be listed, in duplicate, and kept in safe custody.

A meeting of the Board will then be summoned to, among other things, discuss the tenders and make necessary selections for onward transmission to the approving authority. The Board usually selects the best of the tenders. Consideration will include the past records of the contractors, the quality of service being offered, experience as can be deduced from the tender price (rate). It is necessary to emphasise that the lowest tender does not necessarily have to be the best, as many other things are considered.

If all the tenders are rejected, fresh applications shall be called for. However, if one of the tenders is recommended, all the bids shall be forwarded with a duplicate list to the approving authority with comments or remarks on why each tender is recommended or not.

9.3.12 Award of the contract

The approving authority will communicate his position to the Tenders Board. The Secretary will subsequently write a letter of award to the successful tenderer and or invite him for the signing of the contract. Where necessary, a bond will have to be signed and/or sureties provided. In principle, the award of the contract has to be published in the newspapers and gazette and unsuccessful tenderers informed as such.

As earlier stated, certified true copies of the contracts are to be forwarded to the Auditor General as well as the Accountant General. It should be emphasised that government contracts are not to be ‘sub-let’, “assigned”, except the terms of the agreement require or permit this. Tender may make the sale of government property, in the same way as award of contract.

9.4 Public sector accounting and 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.

9.4.2 Audit inspection

The following must be forwarded to the Auditor General for the Federation:

(a) Certified true copies of all contract agreements.

(b) The minutes of Tenders Board meetings, and

(c) Full records of all tendering processes, which shall be made available for the inspection of Auditor General for the Federation and the Accountant General, at short or no notice. The records shall be kept for verification for a period of seven (7) years, from the date of completion and takeover of the project.

9.4.3 Post contract award activities

This is briefly discussed as follows:

(a) **Tender Board Information on Voucher**

Payment voucher in respect of a contract awarded through tender must contain among other things:

(i) Certified true copy of all the minutes of the meetings of the Tenders Board in relation to the award of the contract;

(ii) Certified true copy of the contract agreement;

(iii) Copy of the approving authority; and

(iv) Copy of each voucher in respect of payments already made on the contract.

(b) **Tenders Board Information Availability**

Minutes of the Tenders Board meetings and the full records in respect of the various types of tendering shall be made available to the Accounting Officer on request and for inspection of the Auditor-General on demand.

9.4.4 Terms on contract

These are:

(a) **Contingencies Clause**

This is one of the clauses in contract agreements which states that if the contractor had taken reasonable care in executing the job and he is still faced with unexpected situation, the contractee or the owner of the project shall bail out the contractor by making more money available, or review upward the contract sum, or otherwise, the contractor will bear the cost.

(b) **Retention Fee**

It is a clause in a contract agreement, which states that after the completion of the project, government shall withhold about 5% of the contract sum, for six (6) months. The amount withheld will be paid to the contractor thereafter if the project is properly executed and constructional error is not noticed.

If the job is not properly executed, e.g. if there is a crack on the wall and is due to an error, which arose from construction, then the amount withheld will be used to correct the anomaly. If the amount withheld is not enough, government will ask the contractor to pay in the difference. If the contractor fails to pay it in, he may be blacklisted.

9.4.5 Contract payment vouchers

All payment vouchers relating to contract awards should contain the following information:

(a) The names and addresses of the contractors;

(b) Contract numbers;

(c) The votes of charge;

(d) Description of projects;

(e) Certificate numbers being paid;

(f) The gross amounts and retention fees (if any) of the contracts;

(g) The authority for payment;

(h) If it is part payment of a certificate, which is being effected, a statement to show the full amount of the contract and the balance outstanding should be disclosed.

9.4.6 Payments for contracts and procurements

The Federal Government's policy from January 2009 is that public fund would henceforth be made electronically; payments are henceforth to be effected to the contractors by electronic transfers to their bank accounts. The objective of the new system is to eliminate delay in effecting payments to the creditors, contractors, etc. of government and minimise undue interaction between the agents of government and third parties. The ultimate objective is to reduce, if not completely put a stop to, corruption and other vices.

9.4.7 Implementation of the E-payment procedure

Treasury Circular Ref. No. TYR/A8 and B8/2008, reference OAGF/CAD/026/Vol. 11/465 of October 22, 2008 conveys the guidelines for the implementation of the `e-payment' procedure, as follows:

(i) All forms of payments from all government funds are to be made through the banks, either commercial banks or Central Bank of Nigeria.

(ii) All organs of government, ministries, departments and agencies are to stop using cheques to make payments to contractors.

(iii) All bank accounts in respect of all government funds shall cease to be cheque accounts.

(iv) Government contractors must indicate their current accounts particulars with commercial banks on the invoices submitted for payment under their corporate seals.

(v) Mandates containing details of payments shall be issued to banks authorising them to pay into the contractors' designated bank accounts, the proceeds of executed contracts and supplies.

(vi) In addition to the existing monthly financial returns, every organisation of government, ministry, department or agency must forward copies of mandates issued to Banks to the Office of Accountant General of the Federation.

(vii) Henceforth, all employees of the Federal Government of Nigeria must open accounts with the commercial banks into which all payments due to them as individuals would made.

(viii) On no account should Central Pay Officers (CPO) collect cash from the bank for the purpose of disbursement to any government official.

9.4.8 Attachments to contract payment vouchers

Before a contract payment voucher is processed for payment, the following items should be ascertained and attached:

(a) A copy of the minutes of the Tenders Board awarding the contract; It should be ascertained that the amount of the contract is within the Board's power;

(b) A completion certificate of work done, signed by a competent authority in the field, such as an engineer, a surveyor or an architect.

(c) A copy each of the letter of award and contract agreement.

(d) In the case of supplies, original copies of delivery notes and store receipt vouchers issued.

(e) A bill or invoice submitted by the firm requesting for payment.

9.4.9 Contract registers

Copies of all contract agreements must be forwarded to the Accounts Division of relevant Ministry or Extra-Ministerial Department. They should be entered in a Contract Register maintained.

The register will contain the following information:

(a) Name and address of contractor;

(b) Contract number;

(c) Contract sum;

(d) Contingency and variation (if any);

(e) Payment terms;

(f) Completion period of contract work;

(g) File number;

(h) Particulars of payment and balance outstanding;

(i) Signature of officer controlling expenditure.

In the case of a big project in respect of which there are many contracts a project register may be maintained as a summary of various contracts, to ascertain at any given time how much has been paid.

9.5 Operation of the Public Procurement Act, 2007

The Public Procurement Act, 2007, established the National Council on Public Procurement.

9.5.1 Membership of National Council on Public Procurement (NCPP)

(a) Minister of Finance, as Chairman.

(b) Attorney-General and Minister of Justice of the Federation.

(c) Secretary to the Government of the Federation.

(d) Head of Service of the Federation.

(e) Economic Adviser to the President.

(f) Six part-time members representing:

- (i) Nigeria Institute of Purchasing and Supply Management.
- (ii) Nigeria Bar Association.
- (iii) Nigeria Association of Chambers of Commerce, Industry, Mines and Agriculture.
- (iv) Nigeria Society of Engineers.
- (v) Civil Society.
- (vi) The media.

(g) Director- General of the Bureau who shall serve as the Secretary to the Council.

9.5.2 Objectives of Bureau of Public Procurement (BPP)

The Public Procurement Act, 2007, established the Bureau. Its objectives include:

(a) Harmonization of existing government policies and practices on public procurement and ensuring probity, accountability and transparency in the procurement process;

(b) Establishment of pricing standards and benchmarks;

(c) Ensuring the application of fair, competitive, transparent, value-for money standards and practices for the procurement and disposal of public assets and services;

(d) Attainment of transparency, competitiveness, cost effectiveness and professionalism in the public sector procurement system.

9.5.3 Functions of Bureau

The Bureau's functions as stated by the Act include:

(a) Formulating the general policies and guidelines relating to public sector procurement for the approval of NCPP;

(b) Publicising and explaining the provisions of the Act;

(c) Certifying Federal Government procurement prior to the award of the contract;

(d) Supervising the implementation of established procurement policies;

(e) Monitoring the prices of tendered items and keeping a national database of standard prices;

(f) Publishing the details of major contracts in the procurement journal;

(g) Publishing paper and electronic editions of the journal and maintaining an archival system for the procurement journal;

(h) Maintaining a national database of the particulars and classification and categorization of Federal contracts and service providers;

(i) Collating and maintaining in an archival system, all federal procurement plans and information;

(j) Undertaking procurement research and surveys;

(k) Organising training and development programmes for procurement professionals;

(l) Periodically reviewing the socio- economic effect of the policies on procurement and advise NCPP accordingly;

(m) Preparing and updating standard bidding and contract documents;

(n) Preventing fraudulent and unfair procurement and where necessary to apply administrative sanctions;

(o) Reviewing the procurement and award of contract procedures of every entity to which the Act applies;

(p) Performing procurement audits and submits report to the National Assembly bi-annually;

(q) Introducing, developing, updating and maintaining related database and technology;

(r) Establishing a single internet portal that shall serve as a primary and definitive source of all information on government procurement containing and displaying all public sector procurement information at all times;

(s) Co-ordinating relevant training programmes to build institutional capacity;

9.5.4 The role of accounting officers

The accounting officer of every procuring entity shall have overall responsibility for the planning of, organisation of tenders, evaluation of tenders and execution of all procurements and in particular shall be responsible for:

(a) Ensuring compliance with the provisions of this Act by his entity and liable in person for the breach or contravention of this Act or any regulation made hereunder whether or not the act or omission was carried out by him personally or any of his subordinates and it shall not be material that he had delegated any function duty or power to any person or group of persons;

(b) Constituting the Procurement Committee and its decisions;

(c) Ensuring that adequate appropriation is provided specifically for the procurement in the Federal budget;

(d) Integrating his entity's procurement expenditure into its yearly budget;

(e) Ensuring that no reduction of values or splitting of procurements is carried out such as to evade the use of the appropriate procurement method;

(f) Constituting the Evaluation Committee; and

(g) Liaising with the Bureau to ensure the implementation of its regulations.

9.5.5 Fundamental principles of public procurement

All public procurements must be conducted:

(a) Subject to prior review of thresholds set by the Bureau.

(b) Based only on procurement plans supported by prior budgetary provisions/appropriations and a "Certificate of `No Objection' to Contract Award" from the BPP;

(c) By open competitive bidding;

(d) In a transparent, timely and equitable manner which will ensure accountability and conformity with the Act;

(e) With the aim of achieving value-for-money and fitness for purpose;

(f) In a manner which promotes competition, economy and efficiency;

(g) In accordance with the procedures laid down in this Act and as may be specified by the Bureau from time to time.

9.5.6 Procurement methods (Goods and services)

All procurements of goods and works by all procuring entities should be by open competitive bidding. Open competitive bidding is a process by which a procuring entity effects public procurements by offering to every interested bidder, equal and simultaneous information and opportunity to offer the goods and works needed.

9.5.7 Invitation to bids

Invitations to bid may be either by way of National Competitive Bidding or International Competitive Bidding and the Bureau shall from time to time set the monetary thresholds for which procurements shall fall under either system. In addition, the following procedures and practices should be adopted

9.5.8 National competitive bidding

The invitation for bids must be advertised on the notice board of the procuring entity, on any official websites of the procuring entity, in at least two national newspapers and in the procurement journal not less than six weeks before the deadline for submission of the bids.

9.5.9 International competitive bidding

The invitation for bids must be advertised in at least two national newspapers, and one relevant internationally recognised publication, any official websites of the procuring entity and the Bureau of Public Procurement as well as the procurement journal not less than six weeks before the deadline for the submission of the bids.

9.5.10 Bid opening

The procuring entity shall:

(a) Permit attendees to examine the envelopes in which the bids have been submitted to ascertain that the bids have not been tampered with;

(b) Cause all the bids to be opened in public, in the presence of the bidders or their representatives and any interested member of the public;

(c) Ensure that the bid opening takes place immediately following the deadline stipulated for the submission of bids or any extension thereof;

(d) Ensure that a register is taken of the names and addresses of all those present at the bid opening and the organisations they represent which is recorded by the Secretary of the tenders board; and

(e) Call-over to the hearing of all present, the name and address of each bidder, the total amount of each bid, the bid currency and shall ensure that these details are recorded by the Secretary of the Tenders Board or his delegate in the minutes of the bid opening.

9.5.11 Examination of bids

(i) The bids shall be examined to determine whether they:

- (a) Meet the minimum eligibility requirements stipulated in the bidding documents;
- (b) Have been duly signed;
- (c) Are substantially responsive to the bidding documents; and
- (d) Are generally in order.

(ii) A procuring entity may ask a supplier or a contractor for clarification of its bid submission in order to assist in the examination, evaluation and comparison of bids without allowing for changes in prices; changes of substance in a bid; and changes to make an unresponsive bid responsive.

(iii) The procuring entity may correct purely arithmetical errors that are discovered during the examination of tenders but must notify the supplier or contractor that submitted the tender about the correction.

The following are major deviations, which may result in a rejection of bids and returned to such bidder where:

(a) The bidder is ineligible or not pre-qualified or uninvited;

(b) The bid documents are not signed;

(c) The bid is received after the date and time for submission stipulated in the solicitation document or submitted at the wrong location.

(d) Clauses in an offer were not adhered to e.g. the issue of unacceptable sub-contracting, or alternative design or price adjustment etc;

In the cases minor deviations(inform of use of codes, difference in standards and materials, omission in minor items any other condition that has little impact on the bid) a written clarification may be obtained from the supplier or contractor and, where applicable, an offer made for the correction of the minor deviation. Where a supplier or contractor does not accept the correction of a minor deviation, his bid shall be rejected.

9.5.12 Evaluation of bids

The objective of bid evaluation is to determine and select the lowest evaluated responsive bid from bidders that have responded to the bid solicitation.

(i) There should be a committee made up of professionals for the evaluation of the bids. The Secretary of the Tenders Board should be Secretary of the Committee. Members of the Evaluation Committee, Tenders Boards, and approval authorities should be obliged to declare any conflict of interest and exclude themselves from bid evaluation and approval processes.

(ii) The Tenders Board shall, check for deviations, omissions with quantification of same, application of discounts, as applicable, clarification with bidders of questionable minor deviations, quantification in monetary terms of such questionable deviations, calculation and tabulation of bid amount with domestic preference where applicable, etc.

(iii) All relevant factors calculated in monetary terms, in addition to price, that will be considered for the purposes of bid evaluation and the manner in which such factors will be applied shall be stipulated in the solicitation documents.

(iv) When bid prices are expressed in two or more currencies, the prices of all bids shall be converted to Nigerian currency, according to the rate and date of rate specified in the solicitation documents.

(v) If suppliers were pre-qualified, verification of the information provided in the submission or prequalification shall be confirmed at the time of award of contract and award may be denied to a bidder who no longer has the capability or resources to successfully perform the contract.

(vi) After opening of bids, information relating to the examination, clarification and evaluation of bids and recommendations concerning award shall not be disclosed to bidder sort or persons not officially concerned with the evaluation process until the successful bidder is notified of the award.

1. Services of international agents

The services of International Procurement Agents of the highest repute may be obtained, to assist in medium and large scale contracting where necessary.

9.5.14 Bid security

Subject to the monetary and prior review thresholds as may from time to time be set by the Bureau all procurements valued in excess of the sums prescribed by the Bureau shall require a bid security in an amount not more than 2% of the bid price by way of a bank guarantee issued by a reputable bank acceptable to the procuring entity.

9.5.15 Performance bond guarantee

Performance Bond Guarantee in an amount not less than 10% of contract value or an amount equivalent to the mobilization fee requested by the supplier or contractor whichever is higher should be obtained for all contracts.

9.5.16 Acceptance of bids

The successful bid shall be that submitted by the lowest cost bidder from the bidders responsive as to the bid solicitation. The selected bidder needs not be the lowest cost bidder provided the procuring entity could show good grounds derived from the provisions of this Act to that effect. Notice of the acceptance of the bid shall immediately be given to the successful bidder.

9.5.17 Domestic preferences

A procuring entity may grant a margin of preference in the evaluation of tenders, when comparing tenders from domestic bidders with those from foreign bidders or when comparing tenders from domestic suppliers offering goods manufactured locally with those offering goods manufactured abroad. Where a procuring entity intends to allow domestic preferences, the bidding documents shall clearly indicate any preference to be granted to domestic suppliers and contractors and the information required to establish the eligibility of a bid for such preference.

Margins of preference shall apply only to tenders under international competitive bidding. The Bureau shall by regulation from time to time set the limits and the formulae for the computation of margins of preference and determine the contents of goods manufactured locally.

9.5.18 Mobilisation fee

Mobilisation fee, where necessary and appropriate, shall not exceed 15% of the contract sum. However, payment of such mobilization fee shall be effected upon written application and an unconditional bank guarantee for equivalent amount valid until the goods are supplied or until the mobilization fee has been repaid, in the case of works contracts. Only unconditional bank guarantees issued by reputable banks should be accepted.

9.5.19 Interest on delayed payment

There shall be a provision of interest payment to contractors for delayed payments by Ministries/Extra Ministerial Departments. Such payment should be made:

(i) at the interest rate specified in the contract agreement;
(ii) if there is delay in the settlement of the claim of more than 60 days, from the date of submission of the contractor's invoice/valuation certificate and the confirmation/authentication by the relevant Ministry.

9.5.20 Record of procurement proceedings

Every procuring entity shall maintain a record of the comprehensive procurement proceedings, which shall be made available to the following on request:

(i) Any person, supplier, contractor or consultant that submitted tenders, proposals, etc. has been accepted or after procurement proceedings have been terminated without resulting in a procurement contract;

(ii) By a court, provided that when ordered to do so, the procurement entity shall not disclose such information, if its disclosure would be contrary to law or impede law enforcement; or prejudice legitimate commercial interests of the parties;

(iii) The Bureau of public procurement, an investigator appointed by the Bureau;

(iv) The Auditor-General;

(v) Donor agencies, where donor funds have been used for the procurement.

9.5.21 Due process guidelines on government contracts

The doctrine of Due Process is an assurance that there is compliance with the budgetary, procuring and payment guidelines by all parties to government contracts.

The process ensures that:

(a) Competitive bidding has been conducted in line with the procurement and contract award procedures;

(b) The best-evaluated bid is selected among the pre-qualified bidders;

(c) The cost is in conformity with comparable best value.

9.5.22 Procurement plan

A procuring entity shall plan its procurement by:

a) Preparing the needs assessment and evaluation;

b) Identifying the goods, works or services required;

c) Carrying appropriate market and statistical surveys and on that basis prepare an analysis of the cost implications of the proposed procurement;

d) Aggregating its requirements whenever possible, both within the procuring entity and between procuring entities, to obtain economy of scale and reduce procurement cost;

e) Integrating its procurement expenditure into its yearly budget;

f) Prescribing any method for effecting the procurement subject to the necessary approval under this Act ;and

g) ensuring that the procurement entity functions stipulated in this Section shall be carried out by the Procurement Planning Committee.

9.5.23 Procurement implementation

A procuring entity shall, in implementing its procurement plans:

(a) Advertise and solicit forbids in adherence to this Act and guidelines as may be issued bythe Bureau from time to time;

(b) To invite two credible persons as observers in every procurement process, one person each representing a recognised;

   a. private sector professional organisation whose expertise is relevant to the particular goods or service being procured, and

   b. non-governmental organisation working in transparency, accountability and anti-corruption areas, and the observers shall not intervene in the procurement process but shall have right to submit their observation report to any relevant agency or body including their own organisations or associations;

(c) Receive, evaluate and make a selection of the bids received in adherence to this Act and guidelines as may be issued by the Bureau from time to time;

(d) Obtain approval of the approving authority before making an award;

(e) Debrief the bid losers on request;

(f) Resolve complaints and disputes if any;

(g) Obtain and confirm the validity of any performance guarantee;

(h) Obtain a “Certificate of ‘No Objection’ to Contract Award” from the Bureau within the prior review threshold as stipulated;

a. Execute all contract agreements; and

b. Announce and publicize the award in the format stipulated by this Act and guidelines as may be issued by the Bureau from time to time.

9.5.24 Special and restricted methods of procurement

Apart from the open competitive bidding process treated under part II of this chapter, the Public Procurement Act provides for other modes of competitive bidding which are move flexible but at the same time have built in controls to safe guard against breaches and abuses. These are:-

(a) Two-stage bidding;

(b) Restrictive bidding;

(c) Direct procurement;

(d) Emergency procurements; and

(e) Request for quotations.

With the exception of the "request for quotation" model which may not require the approval of the Bureau, all others attract the "Certificate of 'No object' to award contract" duly issued by the Bureau. However, in the case of two-stage bidding, restricted bidding and direct procurements, approval must be obtained before award of contract as in respect of the open competitive bidding, while in the case of the emergency procurements, approval with regards model (e) shall be issued retrospectively, ie after award and execution of contract

(a) Two stage tendering

An entity shall engage in procurement by two-stage tendering on the following conditions:

(i) Where it is not feasible for the procuring entity to formulate detailed specifications for the goods or works or, in the case of services, to identify their characteristics and where it seeks tenders, proposals or offers on various means of meeting its needs in order to obtain the most satisfactory solution to its procurement needs;

(ii) Where the character of the goods or works are subject to rapid technological advances;

(iii) Where the procuring entity seeks to enter into a contract for research, experiment, study or development, except where the contract includes the production of goods insufficient quantities to establish their commercial viability or to recover research and development costs;

(iv) Where the procuring entity applies this Act to procurement concerned with national security and determines that the selected method is the most appropriate method of procurement;

(v) Where the tender proceedings have been utilised but were not successful or the tenders were rejected by the procuring entity under an open competitive bid procedure and the procuring entity considers that engaging in new tendering proceedings will not result in a procurement contract.

Procedures: The invitation documents under open competitive bidding:

(i) Shall call upon suppliers or contractors to submit, in the first stage of two-stage tendering proceedings, initial tenders which contain their proposals without a tender price;
(ii) May solicit proposals that relate to technical, quality or other characteristics of the goods, works or services as well as contractual terms and conditions of supply and may stipulate the professional competence and technical qualifications of the suppliers or contractors; and
(iii) May, in the first stage, engage in negotiations with any supplier or contractor whose tender has not been rejected under an open competitive bidding procedure with respect to any aspect of its tender.

In the second stage of the two tender proceedings the procuring entity:

(i) Shall invite suppliers or contractors whose tenders have not been rejected to submit final tenders with prices on a single set of specifications;
(ii) May, in formulating the specifications, delete or modify any aspect of the technical or quality characteristics of the goods, works or services to be procured together with any criterion originally set out in these documents, evaluate and compare tenders and ascertain the successful tender;
(iii) May add new characteristics or criteria that conform with this Act;
(iv) Shall communicate to suppliers or contractors in the invitation to submit firm tenders, any deletion, modification or addition; and
(v) May permit a supplier or contractor who does not wish to submit a final tender to withdraw from the tendering proceedings.

(b) Restricted tendering

Subject to the approval by the Bureau, a procuring entity may for reasons of economy and efficiency engage in procurement by means of restricted tendering on the following conditions:

(i) Goods, works or services are available only from a limited number of suppliers or contractors;
(ii) Time and cost required to examine and evaluate a large number of tenders is disproportionate to the value of the goods, works or services to be procured;
(iii) Procedure is used as an exception rather than norm; and
(iv) Procuring entity shall cause a notice of the selected tendering proceedings to be published in the procurement journal.

Procedures: Ministries, extra-ministerial officer and other arras of government with regards to restricted tendering shall observe the following procedures.

A. All supplier or contractors falling within the limited supplier/contractor group shall be invited to submit bids in respect of the procurement intended;
B. In the case where cost/benefit analysis rules against open competitive bidding, bids shall be invited from a selected number of contractors/suppliers within the available group of suppliers/ contractors without being seen to be discriminatory, and
C. General tendering principles and procedures shall apply (see FR 2940).

All invitations for restricted biddings shall be published in the procurement journal.

(c) Direct procurement

An entity may carry out any direct procurement where:

(i) Goods, works or services are only available from a particular supplier or contractor, or if a particular supplier or contractor has exclusive rights in respect of the goods, works or services, and no reasonable alternative or substitute exits;

(ii) There is an urgent need for the goods, works or services and engaging in tender proceedings or any other method of procurement is impractical due to unforeseeable circumstances giving rise to the urgency which is not the result of dilatory conduct on the part of the procuring entity;

(iii) Owing to a catastrophic event, there is an urgent need for the goods, works or services, making it impractical to use other methods of procurement because of the time involved in using those methods;

(iv) An entity which has procured goods, equipment, technology or services from a supplier or contractor, determines that:

a) Additional supplies need to be procured from that supplier or contractor because of standardization;
b) There is a need for compatibility with existing goods, equipment, technology or services, taking into account the effectiveness of the original procurement in meeting the needs of the procurement entity;
c) The limited size of the proposed procurement in relation to the original procurement provides justification;
d) The reasonableness of the price and the unsuitability of alternatives to the goods or services in question merit the decision.

(v) The procuring entity seeks to enter into a contract with the supplier or contractor for research, experiment, study or development, except where the contract includes the production of goods in quantities to establish commercial viability or recover research and development costs ; and

(vi) The procuring entity applies this Act for procurement that concerns national security, and determines that single-source procurement is the most appropriate method of procurement.

The entity may procure the goods, works or services by inviting a proposal or price quotation from a single supplier or contractor. Also the entity shall include in the record of procurement proceedings a statement of the grounds for its decision and the circumstances in justification of single source procurement.

(d) Emergency procurement

An entity may, carry out an emergency procurement on the following conditions:

(i) Where the country is either seriously threatened by or actually confronted with a disaster, catastrophe, war, insurrection or Act of God;

(ii) Where the condition or quality of goods, equipment, building or publicly owned capital goods may seriously deteriorate unless action is urgently and necessarily taken to maintain them in their actual value or usefulness;

(iii) Where a public project may be seriously delayed for want of an item of a minor value.

Procedure:

a) In an emergency situation, a procuring entity may engage in direct contracting of goods ,works and services;
b) All procurements made under emergencies shall be handled with expedition but along principles of accountability, due consideration being given to the gravity of each emergency; and
c) Immediately after the cessation of the situation warranting any emergency procurement, the procuring entity shall file a detailed report there of with the Bureau which shall verify same and if appropriate issue a Certificate of 'No Objection'.

(e) Request for quotations

A procuring entity shall apply the special procurement method of request for quotations where the value of the goods, works or services to be procured fall below the thresholds set by the Bureau from time to time.

Procedure:

(i) The procuring entity shall obtain quotations from three contractors or suppliers who shall submit only one quotation each and who shall be informed of any extra charges to be included in the quotation (e.g. transport and storage costs) outside the cost of the goods, works or service;

(ii) The procurement contract shall be awarded to the contractor/supplier with the lowest quotation; and

(iii) Where the value of goods, works, or service falls below threshold prescribed, the approval of the Bureau may not be obtained.

9.5.25 Disposal of public property

During the disposal of public property, the entity should carry out the following procedures:

i. The open competitive bidding shall be the primary source of receiving offers for the purchase of any public property offered for sale;

ii. The Bureau shall, with the approval of the Council:

  a. Determine the applicable policies and practices in relation to the disposal of all public property;
  b. Issue guidelines detailing operational principles and organisational modalities to be adopted by all procuring entities engaged in the disposal of public property ;and
  c. Issue standardized document, monitor implementation, enforce compliance and set reporting standards that shall be used by all procuring entities involved in the disposal of public property.

Definition of public property

Public property is defined as resources in the form of tangible and non-tangible assets (ranging from serviceable to the unserviceable):

(a) Created through public expenditure;

(b) Acquired as a gift or through deeds;

(c) Acquired in respect of intellectual or proprietary rights;

(d) Acquired on financial instruments (including shares, stocks, bonds, etc.);and

(e) Acquired by good will and any other gifts of the Federal government.

The means of the disposal of public assets shall include:

i. Sale and rental;

ii. Lease and hire purchase;

iii. Licenses and tenancies;

iv. Franchise and auction;

v. Transfers from one government department to another with or without financial adjustments; and

vi. Offer to the public at an authorised variation.

9.5.26 Offences

(i) Any natural person not being a public officer who contravenes any provision of this Act commits an offence and is liable on conviction to a term of imprisonment not less than 5 calendar years but not exceeding 10 calendar years without an option of fine;

(ii) The Federal High Court shall try any offence in contravention of this Act;

(iii) Prosecution of offences under this Act shall be instituted in the name of the Federal Republic of Nigeria by the Attorney-General of the Federation or such other officer of the Federal Ministry of Justice as he may authorise so to do, and in addition, without prejudice to the Constitution of the Federal Republic of Nigeria 1999, he may:

(a) After consultation with the Attorney-General of any state of the federation, authorise the Attorney-General or any other officer of the Ministry of Justice of that state; or

(b) If the relevant authority so requests, authorise any legal practitioner in Nigeria to undertake such prosecution directly or assist therein.

The following shall also constitute offences under this Act:

(a) Entering or attempting to enter into a collusive agreement, whether enforceable or not, with a supplier, contractor or consultant where the prices quoted in their respective tenders, proposals or quotations are or would be higher than would have been the case has there not been collusion between the persons concerned;

(b) Conducting or attempting to conduct procurement fraud by means of fraudulent and corrupt acts, unlawful influence, undue interest, favour, agreement, bribery or corruption;

(c) Directly, indirectly or attempting to influence in any manner the procurement process to obtain an unfair advantage in the award of a procurement contract;

(d) Splitting of tenders to enable the evasion of monetary thresholds set;

(e) Bid-rigging means an agreement between persons whereby:

(a) Offers submitted have been pre-arranged between them; or

(b) Their conduct has had the effect of directly or indirectly restricting free and open competition, distorting the competitiveness of the procurement process and leading to an escalation or increase in costs or loss of value to the national treasury.

(f) Altering any procurement document with intent to influence the outcome of a tender proceeding;

(g) Altering or using fake documents or encouraging their use; and

(h) Wilful refusal to allow the Bureau or its officers to have access to any procurement record.

9.6 Summary

In government, contracts are awarded after the bids have been reviewed by one of the Tender Boards. The contract execution and payments should follow due process of tendering and subsequent awards of contract. Public Procurement Act, 2007 also gives detailed guidelines on the awards of government contracts.

9.7 End of chapter review questions

9.7.1 Examination type questions

Section A

1 The Permanent Secretary/Chief Executive can approve contracts of works, services and purchase up to certain sum of ------ without open competitive tendering.

A. ₦2,500,000
B. ₦3,000,000
C. ₦5,000,000
D. ₦10,000,000
E. ₦20,000,000

2 By the current approved revised threshold for service-wide application, the approval limit for Bureau of Public Procurement (BPP) and Federal Executive Council for Goods is **one** of the following

A. ₦500,000,000 and above
B. ₦750,000,000 and above
C. ₦100,000,000 and above
D. ₦250,000,000 and above
E. ₦200,000,000 and above

3 With the exception of one model which may not require the approval of the Bureau, all others attracts the “Certificate of ‘No objection’ to award contracts” duly issued by the Bureau. **one** of the following is the model

A. Two-stage bidding
B. Restrictive bidding
C. Direct procurement
D. Emergency procurement

E. Request for quotations

4. The following are the reasons for introducing due process to the award of contract **except**

   A To stem the tide of corruption of government officials conniving with contractors to dupe government

   B To allocate contracts to the key management staff of government MDAs

   C To eradicate embezzlement of public funds in the name of contract awards

   D To arrest flagrant abuse of contract award procedures

   E To disabuse inflation of contract and lack of transparency in contract award

5. Which of the following is **not** one of the benefits of Due Process?

   1) To safeguard public funds and assets
   2) To enhance transparency and accountability in governance
   3) To see that documentation is affected only where government officials are involved in contract execution
   4) To rebuild public confidence in government financial activities
   5) To ensure that government receive value for money expended.

A. The mechanism for ensuring strict compliance to rules and procedures guiding award of contract with openness, competition and cost accuracy is known as ____________

B. The proposal for the supply of goods or services, usually made and presented as a result of invitation is known as ________________

C. The offence committed when a public officer deliberately split tenders, contracts of works, purchases procurement or service so as to circumvent the provisions and the circular earlier referred to is known as _____________________

D. In the composition of the membership of National Council on Public Procurement (NCPP), the chairman of the council is ………….

E. The invitation for bids must be advertised on the notice board of the procuring entity, on any official websites of the procuring entity in at least ………… national newspapers

Section B

1. (a) What is Due Process?

   (b) Enumerate five benefits of "Due Process

i Under the post contract award activities; you are required to discuss the processes involved, classifying them into (i) Tenders Board Information on voucher, and (ii) Tenders board Information availability

ii You are required to state the guidelines for the implementation of the 'e – payment' procedures as contained in the Treasury Circular Ref.No. TYR/A8 and BB/2008, reference OAGT/CAD/026/vol.11/465 of October 22, 2008 iii You are required to state the circumstances where an entity may carry out any direct procurement.

9.7.2 Suggested solutions to examination type questions

Section A

1. C
2. C
3. E
4. B
5. C
6. Due Process
7. Tender
8. Tender splitting
9. Minister of Finance
10. Two

Section B

1.a. 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 the instrument used by the Budget Monitoring and Price Intelligent Unit (BMPIU) which is tasked with implementing Nigeria's Public Procurement Reform Programme.

It was introduced to arrest flagrant abuse of procedures, inflation of contract costs and lack of transparency

b. Benefits of Due Process

1. Safeguard of public money and assets
2. Improvement in the system of planning and diligent project analysis, leading to the accuracy of costing and prioritization of investments
3. Improvement in fiscal management through more efficient and effective expenditure
4. Improvement in technical efficiency through un-impaired and enhanced information flow
5. Enhancement of transparency and accountability in governance
6. Rebuilding of public confidence in government financial activities
7. Ensuring that Government receives value for money spent
8. It applies the principle of competition and right costs thereby saving money for government which will be better used in other sectors
9. It moderates and brings succour to the foreign investors who, hitherto, believed that the country is corrupt and that no genuine business can survive.

2. Post contract award activities:
   a. Tender Board information on Vouchers:

Payment voucher in respect of a contract awarded through tender must contain among other things:

A. Certified true copy of all the minutes of the meetings of the Tenders Board in relation to the award of the contract
B. Certified true copy of the contract agreement
C. Copy of the approving authority
D. Copy of each voucher in respect of payments already made on the contract

b. Tenders Board Information Availability:

Minutes of the Tenders Board meeting and the full records in respect of the various types of the Accounting Officer on request, and for inspection of the Auditor-General on demand.

3. Implementation of the E-Payment Procedure:

The procedure as follows:

A. All forms of payments from all government funds are to be made through the banks, either commercial banks or Central Bank of Nigeria
B. All organs of government, ministries, departments and agencies are to stop using cheques to make payments to contractors
C. All bank accounts in respect of all government funds shall cease to be cheque accounts
D. Government contractors must indicate their current accounts particulars with commercial banks on the invoices submitted tor payment under their corporate seals
E. Mandates containing details of payments shall be issued to banks authorizing them to pay into the contractors’ designated bank accounts, the proceeds of executed contracts and supplies
F. In addition to the existing monthly financial returns, every organization of government, ministry, department or agency must forward copies of mandates issued to banks to the Accountant-General of the Federation
G. Henceforth, all employees of the Federal Government of Nigeria must open accounts with commercial banks into which all payments due to them as individuals would be made
H. On no account should Central Pay Officers(CPO) collect cash from the bank for the purpose of disbursement to any government official.

4. Direct Procurement.

An entity may carry out any direct procurement where:

i. Goods, works or services are only available from a particular supplier or contractor, or if a particular supplier or contractor has exclusive rights in respect of the goods, works or services, and no reasonable alternative or substitute exists

ii. There is an urgent need for the goods, works or services and engaging in tender proceedings or any other method of procurement is impractical due to unforeseable circumstances giving rise to the urgency which is not the result of dilatory conduct on the part of the purchasing entity

iii. Owing to a catastrophic events, there is an urgent need for the goods, works or services, making it impractical to use other methods of procurement because of the time involved in using those methods

iv. An entity which has procured goods, equipment, technology or services from a supplier or contractor, determines that

i. Additional supplies need to be procured from that supplier or contractor because of standardization

ii. There is a need for compatibility with existing goods, equipment, technology with existing goods, equipment, technology or services, taking into account the effectiveness of the original procurement in meeting the needs of the procurement entity

iii. The limited size of the proposed procurement in relation to the original procurement provides justification

iv. The reasonableness of the price and the unsuitability of alternatives to the goods or services in question merit the decision

v. The procuring entity seeks to enter into a contract with the supplier or contractor for research, equipment, study or development, except where the contract includes the production of goods in quantities to establish commercial viability or recover research and development cost

vi. The procuring entity applies this Act for procurement that concerns national security, and determines that single-source procurement is the most appropriate method of procurement

vii. The entity may procure the goods, works or services by inviting a proposal or price quotation from a single supplier or contractor. Also the entity shall include in the record of procurement proceedings a statement of the grounds for its decision and the circumstances in justification of single source procurement

CHAPTER TEN

INVENTORY MANAGEMENT, ACCOUNTING AND LOSS OF GOVERNMENT INVENTORY/FUNDS

Chapter contents

10.0 Learning objectives

After studying this chapter, readers should be able to:

i. Explain the importance of store and store accounting;
ii. Differentiate among different classes of inventories ;
iii. Delineate the composition and functions of the Board of survey and the Board of enquiry.
iv. Explain the concept of loss in the public sector;
v. List types of losses;
vi. Enumerate the responsibility of accounting officer in the event of loss of fund;
vii. Discuss the function of the Federal Losses Committee and Board of enquiries as regards loss of fund;
viii. Enumerate the conditions under which a Board of Enquiries is to be constituted in the event of loss of fund; and
ix. Tabulate the accounting entries required to write off loss of government fund.

10.1 Introduction

According to government Financial Regulations, "inventories include all moveable property purchased with public funds or otherwise acquired by government."

Inventories in public sector accounting simply refer to inventory of materials purchased with government money for official use. All purchases of indents for inventories 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 inventories and other government property in his care. Inventory control is an aspect of management. Therefore, the onus of putting necessary systems and procedures in place is for the ministries and extra-ministerial departments to decide. The treasury is only interested 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 inventory control and inventory accounting procedures, which cover the receipts, custody, issues and disposals of inventories.

Each MDA should maintain a inventories guide, which sets out in detail the approved procedures, and necessary instructions.

10.2 Inventories classification

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

10.2.1 Allocated inventories

'Allocated inventories' are inventories or inventories the costs of which are chargeable to and remain a charge to the NCOA code of expenditure in which funds for their purchase are provided for in the budget estimates. They may be either purchased directly or obtained from the unallocated inventories' store. They are taken on numerical charge and may be placed in an Allocated inventories or put to immediate use.

10.2.2 Unallocated inventories

Unallocated inventories are those purchased for general inventory 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 inventories NCOA code in the expenditure estimates. They are held on charge in both value and unit and when issued for use, are charged to the appropriate NCOA code of expenditure as Allocated inventories . The corresponding credit entry is made in the unallocated inventories NCOA code.

10.2.3 Purposes of unallocated inventories

Unallocated inventories are acquired for the following purposes:

(a) Acquiring inventories of a standard design and in constant demand.

(b) Saving storage space by holding minimum inventory 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 inventories when issues are made from the unallocated inventories.

(e) Reducing overall cost and maximising benefit.

10.2.4 Further classification of inventories

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

(i) Non-expendable inventories are of a permanent nature like plant and machinery, motor vehicles, furniture, which have a considerable number of years of serviceable life.

(ii) Expendable inventories are inventories of a semi-permanent nature such as shovels, paint-brushes and machetes which are of a short period of serviceable life.

(iii) Consumable inventories are those items, which, once used, cease to exist as store items. Examples are soap and stationery.

10.3 Inventory control

Inventory control is the activity of making sure that an entity constantly has exact amount of goods available for use at any point in time.

Effective inventory control methods

There are several methods of controlling inventory, all designed to provide an efficient system of deciding what, when and how much to order. You may opt for one method or a mixture of two or more if you have various types of stock.

I. **Maximum and minimum levels.** The accounting officer has to fix the maximum and minimum levels of the unallocated inventory holdings. He has to work out the re-order level for each item of inventories. Once fixed, the maximum limit of the value of the inventories, which may be held in stock at any one time, may not be exceeded without the authority of the Minister of Finance.

II. **Inventory review** –This is regular review of inventory. At every review, order should be placed to put inventory back to its predetermined level. Inventory review may be inform of the a continual review (where inventory is replenished whenever the inventory falls to some pre-determined level called re-order level or cyclic review (where inventory is replenished at regular intervals called the periodic review system)

III. **Just in time (JIT)** aims to reduce costs by cutting inventory to a minimum. Items are delivered when they are needed and used immediately. There is a risk of running out of stock, so you need to be confident that your suppliers can deliver on demand. This method is ideal for consumable items e.g. medical or chemical inventories etc.

These methods can be used alongside other processes to refine the inventory control system. For example:

i. **Re-order lead-time -** allows for the time between placing an order and receiving it.

ii. **Economic order quantity** (EOQ) - a standard formula used to arrive at a balance between holding too much or too little inventory.

It's quite a complex calculation, so you may find it easier to use inventory control software.

iii. **Batch control** - managing the use of your un-allocated inventories of goods in batches. You need to make sure that you have the right number of components to cover your needs until the next batch.

iv. **First in, first out** - a system to ensure that perishable inventories are used efficiently so that they don't deteriorate. Inventory is identified by date received and moves on through each stage of production in strict order.

If your needs are predictable, you may order a **fixed quantity** of inventory every time you place an order, or order at a **fixed interval** - say every week or month. In effect, if you are placing a standing order, you need to keep the quantities and prices under review.

10.4 Cost of inventories

The cost of unallocated inventories for accounting purpose is obtained, as follows:

(a) For imported inventories - the invoice price (fob), freight inspection fees, marine insurance and customs duty.

(b) For inventories purchased locally - the full purchase price less discount, if any.

Two other methods of arriving at the value at which inventories are to be taken on charge are:

10.4.1 Fixed price method

The arithmetic mean of the value of the items in stock and the known or estimated price of the inventories is taken and an approximate unit price is picked. The hypothetical unit price will remain as a fixed valuation price until there is a variation in the cost of a replacement.

10.4.2 Last known price method

The articles may be taken on charge at the last known price when the details of the full landed cost are not immediately available.

10.5 Inventory accounting

Inventories accounts are inventory ledger postings generated from inventory receipt vouchers. Unallocated inventories should be recorded in the vouchers and ledgers both in quantities and values. Storekeepers should keep tally or bin cards only, since they have no business with the inventory ledgers.

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

(b) Issues Journal or Inventory Issues Summary

(c) Inventory 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.

10.5.1 Annual balance statement

As soon as possible, after the end of a financial year, or not later than a date to be prescribed by the Accountant General, an annual balance statement and reconciliation Accounts, shall be prepared by the Accounting Officer and forwarded to the Accountant General and the Auditor-General.

Unallocated inventories annual balance statements

(a) **Inventory account**

	₦		₦
Value of inventories on hand at the beginning of the year as valued at the fixed prices	xx	Inventories issued during the year at the fixed prices	xx.
Inventories taken on charge during the year at the prices	xx	Inventories written-off during the year: (a) Against the Shortfalls and Excesses Accounts (b) Against U/A Inventories Deficiencies Sub-head	xx. xx.
Inventories found surplus and taken on charge	xx	Inventories revaluation on change on fixed price	xx.

Inventories revaluation on change of fixed price	xx	Value of Inventories on hand at the end of the year as valued at the fixed prices	xx.
	xxx.		**xxx.**

(b) **Shortfall and excess account**

	₦		₦
Total Price Deficiencies during the year	xx	Total Price Excesses during the year	Xx
Claims written-off	xx	Transfer to Unallocated Inventories Deficiencies Sub-head	xx.
Inventories written off	xx	Inventories revaluation on change on fixed price	xx.
Revaluation of inventories	xx	Revaluation of inventories	xx.
Balance on hand at the end of the year (to be abandoned)	xx.		xx.
Reconciliation account (Issues)			
Value of Inventories issued during the year as per Inventories Account.	xx	Value of Inventories issued during the year as per Abstract Issues.	xx
Adjustments, if any		Adjustments, if any	xx
	xxx		**xxx**

(c) **Payments**

	₦		₦
Payments as per Abstract	xx	Inventories taken on charge at the fixed prices (as per Inventories Account)	xx
Less Payments in respect of inventories taken on charge in previous year.	xx	Total Price Deficiencies	xx.
Less Expenditure credits for Claims met	xx	Value of Claims raised during one year	xx.

Less Transfers to U/A Inventories Deficiencies sub-head	xx	Adjustment if any	xx.
Total price excesses during the year	xx.		
Adjustment if any	xx.		
	xxx.		**xxx.**

(d). **Store claim account**

	₦		₦
Value of Claims brought forward from previous year	**xx**	Claims met during the year	xx
Value of Claims raised during the current year	**xx**	Value of Claims abandoned and written-off to: (a)Shortfalls and Excesses (b)U/A Inventories Deficiencies Sub-head	 xx. xx.
		Value of Claims carried forward	xx.
	xxx.		**xxx.**

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

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

10.6 Documentation of inventories

10.6.1 Storekeeper's records

The storekeeper should keep a separate tally card or bin card for each item in the store to correspond with items recorded in the inventory ledgers. A tally card has to bear the relevant ledger folio, to facilitate reference. Tally cards should be immediately available for entries and checking. Receipts and issues have to be posted to the bin cards immediately the inventories are physically received or issued.

10.6.2 Receipt of inventories

The sources of inventory items are from the following:

(a) Acquisitions through local purchase orders;

(b) Transfers from other inventories;

(c) Converted or Manufactured goods;

(d) Acquisitions through letters of awards;

(e) Returned inventories;

(f) Excess taken on charge; and

(g) Other avenues.

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

10.6.3 Payments for inventories

The storekeeper has to certify that inventories 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 inventories receipt voucher issued by the storekeeper.

Expendable and consumable inventories 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 inventories were required for immediate use and not taken on charge. For some types of consumable inventories, 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.

10.6.4 Transfer of inventories

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

10.6.5 Issues of inventories

Requests for inventories s should be signed only by the officer authorised to incur expenditure, or so authorised in the departmental inventories instruction to do so. The officer has to ensure that funds are available. Demands must be made on the prescribed inventories requisition forms.

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

10.6.6 Inventories issue for manufacture or conversion

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

10.6.7 Condemned inventories

Where a Board of Survey has condemned some items of inventories and approval given to write them off, a inventory issue voucher has to support the issue of the inventories, duly authenticated.

10.6.8 Issue of inventories: On payment

Government property must not be sold, except where specifically authorised by the Minister of Finance. To arrive at the selling price, the cost of such inventories is made up of the gross cost (allocated store) or current issue price (Unallocated inventories) plus a rateable percentage store charge approved by the Minister. Inventories may be issued on the payment only of the appropriate selling price when the head of a MDA is satisfied that such sales are in the public interest.

Inventory issue vouchers take care of inventories -on-payment releases, but such inventories will not be issued until the purchaser presents to the schedule officer, a treasury receipt, for the payment on the inventories and all associated additional costs, including inventories and transport charges. The treasury receipt number is entered on the Store Issue Voucher. Where credit facility has been authorised, the store issue voucher bears reference to the authority.

10.6.9 Functions of the storekeeper

(a) Maintenance of proper books of accounting records to timely reflects 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 inventory receipt and issue vouchers.

(i) Ensuring that there is adequate security over the custody of the store materials.

10.6.10 Procedures for inventories procurement

Upon receipt of the purchase requisition initiated by the Store keeper or authorised department, the purchasing department will:

(a) Obtain approval for the purchase of the items from the officer controlling the vote.

(b) Carry out a market survey or obtain quotations/tenders from prospective suppliers.

(c) Indicate a closing date for submission of tenders.

(d) Constitute a Contract Tenders' Board, after the closing date.

(e) Issue Local Purchase Orders to the contractors for the supply of the goods within the time frame agreed.

The duty of the Tenders Board is to determine the lowest bidder and recommend award of the contract accordingly. The Head of Department is to approve the recommendation of the Board.

10.6.11 Handing over of inventories

When an officer handover the custody of inventories to another, the in-coming Officer will ensure that the physical count agrees with the figures shown on the bin cards/store ledger. If there is no difference, both officers will jointly sign a certificate or Store Form 10.

However, in the absence of the outgoing Officer, a Inventory Verifier or Board of Survey may have to check and do the handing over to the in-coming Officer. The out-going Officer is answerable for any discrepancy reported at the time of hand-over while the in-coming Officer will account for any deficiency not discovered at the time of hand over, but which was later uncovered.

10.7 Procedures for reporting loss of inventories

Financial Regulation (2009 Edition) states that "the authority for the write-off of losses of inventories is the prerogative of the Minister of Finance. A limited degree of power of write-off is delegated to Accounting Officers and the Accountant-General of the Federation under the appropriate provision of FR 2602 which allows the accounting officer to write off loss of inventories, plant, equipment, etc. provided that:

(a) The original cost or estimated value of each item is not more than ₦20,000 and the total sum of the value of the items does not exceed ₦100,000.

(b) There is no weakness in the internal control system.

(c) There is no evidence of fraud or theft.

(d) Where negligence is involved, the offending officer has been disciplined according to the laid down rules and regulations.

10.7.1 Actions to be taken by the storekeeper (officer in-charge)

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

(a) Report to the head of department.

(b) Report to the nearest Police station, if there is any possibility of fraud or theft.

(c) Initiate action on Treasury Form, 146 "Report on loss of funds or inventories". The officer will complete part I of the form and forward it to the head of department.

(d) Ensure that if there are weaknesses in the internal control system, immediate action is taken to prevent a re-occurrence of the loss.

10.7.2 Actions to be taken by the head of department

On receipt of the report of loss of inventory, the head of department will:

(a) Forward brief details of the loss to the accounting officer of the ministry.

(b) Investigate the loss and complete parts II and III of Treasury Form 146.

(c) Recommend, to the accounting officer, the convening of a Board of Enquiry where the circumstances warrant an investigation.

(d) Ensure that if there is weakness in the internal control system, measures are taken to strengthen the weakness.

(e) Obtain copies of police report or court proceeding and transmit them to the accounting officer of the ministry.

