NATIONAL OPEN UNIVERSITY OF NIGERIA

SCHOOL OF MANAGEMENT SCIENCES

COURSE CODE: ACC 310

COURSE TITLE: ELEMENTS OF PUBLIC SECTOR ACCOUNTING

COURSE DEVELOPMENT

ACC 310

ELEMENTS OF PUBLIC SECTOR ACCOUNTING

COURSE GUIDE

3 credit unit

Course Developer/ Unit Writer	ICAN Study pack
Adapted by:	Mr. E. U. Abianga NOUN,
Course Editor:	Dr. I.D. Idrisu NOUN
Programme Leader:	Dr. I.D. Idrisu NOUN
Course Coordinator:	Mr. A. I. Ehiagwina NOUN

CONTENT

1.0 INTRODUCTION

ACC 310- Element of Public Sector Accounting is designed to give you self instruction as you study Bachelor of Science (B. Sc) in Accounting. It is adapted from the Institute of Chartered Accountants of Nigeria study materials to prepare you for your B. Sc Accounting in 300 level examination of School of Management Sciences of the National Open University of Nigeria .

2.0 COURSE AIM

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

3.0 COURSE OBJECTIVES

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

- Identify the elements of legal frameworks and the financial authorities used in the Public Sector.
- State the accounting concepts, Fund accounting, Concepts and various Professional pronouncements on Government Accounting.
- Identify the various government revenue and expenditure, government control of accounts and advances.
- Introduce Financial Management Cycle in Federal, State and Local Governments.
- Prepare Financial Statements for Government Agencies based on enabling laws setting each up.
- Introduce Public Finance, stating Fiscal Responsibility, Public Debts and their management in Nigeria.

  COURSE CONTENT
  Introduction to Public Sector Accounting and Finance, Government Accounting concepts and pronouncements, Functions of Finance Officers, Government revenue and expenditure, Financial management cycle in federal, state and local government, Accounting for public sector organizations, authorities, boards, corporations, agencies and tertiary educational institutions, public finance, Fiscal Responsibility, Public Debt and Management in Nigeria.

4.0 WORKING THROUGH THIS COURSE

This course, ACC310 Element of Public Sector Accounting expects you to do a lot of reading and practicing, in order to cover the materials in the course material. This means that you should devote much time to this course by reading through this material and getting more information from numerous texts and journals. These abound in every library and from the internet. The course material has been made easy to read and user-friendly. You will need to work in groups with other students in order to discuss, compare notes and thoughts as well as to exchange and share ideas. Below are the lists of all the components of the course:

5.0 COURSE MATERIALS

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

- Course Guide
- Study Units- Course material
- Tutor-Marked Assignments (TMAs)

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

6.0 STUDY UNITS

The study units in this course are as follows:

MODULE I:

Unit 1: Introduction to Public Sector Accounting
Unit 2: Functions of Finance officers in Government
Unit 3: Sources of Government Revenue
Unit 4: Authorization of Government Expenditure
Unit 5: Government Expenditure Control
Unit 6 Auditing of Government Accounts

MODULE II:

Unit 1: Preparation of Vouchers
Unit 2: Treasury Accounts
Unit 3: Government Budgeting
Unit 4: Store Administration
Unit 5: Local Government Accounting
Unit 6: Government Contracts

MODULE III:

Unit 1: Government Advances
Unit 2: Investment Appraisal in the Public Sector
Unit 3: Public enterprise accounting
Unit 4: Public Finance
Unit 5: Introduction to Fiscal Responsibility
Unit 6: Public debt and its management in Nigeria

7.0 ASSESSMENT

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

8.0 TUTOR-MARKED ASSIGNMENT (TMAs)

This is your continuous assessment in form of Tutor Marked Assignment and it accounts for 30% of your total score. You are expected to answer at least four TMAs, three of which must be answered and submitted before you sit for the end of course examination.

9.0 FINAL EXAMINATION AND GRADING

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

10.0 HOW TO GET THE BEST FROM THIS COURSE

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

This is one of the great advantages of distance learning. You can read and work through specially designed study materials at your own pace, and at a time and place that suits you best. Think of it as reading the lecture that a lecturer might set you some readings to do, the study unit will tell you when to read other materials. Just as a lecturer might give you an in-class exercise, your study units provide exercises for you to do at appropriate points.

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

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

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

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

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

(1) Read this course guide thoroughly.

(2) Organize a study schedule. Refer to the course overview for more details. Note the time you are expected to spend on each unit and how the assignments relate to the units. Important information e.g. details of your tutorials, and the date of the first day of the semester will be made available. You need to gather all this information in one place, such as your diary or a wall calendar. Whatever method you choose to use, you should decide on and write in your own dates for working on each unit.

(3) Once you have created your own study schedule, do everything you can to stick to it. The major reason that students fail is that they get behind with their coursework. If you get into difficulties with your schedule, please let your tutor know before it is too late for help.

(4) Turn to unit 1 and read the introduction and the objectives for the unit.

(5) Assemble the study materials. Information about what you need for a unit is given in the 'Overview' at the beginning of each unit. You will always need both the study unit you are working on and one of your references, on your desk at the same time.

(6) Work through the unit. The content of the unit itself has been arranged to provide a sequence for you to follow. As you work through the units, you will be instructed to read sections from your set books or other articles. Use the unit to guide your reading.

(7) Review of the objectives for each study unit and confirm that you have achieved them. If you feel you are not clear about any of the objectives, review the study material or consult your tutor.

(8) When you are confident that you have achieved a unit's objectives, you can then start on the next unit. Proceed unit by unit through the course and try to face your study so that you keep yourself on schedule. Check that you have achieved the unit objectives (listed at the beginning of each unit) and the course objectives (listed in the Course Guide).

(9) You now take the e-TMA online

(10) After completing the last unit, review the course and prepare yourself for the final examination.

11.0 SUMMARY

This course ACC 310 is designed to introduce you to elements of public sector accounting. After going through this course successfully, you would be well founded in the course and in a good position to pass your examination at the end of the semester and use the knowledge gained to function in accounting. This will help you to contribute to the development of scholarly thoughts in public sector accounting.

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

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

GOOD LUCK.

COURSE DEVELOPMENT

ACC 310

ELEMENTS OF PUBLIC SECTOR ACCOUNTING

MAIN CONTENT

3 credit unit

Course Developer/ Unit Writer	ICAN Study pack
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MODULE 1

UNIT 1 INTRODUCTION TO PUBLIC SECTOR ACCOUNTING/FINANCE

CONTENTS

1.0 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. Accounting generally is a scientific study in which records of expenditure and income of a company, individuals or Government are kept coupled with other useful information for planning, decision making and control. Government accounting, on the other hand, is composite activities of analyzing, recording, summarizing, reporting and interpreting the financial transactions of Government Ministries, Departments and Agencies.

It is also worthy of note that accounting procedure is universal, whether in Government, private or public limited liability companies. The essential requirement is to record all historical costs and income, which when processed further, become useful information necessary for current appraisal, future decision-making and performance control.

In this unit, you would learn the objectives and users of public sector accounting information as well as the regulatory framework governing it.

2.0 OBJECTIVES

At the end of this unit, you would be able to:

- State the objectives of Public Sector Accounting.
- Identify the various users of Public Sector Accounting information.
- Explain regulatory framework, concepts and principles of Public Sector Accounting.

3.0 MAIN CONTENT

3.1 Objectives of Public Sector Accounting

The main purposes of Public Sector Accounting are:

(a) Ascertaining the legitimacy of transactions and their compliance with the established norms, regulations and statutes.
(b) Providing evidence of stewardship.
(c) Assisting planning and control.
(d) Assisting objective and timely reporting.
(e) Providing the basis for decision-making.

(f) Enhancing the appraisal of the efficiency of management.
(g) Highlighting the various sources of revenue receivable and the expenditure to be incurred.
(h) Identifying the sources of funding capital projects.
(i) Evaluating the economy, efficiency and effectiveness with which Public Sector Organisations pursue their goals and objectives.
(j) Ensuring that costs are matched by at least equivalent benefits accruing there from.
(k) Providing the details of outstanding long-term commitments and financial obligations.
(I) Providing the means by which actual performance may be compared with the target set.
(m) Proffering solutions to the various bottlenecks and/or problems identified.

A Further analysis of the significant objectives of Public Sector Accounting is below:
(a) Determining the legitimacy of transactions and their compliance with the statutes and accepted norms.
(b) Providing evidence of stewardship:
(c) Assisting planning and control:
(d) Ensuring objective and timely reporting:
(e) Evaluating the costs incurred and the benefits derivable:

3.2 Users of Public Sector Accounting Information

The users of Public Sector Accounting information may be discussed under the following two categories:
(a) Internal Users - This group is made up of:
- (i) The Executive, such as the President of the Federal Republic of Nigeria, the Governors of the States and Chairmen of the Local Government Councils.
- (ii) The Federal Ministers and State Commissioners.
- (iii) Top Administrators of Government Departments, e.g. The Permanent Secretaries and Directors.
- (iv) The Chief Executives of Parastatals/Government Agencies.
- (v) Subordinates who oil the administration wheels.
- (vi) The organised labour unions in the public service.