10.7.3 Actions to be effected by the accounting officer

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

(a) If the loss is not significant, complete part IV of the Treasury Form 146 and transmits a copy each to the under listed officers:

(i) The Accountant General.

(ii) The Auditor-General.

(iii) The Head of the Accounts Department/Section

(b) However, if the loss is material, the Accounting Officer will:

(i) Forward brief details of the loss to the Accountant General and the Auditor-General, for necessary follow-up;

(ii) Convene a Board of Survey, where the circumstances call for such an investigation;

(iii) Recommend the suspension of the Officer concerned, where the circumstances call for a disciplinary action;.

(iv) Examine critically the full details of the loss and inform the Accountant General, the Auditor General and the Federal Civil Service Commission, through a letter accompanied with the police report and Treasury Form 146;

(v) Review the internal control system and tighten loose ends; and.

(vi) Recoup the loss as stipulated by procedures.

10.7.4 Actions to be taken by the Accountant-General

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

(a) The accounting officer has followed full procedures;

(b) an accounts officer or internal auditor is a member of the board of enquiry set up to investigate the loss;

(c) Adequate measures are taken to correct all lapses in the internal control system; and

(d) All practical measures are taken to recoup the loss.

10.7.5 Accounting treatment of loss of government inventories or funds

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 Accountant General prepares the Non- Personal Advance Account after Authorisation by the Minister of Finance. The financial accounting entries required for the treatment of such losses however depend on the following;

(a) Date of the transaction, which led to the loss
(b) Date the loss is discovered
(c) Date of passing the entries
(d) Nature of the loss
(e) Type of fund involved

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

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.

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.		

The suggested adjusting entries are:

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.

10.8 Inventory 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 Inventory Verifier are not available, the accounting officer will apply to the Federal Ministry of Finance for the appointment of a Board of survey.

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

Operational research has introduced a new device in stocktaking procedures, which will determine by statistical sampling, out of the population of a range of inventories, 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.

10.8.1 Closure of store during a survey

There will be store closure whenever a Board of Survey is in 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 MDA 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 Inventories officer to enter the ledger balances. Inventory 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.

10.8.2 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.

10.9 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 public sector 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 MDA at the end of each financial year. Boards of Survey may carry out a surprise checking cash imprest 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; and

(iv) Survey of inventories, plant, buildings and equipment.

10.9.1 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. It should be noted that where e-payment is adopted by the entity cash survey would not be relevant because you are not expected to have physical cash in the safe.

10.9.2 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 of 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 must be clearly stated on the survey report.

10.9.3 Procedural activities for the conduct of surveys

It is very important for the board members to be punctual and be at the point of survey ahead of the official opening time, 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 cashbook.

(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 cashbook.

(e) Bring any surplus disclosed to account in the cashbook 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.

10.9.4 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 inventories, plant and buildings or equipment is embodied in Treasury Form 147.

10.10 Board of enquiry

10.10.1 Definition

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.

This is a board constituted by the accountant General after studying the report of the accounting officer, where there is a reported case of loss of government fund to carry out special investigation into the circumstances leading to loss.

10.10.2. Circumstances, which may 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 inventories. In considering whether a board of enquiry should be held, evaluation is always given to the following points:

A Board of enquiry shall be constituted under the following conditions:

(a) If fraud is probable;
(b) If the loss is substantial;
(c) If several officers are involved;
(d) If the responsibility of the officers are not clearly defined;
(e) If the loss took place over a period of time; and

(f) If collusion is suspected.

The Accountant General in convening the Board shall incorporate Terms of Preference for the Board, as he may deem necessary.

The officer convening board of enquires shall forward a copy of the convening order with full terms of reference to:

(a) Accounting officer;
(b) Accountant –General of the federation;
(c) Auditor–General for the federation; and
(d) Chairman, Federal Civil Service Commission.

10.10.3 When is a board of enquiry not necessary?

A board of enquiry may not be necessary in the following developments:

(a) If the loss involves small amount of money;

(b) If it is peculiar and 'one-of' item; and

(c) If the officer responsible can be located and identified.

10.10.4 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.

10.10.5 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.

10.10.6 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 below grade level 08, while other members should not be below grade level 06. Where there is only one person elected to serve as a 'Board' the facts of this case have to be furnished in his report.

10.10.7 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 to be 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 summarised by the Board in such a way as to effectively communicate the facts of the case.

10.10.8 Contents of the board's report

The contents of the Enquiry shall include the following:

(a) A statement on the exact amount of loss incurred.

(b) Expression of idea as to whether or not the accounting system was faulty and 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.

10.10.9 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.

10.11 Loss of government inventory/fund

Loss or shortage of fund is a depletion of government fund at a given time.

10.11.1 Types of losses

The types 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; and

(i) Loss of Cash.

10.11.2 Responsibility of accounting officer in the event of loss of fund

Where a cash loss to the value of ₦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:

(a) The Chairman, Federal civil service commission;

(b) The Auditor – General for the federation;

(c) The Accountant – General of the federation; and

(d) The Federal ministry of finance.

The officer in charge of the office in which the loss occurs shall take the following actions:

(a) Report immediately to the Head of the Unit or Division by the fastest means if the loss occurs away from the Headquarter;

(b) Report to police if fraud or theft is suspected;

(c) Initiate immediate action by completing Treasury form 146 part 2 and forward it in quintuplicate to head of units or division;

(d) 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; and

(e) Ensure that accounting entries have been made.

10.11.3 Federal losses committee

The federal losses committee is a standing committee responsible for considering all cases involving loss of cash, inventories and vehicles.

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 (EFCC).
(f) The Inspectorate Department of the office of the Accountant General shall provide the Secretariat.

10.11.4 Accounting entries

S/N	**Details**	**Debit**	**Credit**
a.	Loss 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 debited	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.	Recovery of an account earlier written off to Non-personal Advance	Cash /Bank A/c	Non Personal Advance A/c
g	Overpayment not involving fraud made in a previous financial year charged against CRF or DF Note: No. Adjustment Required, but the loss will be recognised by the Accountant- General	- No. Adjustment	-
h.	Abandonment of recovery of a bicycle advance Issued initially from recurrent expenditure Note: No. Adjustment Required, but the loss will be recognised by the Accountant- General	: No. Adjustment	
i.	Abandoned of recovery of an unpaid revenue Note: No. Adjustment required, but the loss will be recognised by the Accountant- General	: No. Adjustment	

10.12 IPSAS 12: Inventories

10.12.1 Introduction

This standard deals with the valuation and presentation of inventories in the financial statements in the context of historical cost system. It is the most widely adopted method for presenting financial statements.

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:

10.12.2 Contents of the standard

In accordance with IPSAS 12.9, 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.

Inventories also include goods purchased for resale, such as merchandise purchased by a retailer and held for resale or land and other properties held for sale. Inventories also encompass finished goods produced or work-in-progress being produced and include materials and supplies awaiting use in the production process.

Specifically, in the public sector, inventories also comprise goods purchased or produced by the entity that are distributed to third parties for no charge or for a nominal charge. An example would be children's books produced by Ministry of Children Affairs for donation to schools. Other examples of inventories in the public sector given in IPSAS 12.12 include: "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."

10.12.3 Exceptions from the provisions of IPSAS 12

IPSAS 12 applies for all inventories except for:

(a) Work-in-progress arising under construction contract including directly related contracts;
(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.

IPSAS 12 does not apply for the measurement of the following inventories:

(a) Inventories of agricultural or forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at net realizable value in line with well-established practices in certain industries. When such inventories are measured at net realizable value, changes in that value are recognised in surplus or deficit in the period of change.

(b) Inventories of commodity broker-traders who measure their inventories at fair value less costs to sell. When such inventories are measured at fair value, less cost to sell, changes in that value are recognised in surplus or deficit in the period of change.

10.12.4 Measurement of inventories

Inventories should be measured at the lower of cost and net realizable value, except where IPSAS 12.12 applies. Which states that "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 in line with IPSAS 12.17.

10.12.5 Cost of inventories

The cost of inventories comprises:

(a) All costs of purchase;
(b) Costs of conversion; and
(c) Other costs incurred in bringing the inventories to their present location and state (IPSAS 12.18).

The costs of purchase of inventories comprise:

(a) The purchase price;
(b) Import duties and other taxes;
(c) Transport, handling and other costs directly attributable to the acquisition of finished goods, materials and supplies.
(d) Trade discounts, rebates and other similar items are deducted in determining the costs of purchase;
(e) The costs of conversion of inventories in accordance with IPSAS 12.20 include full production-related costs.

The formula for arriving at the costs of conversion of inventories is as follows:

Direct costs + fixed production overheads + variable production overheads + other costs = costs of conversion.

10.12.6 Costs of conversion

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.

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.

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.

Other costs included in the costs of inventories only to the extent that they are incurred in bringing inventories to their present location and condition.

10.12.7 Exceptions to the costs of inventories

The following costs are excluded from the cost of inventories and recognised as expenses in the period in which they are incurred:

(a) Abnormal amounts of wasted materials, labour, or other production costs;
(b) Storage costs, unless those costs are necessary in the production process prior to a further production stage;
(c) Administrative overheads that do not contribute to bringing inventories to their present location and conditions;
(d) Selling costs.

10.12.8 Cost of inventories of a service provider

The cost of inventories of a service provider consists primarily of the labour and other costs of personnel directly engaged in providing the service, including supervisory personnel and attributable overheads. The cost of labour not engaged in providing the service are not included. Labour and other costs relating to sales and general administrative personnel are not included but are recognised as expenses in the period in which they are incurred.

10.12.9 Cost formula

When applying IPSAS 12.28, 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.

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.

10.12.10 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.

10.12.11 Recognition of inventories as an expense

(a) When inventories are sold, exchanged or distributed the carrying amount of those inventories should be recognised as an expense in the period in which the related revenue is recognised;
(b) If there is no related revenue, the expense is recognised when the goods are distributed or related service is rendered;
(c) The amount of any write-down of inventories and all losses of inventories should be recognised as an expense in the period the write-down or loss occurs;
(d) The amount of any reversal of any write-down of inventories should be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

10.12.12 Disclosure

The standard stipulates that the financial statements should disclose:

(i) The accounting policies adopted in measuring inventories, including the cost formula used;
(ii) The total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;
(iii) The carrying amount of inventories carried at fair value less cost to sell;
(iv) The amount of any reversal of any write-down that is recognised in the statement of financial performance in the period;
(v) The circumstances or events that led to the reversal of a write- down of inventories;
(vi) The carrying amount of inventories pledged as security for liabilities;

and

(vii) The cost of inventories recognised as an expense during the period or the operating costs applicable to revenues, recognised as an expense during the period, classified by their nature.

10.12.13 Accounting treatment

S/N	Details	Remarks
a.	**Inventories Bought-in**	
	DR. - Inventory/Stock Account CR - Account Payables Account	On purchase of Inventory
	DR. – Account Payables Account CR. – Cash/ Bank Account	When payment is made
	DR. - Relevant Expenses Account CR. – Inventory/ Stock Account	Upon Issuance
b	**Inventories Created Internally**	
	DR. - Inventory/Stock Account CR - Account Payables Account	On purchase of Materials
	DR. - Account Payables Account CR. - Cash/ Bank Account	When payment is made
	DR. - Work- in – Progress Account CR. – Inventory/ Stock Account	Upon Issuance of materials for conversion.
	DR. - Finished Goods Services Account CR. – Work – in Progress Account	On full conversion of the created inventory
	DR. - Relevant Expenses Account	Upon Issuance or consumption.

	CR. – Inventory/ Stock Account	

Illustration

Federal Ministry of Education had the following transactions for the year ended December 30, 2021

a) The Ministry issued Purchase order to OKO Ltd to supply 250,000 units of duplicating papers worth ₦500,000. The consignment was supplied accordingly on the 15 June 2021. The supplier was paid 75% of the money as at the end of the financial year.

b) In addition, a consignment of 100,000 units was received from another supplier (EMU Ltd) valued at ₦1,500,000. The supplier was fully paid. As at the end of the year only 130,000 units were issued from store to the user departments. The entity adopts FIFO method of valuing stock.

c) During the physical verification of stock in custody discovered that 5,000 units of stationery bought-in were damaged by water. The value of the items was estimated at ₦50,000.

d) The Ministry transferred duplicating papers valued at ₦250,000 to its Zonal Offices during the year.

You are required to show the relevant entries to record the above transactions in the books of Federal Ministry of Education for the year ended December 31 2021

Solution

S/N	**Details**	**Dr. (₦)**	**Cr. (₦)**	**Remarks**
a. i.	Inventory Account	500,000		Being recognition of the transaction in the books
	Accounts Payable Account		500’000	
ii.	Accounts Payable Account	375,000		Being Payment of 75% of the liability
	Bank Account		375,000	
b i.	Inventory Account	1,500,000		Being recognition of the transaction in the books
	Accounts Payable Account		1,500,000	
ii.	Accounts Payable Account	1,500,000		Being full payment of 75% of

	Bank Account		1,500,000	the liability
iii.	Stationery Expense Account	260,000		Being consumption of stationeries using FIFO method.
	Inventory Account		260,000	
c	Loss of Inventory Account	50,000		Being value of damaged Inventory
	Inventory Account		50,000	
d	Stationary Transfer Account	250,000		Being transfer of stationary items to Zonal offices
	Inventory Account		250,000	
	Inventory Account	250,000		Being receipt of stationary items from the Headquarters
	Stationary Transfer Account		250,000	
Note that on consolidation the two Stationary Transfers Accounts in Headquarters and Zonal Offices will net off				

Illustration

The Federal printing press purchased printing materials worth ₦2,500,000 to be used in printing of files for the government. A total of ₦1000,000 worth of materials was issued from inventories, ₦150,000 was paid as direct labour, ₦55,000 was incurred as overhead cost in printing of the files. A total of 50,0000 units of files were printed.

Solution

S/N	**Details**	**Dr. (₦)**	**Cr. (₦)**	**Remarks**
i.	Inventory Account (Materials)	2,500,000		Being purchase of materials
	Accounts Payable Account		2,500,000	
ii.	Accounts Payable Account	2,500,000		Being payment for materials purchased
	Bank Account		2,500,000	
iii.	Work- in Progress Account	1,000,000		

	Inventory Account (Materials)		1,000,000	Being issuance of materials from the Store
iv.	Work- in Progress Account	205,000		Being attributable conversion cost
	Bank Account (Direct Labour)		150,000	
	Bank Account (Overhead)		55,000	
v.	Inventory Account (Finished Goods)	1,205,000		Being cost of printing 50,000 units of files
	Work- in Progress Account		1,205,000	

10.13 Summary

This chapter discussed inventories and inventory accounting, with clear distinctions between allocated and unallocated inventories. It also explained expendable, non-expendable, consumable inventories and the responsibilities of the board of survey and board of enquiry. The chapter concludes by examining the concept of loss of fund and types in the public sector. The treatment of losses and roles of accounting officers in the event of loss was also dealt with. The functions of the federal losses committee and board of enquiries were highlighted. The specific condition under which a board of Enquiries may be constituted in the event of loss of fund was also discussed.

The chapter also discuss provisions on definitions, applications, recognition, measurement and disclosures of the International Public sector accounting Standard (IPSAS) 12 on Inventories.

a. End of chapter review questions

10.14.1 Examination type questions

Section A

1) Where a cash loss to the value of #50,000 or less has occurred without fraud being involved, accounting officer’s report of the loss under this regulation must be sent to the following, except **one**:

A. The Chairman, Federal Civil Service Commission
B. The Inspector General of Police
C. The Auditor-General for the Federation
D. The Accountant-General of the Federation
E. The Federal ministry of finance

2) The composition of the Federal Losses Committee include the following members, with the exception of **one**

A. A representative of the Auditor-General for the Federation

B. A representative of the Accountant-General of the Federation

C. A representative of the Inspector-General of Police

D. A representative of the Governor of Central Bank

E. A representative of the Economic and Financial Crime Commission (EFCC)

3) The functions of the Storekeeper include the followings with the exception of **one**:

A. Maintenance of proper books of accounting records to timely reflects the transactions

B. Diligent arrangement of the store

C. Ensuring cleanliness of the store

D. Invitation of purchase requisitions from the needy department

E. Carry out a market survey or obtaining quotation/tenders from prospective supplier

4) **One** of the following is not covered by the exceptions from the IPSAS 12 for inventories:

1. Work-in-progress arising under construction contract including directly related contracts
2. Assets to be consumed in the production of goods or services for sale
3. Financial Instruments
4. Biological assets related agricultural activity and agricultural produce at the point of harvest
5. Work-in-progress of services to be provided for no or nominal consideration directly in return from the recipient

5. The following except **one** are the items on the debit side of shortfall and excess account when treating unallocated inventories

A. Claims written-off

B. Inventories written-off

C. Inventories found surplus and taken on charge

D. Revaluation of inventories

E. Transfer to Unallocated inventories deficiencies Sub-head

6. The estimated selling price in the ordinary course of operations less the estimated costs of completion and estimated cost necessary to make the sale, exchange or distribution, is called …………………..
7. The cost formula that 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 item at the end of a given period and divide by two is called ………………..

8. The method of arriving at the value at which inventories are to be taken on charge when the details of the full landed cost are not immediately available is called …………......
9. A method used to refine the inventory control system to arrive at a balance between holding too much or too little inventory is called ……………
10. Inventories the cost which are chargeable to and remain a charge to the NCOA code of expenditure in which funds for their purchase are provided in the budget estimates is called ……….

Section B

1. In the event of any loss of government inventory, explain the actions to be taken by:

   i. The Storekeeper
   ii. The Head of Department
   iii. The Accounting officer

2. (a) What circumstances would warrant the setting up of a Board of Enquiry?

   (b) State the contents of a Board of Enquiry's Report

3. (a) What is loss of government inventory/fund?

   (b) List the types of losses that can arise in a Public Sector

   (c) In case of a loss of funds, you are required to state the actions to be taken by the Head of the Division where the officer concerned is serving

4. (a) Explain the recognition of inventories as an expense

   (b) In inventories, state what the standard stipulates that the financial statement should disclose.

10.14.2 Suggested solutions to examination type questions

Section A

1. B
2. D
3. E
4. B
5. C
6. Net realisable value
7. Weighted average cost
8. Last known price method

9. Economic Order Quantity (EOQ)
10. Allocated Inventories

Section B

ia. Actions to be taken by the storekeeper (officer in-charge)

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

(a) Report to the head of department.

(b) Report to the nearest Police station, if there is any possibility of fraud or theft.

(c) Initiate action on Treasury Form, 146 “Report on loss of funds or inventories”. The officer will complete part I of the form and forward it to the head of department.

(d) Ensure that if there are weaknesses in the internal control system, immediate action is taken to prevent a re-occurrence of the loss.

ib. Actions to be taken by the Head of department

On receipt of the report of loss of inventory, the head of department will:

(a) Forward brief details of the loss to the accounting officer of the ministry.

(b) Investigate the loss and complete parts II and III of Treasury Form 146.

(c) Recommend, to the accounting officer, the convening of a Board of Enquiry where the circumstances warrant an investigation.

(d) Ensure that if there is weakness in the internal control system, measures are taken to strengthen the weakness.

(e) Obtain copies of police report or court proceeding and transmit them to the accounting officer of the ministry.

ic. Actions to be effected by the Accounting officer

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

(a) If the loss is not significant, complete part IV of the Treasury Form 146 and transmits a copy each to the under listed officers:
  - (i) The Accountant General.
  - (ii) The Auditor-General.
  - (iii) The Head of the Accounts Department/Section

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

2(a) 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 inventories. In considering whether a board of enquiry should be held, evaluation is always given to the following conditions:

(i) If fraud is probable
(ii) If the loss is substantial
(iii) If several officers are involved
(iv) If the responsibility of the officers are not clearly defined
(v) If the loss took place over a period of time

(b) The contents of the Enquiry shall include the following:

(i) A statement on the exact amount of loss incurred

(ii) Expression of idea as to whether or not the accounting system was faulty and suggestions as to any remedy which may be instituted in the peculiar circumstances

(iii) Recommendations for improving the physical security measures to remove current inadequacy

(iv) Recommendation for the evaluation of the extent of negligence of the officers who are responsible

3 (a) Loss or shortage of fund is a depletion of government fund at a given time

(b) The types of losses that can arise in a public sector are as follows:

(i) Misappropriation of funds

(ii) Falsification of records

(iii) Conversion of funds to personal use

(iv)Theft

(v)Negligence

(vi)Abandonment of revenue receivable

(vii)Abandonment of advance granted from recurrent expenditure

(viii)Loss of cash

(4)(a) Recognition of Inventories as an expense

i. When inventories are sold, exchanged or distributed, the carrying amount of those inventories should be recognized as an expense in the period in which the related service is recognised

ii. If there is no related revenue, the expense is recognized when the goods are distributed or related service is rendered

iii. The amount of any reversal of any write-down of inventories and all losses of inventories should be recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs

(b)Disclosure

The standard stipulates that the financial statements should disclose the following:

i. The accounting policies adopted in measuring inventories including the cost formula used
ii. The total carrying amount of inventories and the carrying amount in classifications appropriate to the entity
iii. The carrying amount of inventories carried at the fair value less cost to sell
iv. The amount of any reversal of any write-down that is recognized in the statement of financial performance in the period
v. The circumstances or events that led to the reversal of a write-down of inventories
vi. The carrying of inventories recognized as an expense during the period or the operating costs applicable to revenues recognized as an expense during the period, classified by nature.

CHAPTER ELEVEN

ACCOUNTING FOR THE LOCAL GOVERNMENT

Chapter contents

11.0 Purpose

After studying this chapter readers should be familiar with the following about local government councils:

(a) The functions and sources of revenue;

(b) The roles and functions of the principal officers;

(c) The expenditure of;; and

(d) The financial control processes..

11.1 Introduction

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

11.2 Functions of local governments in Nigeria

A local government is the 'third-tier' of governance in Nigeria. However, state governments have considerable influence over the local government councils whose functions are stated in the fourth schedule of the 1999 Constitution, as follows:

(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 motorcycles, 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 billboards 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:

- The main functions of a local government council are as follows:
- The consideration and the making of recommendations to a State commission on economic planning or any similar body on-
  a. 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
  b. Proposals made by the said commission or body;

(ii) Collection of rates, radio and television licences;

(iii) Establishment and maintenance of cemeteries, burial grounds and homes for the destitute or infirm;

(iv) Licensing of bicycles, trucks (other than mechanically propelled trucks), canoes, wheel barrows and carts;

(v) Establishment, maintenance and regulation of slaughter houses, slaughter slabs, markets, motor parks and public conveniences;

(vi) 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;

(vii) Naming of roads and streets and numbering of houses;

(viii) Provision and maintenance of public conveniences, sewage and refuse disposal;

(ix) Registration of all births, deaths and marriages;

(x) 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

(xi) Control and regulation of-

a. Out-door advertising and hoarding,
b. Movement and keeping of pets of all description,
c. Shops and kiosks,
d. Restaurants, bakeries and other places for sale of food to the public,
e. Laundries, and
f. Licensing, regulation and control of the sale of liquor.

(b). The functions of a local government council shall include participation of such council in the Government of a State as respects the following matters-

(i) The provision and maintenance of primary, adult and vocational education;

(ii) The development of agriculture and natural resources, other than the exploitation of minerals;

(iii) The provision and maintenance of health services; and

(iv) Such other functions as may be conferred on a local government council by the House of Assembly of the State.

11.3 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.

11.3.1Objectives 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.

11.3.2 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.

11.4 Financial responsibilities of local government officers

Both the executive and legislative arms of government administer the local government councils.

The Executive arm is made up of the following:

(a) The Chairman;

(b) The Vice - Chairman;

(c) Supervisors;

(d) Treasurer;

(e) Secretary; and

(f) Head of Personnel Management.

(g) Legislature

11.4.1 Chairman as accounting officer

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

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

The major functions of a Local Government Chairman are :

(a) Management of the Local Government Council for proper development;

(b) Preparation and execution of the budget; and

(c) Managing the community efforts on development.

11.4.2 Vice-chairman and supervisors

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

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

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

(a) As the political Heads of Departments, they are Vote Controllers and are accountable to the council chairman;

(b) They are members of the cabinet of the local government council and automatic members of the Finance and General Purposes Committee;

(c) Supervisors give directives to the executive Heads of Departments on general policy issues. They do not interfere in the day-to-day running of the departmental affairs; and

(d) They assist the chairman in supervising the execution of local government council projects under their purview.

11.4.3 Treasurer

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

(a) Rendering financial advice to the council;

(b) Serve as the secretary to the budget committee;

(c) Receiving and disbursing money for the authorised ends;

(d) Keeping proper accounting records of money collected or utilised;

(e) Verifying the accuracy and integrity of all accounting records;

(f) Ensuring compliance with all financial instructions or laws for safe custody of the council money;

(g) Ensuring that vouchers are correctly made out and that funds are available in the appropriate vote of charge;

(h) Rendering necessary contemplated statutory returns to the state and federal governments;

(i) Ensuring that all revenues belonging to the Council are collected as at when due;

(j) Ensuring that fiscal policies are executed and expenditure incurred with due diligence;

(k) Maintaining effective run and staffed financial operations;

(l) Keeping up to date statistical information in such a form as will enhance the submission of prompt and accurate reports;

(m) Submitting recommendations to the Council's in his capacity as the financial adviser;

(n) Serving as a signatory to the Council's bank account and other disbursements; and

(0) Offering expert opinions on short, medium and long term bases.

11.4.4 Secretary to the local government

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

(a) Liaises with the Secretary to the State Government and other important dignitaries on matters of interest to Local Government Councils;

(b) Co-ordinates the operations of the various Departments and represents the Chairman, as directed, at high-level meetings;

(c) Is the Secretary to the Executive Arm of the Local Government and maintains the records of proceedings of meetings; and

(d) Performs other assignments as may be delegated by the Chairman, from time to time.

11.4.5 Director of general services - Head of personnel management

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

(a) All the vouchers and cheques/mandates shall be signed by the head of personnel management;

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

(c) He is the recognised second signatory to all the disbursements of the Council;

(d) Based on Federal Government circular of May, 1991, he assumes the position of the Clerk of the Council Legislature, even if temporarily;

(e) He implements audit reports on the weakness areas identified in the administration procedures;

(f) He is the Head of the Junior Staff Management Committee; and

(g) He is also the Secretary and Chief Administrative Officer of the Council.

11.4.6 Funds Allocation Committee (FAC)

With the promulgation of Act No. 23 of 1991**:** Basic constitutional and transitional provisions (Amendment) Act No.3 of 1991, the functions of the Finance and General Purposes Committee (FGPC) were transferred to the Legislative Arm of local government councils.

However, the fact is that the management of the funds of the Local Government Council is that of the Executive Arm. Consequently, the Executive Arm runs a Funds Allocation Committee (FAC), comprising the Council Chairman, the Vice-Chairman, All Supervisory Councillors, the Secretary to the Local Government, the Treasurer and the Head of Personnel Management. The functions of the Funds Allocation Committee include, *inter alia*:

(a) Receiving and considering monthly expenditure proposals of all Departments as collated by the Treasurer;

(b) Arranging the payment of contractors' fees and approving all disbursements from the coffers of the Council, especially for the settlement of personnel emolument; and

(c) Deliberating on the monthly financial statements prepared by the Treasurer.

11.4.7 Council legislature

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

(a) Debating and passing of Local Government Legislations;

(b) Debating, approving and possibly amending the Local Government Council's annual budget, subject to the Chairman's veto, which could be over-ridden by two-thirds majority of the Council members;

(c) Vetting and monitoring the implementation of projects and programmes in the Local Government Council's annual budget;

(d) Examining and debating monthly statements of income and expenditure rendered to it by the Executive Arm of the Local Government Council;

(e) Consulting with the Local Government Council Chairman, who is the Head of the Executive Arm of the Local Government; and

(f) Performing such other functions as may be assigned to it from time to time, by the State House of Assembly in which the Local Government Council is situated.

Election of leaders in the council

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

Meetings of the local government council

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

11.4.8 Council clerk

The Head of Personnel Management Department is designated as the Council Clerk, in addition to his other normal duties. The Council Clerk provides normal secretarial services to the meetings of the legislature. He liaises with the secretary for the smooth running of the administration of the local government council.

11.4.9 Appointment of supervisors

All supervisory councillors shall henceforth cease to exist. In their place, the local government council chairman shall appoint, from either within or outside the council, supervisors who shall not be fewer than three or more than five in number, depending on the size, revenue base and complexity of the area. The supervisors, who are in charge of specific portfolios or responsibilities, shall be appointed in consultation with the Legislative Arm of the local government council. However, in the event of an elected councillor being appointed as supervisor, such councillor shall immediately vacate his council seat. The State Independent Electoral Commission (SIEC) later conducts a by-election for the councillors in the affected ward. The council chairman shall promptly report all such cases to the State Independent Electoral Commission, which shall arrange by-elections in accordance with the law. In the interest of progress, stability and orderly development, supervisors shall, in all cases, be persons of outstanding merit with relevant educational and cognate experience in matters relating to their assigned portfolios. In addition, their appointments shall reflect the geographical character of the local government council areas:

11.5 Sources of revenue of a local government council

The sources of revenue of a local government council can be classified into three groups as follows:

(a) Statutory sources of revenue;

(b) Permissive sources of revenue; and

(c) Incidental sources of revenue.

11.5.1 Statutory sources of revenue

(a) Statutory allocations from the federation account. 20.60% of the federally collected revenue accrues to the local government councils, paid directly by the Federal Government.

(b) 10% of the State's internally generated revenue.

(c) Fees and other charges imposed by the Council under its instrument of creation and Acts of the legislative promulgated from time-to-time.

11.5.2 Permissive sources of revenue

According to Taxes and Levies (Approved list for collection) Act No. 21 of 1998, local government councils may collect the following taxes and levies, only:

(a) Shop and kiosk rates;

(b) Tenement rates;

(c) On and Off Liquor fees;

(d) Slaughter slab fees;

(e) Marriage, birth and death registration fees;

(f) Naming of street registration fees, excluding any street in the State Capital;

(g) Right of Occupancy fees on land in the rural areas, excluding those collectable by the Federal and State Governments;

(h) Market taxes and levies, excluding any market where State finance is involved;

(i) Motor park levies;

(j) Domestic animal licence fees;

(k) Bicycle, truck, canoe, wheelbarrow and cart fees, other than a mechanically propelled truck;

(l) Cattle tax payable by cattle farmers only;

(m) Merriment and road closure levies;

(n) Radio and television licence fees (other than on radio and television transmitter);

(o) Vehicle radio licence fees (to be imposed by the Local Government Council of the State in which the car is registered);

(p) Wrong parking charges;

(q) Public convenience, sewage and refuse disposal fees;

(r) Customary burial ground permit fees;

(s) Religious places establishment permit fees; and

(t) Signboard and advertisement permit fees.

11.5.3 Incidental sources of revenue

(a) Proceeds from economic projects undertaken, such as farming.

(b) Grants from the Federal or State Government.

(c) Investment incomes, e.g. interest and dividends received.

(d) Proceeds of sale of seized goods, boarded vehicles, etc.

(e) Donations.

11.5.4. Assessment of tenement rates

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

(a) Annual value method

(b) Capital value approach.

Annual value method

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

Capital value method

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

11.5.5 Statutory allocation

The Revenue Allocation Act of 1982 covers the statutory allocation of money to the Local Government Councils by the Federal and State Governments. This Act was amended in 1986, 1988 and 1989. Paragraph 162(3)(5) of the 1999 Constitution lends weight to the extant laws earlier cited.

According to Allocation of Revenue (Federation Account, etc.) Act, CAP A15 LFN 2005, the amount standing to the credit of the Federation Account, less the sum equivalent to 13percent (13%) of the revenue accruing to the federation account directly from any natural resources as a first charge for distribution to the beneficiaries of the derivation funds is presently distributed among the Federal, State and Local Governments as follows:

(a)	Federal government	52.68%
(b)	State governments	26.72%
(c)	Local government councils	20.60%
		100.0%

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

11.6 Expenditure of local government council

These may be discussed as follows:

(a) A Local Government Council incurs expenditure on a day-to-day running of its affairs. Examples are:

- (i) Personnel costs.
- (ii) Maintenance and repairs, petrol costs, rents, electricity and water bills.

(b) Capital expenditure is incurred in constructing roads, motor parks, toilet facilities, etc.

Expenditure is classified into the main heads and appropriate NCOA code, departmentally.

11.6.1 Highlights of the accounting procedures

(a) The sum total of the amounts disbursed under the NCOA code of a particular Head is aggregated at the end of the financial year. The numbering of the sub-heads under a particular Head varies from expenditure head to another. In some cases, they may be over twenty.

(b) The capital expenditure of a local government council are written off in the years they are incurred. Memorandum entries are only kept for expenditure incurred on tangible assets. Consequently, the balance sheet (statement of financial position) of a local government council will not disclose any information on the tangible assets acquired.

(c) Capital or proprietorship interest as in the case of private organisations is not shown.

(d) The differences between receipts and payments are referred to as general revenue balance or surplus, rather than profit or loss. The reserve or excess of income over expenditure is transferred to the statement of financial position (assets and liabilities).

(e) What we have in the statement of financial position (assets and liabilities) is an array of current assets and liabilities.

11.7 Local government council final accounts under IPSAS cash.

The “cash basis” of accounting is generally used, just as it applies to the first and second tiers of Government. Income is recognised only when the cash is received. Expenditure is recognised when the liability is paid for. .

The new statutory financial statements to be prepared and published by each local government council are made up of:

(i) Declaration of responsibility for the financial statements by the Treasurer of the Local Government Council stating, among other matters, that the financial statements have been prepared in accordance with the provisions of the Finance (Control and Management) Act Cap 144LFN 1990 and that they comply with the general accepted accounting practice.

(ii) Auditor-General’s certificate stating in his opinion whether or not the financial statements present a true and fair view of the financial position and operation of the Local Government Council as at and for the year ended 31st December 2xxx.

(iii) Statement No 1: Statement of cash flow t

(iv) Statement No 2: Statement of financial position (Assets and Liabilities)

(v) Statement No 3: Statement of financial performance (Revenue and Expenditure)

Statement No 1

Cash Flow Statement for the Year ended 31st Dec., 2xxx

Local Government Council

	Notes	Current Year ₦m	Previous Year ₦m
Cash flow from Operating Activities			
Receipts			
Internal Generated Revenue	3	x	x
Grants/ Subventions	4	x	x
VAT	5	x	x
Statutory Revenue Allocation	6	x	x

Miscellaneous	7	x	x
Total Receipts		x	x
Payments			
Personal Emoluments	8	(x)	(x)
Pensions and Gratuities		(x)	(x)
Consolidated Revenue Fund Charge		(x)	(x)
Overhead Costs		(x)	(x)
Public Debt Charges		(x)	(x)
Recurrent Grants and Subventions		(x)	(x)
Subsidies		(x)	(x)
Miscellaneous Expenses	9	(x)	(x)
Total Payments		(x)	(x)
Net Cash Flow from Operating			
Activities		**x**	**x**
Cash Flow from operating activities			
Purchase/ Consolidation of Assets	10	(x)	(x)
Purchase of Financial Market			
Instruments		(x)	(x)
Proceeds from Sale of Assets		X	X
Net cash flow from Investing activities		**x**	**x**
Cash flow from financing activities			
Proceeds from Loans and Others			
Borrowings	11	x	x
Dividends received	12	x	x
Repayment of loans	13	(x)	(x)
Net cash Flow from financial activities		**x**	**x**
Movement in other cash			
equivalent accounts			
(Increase)/ Decrease in investments			
Net Increase (Decrease) in other			

cash equivalent	x	x
Total cash flow from other		
Cash equivalent accounts	**x**	**x**
Net cash for the year		
Cash and Its equivalent at 1/1/2xxx	x	x
Cash and Its equivalent at 31/12/2xxx	x	x

Accompanying notes are an integral part of these statements

Statement No 2

Financial position (Assets and liabilities) for the year ended 31 December 2xxx

Local Government Council

Actual

Note		**Current Year ₦m**	**Previous Year ₦ m**
Assets			
Liquid assets			
Cash and bank balances	14	xx	xx
Total liquid assets		**xx**	**xx**
Investments and other Cash assets			
Investments	15	xx	xx
Advances	16	xx	xx
Others	17	xx	xx
TotalInvestments and other cash assets		**xx**	**xx**
Liabilities			
Public funds			
General revenue balance		xx	xx
External and internal loans			

External and internal loans	18	xx	xx
Deposits	19	xx	xx
Loans	20	xx	xx
Total liabilities		**xx**	**xx**

Accompanying notes are an integral part of these statements.

Statement No 3

Statement of financial position (revenue and expenditure)

for the year ended December 31 2xxx

Actual Previous Year ₦m		**Notes**	**Budget Current Year ₦m**	**Actual Current Year ₦m**	**Variance %**
xx	Opening Balance		xx	xx	xx
	Add: Revenue				
xx	Rates	21	xx	xx	xx
xx	Fines, Fees and Licenses	22	xx	xx	xx
xx	Earning and Sales	23	xx	xx	xx
xx	Rent on Government Property		xx	xx	xx
xx	Interest and Dividend	24	xx	xx	xx
xx	Taxes	25	xx	xx	xx
xx	Statutory Revenue Allocation	26	xx	xx	xx
xx	Miscellaneous	27	xx	xx	xx
xxx	**Total revenue (a)**		**xxx**	**xxx**	**xxx**
	Less: Expenditure				
xx	General Administration	28	xx	xx	xx
xx	Health and Environment	29	xx	xx	xx
xx	Works and Housing	30	xx	xx	xx
xx	Education	31	xx	xx	xx

xx	Agric. and social Development	32	xx	xx	xx
xx	Grants and Subsides	33	xx	xx	xx
xx	Capital Projects	34	xx	xx	xx
xx	Miscellaneous Expenses	35	xx	xx	xx
xxx	**Total expenditure (b)**		**xxx**	**xxx**	
xxx	**Operating balance (a-b)**	**xxx**	**xxx**	**xxx**	

The accompanying notes are an integral part of these Statements.

11.8 Financial control of local government councils

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

11.8.1 Internal controls

The internal control measures are:

(a) Issuance of financial authorities, e.g. Supplementary Warrants;

(b) Appointment of Committees for different services;

(c) Centralisation of all payments;

(d) Preparation of standing orders and instructions on the signing of cheques issued, payments on accounts, etc;

(e) Establishment and maintenance of Internal Audit;

(f) Preparation of estimates of income and expenditure for the year; and

(g) Budgetary control and feedback processes.

11.8.2 External controls

The following are the external control measures:

(a) Legislative control (National Assembly and State Assembly);

(b) Federal Government and State Executive Control;

(c) Control by the general public comments by individuals on Local Government Councils;

(d) External auditor control. Control from:

(i) Auditor General for the Local Government;

(ii) Auditor General for the State; and

(ii) Auditor General for the Federation of Nigeria.

11.9 Problems/limitations of local government councils

The problems facing local government councils are as follows:

(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; and

(i) Ineffective financial and management controls, internally and externally.

11.10 Local government council's spending limit

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

Internal generated revenue	Council chairman	Vice chairman	Head of personnel management	Head of department
Above 2M	250,000.00	50,000.00	10,000.00	5,000.00
1-2M	100,000.00	20,000.00	5,000.00	3,000.00
Below 1M	50,000.00	10,000.00	3,000.00	2,000.00

11.10.1 Conditions/procedures for disbursing money

(i) All expenditure approvals by an official shall be reported within a week to a higher officer.

(ii) Every officer authorising expenditure will be personally liable for expenditure approved by him.

(iii) Approval of expenditure is subject to the normal budgetary appropriation.

(iv) Contracts above Local Government Council limit should be approved by the Ministry of Local Government.

11.11 Objectives of grants-in-aid system

(a) To augment the resources of Local Government Councils.

(b) To meet the exceptional needs or the limited means of a particular area.

(c) To assist central control over particular services.

(d) To influence aggregate Local Government expenditure as part of the process of control.

11.12 Fee charging policies in local government councils

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

(a) The level of development in the area;

(b) The status of people in the community;

(c) The nature of services to be rendered; and

(d) The skills and technical competence of those required to perform the services.

11.13 Budgeting and budgetary control

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

(a) **Approval**: Payments must be approved before spending;

(b) **Monthly Reports:** These are prepared to compare actual figures with the budgets and extract variations:

(c) Actual actions are taken to correct the errors or reflect variations;

(d) **Internal Audit**: From time to time, the Internal Auditors verify the integrity of the accounts and write reports appropriately;

(e) **External Audit**: The Auditor General for Local Government verifies the records of all Local Government Councils in the State; and

(f) **Limit of Expenditure:** Individual Local Government Officers have limits of expenditure payments, which they must not exceed.

11.14 Summary

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

11.15 End of chapter review questions

11.15.1 Examination type questions

Section A

1 Which of the following is **not** a considerable influence of States over local governments as contained in the fourth Schedule of the 1999 Constitution?

A. Issuance of licenses in respect of motorcycles, cars, bicycles and keeping of pets
B. Registration of births, marriages and deaths
C. Naming of streets, roads and crescents and numbering of houses
D. Provision and maintenance of basic facilities for refuse disposal and public conveniences
E. Collection of personal income taxes and withholding taxes

2. One of the following is **not** in the Executive arm of a local government

A. The Executive Chairman

B. The Secretary

C. The Cashier

D. Head of Personnel management

E. The Legislative

3. The following except **one** are the duties of the Secretary of a local government council now being performed by the Head of Personnel Management

A. Co-ordinates the operations of the various departments and represent the Chairman, as directed at high-level meetings

B. Liaises with the secretary to the State government and other important dignitaries on matters of interest to Local Government Councils

C. Handles the disbursement of funds on various contracts awarded by the Local Government Council

D. Maintains the record of proceedings of meetings

E. Performs other assignments as may be delegated by the Chairman from time to time

4 The Accounting Officer of the Local Government is ONE of the following:

A. Secretary to the Local Government
B. Treasurer
C. The Chairman
D. Leader of the House
E. Head of Personnel Management

5. Election of leaders in the council is performed by ONE of the following:

1. Chairman
2. State Governor
3. Electorate at the poll
4. Council Clerk
5. The Councillors

6. The publication by the Federal government containing administrative guidelines, the existing systems of checks and balances as well as role of all officers in a local government is called__________________.

7. Budgetary control and feedback process in a local government finances is one of the measures of _________________.

8. Proceeds from loans and other borrowings' in Statement No. 1 Cash flow Statement is an item under________________.

9. The share of the Statutory Allocation going to local government councils in accordance with Allocation of Revenue (Federation Account, etc.) Act, CAP A15 LFN, 2005 is_______________________.

10. Vetting and monitoring the implementation of projects and programmes in the local government Council annual budget is the prerogative of ________________.

Section B

1. Local Government Financial Memoranda guides all financial activities in Local Government.
   i. Enumerate the objectives of the Memoranda
   ii. List the contents of the Local Government Financial Memoranda

2. The Local government Treasurer oversees all financial-related issues of a Local government. Enumerate his functions as specified in the Civil Services and Local Government Reform of 1988.

3. Local government in Nigeria are run through revenue accruing from both statutory and permissive sources. Enumerate
   i. The Statutory sources
   ii. The Permissive sources

4. Enumerate the new statutory financial statement to be prepared and published by each local government.

11.15.2 Suggested solutions to examination type questions

Section A

1. E
2. C
3. C
4. C
5. E
6. Financial Memorandum for Local Government
7. Internal controls
8. Cash flows from financing activities
9. 20.60%
10. The Council Legislature

Section B

1(a) Objectives of a Local Government Financial Memoranda

(i) Toserveasadministrativeguidelineswhichfacilitateday-to-dayrunningof Local Governments.
(ii) To expressly highlight the implications of disbursing government fund and property without proper authority, approval and unjustly.
(iii) To facilitate recording of local government financial transactions in the appropriate accounting method.
(iv) To serve as a learning tool for officers on first appointment or on transfer to a new section.

1(b) Contents of the Local Government Financial Memoranda
(i) The format of budget and budgetary control.
(ii) The financial responsibilities of the Chairman and other Accounting Officers of a Local Government.
(iii) The responsibilities of the Local Government Secretary, Treasurer and Heads of Departments.
(iv) The responsibilities of the Internal Auditor as they relate to Audit Alarm.
(v) The powers and functions of the Auditor-General for Local Government.
(vi) The functions and operations of the Audit Alarm Committee.
(vii) The various financial offences and their respective sanctions.
(viii) The means of revenue collection and control.
(ix) Main books of accounts kept in the local government.
(x) The custody, accounting and control of stores.

2. Functions of a Local Government Treasurer as entrenched in the Civil Services and Local Government Reforms

(i) Rendering financial advice to the council;
(ii) Serve as the secretary to the Budget Committee;
(iii) Receiving and disbursing money for the authorised ends;
(iv) Keeping proper accounting records of money collected or utilised;
(v) Verifying the accuracy and integrity of all accounting records;
(vi) Ensuring compliance with all financial instructions or laws for safe custody of the council money;
(vii) Ensuring that vouchers are correctly made out and that funds are available in the appropriate vote of charge;
(viii) Rendering necessary contemplated statutory returns to the State and Federal Governments;
(ix) Ensuring that all revenues belonging to the Council are collected as at when due;
(x) Ensuring that fiscal policies are executed and expenditure incurred with due diligence;
(xi) Maintaining effective run and staffed financial operations;
(xii) Keeping up to date statistical information in such a form as will enhance the submission of prompt and accurate reports;
(xiii) Submitting recommendations to the Council's in his capacity as the financial adviser;
(xiv) Serving as a signatory to the Council's bank account and other disbursements; and
(xv) Offering expert opinions on short, medium and long-term bases.

3a. statutory sources of local government revenue

(a) Statutory allocations from the federation account. 20.60% of the federally collected revenue accrues to the local government councils, paid directly by the Federal Government.
(b) 10% of the State's internally generated revenue.
(c) Fees and other charges imposed by the Council under its instrument of creation and Acts of the legislative promulgated from time-to-time.

3b. Permissive revenue sources

(a) Shop and kiosk rates;
(b) Tenement rates;
(c) On and Off Liquor fees;
(d) Slaughter slab fees;
(e) Marriage, birth and death registration fees;
(f) Naming of street registration fees, excluding any street in the State Capital;
(g) Right of Occupancy fees on land in the rural areas, excluding those collectable by the Federal and State Governments;
(h) Market taxes and levies, excluding any market where State finance is involved;
(i) Motor park levies;
(j) Domestic animal licence fees;

(k) Bicycle, truck, canoe, wheelbarrow and cart fees, other than a mechanically propelled truck;
(l) Cattle tax payable by cattle farmers only;
(m) Merriment and road closure levies;
(n) Radio and television licence fees (other than on radio and television transmitter);
(o) Vehicle radio licence fees (to be imposed by the Local Government Council of the State in which the car is registered);
(p) Wrong parking charges;
(q) Public convenience, sewage and refuse disposal fees;
(r) Customary burial ground permit fees;
(s) Religious places establishment permit fees; and
(t) Signboard and advertisement permit fees.

4. The new statutory financial statements to be prepared and published by each local government

(i) Declaration of responsibility for the financial statements by the Treasurer of the Local Government Council stating, among other matters, that the financial statements have been prepared in accordance with the provisions of the Finance (Control and Management) Act Cap 144LFN 1990 and that they comply with the general accepted accounting practice.
(ii) Auditor-General's certificate stating in his opinion whether or not the financial statements present a true and fair view of the financial position and operation of the Local Government Council as at and for the year ended 31st December 2xxx.
(iii) Statement No 1: Statement of cash flow t
(iv) Statement No 2: Statement of financial position (Assets and Liabilities)
(v) Statement No 3: Statement of financial performance (Revenue and Expenditure)

CHAPTER 12

PREPARATION OF CASHBOOK, SUBSIDIARY ACCOUNTS AND MONTHLY TRANSCRIPTS UNDER IPSAS CASH BASIS

Chapter contents

12.0 Purpose

After studying this chapter readers should be able to:

a. Explain the functions of the cash office;
b. Describe the procedures for the preparation of bank reconciliation statements;
c. Differentiate between types of government advances;
d. Itemise the conditions for granting the various advances;
e. Discuss the guidelines on operation of deposits Account in the public sector;
f. Discuss Imprest, types and procedures for granting imprest
g. Explain the procedure for the preparation of transcripts;
h. Differentiate between self-accounting, sub self-accounting and the non-self-accounting units; and
i. Prepare a transcript

12.1 Cash office

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.

12.1.1 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 unauthorised persons.
v. Security personnel.
vi. Close circuit monitor.
vii. Security alarm device.
viii. Counting machine.
ix. Mercury light.
x. Computer system.
xi. Fire Alarm.

12.1.2 Function of the cash office

These include:

a. Receipts and payments of liquid cash.
b. Safe custody of cash.
c. Maintenance of a conventional cashbook 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 cashbook 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 the preparation of final accounts.

12.3 Books of accounts to be maintained in the cash office

12.3.1 Treasury cashbook

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 cashbook. A cash book is divided into two sections. The right side contains payments while the left side has the record of receipts. Each side consists of eight columns.

(a) Cashbook entries

Cash book entries in respect of cash/cheque payments and receipts are to be made and postings should be balanced each day. The ruling of the cashbook provides columns for cash and bank transactions and total amount on the receipts (or debit) side. Gross amount, deductions and net amount payable appear on the payment (or credit) side. Receipts issued are to be posted on the left hand side of the cashbook. The particulars of the serial numbers, the payees and classifications are also to be entered. Amount received through bank tellers or advices should be entered in the bank column and extended to the total column. Where the amount received is in cash, it is entered in the cash column and extended to the total column. For payments, the voucher numbers, payees' names, nature of transactions and cheque details are entered, showing the gross amounts and deductions (if any).

Cash balances are to be confirmed on a daily basis. The specification of physical cash retained in the safe must be checked and certified by the Head of the cash office, before 'lock up' at close of business each day. Numbering of vouchers in the Cash Book has to be properly controlled. Only one set of numbers is to be used in a month, e.g. 1 - 300.

Format of treasury cashbook (TF153A) under cash basis

Trv No./ Date	From Whom Received	Classification Head/ Sub Head	Treasury Receipt No.	Bank Credit Slip No.	Bank	Cash	Total	Treasury P.V. No.	Department P.V. No.	To Whom Paid	Classification Head Or Sub Head	Payee Bank	Cheque No.	Gross Amount	Deduction Or Cash	Bank Or Net
					N	N	N							N	N	N

(b) Checking the cashbook

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

(c) Cash withdrawals from bank

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

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

(d) Cheque/mandate summary register

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

(e) Security and custody of accounting books and documents

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

(i) Cheque book;

(ii) Treasury receipt books 6 and 6A;

(iii) Cheque Summary Register;

(iv) Cash book;

(v) Payment voucher;

(vi) Local purchase order;

(vii) Postal order; and

(viii) Money order.

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

Cash held in the office, chequebooks and all unused control books are to be kept in a safe or strong room, the keys of which are to be kept under the dual responsibility of senior officers. Cash books, payment vouchers, cheque summary registers and all other vital pay office records are to be kept in fire proof security cabinets to ensure that unauthorised persons do not have access to them. Specifically, FR 1106 states that it is the duty of the Accounting Officer to ensure that departmental officers who are required to hold public money, stamps, etc. are provided with proper safe custody facilities.

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

S/N	**Documents**	**Period of Retention**
a.	Financial warrants, cash books, P/E records, etc.	Permanently
b.	Revenue collector cash books, original payment vouchers, etc.	7 years
c.	LPO, book copies of rail or other transport warrant, etc.	2 years

(f) Maintenance of adequate cash control measures

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

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

(i) Establishment of cash limits;

(ii) Daily banking of all takings;

(iii) Periodic surprise cash count (cash survey);

(iv) Provision of a safe that has to be under dual control;

(v) Installation of ‘raid alarm’;

(vi) Installation of counting/sorting machines and mercury light.;

(vii) Ensuring that sufficient and adequate insurance cover is taken over the cash limit;

(viii) Investment of idle funds;

(ix) Establishment of ‘authority limit;’

(x) Balancing of cashbook and

(xi) Preparation of bank reconciliation statements.

12.4 Preparation of bank reconciliation statements

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

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

12.4.1 Documents required for the preparation of a bank reconciliation statement

The documents required are:

(a) Cashbook and cheque summary register;

(b) Bank statements;

(c) Cheque stubs;

(d) Paying-in-slips;

(e) Last bank reconciliation statement; and

(f) Debit and credit advices.

12.4.2 Procedures for carrying out bank reconciliation

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

(a) Pick or extract the cash book balance at the end of the month;

(b) The previous month's bank reconciliation statement should be made available in order to treat the outstanding items such as un-presented cheques and un-credited lodgements;

(c) Tick debit entries in the cash book against credit entries on the bank statements. Conversely tick credit entries in the cash book against the debit entries on the bank statements;

(d) Extract the un-ticked items into the following suggested schedules:

Schedule "A":	Unpresented cheques.
Schedule "B":	Credits in bank not in cashbook.
Schedule "C"	Uncredited lodgements.
Schedule "D":	Debits in bank not in cashbook

(e) Prepare the bank reconciliation statement based on the format suggested.

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

(i) Unpresented cheques: These are cheques issued to payees but which have not been presented to the bank for payment.

(ii) Credits in the bank but not in the cashbook: These are direct lodgements into the bank for which receipts have not been issued and which have not been entered in the cashbook.

(iii) Uncredited cheques: These are lodgements not yet credited by the bank as at the end of the month when the bank statement was received.

(iv) Debits in the bank but not in the cashbook: These are withdrawals; commissions and standing order payments in the bank statement that were not yet recorded in the cashbook

12.4.3Format of a typical bank reconciliation statement

Balance as per cashbook		X
Add: Unpresented cheques	X	
Receipts in Bank not in cashbook	X	XX
	XX	
Less: Uncredited cheques	X	
Payments in bank not in cashbook	X	XX
Balance as per bank statement		X

12.4.4 Importance of bank reconciliation.

(a) It discloses any unauthorised cheque issued and cashed

(b) It reveals any dishonoured cheques for which receipts have been issued and entered into the cashbook;

(c) It discloses fraudulent/fake pay-in-slip purported to have been obtained for paying into government account;

(d) It reveals any lodgements not credited by the bank either by omission or commission.

Illustration

The Cash Book of Zolu Local Government showed a debit balance of ₦502,000 as at 30/9/200X. However, the bank account statement showed a credit balance of ₦505,000. On investigation, the following were discovered:

(a) Cheque Numbers 51522 and 32552 for ₦2,000 and ₦3,000 respectively, have not been presented for payment.

(b) Interest on investment of ₦1,000 has not been posted into the Cash Book.

(c) A sum of ₦2,000 paid into the bank was credited only after the bank statement was issued.

(d) Bank charges of ₦1,000 have not been recorded in the Treasury Cash Book.

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

Suggested Solutions

Zolu Local Government

Bank reconciliation statement as at 30/09/200X

	₦	₦
Balance as per cashbook		502,000
Add: Unpresented cheques (2,000+3,000)	5,000	
Interest on investment not in the cash book	1,000	6,000
		508,000
Less: Uncredited Deposit	2,000	
Bank charges	1,000	3,000
Balance as per bank statement		**505,000**

Tutorial note:

Most of the functions of the cash office described above have however been modified with the issuance of Treasury Circular TRY/A8andB8/2008, OAGF/CAD/026/Vol.11/465 dated 22 October 2008 on E-payment which stipulates that all payments from all Federal Government Funds should henceforth be made electronically.

12.4.5 Suggested procedure for preparation of bank reconciliation statement

The current practice in preparing monthly bank reconciliation statement involves:

(a) Preparing adjusted cashbook where adjustment will be made for items, other than unpresented cheques and uncredited lodgements.

(b) Preparing the bank reconciliation statement, which adjusts for unpresented cheques and uncredited lodgements.

Format adjusted cash book	₦
Balance as per cashbook	XXX
Add: Credit items in the bank statement	
but not in the cashbook	XXX

	XXX
Less: Debit items in the bank statement but not in the cashbook	<u>XXX</u>
Balance as per adjusted cash book	<u>XXX</u>

Bank reconciliation statement	₦
Balance as per adjusted cashbook	XXX
Add: Unpresented cheques (to be listed)	<u>XXX</u>
	XXX
Less: Uncredited lodgements (to be listed)	<u>XXX</u>
Balance as per bank statement	<u>XXX</u>

This second procedure is commonly used in parastatals, boards and corporations.

12.5 Imprest holder

The term "Imprest-holder" means an officer other than a sub-accounting officer who is entrusted with the disbursement of public money, for which vouchers cannot be presented immediately to a sub-accounting officer for payment and who is required to keep an Imprest holder's cash book

12.5.1 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.

12.5.2 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.

12.5.3 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 cashbook should balance the book regularly.
v. The sub-accounting officer should check the imprest cashbook regularly for any anomaly or sharp practices.
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. Any expenditure 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.

12.5.4 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.

12.5.5 Format of imprest cashbook

Date	Re-imbursement	No of bank credit slip	Cash	Bank	Date	Desc.	P.V. No	NCAO	Cash	Bank

12.6 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.

Revenue collector must not expend money out of his collection. He therefore, has to account for the collections received intact.

12.6.1 Functions of the revenue collector

(a) Exercising supervision over the receipt of public revenue and ensuring their prompt lodgement into the banks.

(b) Promptly reflecting in the accounts, under the proper Heads and Subheads of the estimates, all monies collected by him on behalf of Government.

(c) Seeing that proper provision is made for the custody of public funds and securities.

(d) Supervision of all the officers under his authority who are entrusted with the receipts, custody and disbursement of public funds.

(e) Maintenance of efficient internal checks against the occurrence of malpractices.

(f) Checking all cash and stamps in his care; agreeing the amount with the balances in the Cash Book and Stamps Register.

(g) Making good any minor deficit which is not caused by theft or fraud and reporting accordingly in writing to the appropriate officer, e.g. Minister of Finance.

12.6.2 Format of a Revenue collector's cashbook

Ministry/department:………….. Date:………………

DR **CR**

Date	Revenue Receipt No	NCOA classification code	From whom	Amount	Date	Treasury Receipt No	Amount

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, NCOA code of the ministry or department, the description or particulars of the payment, usually the name of the payer and the amount.

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 sub-accounting officer or cashier issues the revenue collector a treasury receipt. He records the amount remitted in the cash remittance Register. Any outstanding not remitted as at the end of the month carried forward.

Illustration

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

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

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

(a) Declaration of age 01

(b) Court fine 04

(c) Court proceeding document 07

Mr. Ajonibode deposited the takings to the Sub Accounting Officer on 29 June, 2008 and was issued with treasury receipt number M 400201. The receipts used by him were N800401 to N800450. The one issued to Mrs. Mariam Gigado was N800417.

On the assumption that receipt number N800423 was cancelled, write up the revenue collector's cash book and state how to treat the cancelled receipt.

Suggested solution

Magistrate court of Doly local government

Revenue collector's cashbook for the Month ended 30 June, 2008.

Date	Revenue Receipt No	Classification Head S/head	From Whom Receivable	Amount ₦	Date	Treasury Receipt No	Amount ₦
2/6/2008	N800417	200----001	Mrs.M.Gidado	400.00	29/6/2004	M400201	14,300.00
3/6/2008	N800418	200----419	Niger Kilah	2000.00			
5/6/2008	N800419	200----419	Mr.I. Limoh	8000.00			
7/6/2008	N800420	200----005	Gani-Waidi	800.00			
9/6/2008	N800421	200----005	Beko Ishola	1200.00			
13/6/2008	N800422	200----001	Mrs.K.Eniola	400.00			
21/6/2008	N800424	200----419	Yaro Baloon	1500.00			
30/6/2008	N800425	200----005	Mrs. Adio	500.00	30/6/2004	Bal. c/d	500.00
				14800.00			14,800.00
			Balance b/d	500.00			

Tutorial:

The closing balance of ₦500 is the value of the cancelled receipt no. 800423 which was issued to Mr. Adio for which a replacement no. N800425 was made. It is also the difference between the total value of the receipts of ₦14,800 and that of the un-cancelled receipts.

12.7 Advances

Advances are cash credits granted to individual officers in their respective ministries, parastatals and departments or cash given to an officer to carry out a specified task and to be retired later. Advances granted and authorised by the Minister of Finance are also employed to write off loss of government fund.

Advances are granted by the three-tiers of government, public and private enterprises. At the Federal Government level, Chapter 14 of the Financial Regulations of year 2009 guides granting of advances.

Basically, advances can be grouped into two categories. These are ‘personal’ and ‘non-personal’ advances, which are discussed as follows:

12.7.1 Non-personal advances

Advances of non-personal nature shall be authorised by the Minister of Finance, through the Accountant General of the Federation. They are chargeable to the non-personal account of the Ministry or Unit concerned; for example, an advance for training of staff outside Headquarters. Advance granted under the authority of the Financial Regulations and those up to ₦50,000 in value are approved by the Accounting Officer. Specifically, a non-personal advance is one granted to an officer to carry out certain tasks for the organisation. This type of advance has to be retired within a reasonable time; otherwise, the total sum advanced shall be deducted from the officer’s salary en-bloc. It is against the spirit of Financial Regulation to grant a non-personal advance to an officer when the initial ones are yet to be retired.

12.7.2 Personal advances

These are advances of cash to individual officers in the employment of the Federal Government of Nigeria for their personal benefits. These include:

12.7.2.1 Salary and rent advances

Salary and rent advances are granted to officers under the following conditions:

(a) If an officer is returning from leave of not less than 21 days duration, and/or he is to proceed on transfer and bear the cost of his transportation.

(b) If an officer is assuming first appointment and is not living in Government residential quarters.

(c) If an officer is returning to Nigeria by sea and is to be stationed elsewhere other than in Lagos.

(d) If an officer is on posting to an overseas office of the Ministry of External Affairs.

12.7.2.2 Correspondence advances

These are advances taken for correspondence courses. The conditions to be fulfilled for the grant of a correspondence advance are:

a. That the ability and efficiency of the officer warrant his taking the course;
b. That the subjects to be pursued in the course are related to his work;
c. That the study is likely to increase his efficiency;
d. That the course is with a reputable college or establishment;
e. That its completion does not itself constitute grounds for advancement;
f. That the officer will enter into agreement for repayment;
g. That the advance shall be granted free of interest;
h. That the officer produces receipts to show that the whole advance has been appropriately utilised;
i. That the advance does not include an element for postage, stationery, examination or other fees; and.
j. That the advance shall be recovered in twenty-four (24) consecutive instalments.

12.7.2.3 Advances for estacode for overseas tours

Cash advances may be granted to meet estacode allowance due to an officer travelling overseas. It will normally be drawn in Nigeria in the form of traveller's cheques made payable to the officer travelling singly or to a designated officer travelling with a delegation. The traveller's cheques will be obtained from the Central Bank of Nigeria, against a cheque or mandate drawn on Government Account.

At the end of any duty tour, officers shall submit all the receipts and air tickets in order to account for the amount received as travelling expenses for the duty tour. This will serve as a proof that the journeys were undertaken for the number of days approved.

12.8 Self-accounting unit

Self-accounting unit is a ministry or extra-ministerial department, which has full control over all its accounting records. The unit relates to the Treasury (i.e. the Accountant General's office), through the preparation of transcripts.

Examples of Self-accounting units are:

(a) Ministry of finance;

(b) Ministry of works; and

(c) Ministry of education.

12.8.1 Conditions to be fulfilled for a ministry to be self-accounting

In accordance with Financial Regulations, some conditions must be met before a Ministry can be recognised as a self-accounting unit, among which are:

(a) It should have adequate qualified personnel;

(b) It should be operating adequate and functional system of internal control; and

(c) It should have an Internal audit department.

12.8.2 Advantages of a self-accounting unit

These are:

(a) It relieves top management of work overload;

(b) It speeds up operational decision-making;

(c) It increases flexibility and reduces communication problems;

(d) It increases motivation of the work force and encourages usage of initiative; and

(e) It provides better training for junior management.

12.8.3 Disadvantages of the operation of self-accounting units

These are:

(a) Co-ordination may be difficult to achieve;

(b) The extended lines of communication could lead to information overload;

(c) It may be difficult to achieve consistency;

(d) There may be duplication of certain services;

(e) There is the problem of sub-optimality. That is, the maximisation of ministerial goals could be at the expense of the overall objective of government;

(f) The operation of a self-accounting unit assumes the availability of adequate and well-qualified managers. This may be difficult to obtain in practice; and

(g) There may be friction or inter-departmental conflicts between the Ministries where functions are inter-dependent.

12.9 Sub-self-accounting units

Sub-self-accounting unit performs the same functions as a self-accounting unit. However, the difference between the two is that the former forwards its transcripts to the Treasury, with the following:

(a) Original copy of cashbook;

(b) Duplicate copies of payment vouchers;

(c) Certificate of cash and bank balances;

(d) Schedule of vouchers pre-listed; and

(e) Bank reconciliation statements.

An example of a sub-self-accounting unit is the Federal Pay Office located in each State of the Federation.

12.10 Non-self accounting unit

Non-self-accounting unit is a MDA which has no control whatsoever over any of its accounting records. The Unit prepares vouchers, but has to make payments through the treasury. Example of such unit is the Code of Conduct Bureau in a State. A Non-self- accounting Unit neither keeps the Treasury Cash Book nor renders transcripts to the Accountant General.

12.11 Preparation of monthly transcript

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

12.11.1 Types/classes of transcript

Transcript can be classified into three, namely:

(a) **Main transcript** is the transcript prepared by the Self-Accounting units and submitted to the Accountant General of the Federation on monthly basis. It is also referred to as cash transcript.

(b) **Supplementary transcript** is the main adjustment to the main transcript prepared in conformity with the principle of double entry.

(c) **Subsidiary transcript** is prepared to complement the main transcript. It is used to correct errors or omissions in the Main Transcript.

Transcript contains both above and below the line account items.

12.11.2 Documents required accompanying transcript

The transcript prepared by a self-accounting unit should be forwarded to the Treasury with the following documents:

(a) Certificate of cash and bank balances;

(b) Schedule of vouchers pre-listed;

(c) Bank reconciliation statement;

(d) Schedule of expenditure; and

(e) Schedule of outstanding vouchers.

12.11.3 Procedures for the preparation of a transcript

The procedures are as follows:

(a) **Obtaining original cashbook folios:**

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

(b) **Pre-listing of the vouchers:**

The vouchers should be sorted into their different classifications, i.e. Heads and Sub-heads, for the purpose of pre-listing, to obtain the totals of each classification on a daily basis.

(c) **Posting into the analysis book:**

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

(d) **Scheduling:**

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

(e) **Generation of the monthly transcript:**

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

12.11.4 Format of a transcript

Federal Ministry of Jaicom and Leadways Transcript for the month ended 31 January, 200x.

NCOA code	Description	Amount	Sub-total	Total
	Revenue	₦	₦	₦
	Balance B/F			xxxx
Xx		xxxx		
Xx		xxxx		
Xx		xxxx	xxxx	
	Below the line revenue			
Xxxx		xxxx		
Xxxx		xxxx	xxxx	xxxx
	Total			**xxxx**
	Expenditure			
Xxxx		xxxx		
Xxxx		xxxx	xxxx	
	Below the line expenditure			
Xxxx		xxxx		

Xxxx		xxxx	xxxx	xxxx
	Balance C/F			**xxxx**

Illustration

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

Revenues:	**₦'000**
8011 Licence to marry	600,000
8012 Licence for hunting	800,000
8013 Delivery licence	1,400,000
1001 Education fees	700,000
1002 Medical fees	1,640,000
1003 Registration fees	1,340,000
Below the Line Revenues:	
Codes	
1001 Refund of marriage advance	76,000
1005 Repayment of motor vehicle loan	260,000
1007 Repayment of correspondence advance	150,000
1009 Repayment of salary advance	26,000
Expenditure:	
Codes	
200101 Personnel costs - salaries	1,460,000
200102 Local transport and travelling	160,000
200103 Miscellaneous expenses	150,000
200104 Overhead costs	344,000
200105 Research expenses	66,000
200106 Enlightenment campaign	94,000
Below-the-line expenditure:	
Codes	
200108 Loans for wedding gowns	74,000

200209 Advances (Personal)	85,000
200310 Housing loans	294,000
200411 Beijing advance	166,000

The opening balance for the month is:

Receipts side	1,894,000

Required: Prepare the Transcript for the month.

Suggested Solutions

Federal ministry of men's affairs:

Transcript for the month ended 30 June 200x.

NCOA code	**Description**	**Amount**	**Sub-Total**	**Total**
	Revenue	₦	₦	₦
	Balance B/F			1,894,000
1001	Education Fees	700,000		
1002	Medical fees	1,640,000		
1003	Registration Fees	1,340,000	3,640,000	
8011	Licence to Marry	600,000		
8012	Licence to Hunting	800,000		
8013	Delivery Licence	1,400,000	2,800,000	
	Below the line revenue			
1001	Refund of Marriage Advance	76,000		
1005	Repayment of motor cycle loan	260,000		
1007	Repayment of correspondence advance	150,000		
1009	Repayment of salary advance	26,000	512,000	6,992,000

	Total			**8,886,000**
	Expenditure			
200101	Personnel costs- salaries	1,460,000		
200102	Local transport and travelling	160,000		
200103	Miscellaneous expenses	150,000		
200104	Overhead costs	344,000		
200105	Research expenses	66,000		
200106	Enlightenment campaign	94,000	2,274,000	
	Below the line expenditure			
200108	Loans for wedding gowns	74,000		
200209	Advances (Personal)	85,000		
200310	Housing loans	294,000		
200411	Beijing advance	166,000	619,000	2,893,000
	Balance C/F			**5,993,000**

12.11.5 Certificate of cash and bank balances

This is a confirmation statement that the cash and bank balances indicated in the cashbook are correct. The officer supervising the cashier usually issues the certificate.

12.11.6 Monthly cash and bank balances as at 31 January, 20xx

I hereby state the position of my cashbook with regard to the cash and bank balances for the month of January 20xx

	₦
Cash balance:	
Opening Balance as at 1/1/20xx	X
Add: Total receipts for the month	X
	XX
Less: Total payments for the month	(X)

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

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

12.11.7 Breakdown of expenditure

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

12.12 Posting of the main ledger

A main ledger is to be kept in a self-accounting MDA to record transactions relating to 'below the line' accounts and other accounts controlled by the Accountant General of the Federation. The main ledger is another form of the treasury general ledger. The totals of the transactions recorded in the main ledger are to be posted and balanced monthly. The accounts which are kept in the main ledger are: Cash account, imprest account, internal bank adjustment account, deposit account, personal advances account, non-personal advances account and cash transfer accounts. Reconciliation of the main ledger with the treasury general ledger is done monthly and differences between the two ledgers are to be highlighted for follow-up action.

12.13 Summary

This chapter dealt with the functions of the cash office, the reasons as well as the procedures for the preparation of bank reconciliation statements. However the functions of the cash office have been modified by the introduction of e-payment.

Advances are cash granted by the government to employees, under different conditions, for various reasons and needs. They are repaid within the agreed terms and as stipulated in chapter 14 of the Federal Government Financial Regulations (Updated to January, 2009). The chapter also discussed the procedures for the preparation of transcripts, which are the final accounts of self-accounting and sub-self-accounting units.

12.14 End of chapter review questions

12.14.1Examination type questions

Section A

A The following except **one** are the essential features of Cash office

(i) Paying cage or Cubicle
(ii) Close circuit monitor
(iii) Cash tank or Safe with dual control key
(iv) Means of convenience for toileting
(v) Counting machine

B Which of the following cannot be classified as security document in government circle?

(i) Cheque book
(ii) Cash flow statement
(iii) Cash book
(iv) Payment voucher
(v) Cheque Summary register

C The following items except **one** are items that should be posted into Cheque/Mandate Summary Register

- All cheques issued
- Money lodged into the bank account
- Voucher raised to cover bank advices
- Total Payroll bills of the Local government council's staffers
- Teller particulars

D Which of the following documents is **not** required for the preparation of a bank reconciliation statement?

- Cash book and Cheque Summary Register
- Bank Statements
- Cheque Stubs
- Debit and Credit advices
- List of contractors

E Salary and rent advances are granted to officers under the following conditions except ONE

A. If an officer that is on official duty lost either of his parents

B. If an officer is returning from leave of not less than 21 days duration, and/or he is to proceed on transfer and bear the cost of his transportation

C. If an officer is assuming first appointment and is not living in Government residential quarter

D. If an officer is returning to Nigeria by sea and is to be stationed elsewhere other than in Lagos

E. If an officer is on posting to an overseas office of the Ministry of Foreign Affairs

6. A ledger which serves as a useful record for the verification of bank transactions in the cashbook is called …………..
7. Cash credits granted to an individual officers in their respective ministries, parastatals and departments or cash given to an officer to carry out specified task and to be retired later is called …………..
8. An MDA which has no control whatsoever over any of its accounting records is called …………
9. A summary of the total receipts and payments as posted in the cashbook is called…………..
10. The ledger account that is used in recording all receipts and payments of any nature is called …………………….

Section B

1. Control of cash is a major activity required of MDAs. List the various cash control measures adopted by Ministries, Departments and Agencies.

2. Enumerate the key procedures towards the preparation of Bank Reconciliation Statement.

3. Keeping of imprest is a sensitive role that may lead to fraudulent practices. Enumerate the checks and balances that may be instituted to control imprest and the imprest-holder.

4. (a) Give the conditions to be fulfilled for a ministry to become a 'Self-accounting unit'.

(b) List the advantages and disadvantages of a Self-accounting unit.

12.14.2 Suggested solutions to examination type questions

Section A

1. D
2. B
3. D
4. E
5. A
6. Cheque/Mandate Summary Register
7. Advances
8. Non-Self Accounting Unit
9. Transcript
10. Treasury Cashbook

Section B

1. Cash control measures adopted by Ministries, Departments and Agencies

(i) Establishment of cash limits;
(ii) Daily banking of all takings;
(iii) Periodic surprise cash count (cash survey);
(iv) Provision of a safe that has to be under dual control;
(v) Installation of 'raid alarm';
(vi) Installation of counting/sorting machines and mercury light.;
(vii) Ensuring that sufficient and adequate insurance cover is taken over the cash limit;
(viii) Investment of idle funds;
(ix) Establishment of 'authority limit;'
(x) Balancing of cashbook and
(xi) Preparation of bank reconciliation statements.

2. Key procedures for preparing a Bank reconciliation statement

(a) Pick or extract the cash book balance at the end of the month;
(b) The previous month's bank reconciliation statement should be made available in order to treat the outstanding items such as un-presented cheques and un-credited lodgements;
(c) Tick debit entries in the cash book against credit entries on the bank statements. Conversely tick credit entries in the cash book against the debit entries on the bank statements;
(d) Extract the un-ticked items into the following suggested schedules:

Schedule "A":	Unpresented cheques.
Schedule "B":	Credits in bank not in cashbook.
Schedule "C"	Uncredited lodgements.

Schedule "D": Debits in bank not in cashbook

(e) Prepare the bank reconciliation statement based on the format suggested.

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

i. Unpresented cheques: These are cheques issued to payees but which have not been presented to the bank for payment.
ii. Credits in the bank but not in the cashbook: These are direct lodgements into the bank for which receipts have not been issued and which have not been entered in the cashbook.
iii. Uncredited cheques: These are lodgements not yet credited by the bank as at the end of the month when the bank statement was received.
iv. Debits in the bank but not in the cashbook: These are withdrawals; commissions and standing order payments in the bank statement that were not yet recorded in the cashbook

3. Checks and balances to be instituted to control imprest

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 cashbook should balance the book regularly.
v. The sub-accounting officer should check the imprest cashbook regularly for any anomaly or sharp practices.
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. Any expenditure 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.

4a. Conditions to be fulfilled for a ministry to become a 'Self-accounting unit'.

In accordance with Financial Regulations, some conditions must be met before a Ministry can be recognised as a self-accounting unit, among which are:

(a) It should have adequate qualified personnel;
(b) It should be operating adequate and functional system of internal control; and
(c) It should have an Internal audit department.

4bi. Advantages of a self-accounting unit

(a) It relieves top management of work overload;
(b) It speeds up operational decision-making;
(c) It increases flexibility and reduces communication problems;

(d) It increases motivation of the work force and encourages usage of initiative; and

(e) It provides better training for junior management.

4bii. Disadvantages of the operation of self-accounting units

(a) Co-ordination may be difficult to achieve;

(b) The extended lines of communication could lead to information overload;

(c) It may be difficult to achieve consistency;

(d) There may be duplication of certain services;

(e) There is the problem of sub-optimality. That is, the maximisation of ministerial goals could be at the expense of the overall objective of government;

(f) The operation of a self-accounting unit assumes the availability of adequate and well-qualified managers. This may be difficult to obtain in practice; and

(g) There may be friction or inter-departmental conflicts between the Ministries where functions are inter-dependent.

CHAPTER THIRTEEN

PREPARATION OF STATUTORY FINANCIAL STATEMENTS FOR GOVERNMENT IN ACCORDANCE WITH IPSAS CASH BASIS

14.0 Learning objectives

14.1 Introduction

14.2 Documents required for the preparation of federal government accounts.

14.3 Components of financial statements

14.4 Summary

14.5 End of chapter review questions

13.0 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.

13.1 Introduction

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 preparing 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.

13.2 Documents required for the preparation of federal government accounts

There are various sources from which information are obtained for the production of the Federal Government Accounts e.g.:

(a) Transcripts from the MDAs;

(b) Accounts from the federal pay offices, states and local government councils; and

(c) Accounts from the Nigeria foreign missions.

13.3 Components of financial statements

Section 24 of the Finance (Control and Management) Act 1958 requires 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:

(i) Statement of cash flow - No 1.0;
(ii) Statement of assets and liabilities - Statement - No 2.0;
(iii) Statement of Consolidated Revenue Fund; - No 3.0;
(iv) Statement of Capital Development Fund - No 4.0;

(v) Notes to the account;
(vi) Performance reports;
(vii) Statistical reports; and
(viii) Accounting policies.

The above four statements are very important. However, the following notes are also relevant:

(a) Note on Treasury Bills;
(b) Note on special and trust funds; and
(c) Note on other loans and investments.

13.3.1 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 credit 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.

13.3.2 Cash flow statement; No 1.0

Cash flow Statement (Statement of Receipts and Payments) is one of the Statements required by 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.

(d) Cash flow of an entity must fall within the above three activities.

Statement No. 1

--------- Government of Nigeria

Statement of cash flow for the year ended 31st December, 20xx

Annual Actual

Previous

Budget 20xx		Notes	Year 20xx	Year 20xx-1
₦			₦	₦
	Cash Flows from operating activities:			
	Receipts:			
XX	Statutory allocations: FAAC	**1**	XX	XX
XX	Value Added Tax allocation	**1**	XX	XX
	Sub-total - Statutory Allocation		**XX**	**XX**
XX	Direct Taxes	**2**	XX	XX
XX	Licences	**2**	XX	XX
XX	Mining Rents:	**2**	XX	XX
XX	Royalties	**2**	XX	XX
XX	Fees:	**2**	XX	XX
XX	Fines	**2**	XX	XX
XX	Sales	**2**	XX	XX
XX	Earnings:	**2**	XX	XX
XX	Sales/Rent of Government Buildings:	**2**	XX	XX
XX	Sale/Rent on Lands and Others:	**2**	XX	XX
XX	Repayments-General:	**2**	XX	XX
XX	Investment Income	**2**	XX	XX
XX	Interest Earned	**2**	XX	XX
XX	Re-imbursement	**2**	XX	XX
	Sub-total - Independent Revenue XX		**XX**	
XX	Other Revenue Sources of the Government XX	**3**	XX	

0.00	**Total Receipts**		**0.00**	**0.00**
	Payments:			
XX	Personnel costs (Including Salaries on CRF Charges):	**4**	XX	XX
XX	Federal/ States/ LGC Govt. Contribution to Pension:	**5**	XX	XX
XX	Overhead charges:	**6**	XX	XX
XX	Consolidated Revenue Fund Charges			
	(Incl. Service Wide Votes)	**7**	XX	XX
XX	Subvention to Parastatals:	**8**	XX	XX
XX	Other operating activities		XX	XX
XX	Other Transfers		XX	XX
0.00	**Total Payments**		**0.00**	**0.00**
0.00	**Net Cash Flow from Operating Activities**		**0.00**	**0.00**
	<u>Cash Flows from Investment Activities:</u>			
XX	Capital Expenditure: Administrative Sector:	**11**	XX	XX
XX	Capital Expenditure: Economic Sector:	**11**	XX	XX
XX	Capital Expenditure: Law and Justice:	**11**	XX	XX
XX	Capital Expenditure: Regional Development	**11**	XX	XX
XX	capital expenditure: Social Service Sector:	**11**	XX	XX
XX	Capital Expenditure: Funded from Aid and Grants:	**10**	XX	XX
0.00	**Net Cash Flow from Investment Activities:**		**0.00**	**0.00**
	<u>Cash Flows from Financing Activities</u>:			
XX	Proceeds from Aid and Grants	**10**	XX	XX
XX	Proceeds from External Loan :	**19**	XX	XX

XX	Proceeds from Internal Loans: FGN/Treasury Bonds :		**20**	
XX	XX			
XX	Proceeds from Internal Loan: NTBs etc.	**21**	XX	XX
XX	Proceeds from Development of Nat Resources	**23**	XX	XX
	Proceeds of Loans from Other Funds	**24**	XX	XX
-XX	Repayment of External Loans (Including Servicing)		**19**	-
XX	-XX			
-XX	Repayment of FGN/Treasury Bonds:	**20**	-XX	-XX
-XX	Repayment of Internal Loan-NTBs	**21**	-XX	-XX
-XX	Repayment of Loans from Development of			
	Nat Resources	**23**	-XX	-XX
	Repayment of Loans from Other Funds	**24**	-XX	-XX
0.00	**Net Cash Flow from Financing Activities:**		**0.00**	
	0.00			
	Movement in Other Cash Equivalent Accounts			
XX	(Increase)/ Decrease in Investments		XX	XX
XX	Net (Increase)/Decrease in Other Cash Equivalents:		XX	XX
0.00	**Total Cash flow from other Cash equivalent Accounts**		**0.00**	
0.00				
XX	Net Cash for the year		XX	XX
XX	Cash and Its Equivalent as at 1st January, 20XX		XX	XX
XX	Cash and Its Equivalent as at 31st December, 20XX****			
XX	**XX**			

The accompanying notes form part of these statements

Name and Signature of ______________________________

Accountant General of the Federation/ Accountant General of the State/ Local Government Treasurer

Note that the Cash and its equivalent must agree with cash and cash equivalent in Statement 2

Source: Federation Account Allocation Committee (FAAC) Sub-Committee on the Road Map for Adoption of International Public sector accounting Standards (IPSAS)

13.3.3 Statement No. 2 - Statement of assets and liabilities

The statement is the statement of financial position (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 the statement of financial position of government prepared under the cash basis is shown thus:

Statement No. 2

———Government of Nigeria

Statement of Assets and Liabilities as at 31st December, 20xx

	Notes	Current Year 20xx	Previous Year 20xx-1
		₦	**₦**
Assets:			
<u>Liquid assets:-</u>			
Cash held by AGF:			
-CRF bank balance (CBN/ CRF Bank):		XX	XX
-Pension account (CBN/ Bank):		XX	XX
-Other bank of the treasury		XX	XX
-Cash balances of trust and other funds of the FGN/ States/LGC:	12	XX	XX
-Cash balances with federal pay offices / Sub-Treasury:	13	XX	XX
Cash held by MDAs	14	XX	XX
Total liquid assets		**0.00**	
<u>Investments and other cash assets:</u>			
Federal/ State/ Local Government Investments	XX	15	XX
Imprests:-	16	XX	XX

Advances:-	17	XX	XX
Revolving loans granted:-	18	XX	XX
Intangible assets		XX	XX
Total investments and other cash assets		**0.00**	**0**
Total assets		**0.00**	**0.00**

Liabilities:

Public funds			
Consolidated Revenue Fund:		XX	XX
Capital Development Fund:		XX	XX
Trust and other public funds:		XX	XX
Police reward fund		XX	XX
Total public funds		**0.00**	**0.**
External and internal loans			
External Loans: FGN/States/ LGC	19	XX	XX
FGN/ States/LGC bonds and treasury bonds.	20	XX	XX
Nigerian Treasury Bills (NTB)	21	XX	XX
Development loan stock	22	XX	XX
Other Internal loans (Promissory notes)	23	XX	XX
Internal loans from other funds	24	XX	XX
Total external and internal loans		**0.00**	**0.00**
Other liabilities			
Deposits:-	25	XX	X
Total liabilities		**0.00**	**0.00**

The Accompanying notes form part of these statement

Name and Signature of ________________________________

Accountant General of the Federation/ Accountant General of the State/ Local Government Treasurer

Source: Federation Account Allocation Committee (FAAC) Sub-Committee on the Road Map for Adoption of International Public sector accounting Standards (IPSAS)

13.3.4. Statement No. 3.0 - Statement of Consolidated Revenue Fund (CRF)

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:

(a) Recurrent expenditure;

(b) Transfers to Contingency Fund;

(c) Redemption of Treasury Bills;

(d) Transfers to Development Fund; and

(e) Consolidated Revenue Fund charges.

13.3.4.1 Note on recurrent revenue

This shows the actual cumulative figures of revenue 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.

13.3.4.2 Note on recurrent expenditure

The Statement contains the actual cumulative figures of recurrent expenditure incurred to date, with comparative figures for the previous year. Recurrent expenditure 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.

Statement No. 3

_________Government of Nigeria

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

Actual Previous Year		**Notes**	**Actual Year**	**Final Budget**	**Initial/ Original Budget**	**Supp. budget**	**Variance on budget**

(20xx-1)			2oxx	20xx	20xx	20xx Final Budget	
		₦	₦	₦	₦		%
xx	**Opening balance:**		**xx**				
	Add: Revenue						
xx	Statutory allocations: FAAC	**1**	xx	xx	xx	xx	xx
xx	Value added tax allocation	**1**	xx	xx	xx	xx	xx
	Sub-total - Statutory allocation			**xx**	**xx**		
xx	Direct taxes	**2**	xx	xx	xx	xx	xx
xx	Licences	**2**	xx	xx	xx	xx	xx
xx	Mining rents:	**2**	xx	xx	xx	xx	xx
xx	Royalties	**2**	xx	xx	xx	xx	xx
xx	Fees:	**2**	xx	xx	xx	xx	xx
xx	Fines	**2**	xx	xx	xx	xx	xx
xx	Sales	**2**	xx	xx	xx	xx	xx
xx	Earnings :	**2**	xx	xx	xx	xx	xx
xx	Sales/Rent of government buildings:	**2**	xx	xx	xx	xx	xx
xx	Sale/Rent on lands and others:	**2**	xx	xx	xx	xx	xx
xx	Repayment: General:	**2**	xx	xx	xx	xx	xx
xx	Investment income	**2**	xx	xx	xx	xx	xx
xx	Interest earned	**2**	xx	xx	xx	xx	xx
xx	Re-imbursements	**2**	xx	xx	xx	xx	xx
	Sub-Total - Independent Revenue			**XX**	**XX**		
xx	Other Revenue Sources of the ______Government	**3**	xx	xx	xx	xx	
xx							
0.00	**Total revenue:**		**0.00**	**0.00**	**0.00**	**0.00**	

Less: Expenditure

xx	Personnel costs (Including Salaries on CRF charges):	**4**	xx	xx	xx	xx	xx
xx	Federal/ States/ LGC Govt . Contribution to pension:	**5**	xx	xx	xx	xx	xx
xx	Overhead charges:	**6**	xx	xx	xx	xx	xx
xx	Consolidated Revenue Fund Charges (Incl. service wide votes)	**7**	xx	xx	xx	xx	xx
xx	Subvention to Parastatals:	**8**	xx	xx	xx	xx	xx
	Other recurrent payments/expenditure:						
xx	Repayments: External Loans: FGN/ States/ LGC	19	xx	xx	xx	xx	xx
xx	Repayments: FGN/ States/LGC Bonds and Treasury Bonds.	20	xx	xx	xx	xx	xx
xx	Repayments :Nigerian Treasury Bills (NTB)	21	xx	xx	xx	xx	xx
xx	Repayments: Development loan stock	22	xx	xx	xx	xx	xx
xx	Repayments: other internal loans (Promissory notes)	23	xx	xx	xx	xx	xx
xx	Repayments: Internal loans from other funds	24	xx	xx	xx	xx	xx
0.00	**Total expenditure:**		**0.00**	**0.00**	**0.00**	**0.00**	
xx	**Operating balance:**		xx	xx	xx	xx	xx
	<u>Appropriations/Transfers:</u>						
xx	Transfer to Capital Development Fund:	**9**	xx	xx	xx	xx	
xx	**Closing balance:**		xx				

The accompanying notes form part of these statements

Name and Signature of ______________________________

Accountant -General of the Federation/Accountant General of the State/ Local Government Treasurer

Source: Federation Account Allocation Committee (FAAC) Sub-Committee on the Road Map for Adoption of International Public sector accounting Standards (IPSAS)

13.3.5 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.

Statement No. 4

___________Government of Nigeria

Statement of Capital Development Fund for the year ended 31st December, 20xx

Actual		**Notes**	**Total**	**Final**	**Initial/**	**Supple**	**Perf**
Previous Capital		**Budget**	**Original**	**Mentary**		**Orm**	
Year		**Expen-**		**Budget**	**Budget**	**Ance**	
				Diture		**On**	
(20XX-1)			**2OXX**	**20XX**	**20XX**	**20XX**	**Total**
		₦	**₦**	**₦**	**₦**	**%**	
xx	**Opening Balance:**		**xx**				
	<u>Add: Revenue</u>						
xx	Transfer from Consolidated Revenue Fund:	9	xx	xx	xx	xx	xx
xx	Aid and Grants	10	xx	xx	xx	xx	xx
xx	External Loans: FGN/States/ LGC	19	xx	xx	xx	xx	xx
xx	FGN/ States/LGC Bonds and Treasury Bonds.	20	xx	xx	xx	xx	xx
xx	Nigerian Treasury Bills (NTB)	21	xx	xx	xx	xx	xx
xx	Development Loan Stock	22	xx	xx	xx	xx	xx

xx	Other Internal Loans						
	(Promissory Notes)	23	xx	xx	xx	xx	xx
xx	Internal Loans from Other Funds	24	xx	xx	xx	xx	xx
0.00	**Total revenue available:**		**0.00**	**0.00**	**0.00**	**0.00**	xx
	Less: Capital expenditure						
xx	Capital expenditure:						
	Administrative sector:	11	xx	xx	xx	xx	xx
xx	Capital expenditure: Economic sector: xx		11	xx	xx	xx	xx
xx	Capital expenditure: Law and justice:	11	xx	xx	xx	xx	xx
xx	Capital expenditure: Regional						
	Development	11	xx	xx	xx	xx	xx
xx	Capital expenditure:						
	Social service sector:	11	xx	xx	xx	xx	xx
xx	Capital expenditure: Funded from						
	aids and grants:	10	xx	xx	xx	xx	xx
0.00	**Total capital expenditure:**		**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
	Intangible assets		**xx**				
	Closing balance:		**xx**				

The Accompanying notes form part of these Statements

Name and Signature of ____

Accountant General of the Federation/ Accountant General of the State/ Local Government Treasurer

Source: Federation Account Allocation Committee (FAAC) Sub-Committee on the Road Map for Adoption of International Public sector accounting Standards (IPSAS)

13.4 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; and

(d) Statement Number 4 - Statement of Capital Development Fund.

Also discussed in this chapter are the rules and regulations guiding the preparation of financial statements as contained in the International Public sector accounting Standards (IPSAS)

13.5 End of chapter review questions

13.5.1 Examination type questions

Section A

1 Which **one** of the following should not appear under investments in the statement of financial position of the government under cash basis?

A Imprest

B Revolving loans granted

C Cash balances of trust and other funds of the government

D Advances

E Intangible assets

2 Which one of the following is not one of the reporting operating activities under statement of cashflow?

A Statutory allocation

B Value added tax allocation

C Royalties

D Subvention to parastatals

E Proceeds from aids and grants

3 The following outflows are from statement of Consolidated Revenue Fund **except**

A Recurrent expenditure;

B Transfers to Contingency Fund;

C Redemption of Treasury Bills;

D Direct taxes

E Consolidated Revenue Fund (CRF) charges.

4 Which of the following is **not** one of liquid assets of the government under cash basis?

A Cash balances with federal pay offices

B Cash held by MDAs

C Pension account (CBN/ Bank)

D Cash balances of trust and other funds of the state government

E Police reward fund balance

5 The format of the statement of financial position of government prepared under the cash basis must give information on the following except-------

A Liquid assets

B Investments and other cash assets

C Final budget

D Public funds

E External and internal loans

6. -------------- are made up of Treasury Bills, Treasury Certificates and Loan Stocks raised and retired within the country

7 The office is charged with the responsibility of preparing and publishing the accounts of the Federal Government of Nigeria.

8 The item that is collected from the government's day-to-day activities is known as-----------

9 ---------------- relate to the day-to-day disbursements to run the administration of local government councils, state and federal governments

10 The fund that is meant to finance general capital projects such as the construction of government hospitals is called ---------------

Section B

(1) Iludun Polytechnic had the following ledger balances in respect of Egu-Awori Memorial Loan Fund as at 31 December, 2020:

	Dr	Cr
	₦'000	**₦'000**
Cash	8,400	
Loan Receivable	316,000	
Investments	202,000	
Fund Balance		526,400
	526,400	**526,400**

During year 2021, the following transactions took place:

(i) Investments costing ₦61,600,000 were sold for ₦63,800,000.

(ii) ₦61,400,000 cash was received from the repayment of loans.

(iii) ₦5,000,000 was received from the family of a former student in full payment of a loan which had earlier been written off.

(iv) ₦83,600,000 was issued out as loan during the year.

(v) A loan of ₦1,500,000 was written off as un-collectable.

(vi) A contribution of ₦6,000,000 in cash was received as gift from a former borrower.

Required:

(a) Open the ledger accounts and record the year 2021 transactions.

(b) Extract a trial balance and prepare the balance sheet of the Fund as at 31/12/2021.

(c) Prepare a statement of changes in the fund balance.

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

	₦'000
Reserve Fund	33,500
Cash on hand	53,000
Bank Overdraft	5,700
Revenues (recurrent/capital)	158,500

Expenditure (recurrent/capital)	125,390
Loans	200,000
Deposits into (the L.G.C. Treasury)	23,450
Advances (granted by L.G.C.)	25,560
Investments	15,200
Suspense accounts	202,000

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

(3) The following balances were extracted from the books of Denge Pose State Government of Manna as at 31 December 2021:

2020		**2021**
₦'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
2020	36,970
2021	45,364

Any surplus/deficit on Revenue Account is transferred to the Capital Account as appropriate.

You are required to preparerecurrent and capital accountsfor the year ended 31 December 2021.

(4) The following information was obtained from the records of the office of the Accountant General for the Federal Republic of Legacy for the year ended 31 December 2021

	2021	**2020**
	₦ million	**₦ million**
Value added receipts	2,295,000	2,196,000
Miscellaneous revenue	375,000	425,000
PIT- Direct tax	10,500,000	7,200,000
Allocation for collection costs		
(FIRS and Customs)	3,075,000	3,305,000
Personnel costs	7,200,000	9,600,000
Share of statutory allocation	13,500,000	8,450,000
CRF Charges	2,250,000	3,750,000
Grants and subvention from foreign donors	75,000	87,000
Rent of federal government properties	285,000	295,000
Overhead charges	1,500,000	1,200,000
Subvention to parastatals	1,800,000	1,900,000
Sales of federal government properties	375,000	485,000
Repayment of loans	870,000	243,000
Purchases and construction of		
Non-current assets	2,500,000	2,700,000
Proceeds from sales of federal		
Government properties in Yenagoa	1,050,000	
Purchases of marketable securities	500,000	300,000
Cash and cash equivalent 1 Jan. 2021	3,750,000	-
Proceeds from loans and other borrowings	3,000,000	1,000,000
Cash and cash equivalent 31 Dec. 2021	21,660,000	3,750,000

Prepare a statement of cash flow for the year ended 31 December 2021 using the Direct Method (Show Comparative figures)

13.5.2 Suggested Solutions to examination type questions

Section A

1. C
2. D
3. D
4. E
5. C
6. Internal debt
7. Office of Accountant-General of the Federation
8. Recurrent revenue
9. Recurrent expenditure
10. Development Fund

Section B

(1) **Egu-AworI memorial loan fund**

(i) **Cash account**

	₦'000		**₦'000**
Balance b/f	8,400	Loan Receivable A/C	83,600
Investment Disposal A/C	63,800		
Loan Receivable A/C	61,400		
Bad Debt Recovered A/C	5,000		
Gift: Fund Balance	6,000	Balance c/d	61,000
	144,600		**144,600**
Balance b/d	61,000		

(ii) **Loan receivable account**

	₦'000		**₦ '000**
Balance b/f	316,000	Cash Account	61,400
Cash A/C	83,600	Bad Debt recovered	1,500
	-	Balance C/D	336,700
	399,600		**399,600**
Balance b/d	336,700		

(iii) **Investment account**

	₦'000		₦'000
Balance b/f	202,000	Investment Disposal A/c	61,600
	-	Bal. c/d	140,400
	202,000		**202,000**
Balance b/d	₦140,400		

(iv) **Fund balance account**

	₦'000		₦'000
		Balance b/f	526,400
		Cash account	6,000
		Investment Disposal A/C	2,200
Bal. c/d	538,100	Bad Debt Recovered A/c	3,500
	538,100		**538,100**
Balance b/d	538,100		

Workings

(a.) (i) **Investment disposal account**

	₦'000		₦'000
Investment Account	61,600	Cash Account	63,800
Fund Balance			
(Profit on Disposal)	2,200		-
	63,800		**63,800**

(ii) **Bad debt recovered account**

	₦'000	₦	'000
Loan Receivable Account	1,500	Cash Account	5,000
Transfer to Fund Balance	3,500		
	5,000		**5,000**

(iii) **Trial balance as at 31/12/2021**

	Dr	Cr
	₦'000	₦'000

Cash	61,000	
Loan receivable	336,700	
Investment	140,400	
Fund balance	-	538,100
	538,100	**538,100**

(iv) **Statement of changes in the fund balance**

	₦'000	₦'000
Balance b/f		526,400
Add: Gift received	6,000	
Bad debt recovered	5,000	
Profit on disposal of investment	2,200	13,200
		539,600
Less: Bad debt written off		1,500
Balance carried forward		**538,100**

(2) **Akinyele local government**

Trial balance as at 31 March 200x

	Dr.	Cr.
	₦'000	₦'000
Reserve fund.		33,500
Cash on hand	53,000	
Bank overdraft		5,700
Revenue (Recurrent/Capital)		158,500
Expenditure (Recurrent/Capital)	125,390	
Loans		200,000
Deposits into the Local .Govt Treasury		23,450
Advances granted by the Local. Govt	25,560	00
Investments	15,200	00
Suspense account	202,000	00

	421,150	**421,150**

(b) **At the Level of Local Governments:**

(i) A Declaration of responsibility for the Financial Statements to be issued and signed by the Treasurer of the Local Government Council concerned, in accordance with the provisions of the Finance (Control and Management) Act Cap 144 LFN 1990 (as amended) and the generally accepted accounting practice.

(ii) Audit Certificate to be issued and signed by the Auditor-General for Local Government, in accordance with the provisions of the 1999 Constitution of Nigeria and generally accepted auditing standards.

(iii) Statement No. 1: Statement of cash flow.

(iv) Statement No. 2: Statement of assets and liabilities.

(v) Statement No. 3: Statement of revenue and expenditure.