(b) External Users- This group comprises:
- (i) The National Assembly.
- (ii) The members of the public.
- (iii) Governments, apart from the one that is rendering the report.
- (iv) Foreign countries.
- (v) Foreign financial institutions such as International Monetary Fund and

World Bank.

(vi) Creditors, both local and foreign.

(vii) Researchers.

(viii) Political parties, trade unions and Civil Liberty Organisations.

The internal users require accounting information in order to ascertain the various levels of regulatory compliance and whether actual expenditure is in accordance with the budget. Conversely, the external users require accounting information to ascertain the financial viability of the public sector organisations and the efficiency and effectiveness of management.

Self-assessment exercise

List two kinds of users of Public Sector Accounting information

3.3 The Regulatory Framework of Public Sector Accounting

Public Sector Accounting is governed by the following regulatory framework:

(a) **Nigerian Constitution:** The 1999 Constitution of the Federal Republic of Nigeria.

(b) **Audit Ordinance of 1956 or Act of 1956:** Section 13, sub- sections 1 - 3 mandate the Accountant-General of the Federation to furnish the Auditor-General for the Federation with the country's financial statements. The Auditor-General shall within 60 days of receipt of the Accountant-General's financial statements submit his report to each House of the National Assembly.

(c) **Finance (Control & Management) Act of 1958. Cap 144, 1990.** This governs the management and operation of government funds..

(d) **Financial** Regulations: These are the accounting manual of Government Ministries! Extra-Ministerial Departments which deals with financial and accounting matters. They set out the procedures and steps to be followed in treating most of Government transactions.

(e) **Finance/Treasury Circulars:** These are administration tools which are used to amend the existing provisions of Financial Regulations, Public Service rules and the introduction of new policy guidelines.

(f) **Public Procurement Act, 2007**

This is an Act which establishes the National Council on Public Procurement (NCPP) and the Bureau of Public Procurement **(BPP)** as the regulatory authorities responsible for the monitoring and oversight of public procurement, harmonising the existing government policies by regulating, setting standards and developing the legal framework and professional capacity for public procurement in Nigeria. The Act sets standards for organising procurements, methods of procurement of works, goods, consultancy and non-consultancy services as well as the procurement approval thresholds for the Bureau of

Public Procurement, Tenders Boards and Accounting Officers for all Ministries, Departments and Agencies.

(g) Fiscal Responsibility Act, 2007

This Act provides for the prudent management of the Nation's resources, ensures long-term macro-economic stability of the national economy, secures greater accountability and transparency in fiscal operations within a medium-term fiscal policy framework, and the establishment of the Fiscal Responsibility Commission to ensure the promotion and enforcement of the Nation's economic objectives.

Other laws guiding Public Sector Accounting and Finance include the Pension Reform Act of 2004, The Independent Corrupt Practices and Other Related Offences Commission (ICPC) Act of 2000, Economic and Financial Crimes Commission (Establishment) Act, 2002, Appropriation Acts, Code of Conduct Bureau and Tribunal Act, 1991 and Money Laundering Act, 1995.The Financial Regulations are powerful control tools used in the public sector fund management. They are the accounting manual of the three tiers of Government designed to guide the management of public funds. The rules spell out the system concerning the receipts and disbursements of funds and the procedures to ensure good accountability, prevention and early detection of frauds and errors and other financial malpractices.

Self-assessment exercise

……………………Act provides for the prudent management of the Nation's resources.

3.4 Concepts and Principles in Public Sector Accounting

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

3.5 Bases of Public Sector Accounting

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

(a) The cash basis.
(b) The accrual basis.
(c) The commitment basis.

3.5.1 The Cash Basis

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

3.5.1.1 Advantages of Cash Basis

The advantages of this basis include the following:

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

3.5.1.2 Disadvantages of the Cash Basis

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

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

(b) It does not provide for depreciation since assets are written off in the year of purchase.
(c) It does not convey an accurate picture of the financial affairs at the end of the year.
(d) The cash basis cannot be used for economic decisions as it tends to hide basic information. For example, some of the missing information relate to fixed assets, debtors and creditors.
(e) It does not accord with the 'matching concept.'