(3) Denge-Pose state government of manna consolidated financial statements for the year ended 31st December2021

Consolidated financial statements recurrent account

	2020	**2021**
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 Charges	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 c/f	169,520	911,826
Internal debt servicing component		
of the Consolidated, Revenue Fund charges	36,970	45,364

(4) Federal Republic of Legacy

Cash flow statement for the year ended 31st December 2021

Receipt	**2021**	**2020**
	₦	**₦**
Share of statutory allocation	13,500,000	8,450,000
Value added tax	2,295,000	2,196,000
Personal income tax - Direct tax	10,500,000	7,200,000
Allocation for collection cost	3,075,000	3,305,000
Grants and subvention received	75,000	87,000
Miscellaneous revenue	375,000	425,000
Total receipts	**29,820,000**	**21,663,000**
Payments		
Personnel costs	7,200,000	9,600,000
Consolidated revenue charges	2,250,000	3,750,000
Overhead charges	1,500,000	1,200,000
Subvention to parastatals	1,800,000	1,900,000
Total payments	12,750,000	16,450,000
Net cash inflow from		
Operating activities	**17,070,000**	**5,213,000**

Cash flow from investing		
Activities		
Sales of federal govt. properties in Yenagoa	1,050,000	
Purchases and construction of		
Non-current assets	(2,500,000)	(2,700,000)
Purchases of marketable securities	(500,000)	(300,000)
Sales of government property	375,000	485,000
Rent of government property	285,000	295,000
Net cash outflow from investing activities	**(1,290,000)**	**(2,220,000)**
Cash flow from financing activities		
Proceeds from loans and other borrowing	3,000,000	1,000,000
Repayment of loan	(870,000)	(243,000)
Net cash outflow from		
Financing activities	**2,130,000**	**757,000**
Net increase in cash and cash equivalent	17,910,000	3,750,000
Cash and cash equivalent 1 January	3,750,000	-
Cash and cash equivalent		
31 December	**21,660,000**	**3,750,000**

CHAPTER FOURTEEN

PREPARATION OF STATUTORY FINANCIAL STATEMENTS FOR GOVERNMENT IN ACCORDANCE

WITH IPSAS ACCRUAL BASIS

Chapter contents

14.0 Learning objectives

After studying this chapter, readers should be able to discuss of IPSAS 1, 2, 3, and 24 as it relates to the preparation of statutory financial statements for government in accordance with Accrual Basis IPSAS

14.1 Introduction

This chapter discusses of IPSAS 1, 2, 3, and 24 as regards to definitions, applications, recognition, measurement and disclosures on the preparation of statutory financial statements for government in accordance with accrual basis IPSAS.

14.2 IPSAS 1 – Presentation of financial statements.

14.2.1 Introduction

The aim of this standard is to prescribe the format in which General Purpose Financial Statements (GPFS) 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.

14.2.2 Components of financial statements

The standard list the following as a complete set of financial statements:

(a) 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) Statement of accounting policies and notes to the financial statements; and

(f) Statement of comparison of budget and actual amount.

14.2.3 Information to be presented on the face of the statement of financial position

According to the standard the following information should be presented on the face of the statement of financial position:

(a) Property, plants and equipment;

(b) Investment property;

(c) Intangible assets;

(d) Financial assets (excluding amount shown under (e), (g), (h), and (i);

(e) Investment accounted for using the equity methods;

(f) Inventories;

(g) Recoverable from non-exchange transactions (taxes and transfers);

(h) Receivables from exchange transactions;

(i) Cash and cash equivalents;

(j) Taxes and transfers payable;

(k) Payables under exchange transactions;

(l) Provisions;

(m) 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.

Below are the statement of financial position and statement of financial performance of the Ministry of Works, Obudu State for the years 2021 and 2020:

Ministry of Works

Statement of financial position as of 31 December

	2021	2021	2020	2020
	₦'000	**₦'000**	**₦'000**	**₦'000**
Assets				
Current assets				
Cash and cash equivalents	180		120	
Receivables	170		130	
Inventories	150		80	
Prepayments	185		90	
Investments	145	830	400	820
Non-current assets				
Receivable	130		60	
Investments	140		56	
Other financial assets	130		48	
Infrastructure, plant and equipment	260		200	
Land and buildings	120		110	
Property, Plant and Equipment (PPE)	80		70	
Intangible assets	60		80	
Other non-financial assets	84	1,004	96	720
Total assets		**1,834**		**1,540**
Liabilities				
Current liabilities				
Payables	20		30	
Short-term borrowings	18		25	

Current portions of borrowing	22		18	
Provisions	40		22	
Employee benefits	60		41	
Superannuation	70	230	36	172
Non-current liabilities				
Payables	30		80	
Borrowings	34		60	
Provisions	48		45	
Employee benefits	70		36	
Superannuation	82	264	87	308
Total liabilities		**494**		**480**
Net assets		**1,340**		**1,060**
Net Assets/Equity				
Capital contributed by other				
Government entities	482.49		400.00	
Reserves	40.00		84.49	
Accumulated surpluses/(deficits	542.00		375.51	
		1064.49		860.00
Minority interest		257.51		200.00
Total Net Assets/Equity		**1,340.00**		**1,060.00**

14.2.4 Information to be presented on the face of the statement of financial performance

As a minimum, the statement shall include line items that present the following amounts for the period:

(a) Revenue;

(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 recognised on the disposal of assets or settlement of liabilities attributable to discontinuing operations; and

(e) Surplus or deficit.

Ministry of Works

Statement of financial performance for the year ending 31 December

(Using classification of expenses by function)

	2021	2020
Operating Revenue	₦'000	₦'000
Taxes	200	400
Fees, fines, penalties and licences	40	140
Revenue from exchange transactions	85	100
Transfer from other government entities	55	50
Other operating revenue	210	300
Total operating revenue	**600**	**1,000**
Operating expenses		
General public services	40	60
Defence	60	80
Public order and safety	80	70
Education	20	90
Health	10	70
Social services	30	30
Housing and community amenities	20	25
Recreational, cultural and religion	8	80
Economic affairs	12	75
Environment protection	20	20
Total operating expenses	**300**	**600**
Surplus/(deficit) from operating activities	**300**	**400**
Finance costs	(80)	(40)
Gains on sale of property, plant and equipment	120	20
Total non-operating revenue /(expenses)	**40**	**(20)**
Surplus/(deficit) from ordinary activities	340	380
Minority interest share of surplus/(deficit)*	132	75.51

Net surplus/(Deficit) before extraordinary items	**472**	**455.51**
Extraordinary items	70	(80.00)
Net Surplus/(deficit for the period	**542**	**375.51**

The minority interest share of the surplus/(deficit) from ordinary activities includes the minority interest share of extraordinary items. The presentation of extraordinary items net of minority interest is permitted by paragraph 57(c) of IPSAS 1. Disclosure of the minority interest share of extraordinary items is shown in the "Notes to the Financial Statement

14.3 IPSAS 2: Statement of cash flow statement

14.3.1 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. The cash flow statement is very revealing of the core operations of a government, parastatal or board on the affordability or otherwise of adequate liquid resources.

14.3.2 Data required in prepare cash flow statements

To prepare a cash flow statement, the following accounting documents are required:

(a) Statement of financial position at the beginning and at the end of the year.

(b) Statement of financial performance for the year

14.3.3 Key terms in cash flow statements

Cash: This comprises cash on hand and demand deposits in the bank.

Cash equivalents: Cash equivalents are short-term, highly liquid investments that are readily convertible to cash and which are subject to insignificant risk of changes in value.

Cash Flows: These are inflows and outflows of cash and cash equivalents

14.3.4 Classification of cash flows by activities

(a) **Operating activities**

Cash flow from operating activities in a public sector entity, are indicators of the extent to which such entity is financed by taxes or sale of goods or services. Examples of such cash flows are as follows:

(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;

(v) Cash payments to other public sector entities;

(vi) Cash receipts from royalties, fees, commissions and other revenue;

(vii) Cash payments to and on behalf of employees;

(viii) Cash receipts and payments of an insurance entity for premiums and claims, annuities and other public benefits;

(ix) Cash payments of local property taxes or income tax (where appropriate);

(x) Cash receipts and payments from contract held for dealing or trading purposes;

(xi) Cash receipts or payments in relation to litigation settlements; and

(xii) Cash receipts or payments from discontinued operations.

It should be noted however, that IPSAS 2 directs that cash flows from operating activities are reported using either the direct method recommended by IPSAS Board or the indirect method.

IPSASB recommends direct method so as to provide a reconciliation of the surplus/deficit from ordinary activities (i.e. statement of financial performance) with the net cash flow from operating activities (i.e. cash flow statement) either within the cash flow statement or the notes.

(b) **Investing activities**

Cash flow from investing activities is cash receipts or payments disbursed to acquire resources that are intended to contribute to the entity’s future public service delivery. IPSAS 2.25 gives the following as likely items that could be classified as such activities:

(i) Cash payments to acquire property, plant and equipment, intangibles and other long-term assets. Payments relating to capitalised 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 parties (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);

(vii) 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; and

(viii) 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.

(c) **Financing activities**

Cash flow from financing activities shows future claims by providers of capital to the entity. Examples of such valuable information as contained in IPSAS 2.26 are as follows:

(i) Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings;

(ii) Cash repayments of amounts borrowed; and

(iii) Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

Note that:

(a) 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;

(b) 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;

(c) 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;

(d) 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;

(e) The aggregate cash flows arising from acquisitions/disposals of subsidiaries or other entities are presented separately and classified as investing activities; and

(f) 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.

14.3.5 Methods of preparing cash flow statement

The methods used in preparing cash flow statements are:

(a) The direct method, whereby major classes of gross cash receipts and payments are disclosed; and

(b) The indirect method, whereby net profit or loss is adjusted for the effect of transactions of non-cash nature, depreciation or accruals of past or future operating cash receipts, payments and items of income or expenses associated with investing or financing cash flows.

14.3.6 Formats for cash flow statement

(A) Direct method

Statement No. 1, Federal Republic of Wazobia

Cash flow statement for the year ended 31 December 2021

	2021	**2020**
Cash flows from operating activities	**₦’000**	**₦’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 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	**xx**	**xx**
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	**xx**	**xx**

<u>Cash flows from financing activities</u>

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	<u>(x)</u>	<u>(x)</u>
Net cash flow from financing activities	**<u>xx</u>**	**<u>xx</u>**
Movement in other cash equivalent accounts		
Increase / (decrease) in investments	x	x
Net increase / (decrease) in below – the- line items	<u>(x)</u>	<u>(x)</u>
Total cash flow from other cash equivalent accounts	**<u>xx</u>**	**x<u>x</u>**
Net cash flows for the year	**xx**	**xx**
Cash and cash equivalent at the beginning of year	<u>x</u>	<u>x</u>
Cash and cash equivalent at the end of year	**<u>xx</u>**	**<u>xx</u>**

Reconciliation of net cash flows from operating activities to net surplus/(deficit) from ordinary activities

	2021	**2020**
	₦'000	**₦'000**
Surplus/(Deficit) from ordinary activities	x	x
Adjustments for non-cash items:		
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 sales of property, plant and equipment	(x)	(x)
(Gains)/Losses on sale of investments	(x)	(x)
Increase in other current assets	(x)	(x)
Increase in investment due to revaluation	(x)	(x)
Increase in receivables	(x)	(x)
Net cash flows from operating activities	**xx**	**xx**

(b) Indirect method

Ministry of Inter-Governmental Affairs

Statement of cash flow for the year ended 31 December 2021

	2020 ₦'000	**2021 ₦'000**
Surplus/(deficit) from ordinary activities	x	x
Non-cash movements		
Depreciation	x	x
Amortization	x	x
Increase in provision for doubtful debts	x	x
Increase in payables	x	x
Increase in borrowings	x	x
Increase in provisions relating to employee costs	x	x
(Gains)/Losses on sale of property, plant and equipment	(x)	(x)
(Gains)/Losses on sale of investments	(x)	(x)
Increase in other current assets	(x)	(x)
Increase in investments due to revaluation	(x)	(x)
Increase in receivables	(x)	(x)
Net cash flow from operating activities	**xx**	**xx**

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	**xx**	**xx**
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	**xx**	**xx**
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	**xx**	**xx**

14.4 IPSAS 3-Accounting policies, changes in accounting estimates and errors

14.4.1 Introduction

The standard is designed to set out 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.

The standard gives the following definitions among others:

(a) **Accounting policies:** are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

(b) **Change in accounting estimates:** 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 stations of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not correction of errors.

(c) **Prior period errors:** are omissions from and misstatements in the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

(i) Was available when financial statements for those periods were authorised for issue; and

(ii) Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Such errors include the effects of arithmetical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts and fraud.

(d) **Material omissions or misstatements** items are material if they could, individually or collectively, influence the decisions or assessments of users made on the bases of the financial statements. Materiality depends on the nature or size of the omission or misstatement judge in the surrounding circumstances. The nature or size of the items, or a combination of both, could be a determining factor.

14.4.2 Changes in accounting policies:

According to the standard:

(a) A change from one basis of accounting to another basis of accounting is a change in accounting policy; and

(b) A change in the accounting treatment, recognition or measurement of a transaction, event or condition within a basis of accounting is regarded as a change in accounting policy.

The following are not changes in accounting policies:

(a) An application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and

(b) An application of a new accounting policy for transactions, other events or conditions that did not occur previously or that were immaterial.

14.4.3 Disclosure:

The standard requires the following disclosure:

(a) When initial application of IPSAS is made and has effects on current, prior or future periods:

(i) The title of the standard;

(ii) When applicable, an event of transitional provision;

(iii) The nature of the change in accounting policy;

(iv) When applicable, a description of transitional provision; and

(v) When applicable, the transitional provisions that might have an effect on future periods.

Others are the amount of adjustments by line item affected and if retrospective application is impracticable, the circumstances for that, how and from when the change applied.

(b) When a voluntary change in accounting policy is made and has effects on current, prior or future periods:

(i) The nature of the change in accounting policy;

(ii) The reasons why applying the new accounting policy provides reliable and more relevant information;

(iii) For current and prior period present to the extent practicable, the amount of the adjustment for each financial statement line item affected; and(iv) The amount of the adjustment relating to periods before those presented to the extent practicable.

If retrospective application is impracticable, the circumstance for the application, how and from when the change applied.

14.5 Notes to the financial statements

Each component of the financial statements should be clearly identified. In addition, the following information should be prominently displayed, and repeated when it is necessary for a proper understanding of the information presented:

(a) The name of the reporting entity or other means of identification;

(b) Disclosure of the domicile and legal form of the entity;

(c) A description of the nature of the entity's operations;

(d) Disclosure of the extent to which transitional provisions have been used;

(e) Whether the financial statements cover the individual entity or the economic entity;

(f) Provide additional information which is not presented on the face of the financial statements but is necessary for a fair presentation;

(g) The reporting date or the period covered by the financial statements, whichever is appropriate to the related component of the financial statements;

(h) The reporting currency;

(i) A reference to the relevant legislation governing the entity's operations;

(j) The level of precision used in the presentation of figures in the financial statements;

(k) Disclose the information required by international public sector accounting standards that is not presented elsewhere in the financial statements;

(l) Statement of the measurement basis (bases) and accounting policies applied; Statement of compliance with International Public sector accounting Standards (see paragraph26);

(m) Supporting information for items presented on the face of each financial statement in the order in which each line item and each financial statement is presented; and

(n) Other disclosures, including:

  (i) Contingencies, commitments and other financial disclosures; and

  (ii) Non-financial disclosures.

14.6 Qualitative characteristics of financial reporting

Paragraph 37 of this Standard requires the development of accounting policies to ensure that the financial statements provide information that meets a number of qualitative characteristics. This appendix summarises the qualitative characteristics of financial reporting.

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. The four principal qualitative characteristics are understandability, relevance, reliability and comparability.

a. Understandability

Information is understandable when users might reasonably be expected to comprehend its meaning. For this purpose, users are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, and to be willing to study the information. Information about complex matters should not be excluded from the financial statements merely on the grounds that it may be too difficult for certain users to understand.

(b) **Relevance**

Information is relevant to users if it can be used to assist in evaluating past, present or future events or in confirming, or correcting, past evaluations. In order to be relevant, information must also be timely.

(c) **Materiality**

The relevance of information is affected by its nature and materiality. Information is material if its omission or misstatement could influence the decisions of users or assessments made on the basis of the financial statements. Materiality depends on the nature or size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.

(d) **Reliability**

Reliable information is free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent.

(e) **Faithful representation**

For information to represent faithful transactions and other events, it should be presented in accordance with the substance of the transactions and other events, and not merely their legal form.

(f) **Substance over form**

If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. The substance of transactions or other events is not always consistent with their legal form.

(g) **Neutrality**

Information is neutral if it is free from bias. Financial statements are not neutral if the information they contain has been selected or presented in a manner designed to influence the making of a decision or judgment in order to achieve a predetermined result or outcome.

(h) **Prudence**

Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or revenue are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow, for example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or revenue, or the deliberate overstatement of liabilities or expenses, because the financial statements would not be neutral and, therefore, not have the quality of reliability.

(i) **Completeness**

The information in financial statements should be complete within the bounds of materiality and cost.

(j) **Comparability**

Information in financial statements is comparable when users are able to identify similarities and differences between that information and information in other reports.

Comparability applies to the:

- Comparison of financial statements of different entities; and

- ➢ Comparison of the financial statements of the same entity over periods of time.

An important implication of the characteristic of comparability is that users need to be informed of the policies employed in the preparation of financial statements, changes to those policies and the effects of those changes. Because users wish to compare the performance of an entity over time, it is important that financial statements show corresponding information for preceding periods.

(k) **Timeliness**

If there is an undue delay in the reporting of information it may lose its relevance. To provide information on a timely basis it may often be necessary to report before all aspects of a transaction are known, thus impairing reliability. Conversely, if reporting is delayed until all aspects are known, the information may be highly reliable but of little use to users who have had to make decisions in the interim. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the decision-making needs of users.

(l**)** **Balance between cost and benefit**

The balance between cost and benefit is a pervasive constraint. The benefits derived from information should exceed the cost of providing it. The evaluation of cost and benefits is, however, substantially a matter of judgment. Furthermore, the costs do not always fall on those users who enjoy the benefits. Users other than those for whom the information was prepared may also enjoy benefits. For these reasons, it is difficult to apply a cost-benefit test in any particular case. Nevertheless, standard-setters, as well as those responsible for the preparation of financial statements and users of financial statements, should be aware of this constraint.

14.7 IPSAS 17 – Property, plant and equipment

14.7.1 Introduction

The standard is set up to prescribe the accounting treatment 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 charges in such investment. The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their carrying amounts and depreciation charges and impairment losses to be recognised in relation to them.

14.7.2 Definitions

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.

(b) **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.

(c) **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.

(d) **Depreciation:** is the systematic allocation of the depreciable amount of an asset over its useful life.

(e) **Depreciable amount:** is the cost of an asset, or other amount substituted for cost, less its residual value.

(f) **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.

(g) **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.

(h) **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.

(i) **An impairment loss:** of a cash generation asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

(j) **An impairment loss of a non-cash generating asset:** is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

(k) **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.

(l) **Property, plant and equipment:** are tangible items that:

  (i) Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
  (ii) Are expected to be used for more than one reporting period.

(m) **Recoverable amount:** is the higher of a cash-generating asset's fair value less costs to sell and its value in use.

(n) **Recoverable service amount:** is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

(o) **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.

(p) **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.

14.7.3 Recognition

The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

(a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and

(b) The cost or fair value of the item can be measured reliably.

14.7.4 Measurement at recognition

(a) An item of property plant and equipment that qualifies for recognition, as an asset shall be measured at its cost.

(b) Where an asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

(c) Under subsequent measurement, an entity shall chose either the cost model or the revaluation model as its accounting policy, and shall apply that policy to an entire class of PPE

14.7.5 Disclosure

The financial statements shall disclose, for each class of property, plant and equipment recognised in the financial statements:

(a) The measurement bases used for determining the gross carrying amount;

(b) The depreciation method used;

(c) The useful life of the depreciation rate used;

(d) The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and

(e) 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.

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 of 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 re-valued 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 class.

14.7.6 Criteria for recognition of land and/or buildings and other PPE

S/N	Purpose of acquisition	Recognition	Measurement
i.	Acquired for resale	Recognise as Inventory (IPSAS 12)	Lowest of Cost or Net Realisable value
ii	Acquired to produce goods or services and is owner occupier	Recognise as Property, Plant and Equipment (IPSAS 17)	Cost Model or Revaluation Model
iii.	Acquired for capital appreciation or to earn rentals	Recognise as Investment Property (IPSAS 16	Cost Model or Fair Value Model
iv.	Constructed or developed on behalf of third parties	Recognise as Construction Contract	Fixed Price/Cost plus Model

14.7.7 Accounting treatment

S/N	Details	Remarks
a.	**For Purchase of PPE:**	
i.	Dr- PPE Cr- Cash/Bank	When it is an outright acquisition with all attributable cost
	Dr - PPE Cr - Account payable	When acquired on credit with all attributable cost
b.	**Construction by an entity:**	
ii	Dr - PPE Cr - Cash/Bank	With all attributable cost of construction
	Dr - PPE Cr - Account payable	With all attributable cost accrued
	Dr - Account Payable Cr - Cash/Bank	When payment finally made.
c	**To Provide for depreciation**	

	Dr - Depreciation charges Cr–Accumulated depreciation Charges	With the value of wear and tear of the assets using the rates provided
d	**To Provide for Impairments**	
	Dr - Impairment charges Cr - Accumulated impairment	With impairment losses computed
e	**For Revaluation of PPE**	
	Dr - Revaluation account Dr - Accumulated depreciation charges Cr - PPE	To close the account of the carrying amount as well as the corresponding accumulated depreciation.
	Dr - PPE Cr - Revaluation account Cr - Revaluation surplus	To reinstate the current value of the PPE
f.	**Donated or Granted PPE**	
	Dr - Relevant PPE Cr - Donation/grant received	With the fair value of the PPE
g.	**Swapped PPE**	
	Dr-New PPE Cr -Existing PPE Cr- Gain on exchange	If the carrying value of new PPE exceed that of existing PPE
	Dr- New PPE Dr- Loss on exchange Cr- Existing PPE	If the Carrying value of new PPE is less than that of Existing PPE
h.	**Taken over or inherited PPE (free of charge)**	
	Dr - PPE Cr - Take off grant/donor	With the fair value of the PPE taken over or inherited.

Illustration

Obodo State University had the following transactions

i. During the year ended 31 December 2011, acquired Office Equipment worth ₦24,000,000 from Joko Nigeria Limited. The installation and transportation of the equipment amounted to ₦300,000. Half of the cost of the Equipment was paid during the year while the balance was paid later in January 2012.

ii. The Governing Council of the University during the year 2011 directed that works department instead of outright acquisition produce all Lecture and Library Furniture internally. Cost of materials and other related cost of production amounted to ₦2,780,000. The materials purchased were completely used in the production of the furniture. The policy of the university is to recognise PPE constructed internally at the actual cost of construction. All the furniture constructed was issued out for use in the lecture halls and library during the year.

iii. The University swapped its plant and machinery with a building from Ministry of Education during the year. The carrying value of the plant and machinery as at the time of the transaction was ₦3,000,000 while the fair value of the building was ₦4,500,000.

iv. The University took over the PPE of a defunct State College of Education including buildings and other infrastructures. The fair value of the PPE taken over was estimated at ₦20,000,000.

v. The University Teaching Hospital received motor vehicles and laboratory equipment from a UK based Research Institute as donation during the year. The intervention was to assist to curtail the wide spread of Lassa fever in the country. The cost of the assets donated amounted to ₦6,700,000.

vi. The University acquired a motor vehicle (MV) for ₦5,500,000 on 1/1/2011.Delivery cost and cost of registration amounted to ₦75,000. The vehicle has a useful life of 5 years with no estimated residual value.

vii. One of the buildings owned by the University was gutted by fire during the year ended 31st December 2011. The carrying value of the building as at the date of the fire incidence was put at ₦125,000,000. The fair value of the building after the fire incidence was estimated by a valuer to be ₦120,000,000.

viii. An entity acquired a building at a cost ₦100,000,000 on 1^{t} January 2015. The policy of the entity is to depreciate its buildings on straight-line method over 50 years. By the end of the 9^{th} year, a valuer stated the fair value of the building at ₦120,000,000.

ix. The University acquired motor vehicle on 1 January 2012 at ₦2,000,000 with an estimated useful life of 4 years and estimated residual value at the end of the 4th year to be ₦200,000. The agency decided to dispose the MV for ₦1,500,000 at the end of the second year. The Accounting policy of the entity is to depreciate PPE on straight-line method.

x. The University acquired a computer on the 1 January 2011 at the cost of ₦450,000. It has an estimated useful life of 5 years and residual value of ₦50,000. Due to fire outbreak in the agency on the 31 December 2012, the computer was badly damaged and of no use to the agency. It was resolved that it should be discarded and written off. The agency uses straight-line method in depreciating its PPE.

Required: Journalise the above entries in the books of the University

Solution

S/N	Details	Dr	Cr	Remarks
		₦'000	**₦'000**	
a.	PPE- (Office equipment)	24,300		The Cost of Assets is made up of the Purchase cost plus all attributable cost.
	Bank		12,300	
	Accounts payable		12,000	
	Accounts payable	12,000		Ton payment of Outstanding Debt
	Bank		12,000	
b.	Stock of materials	2,780		The Cost of material and other cost of production
	Bank		2,780	
	Capital work-in-progress	2,780		On completion and issuance of the Furniture
	Stock of Materials		2,780	
	PPE	2,780		On completion and issue of the Furniture
	Capital work-in - progress		2,780	
c	New PPE (Buildings)	4,500		The swapped transaction could have resulted to loss if the carrying cost of the plant and machinery exceeded the fair value of the Building
	Old PPE (Plant and equipment)		3,000	
	Gain on swapped PPE		1,500	
d.	PPE	20,000		This is treated as part of take off grant
	Take over grant		20,000	
e.	PPE	6,700		Donation received during the year
	Aid and Grant (Donation) Received		6,700	
f.	PPE (Motor vehicle)	5,575		To recognise the purchase and receipt of the motor vehicle
	Bank		5,575	
	Depreciation charges	1,115		Value of wear and tear using Straight-line method of depreciation.
	Accumulated depreciation		1,115	
g.	Impairment charges	5,000		Being difference between the carrying value and the fair value of the Building
	Accumulated Impairment		5,000	
h.	Revaluation account	82,000		To close the account of the carrying

	Accumulated depreciation	18,000		amount as well as the corresponding Accumulated Depreciation
	Building		100,000	
	Building	120,000		To reinstate the current value of the PPE
	Revaluation account		82,000	
	Revaluation surplus		38,000	
i	PPE Disposal account	2,000		To close the account of the Motor vehicle
	Motor Vehicle account		2,000	
	Accumulated depreciation	900		To close Accumulated Dep. Account
	PPE disposal account		900	
	Bank	1,500		To recognise proceeds from the sale of the motor vehicle
	PPE disposal Account		1,100	
	Gain on disposal		400	
j.	Accumulated depreciation	160		To close the PPE account and accumulated depreciation account.
	Loss on disposal	290		
	PPE- Computer account		450	

14.8 IPSAS-22-Disclosure of financial information about the general government sector

14.8.1 Introduction

The objective of this standard is to prescribe 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 enhance the transparency of financial reports, and provide for 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.

14.8.2 Definitions

The following terms are used in this standard with the meanings specified:

(i) **The General Government Sector (GGS)** comprises all organisational entities of the general government as defined in statistical bases of financial reporting.

i. Under statistical bases of financial reporting, the public sector comprises the GGS, Public Financial Corporation (PFC) and Public Non-Financial

Corporation sector (PNFCs). Additional subgroups within these sectors may be identified for statistical analytical purposes.

ii. The GGS is defined as consisting of all resident central, state and local government units and social security funds at each level of government, and non-market non-profit institutions controlled by government units. Under statistical bases of financial reporting, the GGS encompasses the central operations of government and typically includes all those resident non-market non-profit entities that have their operations funded primarily by the government and government entities. As such, the financing of these entities is sourced primarily from appropriation or allocation of the government's taxes, dividends from government corporation, other revenues, and borrowings. The GGS typically includes entities such as government departments, law courts, public educational institutions, public health care units and other government agencies. The GGS does not include PFCs or PNFCs.

(ii) **Public financial corporation sector (PFC)**

The PFC sector comprises resident government controlled financial corporations, quasi-corporations and non-profit institutions that primarily engage in financial intermediation and the provision of financial services for the market. Included within this sectors are government controlled banks, including central banks, and other government financial institutions that operate on a market basis.

(iii) **Public non-financial corporation sector (PNFC)**

The PNFC Sector comprises resident government controlled non-financial corporations, quasi-corporations and non-profit institutions that produce goods or non-financial services for the market. Included within this sector are entities such as publicly owned utilities and other entities that trade in goods and services. Statistical bases of financial reporting define:

(iv) **Corporations as legal entities created for the purpose of producing goods and services for the market**;

(i) Quasi-corporations as enterprises that are not incorporated or otherwise legally established but function as if they were corporations; and

(ii) Non-profit institutions are legal or other entities which produce or distribute goods and services, but which do not generate financial gain for their controlling entity.

(v) **Government Business Enterprises (GBEs)** means an entity that has all the following characteristics:

(i) It is an entity with the power to contract in its own name;

(ii) It 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) It is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and

(v) It is controlled by a public sector entity.

Government Business Enterprises (GBEs) include both trading enterprises, such as utilities, and financial enterprises, such as financial institutions. GBEs are, in substance, no different from entities conducting similar activities in the private sector. GBEs generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organisations in the community with goods and services at either no charge or a significantly reduced charge.

14.8.3 Disclosures

Disclosure made in respect of the GGS shall include at least of the following:

(a) Assets by major class, showing separately the investment in other sectors;

(b) Liabilities by major class;

(c) Net assets/ equity;

(d) Total revaluation increments and decrements and other items of revenue and expense recognised directly in net assets/ equity;

(e) Revenue by major class;

(f) Expenses by major class;

(g) Surplus or deficit;

(h) Cash flows from operating activities by major class;

(i) Cash flows from investing activities; and

(j) Cash flows from financing activities.

Entities preparing GGS disclosures shall disclose the significant controlled entities that are included in the GGS and any changes in those entities from the prior period, together with an explanation of the reasons why any such entity that was previously included in the GGS is no longer included.

14.9 Federal Treasury circular Reference No. TRV A7 and B7 and OAGF/CAD/026/V.111/188 dated 3 July 2018 accrual basis IPSAS books of accounts and other records.

In line with the on going transformation of treasury service for greater efficiency, transparency and accountability the Accountant General of the federation issued a Federal Treasury circular Reference No. TRV A7 and B7 and OAGF/CAD/026/V.111/188 dated 3 July 2018 accrual basis IPSAS books of accounts and other records. This circular is to ensure standardisation and uniformity in the discharge of the finance functions in respect of budgeting, accounting and financial reporting across all ministries, departments and agencies (MDAs)

14.9.1 Duties and functions of department of finance and accounts

The Director/Head of Finance and Accounts of MDA shall perform the following duties:

(a) Ensuring compliance with Financial Regulation and the Accounting Code/Manual by all staff under his control and supervision;

(b) Organising and supervising the finance and accounting functions in a manner that facilitates:

- (a) Adequate financial control, efficiency and smooth operations of the financial management function;
- (b) The observance of due diligence, economy and cost effectiveness in the MDA administration; and
- (c) Ensuring conformance of the MDA to due process.

(c) Advising the Accounting Officer on all financial matters as well as the technical provisions of Financial Regulations, other Treasury and Finance Circulars;

(d) Managing funds in a manner that assures smooth operations of the MDA;

(e) Maintaining proper accounting records such as books of accounts, Main and Subsidiary Ledgers;

(f) Ensuring adequate control and management of the Property, Plant and Equipment Register and reconciling the schedule thereto to the General Ledger on monthly basis;

(g) Ensuring the existence of effective and adequate internal control system to safeguard the assets of the MDA;

(h) Ensuring prompt disbursement to contractors/suppliers and staff using the Government approved payment mode;

(i) Ensuring the timely preparation, payment of salaries and remittance of Third Party deductions simultaneously.

(j) Ensuring the preparation and updating of the information needed for Medium Term Revenue Framework (MTRF), Medium Term Expenditure Framework (MTEF) and Medium Term Sector Strategy (MTSS);

(k) Compiling and defending of the budget proposals and ensuring effective budgeting control by matching/comparing budgeted figures with actual expenditure or revenue as the case may be. These financial management reports should be submitted to the Accounting Officer on or before 5th of the following month to facilitate efficient financial management decisions;

(l) Ensuring monthly preparation and submission of Trial Balance and other Financial Statements in line with International Public sector accounting Standards to the Office of the Accountant General of the Federation on or before 10th of the following month;
(m) Ensuring that all staff under his control are exposed to regular training programmes to equip them with relevant skills for the efficient performance of their duties;
(n) Liaising with the office of the Accountant General of the Federation from time to time when in doubt in the interpretation of the provisions of the financial regulations and other Treasury Circulars or when confronted with difficulties in the performance of his duties;
(o) Ensuring the existence of an effective Audit Query Branch to promptly deal with all queries from Internal Audit Department, Office of the Accountant General, Office of the Auditor General and Public Accounts Committee, etc. and
(p) The Accountant General of the federation may delegate to the Accounting Officer any other responsibility/duty as may be necessary.

14.9.2 Duties and functions of head of revenue division

The head revenue division of any MDA is responsible to the Head of department of finance and accounts and other arms of government shall perform the following duties:

(a) Identification of all revenue sources accruable to the MDA;
(b) Maintaining and updating the data-base of MDA revenue generating properties/assets in terms of their locations, type and the nature of revenue each generates;
(c) Providing information for revenue budget of the MDA;
(d) Organising the revenue accounting functions in a manner that facilitates the keeping of complete and adequate financial/statistical records of revenue;
(e) Ensuring that all revenue accruable to the MDA are received and accounted for;
(f) Identifying revenue due but not yet paid to the MDA and accrue for them;
(g) Ensuring that all staff under his control are exposed to regular training programmes to equip them with the relevant skills (on-the-job) efficient performance of their duties;
(h) Ensuring regular monitoring of revenue collection;
(i) Ensuring that revenue received/receivables are properly journalised;
(j) Ensuring revenue reports are forwarded to Head of Financial Reporting division for consolidation;
(k) Collating and reviewing revenue charges and rates of the MDA;
(l) Ensuring the preparation and display of monthly revenue charts;

(m) Ensuring comparison of budgeted revenues with actual collection and analysing and reporting the variances and submit report to the Director Finance and Accounts on or before the 10 of the following month;

(n) Ensuring regular joint revenue reconciliation with the Treasury, Federation Account Allocation Committee, Revenue Mobilization Allocation and Fiscal Commission, Fiscal Responsibility Commission, Central Bank of Nigeria and any other relevant authorities;

(o) Ensuring preparation and submission of monthly, quarterly and annual revenue reports to the office of the Accountant General of the Federation on or before the 10 of the following month;

(p) Carrying out monthly reconciliation of investment register, individual subsidiary ledgers and general ledger and submit a schedule of up-to-date investments to the director/head, finance and Accounts on monthly basis on or before the 10 of the following month;

(q) Carrying out investments appraisal of the MDA; and

(r) Perform any other duty/function assigned to him by the head of department of finance and accounts

14.9.3 Duties and functions of revenue mobilisation and receivables unit

The revenue mobilisation and receivables unit of any MDA shall perform the following duties:

(a) Documentation of all revenue sources accruing to the MDA;

(b) Preparation of revenue budget of the MDA;

(c) Ensuring that approved rates are assigned to revenue sources;

(d) Collating revenue budget of the MDA;

(e) Preparation of medium term revenue framework;

(f) Liaising with budget office of the federation on revenue budget of the MDA;

(g) Preparation of monthly revenue analysis report and submit same to budget division on or before 10 of the following month;

(h) Issuing debit notes for revenue due;

(i) Updating of revenue receivables register;

(j) Maintenance and updating of individual ledger for each receivables (Debtors);

(k) Reconciliation of individual receivable ledger with control balance in the general ledger on a monthly basis and on or before 10 of the following month;

(l) Monthly reconciliation of individual ledger accounts with each debtor;

(m) Raising journal entry of receivables register at the end of each month and pass it to Final Accounts on or before 5 of the following month;

(n) Sending of reminder notes to the debtors of revenue due but not yet paid;

(o) Obtaining data and information of revenue receivable by the MDA;
(p) Collecting revenue due to the MDA;
(q) Maintaining a revenue Cash Book;
(r) Ensuring effective monitoring of revenue sources of the MDA;
(s) Keeping adequate records of revenue received and receivables by the MDA;
(t) Raising journal voucher of revenue collected;
(u) Advising the revenue division on issues that affect revenue mobilisation and receivable of the MDA;
(v) Ensuring that all staff under his control are exposed to regular training programmes to equip them with the relevant skills (on-the-job) for the efficient performance of their duties; and
(w) Performing any other duty that may be assigned to him by the revenue division.

14.9.4 Duties and functions of aid and grants unit

The aid and grants unit of any MDA shall perform the following duties:

(a) Prepare the aids and grants budget of the MDA using the National Chart of Accounts;
(b) Ensure the MDA meets the requirements for accessing aid and grants;
(c) Ensure payment of Counterpart Fund for accessing aid and grants;
(d) Maintain proper Books of Accounts for each source of funding for Aid and Grants;
(e) Ensure the effective utilization of aid and grants in line with the requirement of each source of funding;
(f) Maintain a schedule of receipts for each source of funding;
(g) Monthly reconciliation of accounts with funding organisations;
(h) Carry out monthly reconciliation of aid and grants with the general ledger balances;
(i) Ensure that all staff under his control are exposed to regular training programmes to equip them with relevant skills (on- the-job) for the efficient performance of their duties; and
(j) Perform any other duty that may be assigned to him by the revenue division

14.6.5 Duties and functions of expenditure division

The head of expenditure division of MDA shall perform the following duties:

(a) Ensuring proper preparation of monthly staff payroll;
(b) Ensuring the existence of variation control on personnel emoluments;
(c) Ensuring preparation of monthly payroll journal and forwarding same to financial and fiscal reporting division;

(d) Ensuring maintenance of subsidiary ledger of payroll deductions;
(e) Processing approval for salaries, overhead and capital expenditure;
(f) Ensuring the identification and recording of accounts payables and record same;
(g) Organising the expenditure functions in a manner that facilitates the keeping of complete and adequate financial/statistical records;
(h) Ensuring proper disbursement of funds;
(i) Ensuring posting of payments in the relevant cash books on a daily basis;
(j) Ensuring effective cash management;
(k) Ensuring proper accounting for Third Party deductions;
(l) Ensuring that all staff under his control are exposed to regular training programmes to equip them with relevant skills (on- the-job) for the efficient performance of their duties;
(m) Ensuring proper maintenance of Mandate Register;
(n) Ensuring weekly reconciliation of the mandate registers, cash books and vote books and submit same to the director/head of finance and accounts;
(o) Ensuring the reconciliation of the mandate registers, cash books and vote books with the electronic payment platform printout (where applicable) and the report submitted to the director of finance and accounts on a weekly basis;
(p) Ensuring the reconciliation of control accounts (e.g. accounts payable) with the general ledger;
(q) Ensuring the preparation of cash book journals and submit same to financial and fiscal reporting division on or before the 4^{th} of the following month;
(r) Ensuring that all payments are duly authorised and supported with relevant documents; and
(s) Perform any other duty assigned to him from time to time by the head of department of finance and accounts.

14.9.6 Duties and Functions of recurrent expenditure unit

The recurrent expenditure of MDA shall perform the following duties:

(a) Processing recurrent expenditure payments;
(b) Preparation of monthly salaries and related Journals;
(c) Maintain ledger accounts for various deductions;
(d) Carry out monthly reconciliation of ledger accounts with general ledger balances;
(e) Ensures effective variation control to explain differences of monthly salary payment;
(f) Maintenance of individual emolument form for each staff of the MDA;
(g) Maintain vote books for salaries and overhead;
(h) Responsible for issuance of AIE for recurrent expenditure;

(i) Processes payment of advances, imprest and deposits;
(j) Make entries into subsidiary books of accounts;
(k) Draws up and update subsidiary accounts;
(l) reconciles subsidiary accounts with the control balances in the general ledger;
(m) Ensures retirement of outstanding advances and imprest accounts;
(n) Ensures proper classification of advances payment vouchers and retirement of same advances in accordance with NCOA;
(o) Prepares monthly financial monitoring report for recurrent expenditure on or before 4^{th} of the following month;
(p) Maintains contract ledger for each contractor;
(q) Ensures proper classification of all payment vouchers and Journals in accordance with NCOA;
(r) Ensures that all staff under his control are exposed to regular training programmes to equip them with relevant skills (on- the-job) for the efficient performance of their duties; and
(s) Perform any other duty that may be assigned to him by the head of expenditure division.

14.9.7 Duties and functions of capital expenditure unit

The capital expenditure of MDA shall perform the following duties:

a. Processing capital expenditure payments;
b. Maintains vote book for capital expenditure;
c. Responsible for issuance of Authority to incur expenditure (AIE) for capital expenditure;
d. Ensures that all staff under his control are exposed to regular training programmes to equip them with relevant skills (on-the-job) for the efficient performance of their duties;
e. Ensures proper classification of all capital payment vouchers and journals in accordance with NCOA;
f. Prepares monthly financial monitoring report for all capital expenditure on or before 4 of the following month;
g. Maintain contract ledger for each contractor;
h. Maintain ledger accounts for retention fees, value added tax, withholding tax and stamp duty; and
i. Perform any other duty that may be assigned to him by the head of expenditure division

14.9.8 Duties and functions of central pay office

The central pay office of MDA shall perform the following duties:

(a) Raise mandate (manual/electronic) on processed payment vouchers;
(b) Posts paid payment vouchers into relevant Cash Books;

(c) Raise monthly journals of each cashbook and submit same to financial and fiscal reporting division on or before 4th of the following month;
(d) Ensure safe custody of documents;
(e) Maintain mandate register for each class of cashbook maintained;
(f) Reconcile mandate register with cashbook on daily basis;
(g) Ensures that all staff under his control are exposed to regular training programmes to equip them with relevant skills (on- the-job) for the efficient performance of their duties; and
(h) Perform any other duty assigned to him by the head of expenditure division.

14.9.9 Duties and functions of budget division

The budget division of MDA shall perform the following duties:

(a) Ensuring the preparation of Medium Term Revenue Framework (MTRF) and Medium Term Expenditure Framework (MTEF);
(b) Ensuring the preparation of Medium Term Sector Strategy (MTSS);
(c) Ensuring the preparation of budget (Revenue, expenditure, aid and grants and capital expenditure) for the MDA;
(d) Ensuring proper maintenance of budget books and records;
(e) Ensuring proper preparation of budget reports;
(f) Ensuring that all staff under his control are exposed to regular training programmes to equip them with relevant skills (on- the-job) for the efficient performance of their duties; and
(g) Perform any other duty/function assigned to him from time to time by the head of department of finance and accounts.

14.9.10 Duties and functions of recurrent expenditure budget unit

The recurrent expenditure budget unit of MDA shall perform the following duties:

(a) Collates recurrent expenditure budget of the MDA;
(b) Prepares medium term recurrent expenditure framework;
(c) Prepares medium term sector strategy;
(d) Liaises with budget office of the federation on recurrent budget of the MDA;
(e) Prepares monthly recurrent expenditure analysis report;
(f) Ensures that all staff under his control are exposed to regular training programmes to equip them with relevant skills (on- the-job) for the efficient performance of their duties; and
(g) Perform any other duty assigned to him by the head of budget division.

14.9.11 Duties and functions of capital, monitoring and evaluation budget unit

The capital, monitoring and evaluation of MDA shall perform the following duties:

(a) Collates the capital expenditure budget of the MDA;
(b) Advises on capital expenditure limits for vote controllers in accordance with appropriation;
(c) Prepares Medium Term Capital Expenditure Framework (MTCEF);
(d) Prepares medium term sector strategy;
(e) Liaises with budget office of the federation on capital budget;
(f) Prepares capital expenditure analysis report;
(g) Ensures that all staff under his control are exposed to regular training programmes to equip them with relevant skills (on-the-job) for the efficient performance of their duties; and
(h) Perform any other duty assigned to him by the head of budget division.

14.9.12 Duties and functions of financial and fiscal reporting division

The financial and fiscal reporting division of MDA shall perform the following duties:

(a) Ensuring proper maintenance of general ledger;
(b) Ensuring the balancing of the general ledger and extraction of trial balance on or before 10th of the following month;
(c) Ensuring the preparation and presentation of general purpose financial statements on or before 10th of the following month;
(d) Ensuring analysis, interpretation and reporting of general purpose financial statement on or before 15th of the following month;
(e) Ensuring the preparation of annual financial report of the MDA on or before 21st January the following year and submit to the office of the Accountant General of the federation;
(f) Ensuring proper stock accounting;
(g) Ensuring proper maintenance of property, plant and equipment register;
(h) Ensuring reconciliation of bank accounts on a weekly basis;
(i) Supporting quarterly, half yearly and annual stock taking/valuation. The stock valuation report should be sent to the head of finance and accounts, accounting officer and Accountant General of the federation on quarterly basis with explanation of variances if any.
(j) Ensuring prompt response to audit query;

(k) Organising the financial reporting functions in a manner that facilitates the keeping of complete and adequate financial/statistical records;

(l) Ensures that all staff under his control are exposed to regular training programmes to equip them with relevant skills (on- the-job) for the efficient performance of their duties; and

(m) Perform any other duty/function assigned to him from time to time by the head of department of finance and accounts.

14.9.13 Duties and functions of assets management and accounting unit

The assets management and accounting unit of MDA shall perform the following duties:

(i) Ensures posting of store issue notes into store register;

(ii) Maintenance of PPE register;

(iii) Raises store issue expense journal;

(iv) Reconciles store records with the control balances in the general ledger;

(v) Prepares PPE Schedule and notes and reconcile with the general ledger balances for each class of asset;

(vi) Supports quarterly, half yearly and Annual Stock taking and report on variances (if any) to the head of Financial and Fiscal Reporting division;

(vii) Registers and numbers all PPE acquired by the MDA;

(viii) Ensures that all staff under his control are exposed to regular training programmes to equip them with relevant skills (on- the-job) for the efficient performance of their duties; and

(ix) Perform any other duty assigned to him by the head of financial and fiscal reporting division.

14.9.14 Duties and functions of final and fiscal accounts unit

The final and fiscal accounts unit of MDA shall perform the following duties:

i. Receives journal vouchers from all sources;

ii. Posts all journal vouchers into the general ledger;

iii. Balances the general ledger;

iv. Draws up monthly and cumulative trial balances;

v. Prepares and presents General Purpose Financial Statements (GPFS) of the MDA and other disclosures;

vi. Ensures that all control accounts in the general ledger are reconciled with the schedules on a monthly basis, report on variances (if any) should be made to head of financial and fiscal reporting division on or before 7th of the following month;

vii. Prepares annual report of the MDA together with GPFS of the MDA;

viii. Posts books and records to generate fiscal report of the MDA;
ix. Prepares monthly and annual fiscal operations report on recurrent revenue and expenditure;
x. Prepares monthly and annual fiscal operations report on capital receipts and expenditure;
xi. Prepares ad-hoc management reports of the MDA;
xii. Prepares financial and statistical reports of the MDA;
xiii. Analyse financial and statistical report for the attention of the management;
xiv. Ensures that all staff under his control are exposed to regular training programmes to equip them with relevant skills (on- the-job) for the efficient performance of their duties; and
xv. Perform any other duty assigned to him by the head of financial and fiscal reporting division.

14.9.15 Duties and functions of audit query unit

The audit query unit of MDA shall perform the following duties:

i. Respond to audit queries promptly and adequately;
ii. Liaise with other relevant Departments for response and collates same for submission to Public Accounts Committee (PAC) of the National Assembly (NASS) and the treasury;
iii. Attends meetings of PAC,, OAGF and relevant agencies of the government with the accounting officer, head of finance and accounts and any other relevant officer;
iv. Ensures that all staff under his control are exposed to regular training programmes to equip them with relevant skills (on- the-job) for the efficient performance of their duties; and
v. Perform any other duty assigned to him by the head of financial and fiscal reporting division.

14.9.5 Books of accounts and other records.

a. Cashbook

The Treasury cashbook is the main accounting book of original entry and a very important component of the ledger accounts. It is used to record all cash receipts and payments. Cashbook is divided into two parts: **Debit** side and **Credit** side with a total of 12 columns (6 on each side)

All government PSE are expected to maintain a cash book for for every bank account and Sub-TSA account maintained, these may include:

(a) Main TSA Cash book
(b) Sub-TSA for Capital Cash book
(c) Sub-TSA for Overhead Cash Book

(d) Sub-TSA for Personnel Cash Book
(e) Sub-TSA for Revenue Cash Book
(f) Sub-TSA for Aid & Grants
(g) Sub-TSA for Other Special Accounts

Sample of cashbook (TRY 0001 & TRY 0010)

Format of cash book (to be used for revenue, recurrent expenditure ,capital expenditure and other bank accounts)

TRY No. 0001

Name of MDA--------

Source of fund code-------

Cash book (to be used for revenue, recurrent expenditure, capital expenditure and other bank accounts

Receipt side of cash book							**Payment side of cash book**					
Date	**Received from**	**Details of receipts**	**NCOA code**	**RV No.**	**Amount received**		**Date**	**Paid to**	**Details of payment**	**NCOA code**	**PV No.**	**Amount paid**
					₦							**N**

Note: At period end (e.g. month end) raise a journal entry for receipts and payment side of the cashbook each

Special features to note while posting the treasury cashbook

i. It is no more dated on top of the pages but as transactions occurred;
ii. It is no more in duplicate because the cash book shall remain at the cash office;
iii. TSA column on both the receipt and payment side now serves as the Bank column. Wherein all deposit and payment must first of all be reflected;
iv. Receipts into the cashbook are made up of two sources;
v. Funds allocated through Warrants;
vi. Funds received against the Receivable where applicable; and
vii. Direct daily revenue.
viii. Payments from the cashbook will be entered under TSA in column 6 of payment side; analysed and journalized according to their Line items in the National Chart of Accounts by the Pay office for

onward transmission to the Final Accounts which shall be Posted to the General ledger;

ix. It is to be balanced daily and

x. It is to be posted on net basis

Accounting records/journals of treasury cashbook

(i)**Receipts**

Dr. Sub-TSA with the total cash receipts

Cr. Revenue/Accounts receivable

Payments

Dr. Expenses/Assets accounts

Cr. Sub-TSA with the total cash payments

(ii) Extraction of Certificate of Cashbook balance

(iii) At period end raise a Journal Entry for Receipt and Payment side of the cash book

(iv.) Posting of the Balance into the General Ledger

(b) **Revenue receivable register**

Receipts from the revenue line items are expected to result to receivable if the payer does not pay within the period it falls due. All these line items require debit notes informing the respective payer. A copy of this debit note shall be forwarded to the revenue section of the affected PSE to inform them of a possible inflow.

These debit notes shall however be entered into revenue daybook. (Revenue Register (TRY 0002)). At the end of each month, all entries in the revenue daybook shall be **debited** into the personal Ledgers of each customer showing their individual receivable status.

The Cash Book postings under column 6 on the receipt side will reflect lodgements made by each customer; this shall be **credited** into their personal ledgers to ascertain the outstanding balances of receivables.

Accounting entries

Dr. Revenue receivable

Cr. Revenue line items

Reports to be submitted to final account

(i) Revenue control accounts
(ii) Analysis of all Revenues according to line items
(iii) List of receivables

Revenue receivable register format

TRY No. 0002

Name of MDA--------

Source of fund code-------

Revenue receivable register

Date	Name (receivable from)	Details of revenue	NCOA code	Debit note	Customer ledger ref. number	Amount receivable
						₦

Note: At period end (e.g. month end) raise journal entry by debit account receivable and credit relevant revenue sources

(c) **Revenue journal voucher**

Format **TRY No. 0003**

Name of MDA--------

Source of fund code-------

Journal voucher

Date	Details	NCOA Code	Debit	Credit
			₦	₦

Narration---

Prepared by:--------------------------- Signature--------------------------------- Date---------------------------------

Checked by:--------------------------- Signature--------------------------------- Date---------------------------------

Approved by:--------------------------- Signature--------------------------------- Date----------------------------------

(d) Individual subsidiary ledger- Accounts receivable

Format **TRY No. 0004**

Name of MDA--------

Individual subsidiary ledger (for all accounts receivable)

Name--------------

Contact details:----------------

TIN number: -----------------

Other details---------------------

NCOA (Economic and Fund code------------

Date	Details	Authority Document Ref No.	Debit	Credit	Balance
			₦	₦	₦

(e) Salary and wages register

Salaries and Wages Register known as payroll register is the document that records all the details about employees' payroll during a period.

Features of a salaries and wages register (TRY 0007)

- Name of PSE
- S/No
- Pay Point
- Consolidated Salary
- Non Regular Allowances
- Employee Cont. Pension Deducted
- Gross Pay
- Deductions
- Net Pay

Accounting Treatment (Journal Entry)

- Dr Consolidated Salary and Non Regular allowances
- Cr. Liabilities (Deductions and Net Salary)

i. Accounting Treatment for Pension deducted by Federal Ministry of Finance

- Dr. Pension Deducted

- Cr. Allocation To Fund Recurrent Expenditure

ii. Post the Journal into the Ledger

Format **TRY No. 0007**

Name of MDA--------

Salaries and wages register

S/N	Pay point	Consolidated salary	Non regular allowance	Employee cont. pension deducted	Gross pay	Deductions					Net pay
						PAYE	Sal. Advance	Union dues	Etc.	Total Deductions	Bank
		₦	₦	₦	₦	₦	₦	₦	₦	₦	₦

Journal 1

Details	NCOA	Dr.	Cr.
		₦	₦
Consolidated salary		xxx	
Non regular allowance		xxx	
PAYE			xxx
Pension deduction***			xxx
Motor vehicle loan			xxx
Union dues			xxx
Co-operative dues			xxx
Other deductions			xxx
Total		**xxxxx.**	**xxxxx**

Journal 2

Details	NCOA	Dr.	Cr.

		₦	₦
Pension deducted		xxxx.	
Allocation to fund recurrent expenditure			xxxx.
Total		**xxxxx.**	**xxxxx.**

(e) Accounts payable

Accounts Payable is a Liability. It is also a present obligation of an entity arising from past events, the settlement of which is expected to result in an outflow from the entity resources embodying economic benefits.

Accounting treatment

a. Dr. Expenditure/Asset Line Items

b. Cr. Account Payable

Reports to be submitted to final account

c. Expenditure control Accounts

d. Analysis of all Expenditures according to Line Items

e. List of Payables

TRY No. 0008

Name of MDA--------

Source of fund code-------

Accounts payable register (credit purchases/valuations yet to be paid)

Date	**Name of supplier**	**Details of expenditure/ Assets**	**NCOA code**	**Debit note and LPO**	**Customer ledger ref. no.**	**Gross amount payable**	**Analysis of gross amount payable**				
							Net Payable	**WHT**	**VAT**	**Stamp Duty**	**Other deductions**
						Code	**Code**	**Code**	**Code**	**Code**	**Code**
						₦					

Note: At period end (e.g. month end) raise journal entry debit the relevant expenses/assets accounts and credit accounts payable

vi. Other books

1. Subsidiary ledger-accounts payable (TRY 009)
   Format – Same as (d) above but replace receivable with payable.

iii. Cashbook (TRY 010) Format: Same as (a) above

iv. Monthly Financial Monitoring Report-Personnel cost (TRY 011)

v. Monthly Financial Monitoring Report-Overhead cost (TRY 012)

vi. Monthly Financial Monitoring Report-Capital cost (TRY 013)

Format

Name of MDA--------

Monthly financial monitoring report: personnel/overhead cost and capital expenditure (i.e. TRY 011,012 and 013)

			A	**B**	**C**	**D = B - C**	**E = A - B**	**F = (C/B) * 100**
S/N.	**NCOA code**	**Description of budget item**	**Appropriation**	**Total released/allocation to date**	**Actual expenditure to date**	**Balances based on allocation**	**Balances based on appropriation**	**Performance in percentage (%) based on fund released**
			N	**N**	**N**	**N**	**N**	**%**

Note: The report should be prepared for all the funding segments: (a) National budget, (b) Retained IGR, (c) Aid and grants, (d) Other sources

vii. Property plant and equipment register (TRY 022)

Name of MDA:…… **TR**

	Property, plant and equipment (PPE) register		NCOA code (fund and economic code)-----
Descript	Location-------		
Supplier	Manufacturer----------		Disposal data
Name and	Serial No--------------	**Type of PPE---------------**	Name and address of purchaser---

Address	Chasses number---------							Amount realised------		
	Engine No.----------							**Receipt No.-----**		
	Identification or registration No----------							Effective date of disposal-----		
Year	**Detailed of payment voucher no and date**	**Initial cost**	**Additional cost**	**Total cost**	**Depreciation rates**	**Annual depreciation**	**Aggregate depreciation**	**Carrying amount (NBV)**	**Disposal proceed**	**Gain/ loss on disposal**
		₦	₦	₦	%	₦	₦	₦	₦	₦

viii. Property plant and equipment schedule (TRY 023)

Format

Name of MDA:…… **TRY (023)**

Property, plant and equipment schedule as at-------

	Land and building	**Infrastructure**	**Plant and machinery**	**Transportation equipment**	**Office equipment**	**Furniture and fittings**	**Specialised assets**	**Others**	**Total**
Cost/revaluation:	₦	₦	₦	₦	₦	₦	₦	₦	₦
	XX	**XX**	**XX**	**X**	**XX**	**XX**	**XX**	**XX**	
Balance b/forward (1/Jan/20xx)	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XXX**
Additions during the year	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**XXX**

Disposal during the year	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(XXX)**
Balance c/forward (31/December 20xx)	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XXX**
Accumulated depreciation:									
Balance b/forward (1/Jan/20xx)	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XXX**
Additions during the year	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**XXX**
Disposal during the year	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(XXX)**
Balance c/forward (31/December 20xx)	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XXX**
Accumulated impairment:									
Balance b/forward (1/Jan/20xx)	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XXX**
Additions during the year	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**XXX**
Disposal during the year	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(XXX)**
Balance c/forward (31/December 20xx)	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XXX**
Net book value or carrying amount									**-**

As at 31/12/20xx	XX	XX	XX	XX	XX	XX	XX	XX	XXX
As at 31/12/20xx-1	XX	XX	XX	XX	XX	XX	XX	XX	XXX

Note: The value of land is not depreciate

ix. Inventory (stores) issues note register (TRY 024)

Format

Name of MDA:……

(0024)

Inventory issue note register

Date	User name	Store issue note number	Store item	NCOA (economic code)	Quantity	Rate	Amount	Remarks
							₦	

Note: First in first out (FIFO) is used the management and accounting of inventory.

(j)Investment register

Name of MDA TRY No. 0005

Date	Investee	Description/Details of investment	NCOA code (fund & economic cod	Authority document Ref. No	Amount invested	Remarks

14.10 Summary

This chapter discussed IPSAS 1, 2, 3, and 22 as regards to definitions, applications, recognition, measurement and disclosures as they relate to the preparation of Statutory Financial Statements for government in accordance with Accrual Basis IPSAS. A Cash Flow Statement gives the details of all cash received and paid by the organisation, during the year. It is a good reporting statement for cash management.

14.11 End of chapter review questions

14.11.1 Examination type questions

Section A

1 Which **one** of the following is not one of the characteristics of Government Business Enterprises (GBEs)?

A. It is an entity with the power to contract in its own name

B It has been assigned the financial and operational authority to carry on a business

C It is controlled by a public sector entity

D It is not reliant on continuing government funding to be a going concern

E A legal entities created for the purpose of producing goods and services for the market

2 Which one of the following is not one of the definitions stated in accordance to with IPSAS 3?

A Accounting policies

B Changes in accounting estimates

C Prior period errors

D Recoverable service amount

E Material omissions or misstatements

3 The following items classifies as investing activities **except**

A Cash repayments of amounts borrowed

B Cash receipts from sale of property plant and equipment, intangibles and other long-term assets

C Cash receipts from sale of equity or debt instruments of other entities

D Cash advances and loans made to other parties

E Cash payments to acquire equity or debt instruments of other entities

4 The following information are to be presented on the face of the statement of financial performance **except**

A Revenue

B Finance costs

C Cash payments to and on behalf of employees

D Surplus or deficit.

E Minority interest share of surplus/(deficit)

5 The following terms are used in **IPSAS-22** except-------

A General Government Sector (GGS)

B Entity specific value

C Public financial corporation sector (PFC)

D Public non-financial corporation sector (PNFC)

E Government Business Enterprises (GBEs)

6. Items that are short-term, highly liquid investments that are readily convertible to cash and which are subject to insignificant risk of changes in value are called------

7 ------------------ are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

8 -------------- items are material if they could, individually or collectively, influence the decisions or assessments of users made on the bases of the financial statements.

9 An ----------------of a cash generation asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

10 An entity thatsells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery called -----------

Section B

(1) The following information have been extracted from the records of Welfare State of Nigeria, for the year ended 31 December 2021.

	₦'000
Personal Emolument	2,000,000
Consolidated Revenue Fund charges	1,000,000
Statutory Revenue allocation	20,000,000
Proceeds from the sale of tangible assets	100,000
Purchase of marketable securities	50,000

Purchase and construction of tangible assets	500,000
Share of value added tax	200,000
Share of excess crude oil	100,000
Internally generated revenue	10,000,000
Gratuities and pensions	15,000,000
Miscellaneous income	50,000
Overhead expenses	36,000
Recurrent grants made	20,000
Miscellaneous expenses	10,000
Servicing and repayment of public debts	100,000
Grants and subventions from Non-Governmental Organisations	200,000
Proceeds from loan and other borrowings	300,000
Dividends received	100,000

You are required to:

Prepare the State's statement of cashflow for the year ended December 31, 2021, using the direct method approach.

ii. Paragraph 37 of this IPSAS 3 requires the development of accounting policies to ensure that the financial statements provide information that meets a number of qualitative characteristics.

You are required to discuss the main characteristics of Financial Reporting.

3 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.

Enumerate the factors that will make financial statements to be reliable documents.

4 The following information relate to the accounts of Maiko State Government for the year ended 31st December 2021:

	Dr.	Cr.
	₦'m	**₦'m**
Land and Buildings (cost)	155,000	
Long-term investments	75,000	

Equipment and furniture	27,000	
Accumulated Depreciation:		
- Land and Building		16,000
- Motor vehicles		12,000
- Equipment and furniture		8,500
Motor vehicles (cost)	58,000	
Federation Account Allocation		115,000
Vat Allocation		35,000
Grants from Federal Government		13,500
Internally generated fund		39,000
Grant from donor Agency		10,000
Personal Emolument	50,000	
Maintenance of premises	2,000	
Consolidated Revenue Fund Charges	13,000	
Overhead expenses	10,000	
Miscellaneous Expenditure/Income	15,000	24,500
Long-term loans		100,000
Current Assets/Liabilities	15,500	14,500
Consolidated Revenue Fund		32,500
Total	**420,500**	**420,500**

The following additional information are also relevant:

(i) Loan interest outstanding at the end of the year was ₦5 billion.

(ii) Depreciation on tangible assets is charged at the following rates on cost:

- Building is 5% (cost of land is ₦100billion)
- Motor vehicles is 20%
- Equipment and furniture is 15%

(iii) A building costing ₦5 billion with accumulated depreciation of ₦2 billion was sold for ₦4.5 billion. This transaction has not been adjusted in the accounts.

(iv) Interest on receivable amounted to ₦4billion

You are required to prepare the statement of financial performance of the State for the year ended 31st December 2021.

14.11.2 Suggested solutions to examination questions

Section A

1. E
2. D
3. A
4. C
5. B
6. Cash equivalents
7. Accounting policies
8. Material omissions or misstatements
9. Impairment loss:
10. Government Business Enterprises (GBEs)

Section B

(1) Welfare State of Nigeria

Statement of Cash Flows for the Year Ended 31 December, 2021

	₦million	**₦million**
Operating activities		
Statutory Revenue Allocation		20,000
Share of Excess Crude Oil		100
Internally Generated Revenue		10,000
Share of value Added Tax		200
Grant and Subventions Received		200
Miscellaneous Income		50
Personal Emoluments		(2,000)
Consolidated Revenue Fund Charges		(1,000)
Gratuities and Pensions		(15,000)
Overhead Expenses		(36)
Recurrent Grants made		(20)
Miscellaneous Expenses		(10)
Servicing and Repayment of Public Debts		(100)
Net Cash Flow from Operating Activities		12,384
Investing activities		
Proceeds from Sales of Tangible assets	100	

Purchase of Marketable Securities	(50)	
Purchase and Construction of Tangible assets	(500)	
Net Cash flow from investing		(450)
Financing activities		
Proceeds from Loans and other Borrowings	300	
Dividends received	100	400
Cash and equivalents at 31/12/2006		**12,334**

2 **Qualitative characteristics of financial reporting**

Qualitative characteristics of accounting policies that are the attributes that make the information provided in financial statements useful to users. The four principal qualitative characteristics are understandability, relevance, reliability and comparability.

- **Understandability**

  Information is understandable when users might reasonably be expected to comprehend its meaning. For this purpose, users are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, and to be willing to study the information. Information about complex matters should not be excluded from the financial statements merely on the grounds that it may be too difficult for certain users to understand.

- **Relevance**

  Information is relevant to users if it can be used to assist in evaluating past, present or future events or in confirming, or correcting, past evaluations. In order to be relevant, information must also be timely.

- **Materiality**

  The relevance of information is affected by its nature and materiality. Information is material if its omission or misstatement could influence the decisions of users or assessments made on the basis of the financial statements. Materiality depends on the nature or size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.

- **Reliability**

  Reliable information is free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent.

- **Faithful Representation**

For information to represent faithfully transactions and other events, it should be presented in accordance with the substance of the transactions and other events, and not merely their legal form.

- **Substance Over Form**

  If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. The substance of transactions or other events is not always consistent with their legal form.

- **Neutrality**

  Information is neutral if it is free from bias. Financial statements are not neutral if the information they contain has been selected or presented in a manner designed to influence the making of a decision or judgment in order to achieve a predetermined result or outcome.

- **Prudence**

  Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or revenue are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow, for example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or revenue, or the deliberate overstatement of liabilities or expenses, because the financial statements would not be neutral and, therefore, not have the quality of reliability.

- **Completeness**

  The information in financial statements should be complete within the bounds of materiality and cost.

- **Comparability**

  Information in financial statements is comparable when users are able to identify similarities and differences between that information and information in other reports.

Comparability applies to the:

i. Comparison of financial statements of different entities; and
ii. Comparison of the financial statements of the same entity over periods of time.

An important implication of the characteristic of comparability is that users need to be informed of the policies employed in the preparation of financial statements, changes to those policies and the effects of those changes. Because users wish to compare the performance of an entity over time, it is important that financial statements show corresponding information for preceding period

(k) **Timeliness**

If there is an undue delay in the reporting of information it may lose its relevance. To provide information on a timely basis it may often be necessary to report before all aspects of a transaction are known, thus impairing reliability. Conversely, if reporting is delayed until all aspects are known, the information may be highly reliable but of little use to users who have had to make decisions in the interim. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the decision-making needs of users.

(l) Balance between benefit and cost

The balance between benefit and cost is a pervasive constraint. The benefits derived from information should exceed the cost of providing it. The evaluation of benefits and costs is, however, substantially a matter of judgment. Furthermore, the costs do not always fall on those users who enjoy the benefits. Users other than those for whom the information was prepared may also enjoy benefits. For these reasons, it is difficult to apply a benefit-cost test in any particular case. Nevertheless, standard-setters, as well as those responsible for the preparation of financial statements and users of financial statements, should be aware of this constraint.

3a. The information that must be clearly displayed in the financial statements is as follows:

a. The name of the reporting entity;
b. The reporting date and the period covered by the financial statements;
c. The presentation currency; and
d. The level of rounding.

b. 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; and
iv. Head of Finance and Accounts of Ministries, Department and Agencies (MDAs).

c. The following are the factors that will make financial statements to be reliable documents:

a) Representing faithfully, the financial performance and the financial position of the entity being reported on;
b) Reflect the economic substance of events and transactions (other than in their legal form);
c) Free from material misstatement and bias;
d) Prudent in nature of preparation; and
e) Show completeness in all material respect.

4 **Maiko state government**

Statement of financial performance for the year ended 31st December 2021

Revenue	**₦’m**	**₦’m**
Federation account allocation		115,000
VAT allocation		35,000
Grants from Federal Government		13,500
Internally generated revenue		39,000
Grant from donor agency		10,000
Miscellaneous income		24,500
Interest on investment		4,000
Profit on sale of building		1,500
		242,500
Expenditure		
Personal emolument	50,000	
Maintenance of premises	2,000	
Consolidated revenue charges	13,000	
Overhead expenses	10,000	
Interest on loans	5,000	
Depreciation - Buildings	2,750	
- Motor vehicle	11,600	
- Equipment and furniture	4,050	
Miscellaneous expenses	15,000	
		113,400
Surplus for the year		129,100
CRF b/f		32,500
Consolidated revenue c/f		161,600

CHAPTER FIFTEEN

ACCOUNTING FOR PUBLIC SECTOR ORGANISATIONS AND

GOVERNMENT BUSINESS ENTITIES

CHAPTER CONTENTS

15.0 Learning objectives

After studying this chapter, the reader should be able to:

(a) Discuss the Enabling Act that establishes a parastatal or a public company;

(b) Itemise the objectives of setting up public enterprises;

(c) Explain the Accounting requirements of public enterprises; and

(d) Discuss the sources of income and types of expenditure of public enterprises.

15.1 Introduction

Parastatals and public companies are agencies established by government for specific purposes. Examples are corporations, boards and authorities. The characteristics of parastatals or corporations are as follows:

(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, 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 state 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;

    (iv) The place where the head office and branches of the parastatal will be sited;

    (v) The organogram of the organisation; and

    (vi) The source of fund to the parastatal and the type of accounts they are expected to keep.

    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 Health would approve any price increase by the Federal Medical Centres before it is implemented;

(ii) All the byelaws;

(iii) The corporation's annual budget; and

(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.

15.2 Main objectives of setting up corporations/ parastatals/public enterprises

The main objectives of setting up parastatals are to:

(a) Bring the means of production under public ownership;

(b) Avoid high prices of goods normally charged by the private sector;

(c) Avoid duplication of facilities;

(d) Ensure close government control over certain 'key' sectors of the economy;

(e) Ensure the survival of the Industries;

(f) Avoid imitation of goods; and

(g) Enhance the standard of living of the people.

15.3 Classes of government enterprises

Public enterprises are establishments owned and controlled partially or wholly 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 subsidised 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).

(d) **Government business enterprises (GBEs)** mean an entity that has all the following characteristics:

- (a) It is an entity with the power to contract in its own name;
- (b) Has been assigned the financial and operational authority to carry on a business;
- (c) Sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;
- (d) It is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and
- (e) It is controlled by a public sector entity.

Government business enterprises (GBEs) include both trading enterprises, such as utilities, and financial enterprises, such as financial institutions. GBEs are, in substance, no different from entities conducting similar activities in the private sector. GBEs generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organisations in the community with goods and services at either no charge or a significantly reduced charge.

15.4 Public sector enterprises accounting

The nature and structure of accounting in the public enterprises depend largely on their scopes and objectives.

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.

15.4.1 Sources of income of parastatals

Although corporations are set up mainly to render social services to the public at the least possible costs and are principally self-financing, the appropriate government makes funds available to them in form of subventions. The money given to a corporation by the government is income to the corporation and is usually classified into recurrent and capital grant or subvention.

15.4.2 Expenditure of parastatals

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 policies. .

15.4.3 Financial statements

The financial statements of an enterprise are expected to comply with the normal accounting standards in operation and requirements of the laws regulating the activities of the enterprise. For profit-making public enterprises, the financial statements will include:

(a) Statement of financial position;

(b) Statement of financial performance;

(c) Statement of changes in net assets/equity;

(d) Statement of cash flow;

(e) Accounting policies; and

(f) Notes to the financial statements and other disclosures.

However, for the not-for-profit making public enterprises, the financial statements are expected to include:

(a) **Statement of financial position**

Statement of financial position is a statement that shows assets, liabilities and net assets/equity of an entity. Both assets and liabilities are categorised as current and non-current in the statement of financial position.

Current assets include the following:

(i) Cash and its equivalents;

(ii) Receivables;

(iii) Inventories;

(iv) Prepayments; and

(v) Other current assets.

Non- current assets is made up of:

(i) Loans granted (Receivables);

(ii) Investments;

(iii) Infrastructure, Plant and Equipment;

(iv) Investment property, plant and equipment; and

(v) Intangible assets

Current liabilities include:

(i) Deposits;

(ii) Short term loans and advances;

(iii) Unremitted deductions; and

(iv) Accrued expenses.

Non- current liabilities are made up of:

(i) Public funds; and

(ii) Long term borrowings.

All the above sub groupings as a minimum requirement must be disclosed at the face of the statement of financial position.

Assets are however treated in the financial position net of all provisions while details are disclosed in the notes to the financial statements.

(b) **Statement of financial performance**

Statement of financial performance (Income and expenditure accounts) shows income accrued to the entity from all sources and expenditure incurred during the period.

As a minimum requirement, the face of the statement of financial performance should include the following line items:

(i) Revenue from operating activities;

(ii) Surplus or deficit from operating activities;

(iii) Finance costs;

(iv) Share of net surpluses or deficits of associates and joint ventures accounted for using the equity method;

(v) Surplus or deficit from ordinary activities**;**

(vi) Extraordinary items;

(vii) Minority interest share of net surplus or deficit; and

(viii) Net surplus or deficit for the period.

The expenses are classified either by nature or by their function within the entity. If an entity decides to classify expenses by function, it must also provide a presentation by nature of expenses in the notes**.**

(c) **Statement of changes in net assets/equity**

Net assets/equity simply refers to assets less liability. Net assets/equity is financed by reserves, accumulated surpluses/deficit and minority interest. The statement is important in general-purpose financial statement (GPFS) because it enables users to ascertain causes for movement in net equity of an entity.

Changes in net assets/equity are normally caused by:

(a) Significant changes in accounting policies;
(b) Correction of prior years' errors;
(c) Revaluation of the assets;
(d) Surplus or deficit for the period; and
(e) Changes in currency translation.

(d) **Statement of cash flow**

Statement of cash flow is one of the Statements required by IPSAS 1 to be presented in the GPFS.

The cash flow statement identifies the sources of cash inflows, the items on which cash was expended during the reporting period, and the cash balance as at the reporting date. IPSAS 2 covers the preparation and presentation of cash flow.

Cash flows are basically reported under three (3) separate activities as follows:

Operating activities: Activities of the entity that are not investing or financing activities. These are day-to-day activities of an entity.

Investing activities: The acquisition and disposal of long term assets and other investments not included in cash equivalent

Financial activities: Activities that result in changes in the size and composition of the contributed capital and borrowings.

(e) **Accounting policies**

Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements. They are part of the financial statements.

Entities should select and apply accounting policies so that the financial statements comply with all the requirements of each applicable International Public Sector Accounting standards.

(f) **Notes to the financial statements and other disclosures**

Notes and other disclosures to GPFS are additional information presented in the GPFS to enable users understand the financial statements better and compare them with those of other entities.

Notes include narrative descriptions or more detailed schedules or analyses of amounts shown on the face of the statement of financial performance, statement of financial position, cash flow statement and statement of changes in net assets/equity, as well as additional information such as contingent liabilities and commitments.

IPSAS has not specifically provided formats for preparation of notes and other disclosures to the financial statements but as a minimum requirement, notes are normally presented in the following order:

(i) Statement of compliance with IPSAS;

(ii) Statement of the measurement basis (bases) and accounting policies applied;

(iii) Supporting information for items presented on the face of each financial statement in the order in which each line item and each financial statement is presented; and

(iv) Other disclosures, including contingencies, commitments and other financial and non-financial disclosures.

Non- financial disclosures include:

(i) Domicile and legal form of the entity;

(ii) Nature of the entity's operations and principal activities;

(iii) Reference to relevant legislation governing the entity' operations; and

(iv) The name of the controlling and the ultimate controlling entity of the economic entity (where applicable).

Illustration

A typical format of statement of financial performance of the Federal Airport Authority of Nigeria for the year ended 31 December 2021 is shown below:

	2020		2021	
	₦	₦	₦	₦
Income				
Government subventions	x		x	
Licence fees	x		x	
Parking fees	x		x	
FAAN citizen tax	x		x	
Staff school income	x		x	
Guest house income	x		x	
Sundry income	x	x	x	x
Expenditure				
Salary and allowances	(x)		(x)	
Postage, cable and telephone	(x)		(x)	
Airport maintenance	(x)		(x)	
Printing and stationery	(x)		(x)	
Books and periodicals	(x)		(x)	
Training	(x)	(x)	(x)	(x)
(Deficit)/surplus for the year			x	x
Add/ (deduct) balance brought forward	x		x	
(Deficit)/surplus carried forward		x		x

Illustration

Federal Airport Authority of Nigeria

A typical format of statement of financial position

as at 31 December 2021

	2020	2021
Non-current assets	xx	xx
Current assets:		
Inventory	x	x

Trade receivables	x		x	
Bank	x		x	
Cash	x		x	
	x		x	
Less: Current liabilities:				
Trade payables	(x)		(x)	
Other payables	(x)	x	(x)	x
Total net assets		**xx**		**xx**
Financed by:				
Capital fund		x		x
Other funds		x		x
Reserves		x		x
		xx		**xx**

15.5 Preparation of educational institutions' accounts

Generally, accounts of an educational institution are formally maintained under cash-basis of accounting, however under IPSAS accrual basis introduced by the Federal Government of Nigeria in 2016 financial year, all educational institutions are under IPSAS accrual basis.

An educational institution has many accounts and among others are domestic and boarding accounts. The domestic account deals with tuition fees, admission fees, fines, session charges and special fees e.g. laboratory fees, library fees, and sports fees while boarding account deals with boarding house fees, cleaning, lighting etc.

The following books of accounts are necessary for both domestic and boarding accounts:

(a) Cash Book:

In order to record all receipts and payments a columnar cash book is prepared. Each receipt or payment is analysed into its appropriate head and recorded in the analysis column and the total of the analysis column will represent the amount received or paid under a particular head. Periodical reconciliation should also be made between the fees collected, fees outstanding at the beginning and at the end of the period, fees written-off with fees that should have been collected according to the number of students in different classes having regard to the number of students enjoying free studentship, concessions etc. Separate receipts should also be made for grants from government etc., scholarships, stipends etc. All these information are to be recorded in a columnar cashbook.

(b) Personal Ledger:

It consists of:

(i) Collection ledger/register: Collection of tuition fees, admission fees, fines, session charges and special fees e.g. laboratory fees, library fees, sports fees etc. should be separately recorded in collection register and ledger

(ii) **Students' ledger** must be maintained where all these collections should be credited to the respective students' ledger. Students' Ledger should also include free studentship, concessions and writing-off irrecoverable fees, which are to be sanctioned by higher authority

- **Donors' register:** It shows the amount provided by the donors, the actual amounts collected and the amount outstanding.
- **Salaries and wages register:**
  It keeps records of the amounts of salaries and wages, which are paid or payable to the employees of the Institution. Monthly total should be made and recorded in cash book also.

(v) **Inventory book register:**

It keeps record of all properties purchased, e.g., purchase of building, furniture, investment, books, consumable inventories, etc. As soon as the asset is purchased, the same is to be recorded first in the cashbook and thereafter in the inventory books. Similarly, when an asset is sold, the same must be adjusted so that the inventory books may remain up-to-date.

(c) **Annual statement of accounts:**

This statement reveals the actual income and expenditure of a year classified under appropriate heads. Chartered accountants should audit the annual statement of accounts. This statement is submitted to the governing body of the institution along with the auditor's report. If the same is approved, it becomes final. This statement is prepared in a columnar form, first column being used for 'budgeted figures', the second one for 'Actuals' and the third one the variance between the budget and actual figures

15.6 Audit of government enterprises

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 annual accounts of the corporations must be audited by an external auditor;

(c) According to section 85 (125) sub-section 3 (b) the Auditor-General has the power to comment on the annual accounts and external auditor's reports thereon and report to the legislature. Furthermore, Section 85 (125) sub-section 4 gives the Auditor General the power to conduct periodic checks of all government statutory corporations, commissions, authorities, agencies, including all persons and bodies establish by an Act of the National (State) Assembly.

15.7 Summary

This chapter discussed the establishment of different types of corporations, the accounting policies, income receivable, expenditure incurred and the peculiar reporting system.

15.8 End of chapter review questions

15.8.1 Examination type questions

Section A

1 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

2 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

3 The following are the main objectives of parastatals **except**

A Bring the means of production under public ownership;

B Avoid high prices of goods normally charged by the private sector;

C Avoid duplication of facilities;

D Maximisation of profits

E Ensure the survival of the Industries;

4 The financial statements of parastatals will include the following **except**

A Statement of financial position

B Statement of financial performance

C Statement of monthly transcripts

D Statement of cash flow

E Accounting policies

5 Changes in net assets/equity are normally caused by the following **except**

A The acquisition and disposal of non-current assets
B Correction of prior years' errors;
C Revaluation of the assets;
D Surplus or deficit for the period; and
E Changes in currency translation.

6. Public companies andcorporations are government agencies set up for .... purposes

7 The subventions which government gives may be ....or.....................in nature.

8 Parastatals have......................Ministries.

9 Collection of tuition fees, admission fees, fines, session charges and special fees e.g. laboratory fees, library fees, sports fees etc. should be separately recorded in ------------

10 The ----------- has the power to conduct periodic checks of all government statutory corporations, commissions, authorities, agencies, including all persons and bodies establish by an Act of the National (State) Assembly.

Section B

(1) The following information have been extracted from the books of Bolus Electricity Board, for the year ending 31 December, 2021:

	₦'000
Accumulated depreciation, 01/01/2021	45,224
Sale of electricity	114,392
Purchase of electricity	95,784
Meter reading, billing and collection of electricity	1,624
Non-current 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 and cash balance	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 2021 was ₦3,634,000.

Required:

Prepare in vertical form the statement of financial performance and statement of financial position of the Bolus Electricity Board, for the year ended 31 December 2021.

(2) The following information relate to the accounts of Okokomaiko State University for the year ended 31 December 2021:

	Dr.	Cr.
	₦'000	**₦'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:

(i) Loan interest outstanding at the end of the year was ₦5 million.

(ii) Depreciation on tangible 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.

Required:

Prepare the statement of financial performance of the University for the year ended 31 December 2021 and statement of financial position as at that date.

(3) Parastatals and public companies are agencies established by government for specific purposes.

(a) What are the most common accounting policies adopted by parastatals and public companies?

(b) Give the main objectives of setting up parastatals, departments and agencies.

(4) Mallam Saani Magana has been the Bursar of Government College, Kangiwa for about 10 years. He was the one in charge of collecting revenue, issuing receipts, custody and lodging of money into the ban k, 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 Mallam Sanni Magana'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". And many people became suspicious of his sudden source of wealth.

Consequently, the School Principal decided to beam searchlight on Mallam Sanni Magana, and commissioned a firm of Chartered Accountant to look into the accounting books of the College. The examination of records and investigation revealed the following:

a.	Cheques issued but not presented to the bank valued	₦300,000
b.	Uncredited cheques amounted to	₦ 530,000
c.	Bank Charges amounted to	₦100,000
d.	Cash collections that were not yet banked amounted to	₦30,000
e.	There were direct point of sales (POS) transfers into the bank account	₦66,000
f.	Bursar cash float balance was	₦750,000
g.	e-subscriptions paid directly to bank valued	₦2,000

h. The “Standing Order” in respect of staff pension of ₦20,000 had been effected at the bank only. The bank statement revealed a balance of ₦356,000.

You are required:

i. Identify four (4) basic control barriers faced by the operational system adopted by the Bursar of Government College, Kangiwa.

ii. Prepare Government College’s bank reconciliation statement from the Information above, and comment on difference observed if any.

15.8.2 Suggested solutions to examination type questions

Section A

1. E
2. E
3. D
4. C
5. A
6. Specific
7. Recurrent or Capital
8. Supervising
9. Collection register and ledger
10. Auditor-General

Section B

1. Bolus Electricity Board

Statement of financial performance for the year ended 31 December 2021

	₦’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 2021

	₦'000	**₦'000**
Non-current asset		
At cost	84,102	
Less: Accumulated depreciation		
₦(45,224,000 + 3,634,000)	48,858	
Net book value		**35,244**
Current assets:		
Inventory and work-in-progress	1,234	
Trade receivables	12,006	
Electricity estimated unread consumption	7,222	

Hire purchase and deferred payment		
Instalments	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		**45,736**
Financed by:		**₦'000**
Electricity council grant		21,556
Reserves brought forward		23,116
Retained profit for the year		1,064
		45,736

2. Okokomaiko State University

Statement of financial performance for the year ended 31 December 2021

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 grants 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 31 December 2021

Non-current assets	**Cost**	**Accum. Dep.**	**Carrying amount**
	₦'000	**₦'000**	**₦'000**
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
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**
	122,100

Workings

		₦'000
(i)	Current assets b/f	15,500
	Add: Proceeds from sale of building	8,000
	Interest received	6,000
		29,500
(ii)	Current liabilities b/f	4,500
	Loan interest	5,000
		9,500

3 (a) Most common accounting policies adopted by parastatals, departments and public companies are as follows:

(i) **Accrual basis of accounting:** The basis 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.

(ii) Some corporations and parastatals prepare Income and expenditure accounts while others prepare statement of financial performance to show profit or loss. From the information available in the accounting books of corporation, it is easy to ascertain the type of accounts prepared. Where income and expenditure account is prepared, the net result is normally described as surplus or deficit, whereas if it is a profit-oriented entity, statement of financial performance is prepared at the end of the financial year.

(iii) The capital or proprietorship of the organisation is represented by 'fund account'.

(iv) Parastatals, unlike the three-tiers of government, show non-current assets with their historical costs, accumulated depreciation to date and net book values.

(v) Government subventions and grants are stated as the amounts received during the year, on cash basis. Some corporations, however, credit their income and expenditure account with the amount as current assets in the balance sheet (statement of financial position),using accrual basis.

(vi) Interests receivable on fixed deposit accounts are usually accounted for, on cash basis. However, some corporations use the accrual methods.

(vii) Foreign currency transactions are translated as follows:

(a) Income and expenditure items are translated at the average rate of conversion;

(b) Non-current assets translations are made at the historical costs basis.

(c) Other assets and liabilities are translated at the rate ruling on the statement of financial position date. Profits or loss on translation is shown in the statement of financial performance on a yearly basis.

3(b) The main objective of setting up parastatals, departments and agencies are as follows:

(i) To bring means of production under public ownership;

(ii) To avoid high prices of goods normally charged by private ownership;

(iii) To avoid duplication of facilities;

(iv) To ensure close government control over certain ‘key sectors of the economy;

(v) To ensure survival of industries;

(vi) To improve the standard of living of the people.

4(i) The FOUR basic control barriers faced by the operational system being adopted by the Bursar of Government College, Kangiwa are:

i. No segregation of duties
ii. No supervision control
iii. Poor management control
iv. Poor authorization and approval
v. Poor organization control

(ii) Government College, Kangiwa

Bank Reconciliation Statement for the period

	₦'000	**₦'000**
Balance as per Cash float	750	
Add:		
Unpresented cheques	300	
Receipts in Bank Statement (e-Transfer)		66
e- Subscription paid directly to the bank2368		
1,118		
Less:		
Bank Charges	100	
Standing Order	20	
Uncredited Cheques	530	
Receipts in Cashbook not in bank statement	130 (780)	**338**
Amount not accounted for or errors in cashbook	18	
Balance as per bank statement **356**		

Comment

This balance of #338 Million is not in agreement with the bank statement balance of ₦356 Million. There is a difference of #18 Million due to errors from the cash book.

CHAPTER SIXTEEN

FINANCIAL MANAGEMENT CONTROL SYSTEMIN THE PUBLIC SECTOR

Chapter contents

16.0 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 taxpayer's money.

16.1 Introduction

Expenditure control could be defined as the strings of coordinated actions, which have to be taken to ensure that all expenditure are 'wholly', 'necessarily', 'reasonably' and 'exclusively' incurred for the purposes for which they are meant. Control structures generally have to do with the process of ensuring that all revenue of government generated is 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

16.2 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.

16.3 Legislative control- Roles and responsibilities of national and state assemblies and their various **committees**

The National Assembly is the supreme authority on matters of the Nation's finance. The control exercised by the legislature is both 'ante-natal' and 'post-natal'. The 'ante-natal' control occurs when the legislature considers and approves the estimates submitted to it by the President. 'Post-natal' control is the review of transactions after payment. No amount of public fund may be spent without the approval of the National Assembly. However, Section 82 of the 1999 Constitution empowers the President to spend from the Consolidated Revenue Fund to carry on the administration of government of the federation for not more than six (6) months or until the coming into operation of the Appropriation Act, whichever is earlier

This control concept has to do with the various measures that Parliament can use for purposes of controlling the use of public funds. This system of control is important since Parliament is an independent body from the executive, where the ruling party forms the government administration.

Parliament achieves such financial controls over public revenue and expenditure through the following:

(a) Public finance committee

This is a sub-committee of National Assembly or 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 authorisation to the estimates, after the examination made by various sub-committees. The Appropriation committee is in effect the whole National Assembly 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 organisations. The proper performance of their roles is a major control mechanism, known as the execution of oversight functions

(d) Public Accounts Committee (PAC)

The committee is a body established by law to study and examine the reports submitted by the Auditor-General, especially in the areas of fraud practices or embezzlement of public funds. The Body is also to expose waste, corruption or inefficiency in the handling of public funds or projects and make appropriate recommendations to the National/ State Assembly. It is empowered to examine the audited accounts of the Federation and those of public offices as well as the Auditor-General's report thereon.

Role of Public Accounts Committee

(i) To examine the accounts showing the appropriation of the sum granted by the Legislature to meet the public expenditure; together with the Auditor-General's report thereon.

(ii) The committee not only ensures that ministries spend money in accordance with Legislature approval, it also brings to the notice of the Assembly instances of extravagance, loss, in fructuous expenditure and lack of financial integrity in public services.

(iii) The Committee shall, for the purposes of discharging that duty, have power to send for any person, papers and records and to report from time to time to the Legislature and to sit notwithstanding the adjournment of the Assembly;

(iv) To examine any accounts or report of statutory corporations and boards after they have been presented to the State House of Assembly and to report thereon from time to time to the Assembly.

(v) To enquire into the report of the Auditor General with respect to any pre-payment audit query which had been overruled by the Chief Executive of the Ministry, Extra-ministerial department, agency or courts of the government and to report it to the Assembly.

(vi) The committee has extended its scope of work in recent years to cover the examination of policy issues and accounts that are not part of the appropriation accounts.

16.3.1 Legislative control in Ghana

a) **The Audit Service in Ghana**

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.

(ii) **The concept of Appropriation in Ghana**

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 legislatures 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 Section25 (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:

a. Authorise the estimates of the organisations.
b. Give agreement to the Ambit of the Vote.
c. Act as reference point for disagreements.
d. 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 the1992 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.**

(iii) 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.

16.4 The executive control

The Executive comprises the President and his cabinet members who have the responsibility for the efficient and effective control of the administration of the country - politically and economically while at the State Government level it is made up of the Governor and his cabinet members. At both levels, the Constitution created two other arms of government, called the Legislative and the Judiciary for purposes of checks and balances. All measures and policies taken by the President are subject to the approval of the Legislature within the ambit of the Constitution.

Consequently, in accordance with Section 81(1) of the Constitution, "The President shall cause to be prepared and laid before each House of the National Assembly at anytime in each financial year, estimates of revenue and expenditure of the Federation for the following financial year."

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

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.

16.5 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.

(a) TheMinisterofFinanceauthorisestheAccountant-Generaltoissuewarrants, which in turn empowers Accounting Officers to incur expenditure.

(b) **Virement**

Virement is an authorised transfer from one sub-head to another sub-head but in the same head.

A virement warrant may be issued:

i. When as a result of circumstances, which could not have been foreseen when, the annual estimates were framed;

ii. Additional provision is required under a particular sub-head while at the same time equivalent saving can be made under another sub-head of the same head.

Conditions for virement

Accounting Officer may apply for virement from one sub-head to the other under the conditions that;

i. The amount to be vired from any sub-head within a financial year under overhead costs does not exceed 10% of the approved estimates for each sub-head under the overhead costs.
ii. Virement is not to create a new sub-head or re-introduce items disallowed during the budget process by the National Assembly.
iii. Virement does not apply to queries raised by the Auditor-General in respect of improper expenditure/expedition already incurred by a Ministry/Extra-ministerial department
iv. The approval is by National Assembly and conveyed by the Honourable Minister of Finance to the MDA.
v. A Register must be kept for all virement made.
vi. The details of the virement authorized under.
vii. Above shall be forwarded within one month from the date of approval to the ministry concerned and copies to the Accountant-General of the Federation and the Auditor-General for the Federation.

(c) **Cash management**

Cash management is a component of good financial governance. It ensures that cash resources available to government are spent in such a way as to maximize the benefits to the citizens. Cash Management means ensuring that funds are available in a predictable and smooth manner for government operations to enable effective and efficient service delivery.

This requires:

(a) Cash flow forecasting and planning
(b) Integrated cash and debt management
(c) Active liquidity management
(d) Efficient banking and payment arrangements

Objectives

i. To minimize costs within a prudent risk level.
ii. To give a consolidated view of Government Cash resources.
iii. To ensure that adequate cash is available to pay expenditures when they are due.
iv. To maximize returns on idle cash.
v. To manage risks by investing temporary surpluses.
vi. To develop good practice for managing daily cash balances.

vii. To take advantage of modern banking systems and financial instruments.
viii. To minimize borrowing.

Structure and institutional arrangement for FGN cash management

a) Federal Cash Management Policy Committee

The Committee which shall be chaired by the HMF has overall responsibility for FGN cash planning and management and has the following members:

i. Minister of Finance - Chairperson
ii. Minister of Budget and National Planning
iii. Chief Economic Adviser to the President
iv. Permanent Secretary, Fed. Min. of Finance
v. Deputy Governor, Operations, CBN
vi. Special Adviser to the President on National Assembly Matters
vii. Senior Special Assistant to the President on Millennium Development Goals
viii. Accountant-General of the Federation
ix. DG, Budget Office of the Federation
x. DG, Bureau of Public Procurement
xi. DG, Debt Management Office
xii. Representative of the SGF

They shall meet at least quarterly to review actual performance and approve Cash Plans. It shall also authorise publication of quarterly Cash Performance Reports

(ii) Cash Management Technical Committee

The Technical Committee shall consist of members from various key MDAs of the Federal Government. The Technical Committee is to provide technical support to the Federal Cash Management Policy Committee (FCMPC). The Technical Committee is to serve to coordinated the activities of all the MDAs and other relevant stakeholders and undertake analytical work ahead of the Ministerial Cash Management Committee

The Membership of the Cash Management Technical Committee are:

a. Director Fund, OAGF, Chairperson
b. Director, Cash Management Department, FMF
c. Director Expenditure, BOF
d. Director, Portfolio Management, DMO
e. Director, Banking and Payment System, CBN
f. Director, Revenue Accounting, FIRS
g. Director Finance and Accounts of key MDAs (State House, FMWH, Power, Agriculture, Transport, etc.

b) MDA Cash Management

Each MDA should:

i. Have its own mechanism for cash planning and forecast with the Accounting Officer having the overall responsibility for effective and efficient management of cash resources
ii. Consider their Procurement Plan and Annual Cash Plan taking into consideration budget objectives, their needs and priority of Government
iii. Review actual budget out-turn and take appropriate measures to address mitigating factors
iv. Ensure at a minimum the following:
v. Assign relevant officer from every department to enter and review Departmental needs into the GIFMIS application
vi. Consolidate MDA cash needs for submission to the CMU in Funds Department in OAGF
vii. Review the consolidated MDA Cash Plan and confirm that all cash payment needs are supported by legal and financial commitments entered into GIFMIS
viii. Assign a staff as the counterpart for the CMU at OAGF for Federal Government and to be responsible for getting all Cash Plan related materials produced by the MDA and submit/liaise with the CMD

(i) Other controls

Minister of Finance has other controls government expenditure through the following:

a. Issuance of financial authorities.
b. Compilation and tentative approval of the Nation's budget.
c. Issuance of budgetary guidelines.
d. Issuance of financial regulations.
e. Issuance of financial circulars.

16.6 Treasury control - Office of the Accountant General of the Federation (OAGF)

The responsibilities of the Accountant-General are:

(i) To ensure that government funds are used judiciously for the purposes for which they are earmarked;
(ii) The Accountant General has overall responsibility for the total expenditure of government;
(iii) To keep necessary books of accounts to record all the receipts and expenditure of the various Ministries and departments; and

(iv) The Treasury Department exercises some measure of supervision and checks over the accounting records of the Non-Self-Accounting Units.

To ensure these responsibilities, the Chief Treasury Officer of the Federation (that is, Accountant-General), moves round the various offices to ascertain compliance.

(a) **Treasury Inspection Questionnaires:** The representatives of the Accountant-General make use of Treasury Inspection Questionnaires and Reports, to perform the appraisal and control functions.

A Treasury Inspection Questionnaire is a set of standard questions to be answered and a list of documents to be made available during the time of visits to the different Accounts Departments. The advantages are:

(i) They assist the Inspector to complete the assignment so that there will not be any omission;
(ii) They state clearly the standard of performance required;
(iii) Questionnaires state the requirements to be met; and
(iv) They show in details the level of assignments required.

(b) **Inspectorate department**

Inspectorate Officers from the Office of the Accountant - General of the Federation visit the various Ministries and departments to evaluate the system of internal control. They do this to ensure that the accounting system and maintenance of various books of accounts conform to the approved regulations and procedures. The department carries out the following functions:

i. Inspection of the accounting records, documents and books of federal ministries, departments and agencies; to ensure compliance with rules and regulations as well as checks for internal controls;
ii. Investigation of cases of fraud and losses of funds and stores in federal ministries, departments and agencies;
iii. Permanent Board of Survey and Enquiry into cash and stores and cases of loss of government funds and property in federal ministries; and
iv. Losses committee on cases and write-off of losses.

(c) **Funds department**

This is another department in the Office of Accountant General of the Federation that carries out the following control functions:

1. Managing the Federation Account, the Consolidated Revenue Fund and other public funds;

2. Cash backing and Cash Management;
3. Loans Servicing;
4. Regular reconciliation of Government accounts with banks etc.;
5. Fiscal Accounts; and
6. Maintenance of expenditure pattern of the Federal Government.

(d) **Department of audit monitoring**

This is another aspect of control exercised in any organisation. The Office of Accountant- General of the Federation dispatches Internal Auditors to the Ministries and Self-Accounting departments to appraise the effectiveness of the existing internal checks and report upon any inadequacy discovered. The Department of Audit Monitoring in the Office of Accountant General of the Federation carries out the following duties on behalf of the Accountant General of the Federation:

(i) Control and Supervision of the Pool of Internal Auditors in Federal Ministries, departments and agencies;
(ii) Perform and Monitor all the Internal Audit duties in Federal ministries and Federal Pay Offices; and
(iii) Collate and analyse the internal Audit reports from all the ministries and agencies.

(e) **Open - Treasury Portal**

The Minister of Finance launched financial Transparency Policy/Open-Treasury Portal on 9th December 2019, which coincided with the United Nations Anti Corruption Day.

The Office of the Accountant-General of the Federation is required to publish daily Treasury Statement that will provide information about what came into the national purse and what went out every day so as to drive open treasury. The treasury publish payments of ₦10 million and above while all MDAs must publish all payments above ₦5 million.

The information will include among others:

a. The name of the MDA,
b. The beneficiary,
c. The purpose and the amount involved.

Benefits

a. The Transparency policy will enable government to open its books to the public and to increase confidence in the operations of government.
b. This will also put MDA on their toes.

c. To ensure close monitoring and sustainability, a peer review mechanism is put in place which is made up inter ministerial representatives from Offices of the Accountant-General, Auditor-General, EFCC, ICPC etc.
d. The expected result of this initiative is improved transparency and combating corruption.

16.7 Departmental controls

These are control measures that are instituted in the spending organizations, to ensure proper and optimal use of funds. Accountability should be enhanced in the MDAs by routine compliance with institutionalized internal controls.

Controls exist for each type of financial transaction

Revenue Controls:

a. All revenue must be timely collected as it falls due;
b. The actual amount collected should be accounted for and remitted to Treasury
c. All revenues must be paid in gross to the TSA.
d. Monthly returns of revenue must be rendered to the appropriate institutions

Expenditure 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.

Other departmental control

a. Relevant authorities charged with responsibility must properly authorise all payments. Otherwise, the officer making the payment can be charged for an offence.
b. That all amount payable must not exceed the amounts approved and any variations are accompanied by cogent explanations and subsequent approvals.
c. All payments are made to the right persons or those entitled to be paid such as suppliers, contractors, staff, etc. and not the officials themselves or other insiders.
d. Correct classifications are applied to show the heads or sub-heads to which the expenditure relates..
e. That all payments are made for the purpose for which the funds are meant to be paid i.e. there should be no diversion.
f. All payments must be approved by the designated authority
g. All payments must be supported by the appropriate payment voucher
h. The documents accompanying the payment must support the validity of the claims, and payment must be for the purpose for which they are intended.
i. All payments must be pre-audited.
j. All payments must be supported by the following documents:-
k. Evidence of availability of funds as provided for in the budget through warrants or AIEs;
l. Certificate of No objection as appropriate;
m. Evidence of approval of Tender Board;
n. Evidence of Federal Executive Council approval for contracts in the thresholds of N50 million and above.
o. Mobilisation shall not be more than 15% of contract price;

p. In the case of National Competitive Bidding (NCB), mobilization shall be supported by an unconditional bank guarantee or insurance bond acceptable to the MDA;

q. In the case of International competitive Bidding, mobilization is to be supported with an unconditional bank guarantee issued by a banking institution acceptable to the MDA;

r. In the case of contract requiring mobilization fee, there shall be performance guarantee which shall not be less than 10% of the contract value or an amount equivalent to the mobilisation fee required by the contractor whichever is higher.

s. In the case of National Competitive Bidding and International competitive bidding, the validity period of the Bank guarantee shall remain until full recovery of the advance payment.

t. An interim performance certificate shall be required for further payment to a contractor after the initial mobilization payment, to be approved by the Hon. Minister.

16.8. 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 approve

The Vote Book makes records of all expenditures including liabilities incurred as regards the votes allocated to a particular Ministry or Department. The Accounting Officer in a Ministry or Department controls the Vote Book. This is done by making reference to the provision for expenditure in the approved annual estimate.

16.8.1 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.

16.8.2 Maintenance of vote book

An officer who has been in the system over some years and must have proved to have integrity, experience, competence, and dedication and be responsible must maintain a

Vote Book. 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.

16.8.3 Format of a vote book

Example of a Vote Book

NCAO code__________________ Authorised Appropriation:

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	Outstanding Liability		Bal Available	Line No	Line No

Column	Subject	Details
1	Line No	Line must benumbered serially
2	Date	Dates vouchers are recorded or liabilities are incurred.
3	VoucherNo	TheDepartment'sPayment Voucher Numbers. Thisis obtained from the Voucherregister
4	Particulars	PayeeNames
5	Payments	TheGross payment on thevoucher. Onlypayments madeare entered in this column.
6	CumulativePayment.	Total payments as at thedate thelast payment was made
7	Balance	Balanceafter deductionof6 abovefrom the Authorized amount
8	LiabilityReference	Local PurchaseOrder (LPO), Job Order or anyJob Agreementiven or

		entered into but notyet executed orsupplied
9	Liability Incurred	Afterthe supplyof itemsor execution of contract, entering in 5 above will recognize the actual amount.
10	LiabilityCleared	When9abovehasbeenclearedandenteredin 5,itis then posted hereto showthat the liabilityis cleared
11	Outstanding Liabilities	Gross amount of liabilities incurred to date i. e. Cumulative liability.
12	Remarks	TheMinistryorcompany’sindebtedness to the contractor or supplierin9 above
13	Uncommitted Balance	Amountof balancethat is not committed to any outstandingliability. This isafter deduction of all liabilities incurred from column 7, if any.
14	Line No	Referenceto numbers ofthe lines cleared.
15	Line No	Column 1 repeated.

Illustration

The following transactions were recorded in a DVEA book of the Ministry of Education in respect of the purchase of stationery for the month of August 2021, thus:

1/8/2021 Authorised appropriation for the year is ₦1,000,000.

2/8/2021 Paid ₦45,000 for the purchase of stationery from Odunuga Bookshop on PV No. 004.

6/8/2021 ₦50,000 paid on PV No. 005 for the supply of stencils from Abiola Bookshop.

10/8/2021 Issued LPO number 0044 to Lambus Bookshop for the supply of photocopying papers, for ₦100,000.

18/8/2021 Settled Lambus on account on P.V number 0006.

23/8/2021 Paid ₦20,000 for stapling pins and staplers from Orita Bookshop, on P.V number 007.

26/8/2021 P.V 0008 for ₦120,000 was raised for payment for typing sheets to CSS Bookshop.

27/8/2021 Issued LPO number 00045 for ₦300,000 for supply of duplicating papers, to Olorus Stores Limited.

30/8/2021 Settled ₦300,000 on P.V number 009 for the purchase of carbon papers, to Dossy Book shop.

31/8/2021 Paid Olorus Stores Limited on account on P.V number 010.

The SW/AIE/RIE number is 04. The NCOA for stationery is 500005

Solution

Service______________________ AIE__________________________

Others______________________

Total_______________________

Expenditure **Liability**

1	2	3	4	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**	**Outstanding Liability**	**Remarks**	**Bal Available**	**Line No**	**Line No**
				N’000	**N’000**	**N’000**		**N’000**	**N’000**	**N’000**		**N’000**		
1	1/8		Auth. Appr.			1,000						1,000		1
2	2/8	004	Odunuga BK	45	45	955						955		2
3	6/8	005	Abiola BK	50	95	905						905		3
4	10/8				95	905	LPO 0044	100		100	LPO issued to Lambus	805		4
5	18/8	006	Lambus	100	195	805			100		Settlement of LPO	805	4	5
6	23/8	007	Orita BK	20	215	785						785		6

7	26/8	008	CSS BK	120	335	665						665		7
8	27/8				335	665	LPO 0045	300		300	LPO issued to Olorus	565		8
9	30/8	009	Dossy BK	300	635	365						65		9
10	31/8	010	Olorus Stores Ltd	300	935	65			300		Settlement to Olorus	65	8	10

16.8.4 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:

(i) Totals in columns 6 and 7 must agree with the authorised amount.
(ii) Totals in columns 11 and 13 must agree with the amount shown in column 7.

16.8.5 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.

16.9 Efficiency unit

Necessity of the Efficiency Unit

There are several reasons why an Efficiency Unit has become imperative for Nigeria. Some derive from the structure of the Nigerian economy while others relate to Nigeria's spending patterns and processes over the years. Amongst the reasons are:

(i) 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.
(ii) 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.
(iii) The work and procurement processes as well as, practices in the public sector, which inherently promote or support wastage and inefficiency.
(iv) 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.
(vii) 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

(i) The Honourable Minister of Finance	-	Chairman
(ii) \The Head of Civil Service of the Federation	-	Member
(iii) The Auditor-General for the Federation	-	Member
(iv) The Accountant General of the Federation	-	Member
(v) Four members from the private sector		
(vi) 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.

16.10 Finance and General Purpose Committee (FGPC)

Composition of the committee

i. The Committee shall have at least three members of the Board, appointed by the Board on the recommendation of the Chairman of the Board;

ii. One of the Committee members shall also be the Committee's Chairman;

iii. Committee members should aim to serve for a specified term of at least three years;

iv. Vacancies on the Committee shall be filled by the Board.

v. The Board may appoint members for a period shorter than one year to fill vacancies;

vi. Committee members shall serve until their successors are elected or their earlier resignation or removal.

vii. Any member of the Committee may be removed or replaced, for any reason at any time, by a majority vote of the Board;

Responsibilities

The Committee periodically will review and consider the following matters to provide updates and, from time to time, provide recommendations to the Board:

a. Management of organisation's finances;
b. Exercise control over the organisation property, revenue and expenditure of the organisation;
c. Shall direct the deposit and investment of all subscriptions, donations and other monetary incomes paid to the organisation;
d. Appraisal of financial implications of any proposed activities;
e. Consideration of annual budgets and accounts;
f. Management of regular reports on performance against budget for a financial year;
g. Assessment of organisation's:
   (i) Relationships with other bodies;
   (ii) Income and expenditure policies; and
   (iii) Audited financial statements and its corresponding management letter.
h. The Committee will review any other matters submitted to the Committee by management and, if requested, consider such matters for recommendation to the Board, or for approval by the Committee if such matters are within the authority delegated to it by the Board, including:
   (i) Capital expenditures, divestments, acquisitions, joint ventures and other investments, and other capital transactions;

(ii) Leases, short- and long-term borrowings, and other financing transactions;
(iii) Interest rate swaps and similar arrangements for the purpose of managing the organisation's exposure on outstanding debt; and
(iv) Registration and issuance of the organisation's debt or equity securities.

i. The Committee will also:

(i) Perform any other activities as the Committee deems appropriate, or as requested by the Board consistent with the Charter, NSIA's bylaws, and applicable law;
(ii) Review and reassess the adequacy of this Charter as appropriate and submit any suggested changes to the Board for consideration; and
(iii) Conduct an annual performance evaluation of the Committee; and report regularly on its activities to the Board.

16.11 Audit committee

Audit committees are a common feature in the private sector and may be established for public sector owned enterprises but are much less a feature of non-market public sector organisations such as ministries and local governments. When established in the non-market public sector the term "audit committee" appears to describe a committee with a variety of different purposes and reporting lines, often quite limited in scope and in this respect quite different in many countries from their equivalent in the private sector. Independent membership (regarded as crucial to the success of an audit committee in the private sector) is often missing from public sector audit committees.

Composition

The committee is to include at least 3 members, all of who are non-executive directors and majority of which are independent. The Chairman of the committee is to be independent and not the Chairman of the Board. At least one member is to have relevant qualifications

Roles

The main role and responsibilities of the audit committee should be set out in written terms of reference and should include:

(i) Monitoring the integrity of the financial statements of the company and any formal announcements relating to the company’s financial performance, reviewing significant financial reporting judgements contained in them;

(ii) Reviewing the company’s internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent directors, or by the board itself, to review the company's internal control and risk management systems;

(iii) Monitoring and review the effectiveness of the company's internal audit function;

(iv) Making recommendations to the board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;

(v) Reviewing and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; and

(vi) Developing and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non- audit services by the external audit firm, and to report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken."

16.12 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.

It also dealt with revenue control techniques and expenditure control, with emphasis on the various forms of control over government expenditure. These include the Executive, Legislative, Ministry of Finance, the Treasury and Departmental Controls.

Various concomitant financial authorisation measures in the form of expenditure authorisation procedures, warrants, financial encumbrance and drawing limits are also discussed.

16.13 End of chapter review questions

16.13.1 Examination type 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 is 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.

16.13.2 Suggested solutions to examination type 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) Monitoring of the implementation of the Budget.

(f) 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 employs 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 a part 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.

4 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 SEVENTEEN

INTERPRETATION OF PUBLIC SECTOR FINANCIAL STATEMENTS, USING RELEVANT AND APPROPRIATE TECHNIQUES

Chapter contents

17.0 Learning objectives

After studying this chapter, readers should be able to interpret accounts using:

(a) Analytical review;
(b) Ratio analysis.

17.2 Introduction

Interpretation of accounts may be defined as the art and science of translating the figures shown in the financial statements in such a way that it will reveal the strengths and weaknesses of an entity and the causes of the weaknesses. Accounts have to be analysed and interpreted so as to measure the quality of management.

Interpretation has to be undertaken by those conversant with the language of its expression. The accounts have to be drawn up in a form, which enables full appreciation of the facts to be deduced. Any financial statement can be interpreted, consequently, management accounts, final accounts and interim accounts can be critically analysed.

There are techniques for interpreting accounts in the public sector, these are:

(i) Straight forward criticism or analytical review;
(ii) Performance reports using variance analysis;
(iii) Ratio analysis.

Accounts will be perused or scrutinised by different interested persons such as the owners (shareholders), creditors, employees, researchers and bank managers.

The interpreter has to consider and form conclusion on matters, such as the entity's profitability, solvency, ownership, financial strength, rend of economic endeavours, and gearing and cover

17.3. Analytical review using variance analysis

Public or private sector organisations use variance analysis to compare financial performance changes from one month to the next, or perhaps from one quarter to another or year to year. Typically, actual financial results are compared to a budget, or a budget is compared to a forecast. This comparison process and the resulting variances help management identify problems, investigate issues and make changes rapidly. Comparing one month's performance to another provides some insight while assembling a trend line comparing several months' data side by side, known as "horizontal analysis," can reveal sudden changes more easily.

Figures in respect of two or more years may be compared and percentage differences obtained. Comparison of figures may be undertaken in any of the following ways:

(a) Previous years' figures with those of the current year;

(b) The statistics of a period this year with those of a similar period last year;

(c) Figures within the year's 1st quarter with those of the fourth quarter of the same year; and

(d) It may be percentage representation within the year. For example, salary expenses may be expressed as a ratio of total expenses.

The above stated methods are popular with public sector organisations. Another way of analysing financial statements under this method are:

(i.) Share of capital expenditure as % of non-debt expenditure;
(ii.) Share of capital expenditure as % of total expenditure;
(iii.) Share of recurrent expenditure as % of total expenditure;
(iv.) Share of statutory allocation as % of total revenue; and
(v.) Share of internally generated revenue as % total revenue.

According to IPSAS 24, entities are required to present a comparison of the budgeted amount for which it is held publicly accountable and actual amount, either as a separate additional financial statement or as an additional budget columns in the financial statements currently presented in accordance with IPSASs. The comparison of budgeted and actual amounts shall be presented separately for each level of legislative oversight:

(a) The original and final budget amounts;

(b) The actual amounts on a comparable basis; and

(c) By way of the note disclosure, an explanation of material differences (variances) between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements and a cross reference to those documents is made in the notes.

Entity YYY extract statement of financial performance (showing Budget Information) for the year ended 31 December 20X5

Previous year actual	**Description**	**Current year actual**	**Final budget for current year**	**Supplementary budget for current year**	**Original budget for current year**	***Difference: Original budget and actual***
₦		₦	₦	₦	₦	₦
	Revenue:					
X	Statutory allocation	X	X	X	X	X
X	Value added tax	X	X	X	X	X

X	Independent revenue	X	X	X	X	X
X	Aid and grants	X	X	X	X	X
X	Capital receipts	X	X	X	X	X
XX	**Total receipt**	**XX**	**XX**	**XX**	**XX**	**XX**
	Expenditure:					
X	CRF Charges - Public debt charges	X	X	X	X	X
X	Internal loans Repayment	X	X	X	X	X
X	External loans Repayment	X	X	X	X	X
X	CRF charges - Public debt charges	X	X	X	X	X
X	Personnel Cost	X	X	X	X	X
X	CRF charges- Pensions and gratuities	X	X	X	X	X
X	Overhead cost	X	X	X	X	X
X	Finance cost	X	X	X	X	X
XX	**Total expenditure**	**XX**	**XX**	**XX**	**XX**	**XX**
XXX	**Surplus/(Deficit) for the period**	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**

17.3.1 Interpretation of variances

(a) **Positive budget variance** - Budget variance is positive, or favourable, when actual revenue results are higher than budget expectations, or expenses are lower than budget. You analyse these variances in ways that relate directly to the line item. For example, if you find a positive income variance, you do research to find out if it was caused by higher than expected income.

For actual expenses that come in below budget, you want to research and understand whether the cause is a one-time or infrequent event, whether your budget was based on poor assumptions, or whether your organisation found a way to cut costs on an ongoing basis, among other possible explanations.

(b) **Negative budget variances:** Negative variances result when income fall below budget, or expenses exceed budget. Both positive and negative variances can result from either controllable internal events or uncontrollable, often externally driven, events. Depending upon the type of organisation, you might perform variance analysis on only a few of the most relevant line items on the income statement.

17.4 Ratio analysis

Financial ratio analysis is the process of calculating financial ratios, which are mathematical indicators calculated by comparing key financial information appearing in financial statements of a public sector entity, and analysing those to find out reasons behind the entity's current financial position and its recent financial performance, and develop expectation about its future outlook.

Ratio analysis involves expressing one figure as a ratio or percentage of another, to bring out the weakness or strength in an organisation's affairs. If one were to take a look at the financial statements of a government department, ministry or corporation, the various figures disclosed would not be sufficiently revealing in terms of the strength or otherwise of the establishment, for well-informed judgment to be made. Ratio analysis comes in handy here, as a useful guide.

The federal, state and local government councils use mostly liquidity ratios to measure the ease with which obligations due in the year can be met. The three tiers of governments operate the cash basis of accounting prior to 1January 2016. However, from 1 January 2016 the three tiers of governments, parastatals and government business entities operate the accrual basis of accounting.

17.4.1 Classification of ratios:

In the public sector entities financial ratios can be broadly classified into liquidity ratios, solvency ratios, profitability ratios and efficiency ratios (also called activity ratios or asset utilisation ratios). In view of the peculiarity of public sector activities, the following relevant ratios only, are considered:

17.4.2 Liquidity ratios

Liquidity ratios assess an entity's liquidity, i.e. its ability to convert its assets to cash and pay off its obligations without any significant difficulty (i.e. delay or loss of value). Liquidity ratios are particularly useful for suppliers, employees, banks, etc. Important liquidity ratios are:

(a) **Quick asset ratio (also called acid-test-ratio)-** *Quick ratio* (also known as acid test ratio) is a liquidity ratio, which measures the naira of liquid current assets available per naira of current liabilities. Liquid current assets are current assets, which can be quickly converted to cash without any significant decrease in their value. Liquid current assets typically include cash, marketable securities and receivables. Quick ratio is expressed as a number instead of a percentage.

Quick ratio is a stricter measure of liquidity of a company than its current ratio. While current ratio compares the total current assets to total current liabilities, quick ratio compares cash and near-cash current assets with current liabilities. Since near-cash current assets are less than total current assets, quick ratio is lower than current ratio unless all current assets are liquid. Quick ratio is most useful where the proportion of illiquid current assets to total current assets is high. However, quick ratio is less conservative than cash ratio, another important liquidity parameter.

Quick ratio is calculated by dividing liquid current assets by total current liabilities. Liquid current assets include cash, marketable securities and receivables.

The following is the most common formula used to calculate quick ratio:

$$\frac{\text{Cash + marketable securities +receivables}}{\text{Current liabilities}}$$

Cash includes cash in hand and cash at bank. Marketable securities are those securities/investments, which can be easily converted to cash, i.e. within a short period of time at a negligible, if any, decrease in its value. Examples include government treasury bills, shares listed on a stock exchange, etc

(b) **Current ratio-** Current ratio is one of the most fundamental liquidity ratio. It measures the ability of a business to repay current liabilities with current assets.

Current assets are assets that are converted to cash within normal operating cycle, or one year. Examples of current assets include cash and cash equivalents, marketable securities, short-term investments, accounts receivable, short-term portion of notes receivable, inventories and short-term prepayments.

Current liabilities are obligations that require settlement within normal operating cycle or next 12 months. Examples of current liabilities include accounts payable, salaries and wages payable, current tax payable, sales tax payable, accrued expenses, etc.

Formula is: $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

Current ratio matches current assets with current liabilities and tells us whether the current assets are enough to settle current liabilities. A current ratio of 1 or more means that current assets are more than current liabilities and the company should not face any liquidity problem. A current ratio below 1 means that current liabilities are more than current assets, which may indicate liquidity problems. In general, higher current ratio is better.

Current ratios should be analysed in the context of relevant industry. Some industries for example retail, have very high current ratios. Others, for example service providers such as accounting firms, have relatively low current ratios because their business model is such that they do not have any significant current assets.

However, there is a limit to the extent to which higher current ratio is a blessing. An abnormally high value of current ratio may indicate existence of idle or under-utilised resources in the company. This is because most of the current assets do not earn any return or earn a very low return as compared to long-term projects. A very high current ratio may hurt a company's profitability and efficiency

Illustration

Calculate and analyse current ratios for the Okokomaiko Electricity Distribution Company (OEDC) and Erile Electricity Distribution Company (EEDC) based on the information given below:

Name of entity	**Details**	**2021**	**2020**	**2019**
		₦'000	**₦'000**	**₦'000**
OEDC	Current assets	133,000	130,000	131,000
	Current liabilities	130,000	110,000	120,500
EEDC	Current assets	100,000	110,000	96,000
	Current liabilities	90,000	88,000	86,000

Solution

	2021	**2020**	**2019**
OEDC	133,000	130,000	131,000

	130,000	110,000	120,500
	= 1.02: 1.00	=1.18: 1.00	= 1.09: 1.00
EEDC	100,000	110,000	96,000
	90,000	88,000	86,000
	= 1.11: 1.00	= 1.25 : 1.00	= 1.17 : 1.00

Erile electricity distribution company has higher current ratios than Okokomaiko Electricity distribution company in each of the three years, which means that Erile Electricity distribution company is in a better position to meet short-term liabilities with short-term assets. However, current ratios for Okokomaiko Electricity Distribution Company too have stayed above 1 in all periods, which is not bad.

Both companies experienced improvement in liquidity moving from 2015 to 2016, however this trend reversed in 2017.

17.4.3 Solvency ratios

Solvency ratios assess the long-term financial viability of a public sector entity i.e. its ability to pay off its long-term obligations such as bank loans, bonds payable, etc. Information about solvency is critical for banks, employees, owners, bondholders, institutional investors, government, etc. Key solvency ratios are:

(i) **Debt ratio-** Debt ratio (also known as debt to assets ratio) is a ratio, which measures debt level of a business as a percentage of its total assets. It is calculated by dividing total debt of a business by its total assets. Debt ratio finds out the percentage of total assets that are financed by debt and helps in assessing whether it is sustainable or not. If the percentage is too high, it might indicate that it is too difficult for the business to pay off its debts and continue operations.

Formula is: Debt Ratio = $\frac{\text{Total debt}}{\text{Total assets}}$

Total debt equals long-term debt and short-term debt. It is not equivalent to total liabilities because it excludes non-debt liabilities such as accounts payable, salaries payable, etc. Sometimes, debt ratio is calculated based on the total liabilities instead of total debt.

Debt ratio is a measure of an entity's financial risk, the risk that the entity's total assets may not be sufficient to pay off its debts and interest thereon. Since not being able to pay off debts and interest payments may result in an entity's being wound up, debt ratio is a critical indicator of long-term financial sustainability of a business.

While a very low debt ratio is good in the sense that the entity's assets are sufficient to meet its obligations, it may indicate underutilisation of a major source of finance, which may result in restricted growth. A very high debt ratio indicates high risk for both debt-holders and equity investors. Due to the high risk, the entity may not be able to obtain finance at good terms or may not be able to raise any more money at all.

(ii) **Debt to equity ratio-** Debt-to-equity ratio is the ratio of total liabilities of a business to its shareholders' equity. It is a leverage ratio and it measures the degree to which the assets of the business are financed by the debts and the shareholders' equity of a business.

Formula

Debt-to-equity ratio is calculated using the following formula:

$$\text{Debt-to-Equity Ratio} = \frac{\text{Total liabilities}}{\text{Net assets/equity}}$$

Both total liabilities and shareholders' equity figures in the above formula can be obtained from the statement of financial position of an entity. A variation of the above formula uses only the interest bearing long-term liabilities in the numerator.

Lower values of debt-to-equity ratio are favourable indicating less risk. Higher debt-to-equity ratio is unfavourable because it means that the entity relies more on external lenders thus it is at higher risk, especially at higher interest rates. A debt-to-equity ratio of 1:00 means that debts and half by Net assets/equity finance half of the assets of a business. A value higher than 1:00 means that more assets are financed by debt that those financed by money of shareholders' and vice versa.

Illustration

Calculate debt-to-equity ratio of an entity which has total liabilities of ₦120,000,000 and shareholders' equity of ₦150,000,000.

Solution

Debt-to-equity ratio = 120,000,000 / ₦150,000,000 = 0.80

(iii) **Debt capital ratio-** Debt-to-capital ratio is a solvency ratio that measures the proportion of interest-bearing debt to the sum of interest-bearing debt and shareholders' equity.

Interest-bearing debt includes bonds payable, bank loans, notes payable, etc. Non-interest bearing debt includes trade payable, accrued expenses, etc.

The debt-to-capital ratio is a refinement of the debt-to-assets ratio. It measures how much of the capital employed (i.e. the resources on which the company pays a cost) is debt. Higher debt included in the capital employed means higher risk of insolvency.

$$\text{Debt to capital ratio} = \frac{\text{Interest bearing debt}}{\text{Interest –bearing debt + equity}}$$

Illustration

Calculate debt-to-capital and debt-to-assets ratios for Eko State Bulk Purchase Company. Relevant information for the company for financial year 2020 is as follows:

Details	**₦'000**
Short-term debt	3,120
Accounts payable	3,500
Accrued expenses	2,900
Accrued advertising	1,100
Deferred income	1,950
Other accrued liabilities	3,600
Long-term debt	13,200
Long-term deferred tax liabilities	3,400
Other long-term liabilities	3,700
Total liabilities	**36,470**
Total shareholders' equity	60,200
Total assets	**96,670**

Solution

$$\text{Debt-to-capital Ratio} = \frac{16,320}{16,320 + 60,200} = 0.213$$

$$\text{Debt-to-assets Ratio} = \frac{16,320}{96,670} = 0.169$$

iv Other ratios

(a) **Receivables' payment period**

Although this index measures the average length of time it takes a Corporation's debtors to pay, it is only an estimated average payment period. The formula for calculating the payment period is:

$$\frac{\text{Receivables for goods or services}}{\text{Sales (credit)}} \times 365 \text{ days}$$

The earlier debtors are encouraged to pay, the better the cash position of the board or corporation. It would be more informative to make this calculation regularly to avoid distortions.

(b) **Payables' payment period**

This is a measure of the average length of time it takes the parastatal under focus to pay its creditors. It is calculated as follows.

$$\frac{\text{Trade or expense creditors}}{\text{Credit purchases}} \times 365 \text{ days}$$

(c) **Inventory turnover period**

This indicates the average number of days that items of stock are held for sale or in the store. The stock turnover period is calculated as:

$$\frac{\text{Cost of goods sold}}{\text{(Opening inventory plus closing inventory/2}}$$

Average stock is the average of the opening and closing stock figures. The shorter the period, the healthy the situation is in making the best use of funds.

17.4.5 Advantages and limitations of ratio analysis

Financial ratio analysis is a useful tool for users of financial statement. It has the following advantages:

Advantages

(i) It simplifies the financial statements;
(ii) It helps in comparing entities of different size with each other;
(iii) It helps in trend analysis, which involves comparing a single company's performance over a period; and
(iv) It highlights important information in simple form quickly. A user can judge an entity by just looking at few numbers instead of reading the whole financial statements.

Disadvantages

Despite usefulness, financial ratio analysis has some disadvantages. Some key disadvantages of financial ratio analysis are:

a) Different entities operate in different geographical areas, each having different environmental conditions such as regulation, market structure, etc. Such factors are so significant that a comparison of two entities from different geographical areas might be misleading;

b) Financial accounting information is affected by estimates and assumptions. Accounting standards allow different accounting policies, which impairs comparability and hence ratio analysis is less useful in such situations.

c) Ratio analysis explains relationships between past information while users are more concerned about current and future information.

17.5 Summary

Interpretation of financial statements reveals the financial strengths and weaknesses of a business and their causes. Cash flow statement gives the details of all cash received and paid by the organisation, during the year. It is a good reporting statement for cash management.

17.6 End of chapter review questions

17.6.1 Examination type questions

Section A

1 Opening inventory, purchases, carriage inwards and closing inventory are accounting information which can be used to compute

A. Working Capital ratio

B. Acid test ratio

C. Trading Account ratio

D. Cost of Sales ratio

E. Stock Turnover ratio

2. The ratio which is used to determine how much a government business enterprise is financed by borrowed fund is_________________________

A. Working capital ratio

B. Acid test ratio

C. Efficiency ratio

D. Gearing ratio

E. Profitability ratio

3. One of the following is **not** in the class of liquidity ratio

A. Quick asset ratio

B. Working capital ratio

C. Acid test ratio

D. Cash ratio

E. Gross profit margin

4. Which of the following is **not** among the class of profitability ratio?

A. Net profit margin

B. Earnings per share

C. Return on assets

D. Debt to Equity ratio

E. Return on Equity

5. The formula for calculating Days' sale in inventory is________________

A. Sales/Total assets

B. Current assets: Current liabilities

C. 365 days/Inventory turnover

D. Sales/Net working-capital

E. Net profit/Net sales

6. Ratio analysis explains relationships between ------- while users are more concerned about current and future information.
7. Public or private sector organisations use ------------- to compare financial performance changes from one month to the next or perhaps from one quarter to another or year to year.
8. According to----------, entities are required to present a comparison of the budgeted amount for which it is held publicly accountable and actual amount, either as a separate additional financial statement or as an additional budget columns in the financial statements currently presented in accordance with IPSASs.
9. Budget variance is--------- when actual revenue results are higher than budget expectations, or expenses are lower than budget
10. ------------- assess an entity's ability to convert its assets to cash and pay off its obligations without any significant difficulty
11. ------------is a solvency ratio that measures the proportion of interest-bearing debt to the sum of interest-bearing debt and shareholders' equity
12. ------------- assess the long-term financial viability of a public sector entity i.e. its ability to pay off its long-term obligations such as bank loans, bonds

payable, etc. Information about solvency is critical for banks, employees, owners, bondholders, institutional investors, government, etc

Section B

(1) (a) Define Ratio Analysis

(b) Explain the objective of the following ratios and state their respective mode of computation

(i) Current ratio

(ii) Quick ratios or Acid Test Ratio

(iii) Debtors payment period

(vi) Creditors payment period

(v) Stock turnover period

(2) State the advantages and limitations of ratio analysis

(3) Below is the consolidated financial statement for Danduala Local Government for the year 2021:

(i). Recurrent Revenue: January to December 2021

EstimatedActual

₦'000₦'000

Internal revenue 60,000,00054,000,000

Allocation from the Federation Account 67,500,000 88,455,000

Allocation from the State Account 48,720,000 18, 949,320

Others 7,500,00012,656,197.5

183,720,000174, 060,517.5

(ii). Recurrent expenditure: January to December 2021.

Estimated Actual

₦'000₦'000

Personnel costs 35,615, 253 52,115,400

Overhead costs 57, 989,898 56, 673,480

Stabilization utilization	15,000,000	15, 870,000
Outstanding liabilities	1, 801, 1703,626, 370	
	110,406,321	128,285,250

(iii). Capital Receipts: January to December 2021.

	Estimated	**Actual**
	₦'000	**₦'000**
Internal source	15,000,000	1,800,000
External loans	8,250,000	9,000,000
Grants	3,000,000	3,000,000
	26,250,000	13,800,000

(iv). Capital Expenditure: January to December 2021

	Estimated	**Actual**
	₦'000	**₦'000**
Capital expenditure	58,570,743	60,070,743
Outstanding liabilities	54,000,000	5,391,360

In the year 2020, the sum of ₦1, 050,000 was approved for the upkeep of seven buildings and it was confirmed that six buildings will be maintained to ease accommodation problems. Inflation factor will be 30% in the year 2021.

Required:

Calculate the following ratios:

i. Estimated internal revenue to estimated allocations from the Federation and State.
ii. Actual outstanding recurrent liabilities to actual capital liabilities
iii. Actual personnel cost to actual internal revenue
iv. Estimated recurrent expenditure to actual recurrent expenditure
v. Actual internal revenue to estimated internal revenue
vi. Actual recurrent surplus to actual capital expenditure

4(a) In the interpretation of variances, you are required to explain the following terms:

(i) Positive budget variance

(ii) Negative budget variance

4(b) State Any **five** factors that show that a company's going concern is threatened.

17.6.2 Suggested Solutions to examination questions

Section A

1. E
2. D
3. E
4. D
5. C
6. Past information
7. Variance analysis.
8. IPSAS 24
9. Positive, or favourable,
10. Liquidity ratios
11. Debt-to-capital ratio
12. Solvency ratios

Section B

(1) (a) Ratio analysis is the expression of one figure as a ratio of another in order to determine the weakness or strength in an entity's financial affairs at a particular period of time.

(b) (i) **Current ratio**

The objective is to determine the extent to which an entity can discharge its current liabilities without having effect on the current assets.

A ratio in excess of 2 is required for an organisation.

(i) **Quick ratio or acid test ratio**

The ratio in designed to reveal the solid liquidity position of an entity.

(ii) **Receivables payment period**
It measures the average time it takes Debtors of an entity to settle their debts and is estimated on average period.

(iv) **Payables' payment period**

It measures the average time it takes an entity to pay its creditors. It is also estimated on average period.

(v) **Stock Turnover Period**

It indicates the average number of days that items of stock are held for sale or in the store.

(2) **Advantages and limitations of ratio analysis**

Financial ratio analysis is a useful tool for users of financial statement. It has following advantages:

Advantages

a. It simplifies the financial statements.
b. It helps in comparing entities of different size with each other.
c. It helps in trend analysis, which involves comparing a single company's performance over a period.
d. It highlights important information in simple form quickly. A user can judge an entity by just looking at few numbers instead of reading the whole financial statements.

Disadvantages

Despite usefulness, financial ratio analysis has some disadvantages. Some key disadvantages of financial ratio analysis are:

a. Different entities operate in different geographical areas each having different environmental conditions such as regulation, market structure, etc. Such factors are so significant that a comparison of two entities from different geographical areas might be misleading.
b. Financial accounting information is affected by estimates and assumptions. Accounting standards allow different accounting policies, which impairs comparability and hence ratio analysis is less useful in such situations.
c. Ratio analysis explains relationships between past information while users are more concerned about current and future information.

(3.) Danduala Local Government

(i) Estimated internal revenue to estimated allocations from the Federation and State:

$$\frac{\text{Estimated internal revenue}}{\text{Estimated allocation}} = \frac{60{,}000{,}000}{116{,}220{,}000} = 0.52:1$$

(ii) Actual outstanding recurrent liabilities to Actual capital liabilities

$$\frac{\text{Estimated internal revenue}}{\text{Estimated allocation}} = \frac{3{,}626{,}370}{5{,}391{,}360} = 0.67:1$$

(iii) Actual personnel cost to actual internal revenue

$$\frac{\text{Actual Personnel cost}}{\text{Actual Internal Revenue}} = \frac{52{,}115{,}400}{54{,}000{,}000} = 0.97:1$$

(iv) Estimated recurrent expenditure to Actual Recurrent Expenditure

Estimated recurrent expenditure = $\frac{110,406,321}{128,285,250}$ = 0.86:1
Actual recurrent

(v) Actual Internal revenue to estimated internal revenue

$\frac{\text{Actual internal revenue}}{\text{Estimated internal revenue}} = \frac{54,000,000}{60,000,000} = 0.90:1$

vii. Actual recurrent surplus to actual capital expenditure

$\frac{\text{Actual recurrent surplus}}{\text{Actual capital expenditure}} = \frac{45,775,267.50}{65,462,103.00} = 0.70:1$

4(a) **Interpretation of variances**

i. Positive budget variance: Budget variance is positive or favourable, when actual revenue results are higher than budget expectations, or expenses are lower than budget. You analyse these variances in ways that relate directly to the line item. For example, if you find a positive income variance, you do research to find if it was caused by higher than expected income. For actual expenses that come in below budget, you want to research and understand whether the cause is a one-time or infrequent event, whether your budget was based on poor assumptions, or whether your organization found a way to cut costs on an on-going basis, among other possible explanations.
ii. Negative budget variances: Negative variances result when income fall below budget or expenses exceed budget. But positive and negative variances can result from either controllable internal event or uncontrollable, often externally driven, events. Depending upon the type of organization, you might perform variance analysis on only a few of the most relevant line items on the income statement.

4 (b) **Factors that show that a company's going concern is threatened**

i. Dependency on creditors to finance the company
ii. Persistence losses and the resultant loss of capital
iii. Dependence of few product lines9goods policing)
iv. Declining sales and stocks
v. Loss of key management staff
vi. Low returns on huge investments
vii. Using short term fund to finance long term project
viii. High labour turn over

CHAPTER EIGHTEEN

EMERGING ISSUES IN NIGERIAN PUBLIC SECTOR

Chapter contents

18.0 Learning objectives

After studying this chapter, readers should be able to:

(i) Share information and implementation experience of TSA concept, design, benefits and the role of stakeholders at Federal, States governments in Nigeria, and
(ii) Understand other financial management reforms.

18.1 Introduction

In July 2003, the Federal Government commenced the implementation of deliberate policies, programmes and projects aimed at strengthening the economy, governance and fight corruption.

This led to the first Economic Reform and Governance Project (ERGP) initiative which was approved in December 2004, in line with FGN goal to strengthen governance, accountability, reduce corruption and deliver services more effectively. This brought about the reforms in Public Sector of the economy.

18.2 Treasury Single Accounting (TSA)

g18.2.1 Definition of Treasury Single Accounting (TSA)

(i) The Treasury Single Account (TSA) is part of the Public Financial Management (PFM) Reforms approved in 2004.
(ii) The TSA is a bank account or set of linked accounts through which government transacts financial operations.
(iii) 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.

18.2.2 Objectives of TSA

The cardinal objective of TSA is to facilitate the implementation of an effective cash flow policy with a view to:

(i) Ensuring that sufficient cash is available as and when needed to meet payment commitments;

(ii) Controlling the aggregate of cash flows within fiscal, monetary and legal limits;

(iii) Improving the management of Government's domestic borrowing programmes;

(iv) Enhancing operating efficiency through the provision of high quality services at minimal costs;

(v) Investing of excess or idle cash;

(vi) Ensuring greater accountability in public expenditure.

18.2.3 TSA models

a) The “Pure” TSA – Model 1-No account sub-structure; all deposit and payment transactions are processed through a single bank account. This is relatively rare

b) The Decentralised TSA -Model 2

   (a) Separate accounts, in commercial banks or Central Bank, zero-balanced overnight (ZBAs)
   (b) More normal in a decentralised environment where commercial banks process transactions
   (c) Each ministry/agency makes its own payments and directly operates the respective bank account under the TSA system.
   (d) Ministry of Finance sets the cash disbursement limits (based on unit of appropriation) for control purposes

18.2.4 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.
(viii) Over ₦100 billion lost in failed commercial banks.

18.2.5 Benefits of Treasury Single Account (TSA)

(i) Helps the government to unify banking arrangements.
(ii) Assists the government in the efficient utilisation of government funds for approved projects.
(iii) Promotes transparency and accountability in government operations.
(iv) Reduces the amount, and cost of government borrowing by maximising the use of available government resources to deliver projects.
(v) Ensures centralized control over revenue through effective cash management.
(vi) Enhances accountability and enables government to know how much is accruing to it on a daily basis.
(vii) Reduces fiscal criminality and help tame the tide of corruption.

18.2.6 Components of TSA

(i) **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 information & communication technology.

(ii) **E- Collection-**The e-collection component of TSA commenced in January 2015. The first Treasury Circular on e-collection was issued on the 19 March, 2015 followed by guidelines in September, 2015. It is a comprehensive electronic solution for the remittance, management and reporting of 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.

18.2.7 Objectives and benefits of TSA E- payment and E- collection

E-payment	**E- collection**
Objectives	
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 budgetary management; iii. Minimising transaction costs; iv. Making rapid payments of expenses; v. Facilitating reconciliation; vi. Efficient control and monitoring of funds allocated to MDA; and vii. Support monetary policy implementation.	(i) To ensure total compliance with the relevant provision of the 1999 Constitution of the FRN (Section 162 and 80); (ii) To collect and remit all revenue due to the Federation Account and Consolidated Revenue Fund (CRF); (iii) To block all leakages in government revenue generation, collection and remittance; (iv) To enthrone a new regime of transparency and accountability in the management of government receipts; (v) To improve on availability of funds for the developmental programmes and projects; (vi) To align with the CBN cashless policy; and (vii) To ease the burden of revenue payers.
Benefits	
(a) Provides complete and timely information on government cash resources; (b) Improve operational control on budget execution; (c) Enables efficient cash management;	i. It controls and monitors receipts and payments of FGN funds; ii. It prevents and detects potential and actual fraud; iii. Its improves planning through MTEF; iv. Avoids double payments and likely build-up of payment arrears;

(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) Allows issuance of warrants and AIEs based on cash plan; (i) No more commercial bank accounts maintain by MDA; (j) Brings about drastic fall on the ways and means (overdraft) requirement from CBN; and (k) Supports government budget execution.	v. Creates an accurate cash flow statements that help government to obtain an appropriate line of credit; vi. Implements cash collection acceleration techniques; vii. Integrates policy priorities into annual budgets and thereby ensures that available resources are channelled to priority sectors; viii. Minimises deficits and borrowings within limits set by government; and ix. Improves transparency and accountability of all FGN receipts.

18.2.8 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 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 are paid into sub- accounts at CBN, which are linked to TSA. ii. Platform 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 by 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 be paid into sub-accounts at CBN which are linked to TSA v) Platform configured to allow access to funds based on approved budget
e.	Agencies funded through special accounts (Levies). e.g. PTDF, NSC, NPA, RMRDC	i. Sub- accounts linked to TSA to be maintained at CBN. ii. All IGR collected to be directly paid into CRF/TSA iii. Platform configured to allow access to funds based on approved budget.
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	a) Project account (revolving funds) to be maintained at CBN. b) Collection (IGR) to be paid into CRF/TSA. c) Platform configured to allow access to funds based on approved budget.
i	Donor and Counterpart Funds	2. Donor fund sub-account will be opened at CBN and to be linked to CRF/TSA 3. Spending from such accounts e based on approved Budget

18.2.9. Role of Office of Accountant-General of the Federation

(i) Ensures effective implementation of e-collection reform.
(ii) Ensures proper monitoring of the e-collection gateway.
(iii) Ensures prompt reconciliation of all collections.
(iv) Provides MDAs with periodic report of collection.
(v) Supports MDAs, banks and payers on the operation of e-collection.
(vi) Ensures regular monitoring of all collections to ensure prompt remittance and accounting for collection.
(vii) Ensures continuous update of e-collection guidelines and processes.
(viii) Abides by the provisions of the MoU with Stakeholders.

18.2.10 Role of Directors of Finance and Accounts of the Ministries, Departments and Agencies (MDAs)

i. Ensures that proper books of Revenue Accounts are maintained.

ii. Ensures prompt issuance of receipts for remittances paid through the e-collection.

iii. Ensures that Internally Generated Revenue is not diverted

iv. Ensure that returns on revenue performance are rendered promptly.

v. Ensures sharp practices emanating from collusion among dishonest revenue officers are discouraged and stopped.

vi. Ensures that idle funds are invested and accrued interest therefrom are transferred into the CRF promptly in line with the extant laws.

vii. Ensures revenue monitoring visits to all MDAs, FPOs, Government Companies and Parastatals.

18.2.11Roles of Central Bank of Nigeria (CBN)

(i) Deployment of gateway for use by other stakeholders.

(ii) Ensures that Remita platform facilitates the transmission of all instructions.

(iii) Designs the payment and collection process across all banks based on operational standards.

(iv) Maintains the Treasury Single Account (TSA) of the FGN.

(v) Ensures maintenance, security and optimum performance of the gateway to meet its obligations.

(vi) Issues guidelines (circular) to DMBs on the operation of the TSA.

(vii) Abides by all terms and conditions for the operation of TSA.

18.2.12 Roles of the Deposit Money Banks (DMBS)

(i) Ensures that payments to government are given prompt attention.

(ii) Ensures that all collections in favour of FGN are promptly remitted and complains are lodged with Office of the Accountant-General of the Federation (OAGF), CBN and REMITA without delay.

(iii) Liaises regularly with OAGF to ensure smooth operation of the TSA.

(iv) Liaises with relevant Departments of OAGF and CBN on the operations of TSA.

(v) Ensures that terms and conditions enshrined in the MoU are effectively discharged.

18.2.13 Role of service provider

(a) Works with CBN, OAGF and other stakeholders to articulate system requirements.

(b) Provides a robust stable and effective integrated processing platform.

(c) Ensures the optimal availability of all relevant systems and platforms.

(d) Provides effective and efficient support to users of the platform.

(e) Provides users with relevant reports.

(f) Training of users on the use of the payment gateway.

18.3 Automated Accounting Transaction Recording and Reporting System (ATRRS.)

It is an ICT based accounting software application, which facilitates the input of accounting transactions, reconciliations and generation of standard accounting reports that meet the required standard of the Treasury. The Treasury (OAGF) develops the software. It provides a leverage solution to automate the manual recording of the accounting transactions in the Line Ministries, Agencies and Parastatals of government.

It's introduction helps in 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. With this package, solution is provided to most of the challenges posed by the manual accounting processes.

18.3.1 Benefits of the ATRRS Accounting software

(a) Familiarises 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.

(b) Potentially reduces training period and requirement for GIFMIS.
(c) Potentially reduces GIFMIS implementation costs.
(d) Shortens Business Process re-engineering period (i.e. it is faster to transit from a semi-automated process than a manual process.
(e) Facilitates ease of reconciliation of the various bank accounts.
(f) Ensures that clean and accurate data will be available for migration into GIFMIS.

18.4 Integrated Personnel and Payroll Information System (IPPIS)

IPPIS was conceived by the Federal Government (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.

18.4.1. Objectives of IPPIS

The following are the objectives of IPPIS:

a. Facilitates planning: Having all the civil service records in a centralised data base will aid manpower planning as well as assist in providing information for decision- making;
b. Aids 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 data base integrity so that personnel information is correct and intact;
e. Eliminates payroll fraud such as "ghost workers syndrome"; and
f. Facilitates easy storage, updating and retrieval of personnel records for administrative and pension processes.

18.4.2 Functions of components of IPPIS

The functions of the components of IPPIS are:

i. Data capture equipment with fingerprint scanners for biometric enrolment and camera for employee photographs. These allow each of the MDA to capture, update and process its personnel records;
ii. They allow all public servants from the MDAs to have their records and biometric data captured, verified and stored in the centralised personnel database of IPPIS;
iii. They allow salaries to be paid directly into the bank accounts of public servants whose records exist in the IPPIS database; and
iv. They also allow third party agencies such as FIRS, SBIR, PENCOM and Cooperative Societies to also receive their payments directly.

18.5 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 targets anti-corruption initiatives 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 recognises, 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 developmental objectives; (ii) ensure greater accountability from budget holders; (iii) allow greater emphasis on budget outcomes and impact; and (iv) identify and address the remaining sources of leakage in budget execution in order to strengthen efficiency of public expenditure.

This will require, in addition to changes in policies and regulations, considerable modernisation and automation of current budget and financial management and procurement practices.

18.5.1 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 that can be implemented as planned by addressing the critical public financial management weaknesses including:

(a) Failure to enact the budget before the start of the financial year;

(b) Budget not based on realistic forecasts of cash availability;

(c) Lack of effective cash management – multiple bank accounts within Treasury and MDAs that make effective control impossible and when combined with lack of cash forecasting leads to inefficient and unplanned borrowings; and

(d) 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 GIFMIS will have to be combined with major changes in business processes. However, 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.

18.5.2 Objectives of GIFMIS

The overall objective is to implement a computerised financial management information system for the FGN, which is efficient, effective, and user friendly and which will increase:

(i) The ability of FGN to undertake central control and monitoring of expenditure and receipts in the MDAs;
(ii) The ability to access information on financial and operational performance;
(iii) Internal controls to prevent and detect potential and actual fraud;
(iv) The ability to access information on Government's cash position and economic performance;
(v) Improvement in medium term planning through a Medium Term Expenditure Framework (MTEF);
(vi) The ability to understand the costs of groups of activities and tasks and
(vii) The ability to demonstrate accountability and transparency to the public and cooperating partners.

18.5.3 Scope of GIFMIS

(i) The 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.

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. This will act as a reliable basis for multi-year budgeting, annual budgeting, commitment control, payment control, financial and cash management and economic planning.

(v) The financial management functions of the GIFMIS covers the entire financial management cycle including:

(i) Budget preparation;
(ii) Budget maintenance and management;
(iii) Budget execution and treasury management;
(iv) General ledger;
(v) Procurement, including commitments of purchase orders, maintenance of a central suppliers' register and support for e-procurement;
(vi) Receipting, Accounts Receivable and Revenue Management;
(vii) Payments and Accounts Payable;
(viii) Inventory and Stock Control;
(ix) Asset Management;
(x) Budget Execution reporting;
(xi) Financial reporting;
(xii) Project accounting; and
(xiii) Loans and Advances

18.5.4 Interface with third parties

Interfaces with third party systems to be provided by the GIFMIS include:

(a) Human Manager – Payroll – OAGF – Payroll costs/Loan repayments;
(b) ASYCUDA – Customs – NCS – Revenue;
(c) SAP – Taxation – FIRS – Revenue;
(d) CD-DRMS – Debt Management – DMO – Debt payments;
(e) Oracle ERP – Banking interface – CBN – Bank Statements; and
(f) Oracle 9i – Medium Term Budget – BOF – Annual Budgets and ceilings

18.6 Summary

The chapter discussed the operation of Treasury Single Accounting and other financial management reforms put in place by the government for efficient financial operations in the public service.

18.7 End of chapter review questions

18.7.1 Examination type questions

Section A

1. Which of the following is NOT an objective of the Treasury Single Account (TSA)?

A. Ensure cash availability

B. Eliminate operational inefficiency and cost associated with maintaining multiple bank accounts

C. Block loopholes in revenue management

D. Ensure job stability

E. Establish an efficient collection and disbursement mechanisms for government funds

2. GIFMIS is an acronym for

A. General Integrated Financial Management Information System

B. Government Instituted Financial Management Information System

C. Government Information Financial Management Information System

D. Government Integrated Financial Management Information System

E. Government Institution Financial Management Information System

3. Which of the following is **not**one of the objectives of Government Integrated Financial Management Information System (GIFMIS)?

A. Increases the ability to access information on financial and operational performance

B. Increases internal controls to prevent and detect potential and actual fraud

C. Improves medium term planning through a Medium Term Expenditure Framework (MTEF)

D. Increase the ability to demonstrate accountability and transparency

E. Ensuring excessive use of ways and means in financing budget Expenditure

4 Which of the following is **not** among the benefits of IPPIS?

A. It facilitates manpower planning since all civil service records are centralized

B. It aids budgeting as a result of availability of accurate recurrent expenditure budget is made possible

C. It eliminates payroll fraud such as ‘ghost workers’ syndrome’

D. It ensures payment of extra allowances to members of the executive, legislature and the Judiciary

E. It ensures database integrity brought about by storage of accurate personnel information

5. One of the following is **not** among the benefits of ATRRS accounting software

A. Potentially reduces training period and requirements for GIFMIS
B. Facilitates ease of reconciliation of the various bank accounts
C. Potentially reduces GIFMIS implementation costs
D. Ensures that clean and accurate data are available for migration into GIFMIS
E. Makes accountants depends more on the efficiency of the staff of the Auditor General for the Federation on audit of public accounts

6. ------------ 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.

7. ------------- is an ICT based accounting software application, which facilitates the input of accounting transactions, reconciliations and generation of standard accounting reports that meet the required standard of the treasury
8. The Federal Government (FGN) introduced----------- 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
9. ------------ is a sub component of the ERGP (Economic Reform and Governance Project) which will support the public resource management and targets anti-corruption initiatives through modernising fiscal processes using better methods, techniques and information technology
10. -------------------- initiative was approved by Federal Government of Nigeria (FGN) goal to strengthen governance, accountability, reduce corruption and deliver services more effectively

Section B

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. Explain the concept of Treasury Single Account (TSA)

b. Discuss any **five** benefits of TSA

3 . What is the full meaning of the Acronym GIFMIS?

b. State the main objective of GIFMIS.

4 a. Briefly explain the term- ATRRS.

b. State the benefits of the ATRRS.

18.7.2 Suggested Solutions to examination type questions

Section A

1. A
2. D
3. E
4. D
5. E
6. Treasury Single Account (TSA)
7. Automated Accounting Transaction Recording and Reporting System (ATRRS.)
8. Integrated Personnel and Payroll Information System (IPPIS)
9. Government Integrated Financial Management Information System (GIFMIS)
10. Economic Reform and Governance Project (ERGP)

Section B

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)**

(i) Provides complete and timely information on government cash resources.

(ii) Improves operational control on budget execution.

(iii) Enables efficient cash management.

(iv) Reduces bank fees and transaction costs.

(v) Facilitates efficient payment mechanisms.

(vi) Improves bank reconciliation and quality of fiscal data.

(vii) Improves liquidity of government

(viii) Issuance of Warrants and AIEs based on cash plan
(ix) No more commercial bank accounts maintained by MDA
(x) Drastic fall on the Ways and Means (Overdraft) requirement from CBN
(xi) Support government budget execution
(xii) 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

- All payments to contractors and to service providers.
- 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

2a. 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 agencies. The compliance of the policy faces challenges from majority of the MDAs.

b. **Benefits of TSA**

(i) Assists the federal government in the efficient utilisation of government funds for approved projects;

(ii) Helps government unify banking arrangements;

(iii) Promotes transparency and accountability in government operations;

(iv) Reduces the amount, and cost of government borrowing by maximising the use of available government resources to deliver projects.

(v) Ensures centralised control over revenue through effective cash management.

(vi) Enhances accountability and enables government to know how much is accruing to it on a daily basis.

(vii) Reduces fiscal criminality and help tame the tide of corruption.

3a. GIFMIS- Government Integrated Financial and Management Information System

i. Objectives of the GIFMIS

The overall objective is to implement a computerised 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; and
vii. Increases the ability to demonstrate accountability and transparency to the public and cooperating partners.

4(a) Automated Accounting Transaction Recording and Reporting System (ATRRS).

It is an ICT based accounting software application, which facilitates the input of accounting transactions, reconciliations and generation of standard of the Treasury. The Treasury (OAGF) develops the software, it provides a leverage solution to automate the manual recording of the accounting transactions in the Line Ministries, Agencies and Parastatals of Government.

It's introduction helps in 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.

4(b) Benefits of the ATRRS Accounting Software

i. Familiarises 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.
ii. Potentially reduces training period and requirement for GIFMIS

iii. Shortens business process re-engineering period(i.e. it is faster to transit a semi- automated process than a manual process)
iv. Facilitates ease of reconciliation of the various bank account
v. Ensures that clean and accurate data will be available for migration into GIFMIS.

CHAPTER NINETEEN

ETHICAL CONSIDERATIONS IN PUBLIC SECTOR ACCOUNTING IN MANAGING ECONOMIC CRIMES

Chapter contents

19.0 Learning objectives

After studying this chapter readers should be able to:

i. Identify and discuss the major institutions charged with the responsibilities of ensuring compliance to ethical standards in the public sector; and
ii. Itemise ethical offences and discuss the appropriate stipulated sanctions.

19.1 Introduction

In order to stamp out the rising cases of corruption, fraud, greed and avarice which are pervasive in the society and in view of the need to overhaul the image of the country before 'accountability organs' such as Transparency International, the Federal Government of Nigeria introduced various regulatory laws and measures.

19.2 Economic and Financial Crimes Commission (EFCC)

The Commission is empowered to prevent, investigate, prosecute and sanction economic and financial crimes and is charged with the responsibility of enforcing the provisions of other laws and regulations relating to economic and financial crimes. These crimes include the Money Laundering Act 1995, the Advance Fee Fraud and Other Related Offences Act 1995, the Failed Banks (Financial Malpractices in Banks) Act 1994;the Banks and Other Financial Institutions Act 1991, and Miscellaneous Offences Act.

19.2.1 Duties of the commission

According to Part II of the Act, the commission is responsible for:

(a) The enforcement and the due administration of the provisions of the Act;

(b) The investigation of all financial crimes which include advance fee fraud, money laundering, counterfeiting, illegal charge transfers, futures market fraud, fraudulent encashment of negotiable instruments, computer credit card fraud, contract scam, etc;

(c) The co-ordination and enforcement of all economic and financial crime laws and enforcement functions conferred on any other person or authority;

(d) The adoption of measures to eradicate the commission of economic and financial crimes;

(e) The adoption of measures to identify, trace, freeze, confiscate or seize proceeds derived from terrorist activities, economic and financial crime related offences or the properties, the value of which corresponds to such proceeds;

(f) The adoption of measures, which include coordinated preventive and regulatory actions, introduction and maintenance of investigative and control techniques on the prevention of economic and financial related crimes;

(g) The facilitation of rapid exchange of scientific and technical information and the conduct of joint operations geared towards the eradication of economic and financial crimes;

(h) The examination and investigation of all reported cases of economic and financial crimes with a view to identifying individuals, corporate bodies or groups involved;

(i) The determination of the extent of financial loss and such other losses by government, private individuals or organisations;

(j) Collaboration with Government bodies both within and outside Nigeria, carrying on functions wholly or in part analogous with those of the commission concerning;

   (i) The identification, determination, of the whereabouts and activities of persons suspected of being involved in economic and financial crimes;

   (ii) The movement of proceeds or properties derived from the commission of economic and financial and other related crimes;

   (iii) The exchange of personnel or other experts;

   (iv) The establishment and maintenance of a system for monitoring international economic and financial crimes in order to identify suspicious transactions and persons involved;

   (v) Maintaining data, statistics, records and reports on persons, organisations, proceeds, properties, documents or other items or assets involved in economic and financial crimes;

   (vi) Undertaking research and similar works with a view to determining the manifestation, extent, magnitude and effects of economic and financial crimes and advising Government on appropriate intervention measures for combating same;

(k) Taking charge of, supervising, controlling, coordinating all the responsibilities, functions, activities relating to the current investigation and prosecution of all offences connected with or relating to economic and financial crimes, in consultation with the Attorney-General of the Federation;

(l) Carrying out such other activities as are necessary or expedient for the full discharge of all or any of the functions conferred on the Commission under the Act;

19.2.2 Powers of the commission

Under paragraph 6 of the Act, the Commission has power to:

(a) Cause investigations to be conducted as to whether any person has committed an offence under the Act;

(b) Cause investigations to be conducted into the properties of any person, if it appears to the Commission that the person's lifestyle and extent of his properties are not justified by his source of income;

(c) Enforce the provisions of:

 (i) The Money Laundering Act 1995.

 (ii) The Advance Fee Fraud and Other Related Offences Act 1995,

 (iii) The Failed Banks (Recovery of Debts) Financial Malpractices in Banks, Act 1994(as amended).

 (iv) The Banks and Other Financial Institutions Act 1991 (as amended).

 (v) Miscellaneous Offences Act; and

 (vi) Any other law or regulations relating to economic and financial crimes.

19.2.3 Offences and convictions

A summary of the various offences committed and the penalties stipulated under part IV, of the Act is:

(a) Offences which relate to financial malpractices attract 5 years imprisonment or a fine of fifty thousand naira (₦50,000) or both imprisonment and fine;

(b) Offences associated with terrorism attract imprisonment for life;

(c) Offences committed by public officers attract between 15 and 25 years imprisonment;

(d) Retaining the proceeds of a criminal conduct attract not less than 5 years imprisonment or to a fine equivalent to 5 times the value of the proceeds of the criminal conduct or to both fine and imprisonment;

(e) Offences in relation to economic and financial crime attracts imprisonment for a term not less than 15 years and not exceeding 25 years.

Paragraph 20 of the Act says 'for the avoidance of doubt and without any further assurance than this Act, all the properties of a person convicted of an offence under this Act and shows to be derived or acquired from such illegal act and already the subject of an interim order shall be forfeited to the Federal Government.'

19.3 **The Independent and other Related Offences Act, 2000,** gave birth to the Independent Corrupt Practices and other Related Offences Commission. The Commission is a body corporate, endowed with perpetual succession. It has a common seal and is juristic (that is, may sue and be sued in its corporate name).

19.3.1Composition 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 be low the rank of a Director

e. A woman

f. A chartered accountant

g. A youth not less than 21 or 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.

19.3.2 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.

19.3.3 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.

19.3.4 Duties of the commission

(a) Where reasonable ground exists for suspecting that any person has conspired to commit or has attempted to commit or has committed an offence under the Act or any other law prohibiting corruption, to receive and investigate any report of the conspiracy to commit, attempt to commit or the commission of such offence and, in appropriate cases the offenders;

(b) To examine the practices, systems and procedures of public bodies and where, in the opinion of the Commission, such practices, systems or procedures aid or facilitate fraud or corruption, to direct and supervise a review of them;

(c) To instruct, advise, and assist any officer, agency or parastatals on ways by which fraud or corruption may be eliminated or minimised by such officer, agency or parastatals;

(d) To advise Heads of Public Bodies of changes in practices, systems or procedures compatible with the effective discharge of the duties of the public bodies as the Commission thinks fit to reduce the likelihood or incidence of bribery, corruption and related offences;

(e) To enlist and foster public support in combating corruption.

19.3.5 Offences and penalties

(a) **Offence of accepting gratification**: Any person who corruptly asks for, receives or obtains any property or benefit of any kind for himself or for any other person or agrees or attempts to receive or obtain any property or benefit of any kind for himself or for any other person, is liable to imprisonment for seven (7) years;

(b) **Offence of giving or accepting gratification through agent:** On conviction, shall be liable to imprisonment for seven (7) years;

(c) **Acceptor or giver of gratification** to be guilty, notwithstanding that, the purpose was not carried out or matter not in relation to principal's affairs or business; on conviction shall be liable to imprisonment for (seven) 7 years;

(d) **Fraudulent acquisition of property**: Any person found guilty, shall on conviction, be liable to imprisonment for seven (7) years;

(e) **Fraudulent receipt of property**: Any person who receives anything which has been obtained by means of act constituting a felony or misdemeanour inside or outside Nigeria, which if it had been done in Nigeria would have constituted a felony or misdemeanour and which is an offence under the laws in force in the place where it was done, knowing the same to have been so obtained, is guilty of a felony and the offender shall, on conviction be liable to imprisonment for seven (7) years;

(f) **Penalty for offences committed through postal system:** If the offence by means of which the thing was obtained is a felony, the offender shall on conviction be liable to imprisonment for three (3) years, except the thing so obtained was a postal matter, or any chattel, money or valuable security contained therein, in which case the offender shall on conviction be liable to imprisonment for seven (7) years;

(g) **Deliberate frustration of investigation being conducted by the Commission:** Any person who, with intent to defraud or conceal a crime or frustrate the Commission in its investigation of any suspected crime of corruption under the Act or any other law destroys, alters, etc. any document shall on conviction be liable to seven (7) years imprisonment;

(h) **Making false statements or returns**: Any person who knowingly furnishes any false statement or return in respect of any money or property received by him or entrusted to his care, or of any balance of money or property in his possession or under his control, is guilty of an offence and shall on conviction be liable to seven (7) years imprisonment;

(i) **Gratification by and through agents:** Any person who corruptly accepts, obtains, gives or agrees to give or knowingly gives to any agent, any gift or consideration as an inducement or reward for doing, fore bearing to do any act or thing, shall on conviction be liable to five (5) years imprisonment;

(j) **Bribery of public officer**: Any person who offers to any public officer, or being a public officer solicits, counsels or accepts any gratification as an inducement or a reward, in the course of official duties shall on conviction be liable to five (5) years imprisonment with hard labour;

(k) **Using office or position for gratification**: Any public officer who uses his office or position to gratify or confer any corrupt or unfair advantage upon himself or any relation or associate shall be guilty of an offence and shall on conviction be liable to imprisonment for five (5) years without option of fine;

(l) **Any public officer who in the course of official duties, inflates the price of any good or service above prevailing market price or professional standards** shall be guilty of an offence under this Act and liable on conviction for a term of seven (7) years and a fine of one million naira (₦1,000,000.00).

19.3.6 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

19.4 Code of Conduct Bureau (CCB)

Part I of the Third Schedule of the 1999 Constitution established the Code of Conduct Bureau.

19.4.1 Powers of the Code of Conduct Bureau

The Code of Conduct Bureau was set up to:

(a) Receive declarations by the public officers made under paragraph 12 of Part 1 of the Fifth Schedule of the 1999 Constitution;

(b) Examine the declarations in accordance with the requirements of the Code of Conduct or any law;

(c) Retain custody of such declarations and make them available for inspection by any citizen of Nigeria on such terms and conditions as the National Assembly may prescribe;

(d) Ensure compliance with and, where appropriate, enforce the provisions of the Code of Conduct or any law relating thereto;

(e) Receive complaints about non-compliance with or breach of the provisions of the Code of Conduct or any law in relation thereto, investigate the complaint and, where appropriate, refer such matters to the Code of Conduct Tribunal.

(f) Carry out any other functions as may be conferred upon it by the National Assembly.

19.4.2 Code of conduct for public officers

The Fifth schedule, Part 1, of the 1999 Constitution states that "a public officer shall not put himself in a position where his personal interest conflicts with his duties and responsibilities.''

(a) Restrictions on specified officers

A public officer shall not receive or be paid the emoluments of any public office just as he receives or is paid the emoluments of any other public office, except where he is not on full time basis, or does not engage in the running of any private business. However, no public officer shall be prevented from engaging in farming.

(b) Prohibition of foreign accounts

The President, Vice-President, Governors, Deputy Governors, Ministers of the Government of the Federation, State Commissioners, Members of the National Assembly and of the Houses of Assembly of the States and such other public officers or persons as the National Assembly may by law prescribe shall not maintain or operate a bank account in any country outside Nigeria.

(c) Retired public officers/certain retired public officers

No public officer shall, after retirement from public service and while taking pension from public funds, accept more than one remunerative position as Chairman, Director or Staff of a company controlled by the government or any public authority. A retired public servant shall not receive any other remuneration from public funds additionally to his pension and the emolument of such one remunerative position. The holders of the offices of President, Vice-President, Chief Justice of Nigeria, Governor and Deputy Governor of a State are prohibited from service or employment in foreign companies or foreign enterprises.

(d) Gifts or benefits in-kind

A public officer shall not ask for or accept any gift or benefit for himself or any other person, in the discharge of his duties. However, he may accept personal gifts or benefits from relatives or friends as recognised by custom only

(e) Bribery of public officers

A public officer should not receive any property, gift or benefit of any kind as a bribe for granting a favour in the performance of his duties

(f) **Abuse of powers**

A public officer shall not do or cause to be done, in abuse of his position, any arbitrary thing, which prejudices the rights of others

(g) Membership of societies

A public officer shall not belong to a society, the membership of which runs incompatible with the dignity of his office.

(h) **Paragraph 11 of the Fifth Schedule, Part 1,** states that every public officer shall within three months after the coming into force of this Code of Conduct or immediately after taking office and thereafter:

(i) At the end of every four years, and

(ii) At the end of his term of office,

(iii) Submit to the Code of Conduct Bureau a written declaration of all his properties, assets and liabilities and those of his unmarried children under the age of eighteen years;

(iv) Any statement in such declaration that is found to be false by any authority or person authorised in that behalf to verify it shall be deemed to be a breach of this Code; and

(vi) Any property or assets acquired by a public officer after any declaration required under this Constitution and which is not fairly attributable to income, gift or loan approved by this Code shall be deemed to have been acquired in breach of this Code unless the contrary is proved.

19.5 Public Complaints Commission (PCC)

19.5.1 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 the1979 Constitution of Nigeria and is now Cap. P37, LFN 2004.

19.5.2 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.

The National Assembly may remove a commissioner at any time. While in office, a commissioner is not expected to hold any other remunerated office, whether in the public or private sector.

19.5.2 Commission's mandate

These may be stated as follows:

(a) To investigate and conduct research in MDA, 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

19.5.3 Powers and duties of commissioner

(i) All commissioners shall be responsible to the National Assembly but the chief commissioner shall be responsible for coordinating the work of all other commissioners.

(ii) 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 afore said or by private individuals in Nigeria or otherwise howsoever; or

(d) Any officer or servant of any of the afore mentioned bodies.

(iii) 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 sub section (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

(e) A Commissioner shall be competent to investigate administrative procedures of any court or law in Nigeria.

(iv) 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.

(v) 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.

(vi) 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.

(vii) It shall be the duty of anybody or person required by a commissioner to furnish information pursuant to sub section (3) (c) of this section to comply with such requirement not later than thirty days from receipt thereof.

(vii) 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.

19.6 Money Laundering Prohibition Act 2011

19.6.1 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 how it is obtained.

Prevention of money laundering

19.6.2 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

19.6.3 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.

19.6.4 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, identify 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 sub section (iii) of this section shall be reserved for a period of at least ten years after the last transaction recorded in the register.

19.6.5 Duties incumbent upon casinos

(a) A casino shall:

(i) Verify the identity of a gambler, who buys, brings in to 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, fore names 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 sub section (1) (b) of this section shall be preserved for a period of at least ten years after the last transaction recorded in the register.

19.6.6 Identification of customers

(a) A financial institution shall verify its customer's identity and address before opening an account for, issuing a pass book 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:

a) Identity, by presenting to the financial institution a valid original copy of an official document bearing his names and photograph;
b) 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 sub section (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.

19.6.7 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 ₦2million 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.

19.6.8 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 maybe.

19.6.9 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.

19.6.10 Mandatory disclosureby financialinstitutions

(i) Not withstanding any thing to the contrary in any other enactment, a financial institution or casinos hall disclose and report to the Agency in writing, withins evendays, any singletransaction, lodgementor transfer of funds in excess of:

(a) ₦500,000 or its equivalent, in the caseofan individual; and

(b) ₦2 million or its equivalent, in the caseof abodycorporate

(ii) Aperson, other than a financial institution or casino, may voluntarily give information on any transaction, lodgement or transfer of funds in excess of:

(iii) 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.

(iv) The acknowledgment of receipt shall be sent to the financial institution within the time allowed for the transaction to be carried out and a stop notice deferring the transaction for a period not exceeding 72 hours may accompany it.

(v) If a stop notice does not accompany the acknowledgment of receipt, 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 carryout the transaction.

(vi) 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.

(vii) An order made by the Federal High Court under sub section (6) of this section shall be enforceable forthwith.

19.6.11 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.

19.6.12 Surveillance of bank accounts, etc.

(i) The Agency may, in order to identify and locate narcotic drugs and psycho tropic 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:-(1989No.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, contractor record concerns or may concern the transaction.

(ii) Banking secrecy shall not be invoked as areas on for objecting to the measures set out in subsection (1) of this section, or for refusing to be a witness to facts likely to constituteanoffenceunderthisActorthe National Drug Law Enforcement AgencyAct.

19.6.13 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.

19.6.14 Money laundering offences

(i) 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, oraiding any person involved in the illicit traffic of narcotic drugs or psycho tropic 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 there derived directly or indirectly from illicit traffic in narcotic drugs or psycho tropic 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 25years.

(ii) A person shall be guilty of an offence under subsection (1) of this section and be subject to the penalty specified in that sub section notwithstanding that the various acts constituting the offence were committed in different countries

19.6.15 Otheroffences

(i) Without prejudice to the penalties provided for illicit traffic in narcotic drugs or psycho tropic 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 carryout, 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 guiltyof an offence under this section

(ii) A person who is found guilty of an offence under sub section (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 25years;

(b) In the caseof 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 imprisonmen to 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.

(iii) 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.

(iv) 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 25of the National Drug Law Enforcement AgencyAct. (Cap. N30)

(v) 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.

19.6.16 Conspiracy, aiding, etc.

Aperson 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.

19.6.17 Offences by bodies corporate

(i) 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 attributeable 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.

(ii) Where a body corporate is convicted of an offence under this Act, the court may order that the body corporate shall there upon and without any further assurance, but forsuchorder, be wound up andallits assets and propertiesforfeited to the Federal Government.

19.6.19 Trial of offences

(i) The Federal High Court shall have exclusive jurisdiction to try offences under this Act. (1999 No. 62)

(ii) The Federal High Court shall have power to impose the penalties provided in this Act. (1999 No. 62)

(iii) In any trial for an offence under thisAct, 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 testimonyof anywitness in such trial. (1999 N0. 62)

Part III (Miscellaneous)

19.6.20Power 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.

19.7 The Financial Reporting Council of Nigeria

19.7.1 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

19.7.2 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.

a) The President, on the recommendation of the Minister, shall appoint the Chairman and the members shall be recommended by their various professionals or statutory bodies to the Minister for appointment by the President.

b) 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.

19.7.3 Cessation 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;

(*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 practicing his profession in any part of the world by an order of a competent authority made in respect of that member.

19.7.4 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.

19.7.5 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.

19.7.6 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.

19.7.7 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; and

(*h*) Undertake annual evaluation of its own performance, and that of its committees and operating bodies, against its objectives, including a review of the schedule of matters reserved to the Board.

19.7.8 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; and

(*e*) Harmonise activities of relevant professional and regulatory bodies as relating to Corporate Governance and Financial Reporting.

19.8 Summary

The Nigerian Government is striving to eradicate or at least reduce corruption, cases of fraud and greed within the society. The Government has therefore put in place agencies to propagate the virtues of morality and in the long run, punish offenders as deterrents to others in the society.

19.9 End of chapter review questions

19.9.1 Examination type 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 ofthe 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. Ministryof Justice

5. Which of the following is **not** true about ICPC?

   A. It is established by an Act

   B. It is a body Corporate

   C. It has perpetual succession

   D. It can sue and be sued in its own name

   E. It can prosecute without recourse to Attorney-General

6. The body established by Act of Parliament No5 of December, 2002, which has the power to enforce the provisions of the Bank and Other Financial Institution Act is called..................

7. The ICPC composition has a Chairman and twelve other members, two of whom shall come each from..................

8. 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 aggregateon re-election.

9. The Body that has the power to prosecute directly without recourse to the Attorney-General's office is........................

10. The body that receives copies of annual reports and financial statements of public interest entities from preparers within 60 days of the approval of the Board is----------

11. The means of effecting payment for and receipts of government business transactions through on-line transfer is called.............

Section B

1 (a) Part 1 of the Third Schedule of 1999 Constitution established the Code of Conduct Bureau. You are required to 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.

2 The Economic & Financial Crimes Commission was established by Act No 5, of 2002 to combat economic and financial crimes in Nigeria.

Required:

(i) Enumerate **eight** functions of the Commission.

(ii) In line with paragraph 6 of the Act, state **three** powers of the Commission

3 The Corrupt Practices and Other Related Offences Act, 2000, established the Independent Corrupt Practices & Other related Offences Commission.

(a) State **eight** functions of the Commission
(b) State **six** offences and penalties
(c) Compare and contrast the EFCC and ICPC

4(a) You are required to state Any **ten** of the members of the Financial Reporting Council of Nigeria.

(b) You are required to explain the circumstances for disqualification from membership of the Financial Reporting Council of Nigeria.

19.9.2 Suggested solutions to examination type questions

Section A

1. B
2. C
3. D

4. E
5 E
6. EFCC
7. Six-geo-political zones of the nation
8. 10years
9. EFCC
10. Financial Reporting Council of Nigeria
11. E-payment

Section B

1a. (i) **Composition of the Code of Conduct Bureau**

Code of Conduct Bureau shall consist of the following:

13. A Chairman
14. 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.
15. 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:

- Receive declarations by public officers made under paragraph 12 of Part I of the 5th schedule of the 1999 constitution;
- Examine the declarations in accordance with the requirement of the code of conduct or any law;
- 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;
- Ensure compliance with and where appropriate enforce the provisions of the code of conduct or any law relating thereto;
- Receive complains about non-compliance with or breach of the provisions of the code of conduct or any law in relation thereto;
- Investigate the complaint above and where appropriate refer such matters to the Code of Conduct Tribunal;
- 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:**

i. Vacation of office seat in any legislative house;
ii. Prosecution of the public officer in a court of law;
iii. Disqualification frown membership of a Legislative House and from holding any public office for a period not exceeding ten years;
iv. Serve penalties imposed by any law where the conduct is a criminal offence; and
v. Seizure and forfeiture to the state any property acquired through the abuse or corruption of office.

2 (i) **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.

ii. **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 extent of his properties are not justified by his source of income;

c. Power to enforce the provisions of:

   F. The Bank and Other Financial Institution Act 1991 as amended)

   G. The Failed banks (Recovery of Debts) Finance Malpractices in Banks Act 1994 (as amended)

   H. The Advance Fee Fraud and other Related Offence Act 1994;

   I. The Money Laundry Act 1995;

   J. The Miscellaneous Offence Act.

3. (i) **Functions of ICPC are to:**

(a) 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) Prosecute those who are found to have committed any offence under the Act after the investigation;

(c) 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) Advice, 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) 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) 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) Educate the public against offences likely bribery, corruption, forgery, impersonation, advance fee fraud and other related offences;

(i) Instruct the executives on how to detect, prevent and reduce to acceptable, level, incidence of corruption and related offences;

(j) Involve the general public in waging war against corruption.

ii **Offences and penalties**

(a) **Offence of accepting gratification**: Any person who corruptly asks for, receives or obtains any property or benefit of any kind for himself or for any other person or agrees or attempts to receive or obtain any property or benefit of any kind for himself or for any other person, is liable to imprisonment for seven (7) years;

(b) **Offence of giving or accepting gratification through agent:** On conviction, shall be liable to imprisonment for seven (7) years;

(c) **Acceptor or giver of gratification to be guilty, notwithstanding that, the purpose was not carried out or matter not in relation to principal's affairs or business**: On conviction shall be liable to imprisonment for (seven) 7 years;

(d) **Fraudulent acquisition of property**: Any person found guilty, shall on conviction, be liable to imprisonment for seven (7) years;

(e) **Fraudulent receipt of property**: Any person who receives anything which has been obtained by means of act constituting a felony or misdemeanour inside or outside Nigeria, which if it had been done in Nigeria would have constituted a felony or misdemeanour and which is an offence under the laws in force in the place where it was done, knowing the same to have been so obtained, is guilty of a felony and the offender shall, on conviction be liable to imprisonment for seven (7) years;

(f) **Penalty for offences committed through postal system:** If the offence by means of which the thing was obtained is a felony, the offender shall on conviction be liable to imprisonment for three (3) years, except the thing so obtained was postal matter, or any chattel, money or valuable security contained therein, in which case the offender shall on conviction be liable to imprisonment for seven (7) years;

(g) **Deliberate frustration of investigation being conducted by the Commission:** Any person who, with intent to defraud or conceal a crime or frustrate the Commission in its investigation of any suspected crime of corruption under the Act or any other law destroys, alters, etc. any document shall on conviction be liable to seven (7) years imprisonment;

(h) **Making false statements or returns**: Any person who knowingly furnishes any false statement or return in respect of any money or property received by him or entrusted to his care, or of any balance of money or property in his possession or under his control, is guilty of an offence and shall on conviction be liable to seven (7) years imprisonment;

(i) **Gratification by and through agents:** Any person who corruptly accepts, obtains, gives or agrees to give or knowingly gives to any agent, any gift or consideration as an inducement or reward for doing, fore bearing to do any act or thing, shall on conviction be liable to five (5) years imprisonment;

(j) **Bribery of public officer**: Any person who offers to any public officer, or being a public officer solicits, counsels or accepts any gratification as an inducement or a reward, in the course of official duties shall on conviction be liable to five (5) years imprisonment with hard labour;

(k) **Using office or position for gratification**: Any public officer who uses his office or position to gratify or confer any corrupt or unfair advantage upon himself or any relation or associate shall be guilty of an offence and shall on conviction be liable to imprisonment for five (5) years without option of fine;

(l) **Any public officer who in the course of official duties, inflates the price of any good or service above prevailing market price or professional standards** shall be guilty of an offence under this Act and liable on conviction for a term of seven (7) years and a fine of one million naira (₦1,000,000.00).

iii **Differences between EFCC and ICPC**

(i) 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** ICPC is to enforce laws relating to fraud, corruption and embezzlement of funds in relation to public services;

(ii) 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;

(iii) EFCC has power to prosecute directly without recourse to the Attorney General's Office **while** the ICPC can only prosecute through the Office of the Attorney General.

4(a) Composition of the Board of the Federal Reporting Council of Nigeria

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 the National Accountants of Nigeria

c. Two representatives from the Institute of Chartered Accountants of Nigeria

d. One representative from each of the following:

2. Office of the Accountant-General of the Federation

i. Office of the Auditor-General for the Federation

ii. Central Bank of Nigeria

iii. Chartered Institute of Stockbrokers

iv. Chartered Institute of Taxation of Nigeria
v. Corporate Affairs Commission
vi. Federal Inland Revenue Service
vii. Federal Ministry of Finance
viii. Nigerian Association of Chambers of Commerce, Industries, Mine and Agriculture
ix. Nigerian Deposit Insurance Corporation
x. Nigerian Institute of Estate Surveyors and Valuers
xi. Securities and Exchange Commission
xii. Nigerian Stock Exchange
xiii. National Insurance Commission
xiv. Nigerian Accounting Association
xv. Federal Ministry of Commerce
xvi. National Pension Commission

(Any 10 points @ ¾ Marks = 7 ½

4(b) The seat of a member shall become vacant if:

1 He resigns of the meeting
2 He becomes disqualified from membership under Section 4 of this Act
3 He no longer holds the office by virtue of which he became a member
4 He has been absent from a consecutive meetings or 3 quarters of the meetings of the Board during a financial year without any leave from:-
   a. The Minister, in the case of the chairman
   b. The chairman, in the case of any other Board members

CHAPTER TWENTY

PUBLIC SECTOR AUDIT

Chapter contents

20.0 Learning objectives

After studying this chapter, the reader should be able to:

(a) Describe auditing and types of audit;

(b) Identify the objectives and steps in auditing.

(c) Explain investigation and steps in investigation; and

(d) Identify factors contributing to an effective audit.

20.1 Introduction

Auditing is an independent appraisal process often governed by statute, for examining, investigating and verifying the financial statements of an organisation, by a person competently appointed. The Auditor seeks to establish an opinion concerning the truth, accuracy, validity, reliability and fairness or otherwise of the statements and the underlying records on which the statements have been built and whether or not they comply with any statutory or other requirements. He also makes a report to the users of the financial statements, giving his opinion concerning the accuracy and integrity of the accounting records and information.

20.2 Legal and other requirements for public sector audit

20.2.1 Constitution of the Federal Republic of Nigeria1999

The law guiding the audit of public accounts of the Federation and of all offices and courts of the Federation is set out in Sections 85 to 87 of the Constitution. This has been discussed under chapter 6 (paragraph.6.4 and 6.5), shall be audited and reported on to the Auditor General who shall submit his reports to the National Assembly; and for that purpose, the Auditor General or any person authorised by him shall have access to all the books, records, returns and other documents relating to those accounts".

Under paragraph 85 (or 125) of the 1999 Constitution, the Auditor-General for the Federation (or the Auditor General for the State Government) is the external auditors for the federation and the state respectively.

20.2.2 Audit of government enterprises (Parastatals)

The laws setting up most of the Federal Corporations state that:

(i) 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.

(ii) An external auditor must be appointed by the boards to audit the accounts of the Corporation yearly in accordance to Section 83 (3) of the Constitution.

(iii) Section 85 (3) of the Constitution states that the Auditor-General shall provide such bodies with:

- (a) A list of auditors qualified to be appointed by them as external auditors and from which the bodies shall appoint their external auditors, and
- (b) Guidelines on the level of fees to be paid to external auditors; and
- (c) Comment on their annual accounts and auditor's reports thereon.
- (d) Section 85 (4) gives the Auditor-General power to conduct checks of all government statutory corporations, commissions, authorities, agencies, including all persons and bodies established by an Act of the National Assembly.

20.3 Objectives of audit

The primary objective of auditing is broken down into the following general audit objectives:

- **Completeness-** All transactions relevant to the year of account have been recorded;
- **Occurrence-** All recorded transactions properly occurred and were relevant to the year of account;

- **Measurement-** The recorded transactions have been correctly valued, properly calculated, or measured in accordance with established accounting policies, on an acceptable and consistent basis;
- **Regularity -** The recorded transactions are in accordance with primary and secondary legislation and other specific authorities required by them.
- **Disclosure -** The recorded transactions have been properly classified and disclosed where appropriate.

20.4 Factors contributing to an effective audit

The following factors make for an effective audit:

(a) **The independence of the auditor:** He should be given free hand to do a good job. The auditor should not be under the control of management of the Organisation.

(b) **The adequacy and scope of the auditor's power:** The authority of the auditor should be guaranteed. The auditor must be given adequate authority to discharge his responsibilities.

(c) **The expertise and professionalism of the auditor and his staff:** The Auditor should be adequately trained, versatile and skilful at his job.

(d) **The resources at the auditor's disposal:** There should be enough funds at the disposal of the Auditor to carry out his assignment.

(e) **Freedom of reporting and the qualitative nature of reports:** The reports which the auditor transmits should be promptly looked into and timely and effective decisions taken in order to comply with the Professional Audit Standards.

(f) **Unrestricted access:** Audits should be conducted with complete and unrestricted access to employees, property and records.

(g) **Stakeholder support:** The legitimacy of the audit activity and its mission should be understood and supported by a broad range of elected and appointed government officials, as well as the media and the involved citizens.

20.5 Types of audit

Public sector auditing can be described as a systematic process of objectively obtaining and evaluating evidence to determine whether information or actual conditions conform to established criteria.

There are three main types of public sector auditing: financial audit, compliance audit and performance audit. It is important to understand the differences between the three audit types. The objective(s) of the audit to be conducted will determine the applicable standards to follow.

20.5.1 Compliance audit

The definition of compliance audit builds on the definition of public sector audits with a specific focus on assessing compliance with criteria derived from authorities. Authorities are the parliamentary decisions, laws, legislative acts, established codes or norms, and agreed-upon terms that a public sector entity is expected to comply with in the execution of its roles and responsibilities. The main objective of compliance auditing is to provide the intended user(s) with information on whether the audited public entities follow parliamentary decisions, laws, legislative acts, policy, established codes and agreed upon terms.

In compliance auditing, you identify a subject matter, which is the area of the entity's work that the audit will address, for example the entity's procurements, their reporting on non-financial information, and their adherence to the freedom of information law or the staff's compliance with their codes of conduct.

Compliance audit is the independent assessment of whether a particular subject matter is in compliance with applicable authorities identified as criteria. As auditors, we assess whether activities, financial transactions, and information are, in all material respect, in compliance with the authorities, which govern the audited entity.

Auditors performing compliance audit look for material deviations or departure from criteria, which could be based on laws and regulations, principles of sound financial management, or propriety, which is the observance of the general principles governing sound financial management and the conduct of public officials.

The Legislative arm of Government appropriates public funds to activities for the benefit of the citizens. Public sector auditing is essential to evaluate if public sector administration is managing the allocated funds as decided by those that appropriated the funds. The officials are expected to act in the best interest of the public by spending the funds for the intended purposes, and in line with the authorities (laws and regulations etc. that govern them).

It is the responsibility of the public sector entities and appointed officials to be *transparent* about their actions and *accountable* to citizens for the funds with which they are entrusted, and to exercise *good governance* over such funds.

Compliance auditing promotes transparency, by providing reliable reports as to whether funds have been administered and citizens' rights to due process are honoured as required by the applicable authorities. It promotes accountability by reporting deviations from and violations of authorities, so that corrective action may be taken and those responsible may be held accountable for their actions. It promotes good governance both by identifying weaknesses and deviations from laws and regulations and by assessing propriety where there are insufficient or inadequate laws and regulations. Fraud and corruption are by their very nature, are elements, which counteract transparency, accountability and good stewardship.

Compliance auditing therefore promotes good governance in the public sector by considering the risk of fraud in relation to compliance.

20.5.2 Financial audit

Financial audit is determining whether an entity's financial information is presented in accordance with an applicable financial reporting and regulatory framework.

While doing financial audit, auditors should look for misstatements and errors that can have material impact on the information presented in the financial statements. Misstatements or errors are considered material if they impact the decisions of the intended users of the financial statements.

Compliance in financial audit is limited, and it is described in ISSAI 1250 paragraph 10 that the objectives of the audit are:

(a) To obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements;

(b) To perform specified audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements; and

(c) To respond appropriately to non-compliance or suspected non-compliance with laws and regulations identified during the audit.

Normally, considerations of compliance with laws and regulations in the public sector have a broader scope than that set out in International Standards of Supreme Audit Institutions (ISSAI) 1250. This may, for example include additional responsibilities for expressing a separate opinion or conclusion as to the entity's compliance with laws and regulations. Public sector auditors with such additional responsibilities should consider ISSAI 4000 instead of trying to include this as part of financial audits.

20.5.4 Performance audit or Value-for-money audit

Performance audit is an independent, objective and reliable examination of whether the government undertakings, systems, operations, programmes, activities or organisations are operating in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvements. Performance auditing seeks to provide new information, analysis or insights and, where appropriate recommendations for improvement.

'Value for money' (VFM) means using resources in the best way in order to achieve intended objectives. There are three aspects to achieving value for money, often known as the '3Es'.

(i) **Economy.** This means spending money carefully, and not paying more than necessary for resources - materials, labour and other expenses.

(ii) **Efficiency.** Efficiency means using resources in such a way that they produce the greatest possible amount of 'output'. It means getting more from the use of available resources. For example, efficiency in the use of an employee means getting a high rate of output for every hour or day worked.

(iii) **Effectiveness.** Effectiveness means using resources in such a way as to achieve the desired objectives. Efficiency is of little value unless the output from the system is what the entity wishes to achieve.

The purpose of a VFM engagement is to investigate a particular aspect of an entity's operations, and reach a conclusion about whether the entity is obtaining value for money.

3 Es	**Meaning**	**Measurement**
Economy	Doing it cheaply	Compare money spent with inputs acquired.
Efficiency	Doing it well	Compare inputs used with output achieved
Effectiveness	Doing the right thing	Compare output achieved with objectives

Steps to be taken in carrying out performance or value-for-money audit

(a) Do initial analysis of the financial statements.

(b) Review the management system.

(c) Plan and control.

(d) Carry-out compliance test. Check for approval by authorised office and limits of authority.

(e) Carry out substantive tests

Substantive test is subdivided into three, as follows:

i) **Economy test.** The objective of economy test is to ensure that resources (inputs) are obtained at the cheapest prices. The tests to be carried out are:
   a. Oral interview, and
   b. Circularisation.

(ii) **Efficiency assessment**. The objective of Efficiency Assessment is to ensure that wastages are reduced to the barest minimum. The tests to be carried out are:

   a. Physical asset verification.
   b. Check to 'third party' evidence.
   c. Review computation.
   d. Review extension.

e. Circularisation.
f. Conduct oral interview.
g. Review internal audit report.

(iii) **Carry out ‘effectiveness review’**. The objectives of ‘Effectiveness Review’ are to confirm the popularity of the policy adopted by the organisation. The tests to be carried out are:

a. Circularisation, and
b. Oral interview.

(iv) **Write the report.**
To evaluate efficiency and effectiveness, it is necessary to carry out physical verification of assets, check to evidences of third parties, review computations for occupancy, consider internal audit reports, circularise debtors and conduct oral interview.

20.5.5 Other types of audit

(a) Annual / statutory audit

Annual audit is a regular responsibility covered by the statute. It is a requirement of the law. An independent person to establish proper, adequate and accurate stewardship on the part of management carries it out on a yearly basis.

(b) Ad-hoc or special audit

Ad-hoc or special audit is a “one-off” assignment arising from a special request for investigation to be made. It could be in respect of an arm or a unit of the organisation; for example, a case of fraud involving an officer could be the ground for investigation.

(c) Pre-payment audit

Pre-payment audit is carried out before payment is effected. It is common in government services. An example is the audit carried out before contractors are paid. ‘Prepayment audit’ is carried out by the internal auditor to evaluate the extent to which management has achieved economy, efficiency and effectiveness and adhered to laid down rules and regulations.

Objectives of pre-payment audit are:

(i) To guide against unreasonable or extravagant expenditure;
(ii) To ensure that sufficient funds are available to enable payment to be effected
(iii) To ensure compliance with budgetary, civil service rules, financial memorandum, legislation and other legal requirements on payment;
(iv) To ensure that goods/services conform with the prescribed standards before payments.

(d) Post-payment audit

Post-payment audit is carried out after payment for the goods and services has been effected. Both Internal and External Auditors execute 'Post payment audit'. The exercise is to complement the pre-payment audit and ensure that disbursements take place in consideration of organisational interests and policies.

(e) Interim audit

This is an audit carried out by the external auditor for the earlier months of the year. It is designed to reduce the workload at the end of the year. It has the advantage of early detection of frauds and mistakes, and evaluation of the adequacy of the existing internal control.

(f) Final audit

This is the audit carried out after the end of the year to finalise the audit since the interim audit was carried out.

(g) Management audit

Management Audit is a review of the performance of management during a period. It is synonymous with the investigation or performance review of the management, otherwise called 'operational audit'.

(h) Operational or systems audit

The review concentrates on the operational aspect of management performance. The review evaluates the efficiency and effectiveness of management practices in rendering services to the members of the public.

(i) Vouching audit

Vouching audit checks the relevance and adequacy of the supporting documents of a transaction. Receipts are checked to third parties while evidence and all other financial papers are traced to the ledgers.

(j) Verification audit

This is a review to confirm the existence and ownership of the assets. It is undertaken by physical asset verification and review of evidence of ownership.

20.6. Steps taken in auditing financial statements of government

The auditor should carry out such examination of the financial statements of the audited body as is sufficient, in conjunction with the conclusions drawn from other audit evidence which will give him a reasonable basis for his opinion on the financial statements.

i. Scheduling and planning the audit;

At the planning stage the objective of the audit guides the planning. Whenever appropriate, the timing of an audit is discussed and agreed with management. The nature of the Audit, the independence of the members of the team, the audit programme (i.e. the activities that will be undertaken, documents that will be examined, questions that will be asked, enquiries that will be made, officials that will be interviewed) and the scope of the Audit is articulated before embarking on the Audit exercise. International Standards on Auditing (ISA) 300 deals with the Planning of audit of Financial Statements.

Adequate planning benefits the audit of financial statements in several ways, including the following:

(a) Helping the auditor to devote appropriate attention to important areas of the audit.
(b) Helping the auditor identify and resolve potential problems on a timely basis;
(c) Helping the auditor to properly organise and manage the audit so that it is performed in an effective and efficient manner;
(d) Assisting in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks, and the proper assignment of work to them;
(e) Facilitating the direction and supervision of engagement team members and the review of their work;
(f) Assisting, where applicable, in coordination of work done by auditors of components and experts consulted on execution of the audit.

ISA 300 deals with the auditor's responsibility to plan an audit. ISA 300 is written in the context of recurring audits. Additional considerations in an initial audit engagement are identified in the ISA.

(a) ISA 300 requires auditors to establish overall audit strategy
(b) Identify the characteristics of the engagement that define its scope;
(c) Ascertain the reporting objectives of the engagement, to plan the timing of the audit and the nature of the communications required;
(d) Consider the factors that, in the auditor's professional judgment, are significant in directing the engagement team's efforts;
(e) Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant; and

(f) Ascertain the nature, timing and extent of resources necessary to perform the engagement.

(g) ISA 300 requires the auditor to develop audit plan that involves:

(h) The nature, timing and extent of planned risk assessment procedures;

(i) The nature, timing and extent of planned further audit procedures at the assertion level; and

(j) Other planned audit procedures that are required to be carried out so that the engagement complies with ISAs.

(k) ISA 300 requires auditors to plan the nature, timing and extent of direction and supervision.

(l) ISA 300 requires auditors to document the strategy, plan and any significant changes.

(m) Communicating with the predecessor auditor, where there has been a change of auditors, in compliance with relevant ethical requirements.

ii. **Engagement letter;**

The engagement letter serves to notify management of a pending audit. Notification occurs via letters to the auditee, and usually includes a request for preliminary documentation needed for review, such as written policies, procedures, the books of accounts as well as documents and records. Engagement letter should also contain terms of reference (TOR) of the Audit and the Scope of the Audit.

ISA 210 deals with terms of reference of the audit. With respect to Government audits the terms are prescribed by relevant statutes, which must be complied with. The objective of the auditor in the government is to conduct an audit engagement in accordance with the objectives, which form the basis upon which it is to be performed. Basically expenditure must strictly comply with the Appropriation Act in amount and nature and expenditure must provide value for money spent in terms of economy, efficiency and effectiveness. Financial Statements must present financial position at financial year-end, financial performance to reveal outcome operations at the financial year end as well as movements in cash financial transactions.

The auditor is therefore expected to:

(a) Establish whether the preconditions for an audit are present; and

(b) Confirm that there is a common understanding between the auditor and management and, where appropriate, those charged with governance of the terms of the audit engagement.

ISA 210 further requires that:

a. Financial reporting framework to be applied in the preparation of the financial statements should be settled.
b. Management acknowledges and understands its responsibility:
c. For the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation;
d. For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
e. To provide auditor with access of all information, additional information and unrestricted access to all officials who could offer useful information in respect of the audit.
f. If limitation on the scope of audit is sensed when planning the audit, management should be informed to remove the limitation since law requires statutory audit. If limitation is not removed this will lead to qualification of opinion of the auditor;
g. Agree the terms of audit engagement with management or those charged with governance; and
h. Notification of the intention to audit to the Auditee should at least include:
i. The objective and scope of the audit of the financial statements;
j. The responsibilities of the auditor;
k. The responsibilities of management;
l. Identification of the applicable financial reporting framework for the preparation of the financial statements; and
m. Reference to the expected form and content of any reports to be issued by the auditor.
n. There must be reasonable justification for change in notification letter, after it has been forwarded.
o. Any change needs to comply with relevant provision of the Audit laws of the State or additional revelation after the audit has commenced.

iii. **Entrance conference;**

An entrance conference may be scheduled with the department to discuss the purpose and scope of the audit. This may be accomplished through scheduled meeting between the Audit Office and the auditee. Auditee should be encouraged to discuss any concerns or questions they have about the audit and this may indicate issues management would like to be included in the audit review.

iv. **Regularity (Financial) audit**

By the provisions of ISA regularity (financial) audit embraces:

(a) Attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinions on financial statements;
(b) Attestation of financial accountability of the government administration as a whole;
(c) Audit of financial systems and transactions including an evaluation of compliance with applicable statutes and regulations;
(d) Audit of internal control and internal audit functions;
(e) Audit of the probity and propriety of administrative decisions taken within the audited entity; and
(f) Reporting of any other matters arising from or relating to the audit that the Supreme Audit Institution considers should be disclosed.

v. **Field work**

Much work on statutory Audit in the Public Sector is done at the site of the Auditee for ease of access to necessary records and information. During fieldwork, Interviews should be frequently conducted and questionnaires used with departmental personnel to gain a better understanding of operations and procedures. Official time is valuable, each person's time is valuable, so attempt should be made to arrange meetings in advance and to work around scheduling conflicts. Audit Rules and Regulations usually provide that auditors shall have full, free, and unrestricted access to all activities, records, property, infrastructure, and personnel. Documents and information obtained during any review are to be safeguarded and handled in a professionally responsible and confidential manner in accordance with regulations.

Method of fieldwork audit

(a) The organisation’s management prepares the financial report. It must be prepared in accordance with legal requirements and financial reporting standards. The organisation's directors approve the financial report.
(b) Auditors start their examination by gaining an understanding of the organisation's activities, and considering the economic and sector issues that might have affected the entity during the reporting period.
(c) For each major activity listed in the financial report, auditors identify and assess any risks which could have a significant impact on the financial position or financial performance, and also some of

the measures (called internal controls) that the organisation has put in place to mitigate those risks.

(d) Based on the risks and controls identified, auditors consider what management has done to ensure the financial report is accurate, and examine supporting evidence.

(e) Auditors discuss the scope of the audit work with the organisation – the directors or management may request that additional procedures be performed. Auditors maintain independence from management and directors so that tests and judgments are made objectively. Auditors determine the type and extent of the audit procedures they will perform, depending on the risks and controls they have identified. The procedures may include:

(f) Asking a range of questions - from formal written questions, to informal oral questions - of a range of individuals at the organisation;

(g) Examining financial and accounting records, other documents, and tangible items such as plant and equipment;

(h) Making judgments on significant estimates or assumptions that management made when they prepared the financial report;

(i) Obtaining written confirmations of certain matters, for e.g., asking a debtor to confirm the amount of their debt with the organisation;

(j) Testing some of the organisation's internal controls watching certain processes or procedures being performed;

(k) Auditors then make a judgment as to whether the financial report taken as a whole presents a true and fair view of the financial results and position of the organisation and its cash flows, and is in compliance with financial reporting standards and, if applicable, the Corporations Act

vi. **Draft audit report**

Throughout the Audit, potential issues and recommendations will be discussed with departmental management. After completion of work, a draft report is prepared and presented to departmental management for review and commentary. Open communication and the sharing of information with employees familiar with the details are encouraged. This is to ensure that issues noted in draft reports are accurate, fairly presented, and complete. There may be several iterations of draft reports, particularly if new, relevant information becomes available or circumstances change significantly during the drafting stages. Ultimately, a response is requested from management for each of the recommendations contained in the draft report. Per ISA, management's responses must include a corrective action plan, those responsible for implementing the corrective actions, and an estimated timetable for completion.

The following reporting standards should be followed:

a) At the end of each audit the auditor should prepare a written opinion or report, as appropriate, setting out the findings in an appropriate form; its content should be easy to understand and free from vagueness or ambiguity, include only information which is supported by competent and relevant audit evidence, and be independent, objective, fair and constructive.
b) It is for the Auditor General to decide finally on the action to be taken in relation to fraudulent practices or serious irregularities discovered by the auditors.

vii. Exit conference

A formal exit conference may be held at the option of the auditee. Sometimes, this process can be completed on an informal basis via e-mail, telephone or other forms of communication.

viii **Report distribution**

Finally, auditors prepare an audit report setting out their opinion, for the organisation's shareholders or members. Final audit reports are addressed to the Legislative body and the Accountant General. The Final Audit Report of the Government is to be published for user's consumption.
The following ISAs dwell extensively on communication of Audit observations.

(a) ISA 260, Communication with those charged with governance

- To communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, and an overview of the planned scope and timing of the audit;
- To obtain from those charged with governance information relevant to the audit;
- To provide those charged with governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process; and
- To promote effective two-way communication between the auditor and those charged with governance.

(b) ISA 265, Communicating deficiencies in internal control to those charged with governance and management
Deficiency in Internal control exists when:

- A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis; or

- A control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing

20.7 Relationship between the Auditor-General and the Public Accounts Committee (PAC)

The Committee is a body established by law to study and examine the reports submitted by the Auditor-General, especially in the areas of fraud practices or embezzlement of public funds. The Body is also to make appropriate recommendations to the National Assembly

The Auditor-General's certification of the financial statements of the government as well as the report of his findings and opinion to the State Assembly which are deliberated upon by the Public Accounts Committee.

On the other hand, the Auditor General has maintained consistent relationship by ensuring that ministries and other public agencies that formulate policies demonstrate commitment to accountability and transparency principles in the execution of such policies.

During the PAC session the Auditor General should:

(i) Guide members of the PAC in improper direction of its session
(ii) Throw further light on issues raised.
(iii) Assist the committee with the correct approach to problems.
(iv) Offer his expert, independent and professional advice to make the deliberations of the Committee lively, effective and meaningful.
(v) Assist to select areas that need less attention and those that need to be probed deep
(vi) Identify the weaknesses the financial administration
(vii) Interrogate the officials in the course of deliberation of the Committee if permitted by the chairman.
(viii) Assess and evaluate the answers given by the officials who are examined by the Committee
(ix) Express his professional assessment of the acceptability or relevance of such evidence and
(x) Assist the Committee if allow, in compiling its final report based on minutes of evidence

20.8 Internal audit

An internal audit is an independent appraisal activity within an organisation for the review of accounting, financial and other operations as basis for services to management. An individual designated as internal auditor as a control process carries it out. In Government, audit certificates are issued before contractors and suppliers are paid.

20.8.1 Objectives of internal auditing

The objectives of internal auditing may be outlined thus:

(a) Determining the adequacy of the system of internal control which is in existence.

(b) Investigating compliance with the existing financial memorandum, laws and financial regulations.

(c) Checking the adequacy of monthly returns of activities.

(d) Verification of the physical existence of assets and liabilities.

20.8 .2 Scope of internal audit functions

The duties and responsibilities of internal auditors are at the discretion of management. However, from empirical studies, the following are the areas of interest to an internal auditor, viz:

(a) Pre-audit.

(b) Vouching of payroll and third party claims.

(c) Auditing of store movements and records.

(d) Conducting internal investigations and evaluation for management.

(e) Constant review and appraisal of the existing internal control measures.

20.8.3 Role of a government internal auditor in the democratic system

The main idea of introducing the democratic system of government is to further ensure accountability and probity. In this perspective, there are various laws, rules and procedures that must be complied with, to ensure sanity in the polity and Governance.

The Internal Auditor is expected to render 'exception reports' on continuous basis on the financial activities of government. He writes his reports to the accounting officer and copies the Auditor -General. The democratic system of government empowers the legislative house to interview the Auditor General on his position on actions already taken by the executive arm, which he had endorsed, as correct. The system of government expects him to ensure budget discipline through continued monitoring of receipts and payments.

20.8.4 Steps to be taken to foster working relationships with internal auditor

The following steps should be taken to foster working relationships with internal auditor:

(i) Allocate responsibility for establishing and maintaining an effective relationship with internal audit unit at each audited body which has one;

(ii) Arrange liaison meetings with internal audit on a regular basis, at least half yearly, with an agreed record of important decisions; mutual discussion of audit plans can help avoid unnecessary duplication of effort;
(iii) Check all internal audit reports and the internal audit working papers;
(iv) Seek to agree areas where reliance will specifically be placed upon internal audit work which will, provided it is done satisfactory, form part of the certification audit of an account.
(v) Discuss with audited bodies specific shortcomings in internal audit units revealed by evaluations.
(vi) Where internal audit is required to co-operate with and assist external audit by making available work plans, audit programmes, details of work done, tests carried out, audit reports etc. then planning documents and working papers may be made available to internal audit in confidence.

20.8.5 Areas where the internal auditors can assist the external auditors

Much of the work performed by an internal audit can overlap with the work conducted by the external auditor, specifically in areas dealing with the assessment of control processes. It is likely that in carrying out detailed work evaluating and reviewing the organisation's internal control system internal audit perform procedures on financial controls relevant to the external audit. As such, the external auditor, rather than duplicating these procedures, may be able to place reliance on the work carried out by the internal auditor. Some the areas where external auditor may rely on the work of internal auditors are as follows

(a) Attendance at stock taking and cash counts of an organisation where external auditor is not able to do them himself.
(b) Conducting pay parade of the staff of the organisation
(c) Where he has internal auditors who may have relevant expertise in particular areas,
(d) Strengthened relationship between the external and internal auditors through a more effective dialogue thereby resulting to bring accounting and auditing issues identified during the audit to the attention of the external auditors
(e) Checking the underlying audit evidence for some of the work performed by the internal auditors.
(f) With the knowledge of the internal auditors, the external auditor can gain additional insights into the entity
(g) Conducting compliance tests on accounting controls, on a continuous basis to provide assurance that such controls have operated satisfactorily throughout the period under review.
(h) Testing transactions and balances such as payables, receivables, non-current assets etc.
(i) Documentation of the accounting and internal control systems.
(j) Assisting by making his work plans, programmes, working papers, etc. available to the external auditor in confidence.

20.8.6 Reliance of the Auditor-General on the internal auditor's work

Before an external auditor could rely on the work of the internal auditor, the former would have made the following assessments:

(a) The degree of independence of the internal auditor.

(b) The scope and objectives of the internal audit functions as defined by the management.

(c) Due professional care, that is, whether or not the internal audit work is properly planned, recorded and reviewed.

(d) The technical competence of the internal auditor. This raises the question as to whether the internal auditor belongs to any reputable professional accounting body or has relevant practical experience in internal audit work.

(e) The quality and quantity of the internal audit reports and to what extent they are being acted upon by the management are of interest to the external auditor.

(f) The quality and standard of internal audit working papers are of significance, showing the extent of work done.

20.9 Areas where the specialists can assist the Auditor-General or external auditors of parastatals

In some cases the external auditor may have to rely on the work of specialists to form his audit opinion. Examples of such situations are:

(i) Valuations of type of assets, for example, lands, buildings, machinery, minerals, etc.;
(ii) Measurement of work completed, in progress or to be completed on long term contracts, Architects, engineers etc.;
(iii) Legal interpretation of agreement or statutes;
(iv) Physical stock taking of specialised stores e.g. drugs or chemicals; and
(v) Determination of amounts using specialised techniques or methods, for example, an actuarial valuation.

It should be noted that, when determining the need to use the work of an expert, the auditor should consider:

i. The engagement team's knowledge and previous experience of the matter being considered;
ii. The risk of material misstatement based on the nature, complexity and materiality of the matter being considered;
iii. The quantity and quality of other audit evidence expected to be obtained;
iv. Evaluate the professional competence of the expert; and
v. Evaluate the objectivity of the experts, which may be impaired if the expert is employed by the auditee or related to the auditee.

20.10 International Organisations of Supreme Audit Institutions (INTOSAI) - Code of ethics and auditing standards

20.10.1 Code of ethics

a) ***Integrity.*** Auditors have a duty to adhere to high standards of behaviour (e.g. honesty and candidness) in the course of their work and in their relationships with the staff of audited entities.

b) ***Independence, objectivity and impartialit.*** Personal or external interests should not impair the independence of auditors. There is a need for objectivity and impartiality in the work and the reports, which should be accurate and objective. Conclusions in opinions and reports should be based exclusively on evidence obtained and assembled in accordance with the SAI's auditing standards.

c) ***Professional secrecy.*** Auditors should not disclose information obtained in the auditing process to third parties except for the purposes of meeting the SAI's statutory responsibilities.

d) ***Competence.*** Auditors must not undertake work which they are not competent to perform.

20.10.2 Basic postulates for the auditing standards

a) The Supreme Audit Institutions (SAI) i.e. the Auditor General, should consider compliance with the INTOSAI auditing standards in all matters that are deemed material. Certain standards may not be applicable to some of the work done by SAIs, including those organised as Courts of Account, nor to the non-audit work conducted by the SAI. The SAI should determine the applicable standards for such work to ensure that it is of consistently high quality.

b) The SAI should apply its own judgment to the diverse situations that arise in the course of government auditing.

c) With increased public consciousness, the demand for public accountability of persons or entities managing public resources has become increasingly evident so there is a need for the accountability process to be in place and operating effectively.

d) Development of adequate information, control, evaluation and reporting systems within the government will facilitate the accountability process. The Management is responsible for correctness and sufficiency of the form and content of the financial reports and other information.

e) Appropriate authorities should ensure the promulgation of acceptable accounting standards for financial reporting and disclosure relevant to the needs of the government, and audited entities should develop specific and measurable objectives and performance targets.

f) Consistent application of acceptable accounting standards should result in the fair presentation of the financial position and the results of operations.

g) The existence of an adequate system of internal control minimises the risk of errors and irregularities. It is the responsibility of the audited entity to develop adequate internal control systems to protect its resources. It is also the obligation of the audited entity to ensure that controls are in place and functioning to help ensure that applicable statutes and regulations are complied with, and that probity and propriety are observed in decision-making. The auditor should submit proposals and recommendations where controls are found to be inadequate or missing.

h) Legislative enactments would facilitate the co-operation of audited entities in maintaining and providing access to all relevant data necessary for a comprehensive assessment of the activities under audit.
i) All audit activities should be within the SAI's audit mandate.
j) Legislative enactments would facilitate the co-operation of audited entities in maintaining and providing access to all relevant data necessary for a comprehensive assessment of the activities under audit.
k) SAIs should work towards improving techniques for auditing the validity of performance measures.
l) SAIs should avoid conflict of interest between the auditor and the audited entity.

20.11 Codification of offences and sanctions arising from audit queries financial regulations (2009 edition) chapter 31

S/N	Audit query	Time limit to respond to query	Sanctions
a.	Inflation of Contracts	5 Days	i) Where it affects the Accounting Officer, he shall be reported to Mr. President. ii) In the case of any other Officer, he shall be surcharged appropriately and removed from the duty schedule, dismissed and prosecuted. iii) Where it involves Tenders Board, all members involved shall be severally and collectively sanctioned.
b.	Un-authorised Contract Variation	21 Days	i) Where it affects the Accounting Officer, he shall be reported to Mr. President. ii) In the case of any other Officer, he shall be surcharged appropriately and removed from the duty schedule, dismissed and prosecuted
c.	Payment to Contractor for job not executed	30 Days	(a) Contractor to complete the job within time limit or refund the money paid to him. (b) Contractor to be black listed and report to EFCC for prosecution.
d.	Payment to Contractor on false	21 Days	(i) Contractor to complete the job within time limit or refund the money paid to him.

	Certificate of completion		(ii) Contractor to be black listed and report to EFCC for prosecution.
e.	Payment to Contractor for job not executed due to fraudulent act of a public officer	NA	i. Officer to refund the money paid to the contractor. ii. Officer to be removed from the duty schedule and report to EFCC for prosecution
f.	Poor Quality of work	42 Days	i. Contractor to rectify the abnormalities of the poor job within time limit or refund the money paid to him. ii. Contractor to be black listed and report to EFCC for prosecution iii. The officer that certified the job shall be demoted
g.	Irregular or Wrong payment	21 Days	(i) Officer to refund the money paid to the contractor. (ii) Officer to be removed from the duty schedule
h.	Shortage or Losses of stores by storekeeper	14 Days	(i) Officer to be surcharged for the loss. (ii) Officer to be removed from the duty schedule.
i.	Shortage or Losses of cash by the cashier	7 Days	i. Officer to be surcharged for the loss. ii. Officer to be removed from the duty schedule
j.	Assets paid for but not supplied	21 Days	i. Contractor to be black listed and report to EFCC for prosecution. ii. Officer to be removed from the duty schedule and made to face disciplinary action.
k.	Payment for Ghost workers	NA	Officer to be removed from the duty schedule, charged for misconduct and reported to EFCC for prosecution.
l.	Overpayment of salaries and allowances to staff	21 Days	Officer to be disciplined and reported to Police for prosecution.
m.	Failure to collect Government Revenue	21 Days	Officer to be removed from the duty schedule and surcharged.
n.	Where an officer fails to give satisfactory reply for his failure to account for	7 Days	Officer to be surcharged for full amount and reported to EFCC or ICPC for prosecution

	government revenue		
o.	Nonpayment for use of Government property	30 Days	Officer to be surcharged for full amount and seriously warned.
p.	Non-Rendition of Return	30 Days	Officer to be surcharged for full the loss incurred for noncompliance and seriously warned
q.	Non-Rendition of Monthly transcript	21 Days	Allocation to the MDA shall be suspended indefinitely
r.	Non- Retirement of Advance and Imprest	21 Days	Officer to be surcharged and total amount recovered
s.	Offences under the Public Procurement Act, 2007	NA	i. Imprisonment of not less than 5 calendar years without option of fine ii. Summary dismissal from government service iii. Debarment from all public procurements for a period not less than 5 calendar years iv. A fine equivalent to 25% of the value of the procurement in issue
t.	Making payment with cash/ cheques by organisation and officer	NA	i. Budget allocation of the organisation to be suspended. ii. Officer is regarded to have committed a gross misconduct and shall be disciplined accordingly.

20.12 Summary

Control of expenditure is necessary to ensure that the resources obtained are used for the purposes for which they are meant. Audit is an independent appraisal of financial statements of an organisation, with a view to expressing opinion on the fairness and truth or otherwise of those statements. Investigations are carried out from time to time to sort out allegations of misappropriation of funds or assets.

20.13 End of chapter questions

20.13.1 Examination type questions

Section A

1 Examination type questions

Section A

1. The duties of Auditor-General does NOT include

A. Financial audit
B. Appropriation audit
C. Direct audit of public quoted companies
D. Value for money audit
E. Financial control audit

2. Instituting a sound internal control system in the public sector is one of the functions of

A. Officer controlling expenditure

B. Sub accounting officer

C. Role player

D. Accounting officer

E. Internal auditor

3. Effective audit can be made possible through the following EXCEPT

A. The independence of the auditor

B. Adequacy and scope of the auditor's powers

C. The expertise and professionalism of the auditor

D. The academic qualifications of the auditor

E. The resources at the auditor disposal

4. The auditor is expected to consider the following when determining the use of an expert **except**

A. The engagement team's knowledge and previous experience of the matter being considered;
B. The risk of material misstatement based on the nature, complexity and materiality of the matter being considered;
C. The quantity and quality of other audit evidence expected to be obtained;
D. Evaluate the professional competence of the expert; and
E. Ignore objectivity of the experts which may be impaired if the expert is employed by the auditee or related to the auditee.

5 Auditor-General could rely on the internal auditor's work in the following circumstances **except**
A. The degree of independence of the internal auditor.
B. The scope and objectives of the internal audit functions as defined by the management.
C. Due professional care, that is, whether or not the internal audit work is properly planned, recorded and reviewed.
D. The technical competence of the internal auditor. This raises the question as to whether the internal auditor belongs to any reputable

professional accounting body or has relevant practical experience in internal audit work.

E. The quality and quantity of the internal audit reports and to what extent they are being influenced by the management are of interest to the external auditor.

6 The independent assessment of whether a particular subject matter is in compliance with applicable authorities identified as criteria in auditing is known as ____________________.

7 The officer who attest to the integrity and accuracy of financial statements at the end of the year is_____________________.

8 __________________ is an independent appraisal activity within an organisation for the review of accounting, financial and other operations as basis for services to management.

4 Auditors shall have full, free, and unrestricted access to all activities, records, property, infrastructure, and personnel is contained in _________________.

5 __________________is a review of the performance of management during a period. It is synonymous with the investigation or performance review of the management, otherwise called 'operational audit.'

6 The documentary documents used by Auditor when conducting an audit, and the document can be tendered in a court in case of litigation is called…………..

7 An examination of suspected irregular activities within an entity either public or private sector, with a view of obtaining evidence that could be used in support of any proceedings in a law court is called……..

Section B

(1) The functions of the office of the Auditor-General for the federation is to audit the accounts of all accounting officers and all persons entrusted with the collections, receipts, custody and issue or payment of the federal government moneys or with the receipt collection issue, sale transfer of 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 government.

In the light of the above, state the audit objectives of:

(a) Treasury accounts.

(b) Agency accounts.

(c) Government enterprise accounts.

(2) (a) State eight (8) tests to be carried out when auditing a revenue collector.

(b) List out seven (7) internal control questionnaires to evaluate the operation of imprest accounts.

(3) (a) Differentiate between primary and secondary objective of carrying out an audit in the public sector.

(b) (i) What is internal control?

(ii) Outline the importance features of internal control with brief notes on each of the features.

(4.) In relation to public sector audit,

(i) Define "Value-for-Money"audit (VFM).

(ii) Identify and explain **three** major components of "Value-for-money" audit.

(iii) Explain **five** steps towards a successful "Value-for-money"audit.

(iv) Identify **five** factors which contribute to an effective "Valuefor-money" audit

(v) Explain the precise roles of internal audit unit in relation to "Value-for- Money"audit of a Government Business Entity (GBE).

0.13.2 Suggested solutions to examination type questions

Solution A

1. C
2. E
3. D
4. E
5. E
6. Compliance audit
7. Auditor-General
8. Internal audit
9. Audit rules and regulations
10. Management audit
11. Audit Working Paper
12. Forensic Audit

Section B

(1) The following are the audit objectives:

(a) **Treasury accounts:**

(i) To ensure that all money is being received as at when due.

(ii) To ensure that the money received is accounted for.

(iii) To ensure that cashbook and other relevant memorandum accounts are maintained.

(iv) To confirm compliance with the year 2009 Financial Regulations.

(v) To guide against misappropriation.

(vi) To ensure compliance with all relevant financial legislations.

(vii) To ensure safety of government assets within each department.

(viii) To guarantee the accuracy of the records.

(ix) To confirm existence and ownership of the assets.

(b) **Agency accounts:**

(i) To ensure compliance with all relevant legislations which set up the agency.

(ii) To ensure compliance with the prescriptions of the accounting manual.

(iii) To ensure misappropriation is reduced to the barest minimum.

(iv) To ensure safety of government assets within each agency of government.

(v) To ensure the reliability of the records and returns.

(vi) To ensure that payments and receipts are in line with the trust deeds that established the agency.

(vii) To ensure that returns are being rendered as at when due.

(viii) To confirm existence and ownership of the agency assets.

(c) **Government enterprise accounts:**

(i) To confirm compliance with the laws that established the enterprises.

(ii) To confirm compliance with the provisions of the accounting manual.

(iii) To ensure safety of the enterprise assets.

(iv) To ensure that receipts and payments are in line with the approved Budget.

(v) To guide against misappropriation.

(vi) To confirm the existence of government enterprise assets.

(vii) To proof ownership of assets.

(2) (a) The following relevant tests will be carried out when auditing a revenue collector

(i) Review the system for revenue collection.

(ii) Review the cashbook.

(iii) Cast the cashbook.

(iv) Check for the type of receipts being issued, to confirm originality.

(v) Review and continue the preparation of bank reconciliation.

(vi) Spot check on the revenue collector.

(vii) Review the reports of internal and external auditors.

(viii) Review to ensure that all money due is collected and accounted for.

(b) The following are necessary questions to review imprest account

(i) Will a bank account be opened for imprest over ₦20,000?

(ii) Was the cashbook properly kept?

(iii) Were vouchers properly kept and classified?

(iv) Was the imprest account correctly accounted for at the time of your check?

(v) Was the LPO register kept by the imprest holder and cash disbursement for LPO made by him?

(vi) Were receipts issued for unspent cash returned?

(vii) Was the reimbursement request checked?

(viii) Were the classifications made to the appropriate Head and Subhead of expenditure?

3(a) The primary objectives of an audit is to enable the auditor to report as to whether the financial statements present a true and fair view of the state of the financial affairs of an establishment.

The secondary objectives of audit are:

(i) Detection of frauds, errors and omissions

(ii) Prevention of frauds and errors

(b)(i) Internal Control can be defined as the "whole system of controls, financial or otherwise, established by the management with a view to carry on the business of an entity in a manner that will protect the assets and place reliability on the records of the entity.''

(ii) **Important features of internal control**

a. **Segregation of duty:** This is by employing division of labour so that the work in one place or department will be different from another department and carried out by different people.

b. **Established organisation structure:** All the duties and powers of an officer should be clearly defined so that an officer would know what is required and expected of him.

c. **Perusal of Records:** This is by checking the work done earlier and correct any anomaly, error or omission detected timely.

d. **Acknowledgement of Deed:** This is by appending signature or initials on work done by an officer or by a senior officer to ascertain that the task is already done.

e. **Asset protection:** This is by keeping all records and statutory documents under lock and key and obtaining insurance policy on physical assets.

f. **Formality:** All transfer and receipt of stores have to be backed up by authorised requisition vouchers and acknowledged by signing appropriate vouchers.

g. **Verification:** All items purchased must be verified for completeness, accuracy and that they meet the required standard and specifications

h. **Internal audit:** It is the continuous review of operation and records of an organisation by specialized staff referred to as Internal Auditors.

4.(a) "Value-for-money" (VFM) audit means using resources in the best way in order to achieve intended objectives. Value-for-money audit is the review of the financial transactions to confirm that an organisation has received adequate benefits for the money expended

(b) The three major components of "Value-for-Money" audit are:

(i) **Economy.** This means spending money carefully, and not paying more than necessary for resources-materials, labour and other expenses.

(ii) **Efficiency.** Efficiency means using resources in such a way that they produce the greatest possible amount of "output". It means getting more from the use of available resources. For example, efficiency in the use of an employee means getting a high rate of output for every hour or day worked.

(iii) **Effectiveness.** Effectiveness means using resources in such a way as to achieve the desired objectives. Efficiency is of little value unless the output from the system is what the entity wishes to achieve.

(c) The five steps towards a successful "Value-for-money"audit are:

i. Initial analysis of projects areas for "value for money" audit through analysis of the annual budgets and other financial statements.
ii. Adequate planning, co-ordination and control in order to;
    (a) Determine the annual programme of performance audit work, the staff and other resources needed to deliver on the programme;
    (b) Ensure that appropriate attention is devoted to important areas, potential problems are identified and that the work is completed expeditiously; and
    (c) Assist in the proper assignment of work to team members and the coordination of work performed by different audit teams.
iii. Introduction of the main study area to the auditee should cover the following:
    a) Purpose of the mainstudy;
    b) Time schedule for the main study;
    c) Members of the audit team;
    d) The audit objective, audit question and assessment criteria;
    e) Methods that will be used to collect data;
    f) The information and support that will be requested from the auditee;
    g) The purpose of the auditee appointing a contact person; and
    h) The purpose of the exit meeting.
iv. Carrying out compliance test to test the strength of internal control in operation
v. Carryoutsubstantivetestsinorderto:
    a) Ensure that resources (inputs) are obtained at the cheapest prices (Economytest);
    b) Ensure that wastages are reduced to the barest minimum (Efficiency test); and

c) Ensure that resources were used in such a way as to achieve the desired objectives (EffectivenessTest).

vi. Reportinginvolves:

a) The clearance of the report through reviews;
b) Quality controls and exit meetings with the auditee; and
c) Submission of the report to the legislature, government and/or the audited entities.

vii. Follow-up action involves:

a) Processes that identify and document the audit impact;

b) The progress the auditee has made in implementing audit recommendations; and

c) Such processes that provide feedback to the audit or and to the legislature.

(d) The factors contributing to effective "Value-for-money" audit are:

i. **The independence of the auditor**: He should be given free hand to do a good job. The auditor should not be under the control of management of theorganisation.

ii. **The adequacy and scope of the auditor's power:** The authority of the auditor should be guaranteed. The auditor must be given adequate authority to discharge his responsibilities.

iii. **The expertise and professionalism of the audit or and his staff**: The auditor should be adequately trained, versatile and skilful at his job.

iv. **The resources at the auditor's disposal:** There should be enough funds the disposal of the auditor to carryou this assignment.

v. **Freedom of reporting and the qualitative enature of reports:** The reports, which the auditor transmits, should be timely and promptly looked into so that effective decisions could be taken in order to comply with the Professional Audit Standards.

vi. **Unrestricted access**: Audits should be conducted with complete and unrestricted access to employees, property and records.

vii. **Stakeholder support:** The legitimacy of the audit activity and its mission should be understood and supported by a broad range of elected and appointed government officials, as well as the media and the citizens involved.

(e) The precise roles of internal audit unit in relation to "Value-for Money" audit are to:

i. Guide against unreasonable or extravagant expenditure;
ii. Ensure that sufficient funds are available to enable payment to be effected;
iii. Ensure compliance with budgetary, civil service rules, financial memorandum, legislation and other legal requirements on payment;
iv. Ensure that goods/services conform with the prescribed standards before payments;and
v. Confirm whether or not the public sector organisation has committed its resources economically, efficiently and effectively.

Examination type questionsand 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 Tax payers' 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..andii.
   E. i.,iiandiii.

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. Into what account are the proceeds of the pay-as-you-earn of the Armed forces, and Foreign Service officers?
   A. ContingencyFund Account
   B. Consolidated RevenueFund Account
   C. Development FundAccount
   D. Special Fund Account
   E. Federation Account

4. The Departmental Vote Expenditure Allocation (DVEA) Book assist in

(i). Highlighting the uncommitted balance at aglance.
(ii). ShowingOutstandingindebtedness.
(iii). Keepingtrack ofgovernment expenditure
(A) I Only
(B) ii Only
(C) iii Only
(D) i., ii, and iii
(E) i. and ii

5. Asstated 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. iiOnly
C. iii Only
D. ii, and iii
E. i, ii, and ii.

6. The Development Fund collects revenue from
(i). Consolidated RevenueFund
(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 i
E. i, and ii.

7. 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). SupplementaryGeneralWarrant
(iii). Annual General Warrant
A i.Only
B ii.Only
C ii.Only
D i. and ii only
E ii and iii.

8. One of the following uses monetary and fiscal measures of control over public expenditure.
   A TheMinistryofFinance
   B TheLegislature
   C TheExecutive
   D TheExtra-Ministerial Departments
   E TheTreasury

9. Oneof the following organs approves the Budget of Nigeria?
   A TheMinistryofFinance
   B TheHouseof Representatives
   C TheSenate
   D TheNational Assembly
   E ThePublicAccount Committee

10. Oneof the followingevidences thecollection ofmoney

   A. Adjustment voucher
   B. Payment Voucher
   C. Journal Proper Voucher
   D. ReceiptVoucher
   E. Journal Voucher

11. What is the purposeofan Adjustment Voucher?
   (i) To correct Miss-posting
   (ii) To allocate UnallocatedStores
   (iii). To sort outtransactions between Ministries.

      A. i andii.
      B. i,ii.andiii.
      C. iiandiii.
      D. iiOnly
      E. iiiOnly

12. When apayment voucher is reported lost
   (i). Do an investigation whether fraud has happened
   (ii). Find outwhetherpayment has been effected
   (iii). Ascertain whethercashwithdrawn from bank is stillat hand
      A. i and ii.
      B. i.,IIandIII
      C. ii. andIII
      D. ii. Only
      E. iii.Only

13. In the Office, limit is imposedon the amountof cash holdingso as to

(i) Ensure protection over the Ministry's funds.

(ii) Minimise the incidents of fraud commission.

(iii). Reducethe sizeof lossesfrom fireor burglary.

A. I, Only

B. ii, Only

C. i, ii and iii

D. I, and ii

E. ii and iii

14. The difference between the bank statement balance and that of the cash book maybe ascribed to...

(i) Bank charges

(ii) Wrongposting

(iii). Standingordersgiven tothe bank

A. iii Only

B. ii Only

C. i, ii and ii

D. I Only

E. ii and iii

15. 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. IPSAS4

D. IPSAS 3

E. IPSAS 2

16. What is the minimum age retirement forjoiningpublicservice?

A. 12years

B. 15years

C. 18years

D. 21years

E. 27years

17. 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. 60years

B. 55years

C. 40years

D. 35years

E. 50years

18. The functions of the Accounting Officer of a Ministry include:
   (i) Establishingand managingefficientand effectiveinternal control system.
   (ii) Ensuringthat all revenuedueis collected andaccounted for.
   (iii) Ensuringthat all payments made are forgoods and services provided for.
      A i, ii andiii
      B i and ii
      C ii and iii
      D i Only
      E ii Only

19. According to Financial Regulation No.109 of January, 2009 the functions of the Auditor-General for theFederation of Nigeria include:
   (i) Ensuringthat fundsareutilised as approved bytheNational Assembly.
   (ii) Value-for-MoneyAudit
   (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

u. 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

21. 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 theFederation

v. All the following, except**one**, belongto theexecutive arm ofgovernment.

A. Minister
B. Local Government Treasurer.
C. State Governor.
D. Thepresident of thesenate.
E. The President of Ghana.

w. In a parastatals accounting, which of the followingis not revenue expenditure?

A. Salaries and allowances.
B. Maintenancecost of motorvehicles.
C. Buildingconstruction cost.
D. Stationerycost.
E. PrintingCost.

x. 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.
(iii) Product Testing Feesreceived bythe StandardsBoard.
(iv) Fees collected by theVehicle 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

y. 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.

26. The following arethe advantages, except ONE, of fund accounting:

A. It ensuresfinancial Control.
B. It is used to highlightgovernment policy.
C. It lends itself to easeofoperations.
D. It facilitates coordination and planningof operations
E. Assets arewritten off in theyears of purchase.

27. The money, which is set aside by Government to support projects, which are financed by foreign donations, is
A. RevolvingFund
B. Intra-governmental Service Fund.
C. Debt ServiceFund
D. Counterpart Fund
E. Capital Project Fund

28. 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 RailwayCorporation
D. Nigeria Customs Service
E. Nigerian Prisons Service.

Solution to multiple-choicequestions
Section A

1	**E**
2	**C**
3	**B**
4	**D**
5	**E**
6	**A**
7	**C**
8	**B**
9	**D**
10	**D**
11	**B**
12	**B**
13	**C**
14	**C**
15	**E**
16	**B**
17	**E**

18	**A**
19	**A**
20	**D**
21	**C**
22	**D**
23	**C**
24	**B**
25	**A**
26	**E**
27	**D**
28	**E**

Part II Short answer questions

4.5.5.1 What is the procedure by which fund is transferred from one subhead to another, within the same head ofexpenditureis called?

4.5.5.2 The principle of double entry says that for every debit entry there is a corresponding........................entry

4.5.5.3 What is the fund kept by Government to cater for unforeseen and natural disaster?

4.5.5.4 What is the document, which is similar to journals in the private sector and is utilised in government for correcting errors?

4.5.5.5 Another name for a Trial Balance is................................

4.5.5.6 What imprest is retired immediately the purpose for which it is granted is achieved?

4.5.5.7 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?

4.5.5.8 In the operation of selective tenders, the number of contractors competing should not be less than........................

4.5.5.9 What stock Valuation method makes issues at the price of the most recent purchase made?

4.5.5.10 The fund, which is set aside on, a contract to meet expenses on defects later detected is..................................

4.5.5.11 Which account keeps the accruing revenue shared by the three tiers of Government of Nigeria?

4.5.5.12 Under what provision of the Constitution of 1999 of Nigeria are the salaries of statutory officers charged directly to the Consolidated Revenue Fund?

4.5.5.13 Who issues Warrants to incur expenditure from the contingenciesFund?

4.5.5.14 Sales of goods and provision of services are examples of ....activities for the preparation of cash flow statements.

4.5.5.15 Recurrent expenditure of Government is chargeable to the .... Fund

4.5.5.16 Who is the Accounting Officer of a Local Government?

4.5.5.17 The procedure to ensure efficient and effective collection of government money is known as.........................

4.5.5.18 Membership of the fiscal Responsibility Commission includes.................... representatives from the (geo-political zones of Nigeria.

4.5.5.19 Parastatals are legal persons, which can sue and be.........................

4.5.5.20 The assessment of whether Public Sector Programmes executed have indeed achieved the set objectives is...................... audit.

Solutionto short answers

1. Virement
2. Credit
3. ContingenciesFund
4. Adjustment voucher
5. Transcript
6. SpecialImprest
7. Dueprocess
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 RevenueFund
16. Chairman
17. Revenue control
18. Six (6)
19. Sued
20. Effectiveness

Examination type questionsand suggested solutions

Section B 50 marks

Six (6) questions, out of which candidates are expected to answer any four attracting $12^1/_2$ Marks

Question 1

The followinginformation have been extracted from the books of Onaiyanu Local Government fortheyear ended 31Dec, 2021:

Assets and liabilities	**₦'000**
Cash in hand	42
Bank balance	228
Fixed deposit	25,000
Ordinaryshares 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

Head	**Description**	**Amount(₦'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 onFixed deposit	120	
2001	Personnel Department		18,780
2002	Accounts Department		9,320
2003	Officeof theChairman		13,540
2004	PublicRelations Department		1,190
1008	StatutoryAllocation		50,560
1009	General Grants		40,440
2005	CottageHospital		7,000
2007	AgricultureDepartment		22,000
1010	Sale ofyam tubers	120	
2008	Officeof theSecretary		31,000
1011	Miscellaneous		50,000
2009	Capital Expenditure		100‟000

The General Revenue Balance on January 1,2021was ₦1,000,000. The accounts were coded 1‟for revenue" and 2‟for expenditure"

Prepare;

(a). Statement of Revenueand Expenditure for the year ended 31 December, 2021.

(b). Statement of financial position (Assets andLiabilities) as at that date.

Suggested solution

OniyanuLocal Government

(a). Statement ofrevenue and expenditure fortheyearended 31 December 31,2021

Revenue:

Head	**Description**	**₦'000**	**₦'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 onInvestment	250	
1007	Interest onfixed deposit	120	
008	StatutoryAllocation	50,560	
1009	General Grants	40,440	
1010	Sale ofyam tuber	120	
1011	Miscellaneous Receipts	50,000	
			352,740

Expenditure

2001	Personnel Department	18,780		
2002	Accounts Department	9,320		
2003	Officeof theChairman	13,540		
2004	PublicRelation Dept.	1,190		
2005	CottageHospital	7,000		
2006	AgricultureDept.	105,460		
2007	Officeof theSecretary	31,000		
2008	Capital Expenditure	100,000		
				(286,290)
Excess of revenueoverexpenditure			66,450	
General revenuebalance c/f				1,000
General revenuebalanceb/f				67,450

b) **Statement of financial position (Assets andLiabilities) as at 31 December, 2021**

Assets	**₦'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
Total	**68,450**
Financed by:	
Deposit liabilities	1,000
General revenue balance	67,450
Total	**68,450**

Total 12½ Marks

Question 2

The bank column of the cash book of OLUSY College of Education of Idanre Stateof Nigeria showed a debt balance of ₦10,632,400. When the bank statement had a credit balance of ₦16,549,004. 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
	NigerianBreweries Plc	30,210
(iii)	Interest on fixed deposit	36,600
(iv)	Interest received on TreasuryBills	52,000

(2) Direct Debits at thebank:

		₦
(i)	Bankcharges (COT)	60,600
(ii)	Standing order on insurance policy	32,000
(iii).	Charges forchequebook	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 cheque swere:

Slip	1024	419,000
Slip	651	281,000
Slip	147	112,000

Youare required to prepare:

(a) Adjusted CashBook

(b) Bank reconciliation statementas at December 31, 2021 (12½ Marks) 2

Suggested solution to Question2

<u>Olusy College ofEducation</u>

Adjusted cashbook

	₦₦		
Balanceb//d	10,632,400	Bank Charges (COT)	60,600

Subvention from govt.	6,000,000	StandingOrder:	
DividendWarrants:		Insurancepremium	32,000
Guinness NigPlc	25,024	Bank Charges forchequebook	2,630
NigerianBreweries plc	30,210		
Interest on fixed deposit	36,600	Correction ofwrongposting	90,000
Interest on TreasuryBills	52,000	Balance c/d	16,591,004
	16,776,234		16,776,234
Balanceb/d	16,591,004		

(b)Bank Reconciliation statement as at December 31, 2021

	₦	₦
Balance as per AdjustedCash Book		16,591,004
Add Unpresented cheques:		
OXB12	700,000	
OXB16	21,000	
OXB27	49,000	
	770,000	17,361,004
LessUncredited Deposits:	₦	
Slip 1024	419,000	
Slip 651	281,000	
Slip 147	112,000	812,000
Balance as per bank statement		16,549,004

12 ½ Marks

Question3

(a). List out EIGHT functions of a Local Government Treasurer 8½ marks

(b). Enumerate FOUR main books of accounts which the Finance Department of a Local government in Nigeria is required to keep. 4 Marks

Total12½ marks

Suggested solution to question 3

(a). The duties of a Local Government Treasurer

iv. He is answerable for the administration control of the department of finance of the local government.

v. The treasurer ensures that all receipt books are kept in safe custody.

vi. The treasurer makes adequate arrangements for the safe custody of the council's cash resources and other corporate assets.

vii. He generates efficient and effective management information reports on the financial position of the council.

viii. He is a signatory to the bank accounts and payment vouchers of the local government.

ix. The treasurer has the custody of all the bonds executed by the council's employees.

x. 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.

xi. He is the Chief Accounts officer of the local government and by that fact, the Secretary of the Budget Committee.

xii. 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.

8½ Marks

(b). Main books of accounts of alocalgovernment

These are:

a. Departmental Vote Expenditure Accounts Books
b. Departmental Vote Revenue Accounts Book
c. Cash Book
d. Main Ledger Accounts Book
e. Advance Accounts Ledger
f. Deposit AccountsLedger
g. Receipt Book Register
h. Adjustment Record
i. Investment AccountsLedge

4 Marks

Total 12½ Marks

Question 4

Write short notes on the following:

(a).	Financial audit	(5 Marks)
(b).	Regulatoryaudit	(5 Marks)
(c)	Effectiveness audit	(2½ Marks)

Total12½ marks

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). **Regulatory audi**t

This technique is also referred to as "Compliance Audit". The searchlight to 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, 5Marks

(c). **Effectiveness audit**

Effectiveness audit assess programmes or projects carried out to ascertain whether or not they achieve these 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. 2½ Marks

Total12½ marks

Question 5

a. The Ministry of Commerce of Obudu State provided the following information about its budgeted and actual overhead costs in respect of year 2020.

Sub Head		**Description** **Provision**	**Actual**
		₦'M	**₦'M**
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	Staff training and development	130	110
10	Miscellaneous expenses	770	740
11	Contribution to foreign bodies	430	420

The following information are also relevant:

(i) An inflation factor of 10% on overhead cost on recognised in the computation of 2019 budget.

(ii) Increase in activities in 2019 will attract 20% of overhead cost.

Required:

Prepare 2021 Overhead Cost budget on incremental system basis (show workings)

(12½ Marks)

Solution to question 5

a. **Obudu State Ministry of Commerce**

Overhead Cost Budget for Year 2021

Sub-Head	**Description**	**Notes**	**Amount**
			₦'M
02	Travel and tours	2	382.80
03	Utility services	3	211.20
04	Telephone	4	184.80
05	Stationery	5	633.60
06	Office furniture and maintenance	6	382.80
07	Maintenance of motor vehicle	7	646.60
08	Maintenance of capital assets	8	1,240.80
09	Staff training and development	10	145.20
10	Miscellaneous expenses	11	976.80
11	Contribution to foreign bodies	12	554.40
	Total budget cost		**5,359.00**

Workings

	₦'M	**₦'M**

Travel and tours	(290 x 110% x 120%)	382.80
Utility services	(160 x 110% x 120%)	211.20
Telephone services	(140 x 110% x 120%)	184.80
Stationary	(480 x 110% x 120%)	633.60
Office furniture maintenance	(290 x 110% x 120%)	382.80
Maintenance of capital vehicle	(490 x 110% x 120%)	646.80
Maintenance of capital assets	(940 x 110% x 120%)	1,240.80
Staff training and Development	(110 x 110% x 120%)	145.20
Miscellaneous	(740 x 110% x 120%)	976.80
Contribution to foreign bodies	(420 x 110% x 120%)	554.40

Total 12½ Marks

Question6

You are the Accountant for the Ministry of Women Affairs. The following information have been extractedfrom 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 theline

Classification	Description	Amount (₦)	
06/1	OtherInternal Revenue(Bank)	60,000	
06/2	Licence(Bank)		100,000
07/1	Royaltyon Agricland (Bank)	4,000	
07/2	WaterRate (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 salaryadvance	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	
3011	Spectacle Advance (Cash)	3,000

Youarerequired to preparethe Ministry‟sTranscript forthe month of December, 2011 using vertical method

Suggested solution

Ministry of Women Affairs Transcript for the month of December, 2017

Head	**Sub-head**	**Description**	**Amount ₦**	**Sub-total ₦**	**Total ₦**
		Revenue			
		Balanceb/f	1,500,000		
			2,400	1,502,400	1,502,400
06	01	Other internal revenue	60,000		
06	02	Licence Total for head 06	100,000	160,000	
07	01	Royalty	4,000		
07	02	Water rate total for Head 07	6,000		
		Total forhead 07	10,000	10,000	
10	08	Tender fees	14,000	14,000	
11	13	Registration fees	10,000	10,000	
12	11	Rent on Junior Quarters Senior Staff Quarters	3,600 5,000	8,600	
		Belowtheline			
		Salary advance -Spectacle	6,000		
		Total for below the line	2,000	8,000	
		Total revenue			210,600
		Total			**1,713,000**
		Expenditure			
		Balanceb/f	NIL	NIL	NIL
24	01	Personnel Cost	600,000		
	02	Transport and	**100,000**		
	03	Stationery	200,000		

	04	Utilities	8,000		
	05	Mice of Motor	6,000	914,000	
		Total forhead 24			
		BELOW THE			
	2011	Salaryadvance	8,000		
	3011	Spectacleadvance	3,000		
		Total for below		11,000	
					925,000
					788,000
		Total			1,713,000

Question 7

a. Mr. A. B. Ajanlekoko held the position of Minister of Finance and Economic Planning. Before his appointment, he was the editor of the award winning television station of the country. He has anchored various programmes that has to do with national development, curbing the wide spread corruption in the nation, youth unemployment, prevention of prevalent kidnappings and economic crimes, women empowerment, inter communal clashes etc.

Most citizens saw his appointment as putting a square peg in a square hole. The Senate asked him to take a bow during his confirmation screening session at the hallowed chambers. The nation's expectation from him was very high.

On assumption of duty, he insisted that he needed a chartered accountant as his Senior Special Assistant on Economic and Development matters as he intended to use agriculture not only to put food on the tables of the citizens but also to create employment and make the nation self sufficient on production of food at an affordable cost.

Your assignment as the SSA (Economic and Development Matters) is to prepare the Medium-Term Expenditure Framework (MTEF) for the Ministry.

You are required to explain the five contents of the MTEF. (12½ marks)

Solution to question 7

i. Contents of the Medium – Term -Expenditure -Framework are as follows:

1 A macro – economic framework setting out the three financial years, the underlying assumptions and an evaluation and analysis of the macro – economic.

2 An expenditure and revenue framework which will set out:

   i. Estimates of aggregate revenue for the Federation for each financial year, based on the pre–determined commodity Reference Price adopted and tax revenue projections;
   ii. Aggregate expenditure for each of the next three financial years;
   iii. Minimum capital expenditure projection for the Federation for each of the next three financial years;
   iv. Aggregate tax expenditure projection for the Federation for each of the next three financial years.

3 A Consolidated Debt Statement indicating and describing the fiscal significance of the debt liability and measures to reduce the liability.

4 A statement of the nature and fiscal significance of contingent liabilities and quasi – fiscal activities and measures to offset the crystallization of such liabilities.

5 Fiscal strategy document setting out:

v. Federal Government's medium – term financial objectives.

vi. The policies of the Federal Government for the Medium Term relating to taxation, recurrent expenditure, borrowings, lending and investment and other liabilities;

vii. The strategies, economic, social and developmental priorities of government for the next three financial years;

viii. An explanation of the financial objectives, strategic, economic, social and developmental priorities and fiscal measures.

Question 8

a. The FAAC Sub-Committee developed a comprehensive and standardised National Chart of Accounts. The National Chart of Accounts is an integrated budget and accounting classification system prepared primarily for the implementation of the uniform accountingsystemthatisIPSAScompliant.

In light of the above, you are required to:

A. Explain the term called National Chart of Accounts (NCA) and state **three** objectives of National Chart of Accounts (5 Marks)

B. Identify the **five**stepsforbudgetingwithNationalChartofAccounts (5 Marks)

b. Briefly explain the role(s) of the The Nigerian Customs Service (NCS) in the revenue collection in Nigeria. (2½ Marks)

Total (12½ Marks)

Solution to question 8

a. i. The *Chart of Accounts (COA*) may be defined as a complete list of budget and accounting items where each item is uniquely represented by a code and grouped into tables of related data for the purposes of tracking, managing and reporting budgetary and accounting items in an orderly, efficient and transparent manner.It is also a created list of codes, which can be represented by numeric, alphabetic, or alphanumeric symbols. This is to enable the entity to define each item of revenue, expenditure, asset, liability, location and other parameters in order to give interested parties a better understanding of the entity.

Objectives

A. To give ample opportunity for comparability;

B. Unification and harmonization of coding, budgeting, accounting and reporting system;

C. To bring about global interpretation of Nigeria GPFS;

D. Nationally consistent financial reporting;

E. Improvement in transparencyandaccountability;

F. Tofacilitateeaseofcomputerizationofaccountingsystem.

(5 Marks)

ii. Thefollowingstepsshouldbe takingtoensurecompletenessofusingthe National Chart of Accounts (NCA) for budgeting:

A. Identify the government institution(costand revenuecentre)from the hierarchy of administrative list and codesprovidedin the chart of accounts;
B. Identify the economicitems that would be executedduring the fiscal year;
C. Identify the functionsintended to be performed by government institutions (revenue and cost centre);
D. Identifythe programmes intended to be carried out by the government institution;
E. Determine the sources of financing the budgeted amount for each budget line; and
F. Identify the planned location for the economic transactions or government institution (5 Marks)

ii. The Federal Inland Revenue Service (FIRS)is the only Federal government institution saddled with the primary responsibility of collection and payment of Federal government taxes across Nigeria. FIRS is responsible for assessing, collecting and accounting for tax and other revenues accruing to the Federal Government. 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. (2½ Marks)

Total (12½ Marks)

Question 9

A budget is a financial and or quantitative statement prepared and approved prior to a defined period of time for the purpose of attaining a given objective. A budget is normally for one year. It is therefore a short-term plan.

Explain five factors militating against the budgeting system in the public sector (12½ marks)

Solution to question 9

Factors that militate against the budgeting system in the public sector

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

A. **Human element-** Top management members see budgeting as restraining and challenging. They tend to develop a lot of apathy towards its adoption and implementation. The lack of probity and accountability of some operatives affect successful budgeting.
B. **Uncertainties underlying data inputs-** There are 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 database also hamstrings reliable forecasts.

C. **The type of project for which budget is prepared-** How successful a budget will be depends on the type of project to which it relates. Some projects are popular while others are not. Those, which are not popular, may face stiff implementation problems.

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

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

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

G. **The problem of debt management and optimal use of limited resources**.-There is the challenge of striking a balance between which parts of the Nation's resources should be used for servicing debts and the amount that should be utilised for economic development.

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

I. **Fiscal indiscipline.-** Most government officers are always maximising their budget. 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 increase allocation in the subsequent year, with little or nothing to show under in the current year.

Total (12½ Marks)

Question 10

Kokomaiko State Government set up Poultry farming in order to meet one of the promises he made to the electorates when he was campaigning for the State Governor. He is however apprehensive about the viability of the project and its ability to finance itself in view of the increasing production cost. The expected cash-in-hand as at 1st January 2021 is ₦1,300,000.
The following information concerns the budgeted Sales and Purchases of the farm

	Sales Budget N'mill	**Purchases Budget N'mill**
October 2018	30	
November 2018	25	15
December 2018	50	35
January 2019	40	25
February 2019	42	35
March 2019	45	40

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

50% within the month of sale
30% in following month
20% in the following two month

All purchases are on credit. Past experience shows that 80% of the purchase costs are settled in the month of transaction and the balance in the subsequent month. Overhead costs of 75% of the purchases of the month will have to be paid monthly. The State Government will give monthly allocation of N10million

Required

Prepare the Okokomaiko State Government's Cash Budget for the first quarter (January to March) of the year 2021. (12½ marks)

Solution question 10

b. **<u>Kokomaiko State Government</u>**

<u>Cash Budget for January to March 2021</u>

	January	**February**	**March**
Receipts	**₦' mill**	**₦' mill**	**₦' mill**
Bal B/F	1.30	5.55	(0.7)
Sales –November 2018	5	-	-
Sales –December 2018	15	10	-
Sales – January 2019	20	12	8
Sales – February 2019	-	21	12.6
Sales –March 2019	-	-	22.5
Monthly Allocation	10	10	10
A. Total Receipts	**51.3**	**58.55**	**52.40**
Payments			
Purchases- December 2020	7	-	-
Purchases- January 2021	20	5	
Purchases- February 2021	-	28	7
Purchases- March 2021	-	-	32
Overheads	18.75	26.25	30
B. Total Payments	**45.75**	**59.25**	**69**
C. (Total Receipts –Total Payments)	**5.55**	**(0.7)**	**(16.6)**

Total (12½ Marks)

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