3.5.2 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 practiced in the private sector and all parastatals/agencies. The reason is that private sector concerns are profit-oriented and estimate how much profit earned in each period, with a view to keeping invested assets intact and making periodic distributions to shareholders by way of dividends. The public sector main consideration is the enhancement of the standard of living of the people.

3.5.2.1 Advantages of Accrual Basis

The advantages of this basis can be summarised as follows:

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

3.5.2.2 Disadvantages of Accrual Basis

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

3.5.3 Commitment Basis

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

3.5.3.1 Advantages of Commitment Basis

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

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

3.5.3.2 Disadvantages of Commitment Basis

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

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

(b) Over-expenditure is more under commitment basis in the expectation that Government may finally release fund to settle the legal obligations.

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

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

3.6 Comparison between Government Accounting and Private Sector Accounting

(a) The main objective of a commercial enterprise is to maximize profit while that of Government is to provide adequate welfare to the people at the reasonable costs.

(b) Government revenue is derived from the public in the form of taxation, fines, fees etc,, whereas business concerns obtain their income principally from the sales of goods and services.

(c) In Government, financial transactions are recorded on 'cash basis' while in commercial organizations, it is on accrual basis.

(d) In Public Sector Accounting, tangible fixed assets such as land and building, plant and machinery are not shown in the balance sheet, whereas in private sector accounting these are reflected, showing the historical cost, accumulated depreciation and the net book value of each.

(e) In Public Sector Accounting, current assets such as stocks and debtors are not shown in the balance sheet. Debtors and creditors are not reckoned with until money is received or paid. The current assets and current liabilities are shown in private sector accounting system.

(f) In Government there is no Annual General Meeting of stakeholders/ shareholders, unlike the situation with commercial enterprises. What Government does is to hold public briefing on specific issues.

(g) In Public Sector Accounting, what operates substantially is fund accounting. However, in private sector accounting, the proprietary approach is adopted.

(h) Public Sector Accounting thrives rigidly on the budgetary approach, whereas in private sector accounting budgeting is embraced as a very potent control instrument.

Self-assessment exercise

What is the main objective for public sector accounting?

4.0 CONCLUSION

This unit introduced Public Sector Accounting, where Accounting generally is regarded as a scientific study in which records of expenditure and income of a company, individuals or Government are kept coupled with other useful information for planning, decision making and control.

5.0 SUMMARY

In summary, this unit is on the objectives, users of accounting information, and regulatory framework as well as concepts and principles of accounting. In the next study unit, you will be taken through discussion on finance functionaries in government.

6.0 TUTOR-MARKED ASSIGNMENT

1) Define Public Sector Accounting.
2) List the objectives of Public Sector Accounting.

7.0 REFERENCES/FURTHER READING

ICAN Study Pack

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

UNIT 2 FUNCTIONS OF FINANCE OFFICERS IN GOVERNMENT

CONTENT

1.0 INTRODUCTION

In this unit you will learn of the provision of the Financial Regulations (FR) in respect of listing of the following Government Officers that have financial responsibilities. Such Government functionaries include: Accountant - General of the Federation (AGF); Auditor - General for the Federation (AuGF); Accounting Officers (AO); Sub - Accounting Officers (SAO); Revenue Collector (RC); lmprest Holder (IH); and Officer Controlling Expenditure (OCE).

2.0 OBJECTIVES

At the end of this unit, you would be able to:

- Identify the key Finance Officers in government.
- Annotate their functions.

3.0 MAIN CONTENT

3.1 Accountant-General of the Federation (AGF)

In accordance with Government Financial Regulations, the Accountant-General of the Federation is the Chief Accounting Officer of the receipts and payments of the Federation, saddled with the responsibility of general supervision of the accounts of all Ministries and Extra-Ministerial Departments, and the preparation of Annual Financial Statements of the Nation, as may be required by the 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. **Note:** Reference to Ministries include; Extra-Ministerial Departments.

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

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

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

(j) Formulating the accounting policies of the Federal Government.

3.2 The Auditor-General for the Federation (AuGF)

In accordance with the provisions of Government Financial Regulations, this is the officer responsible under the 1999 Constitution of the Federation, for the audit and reports on the public accounts of the Federation, including all persons and bodies established by law entrusted with the receipts, custody, issue, sale, transfer or delivery of any stamps, securities, stores or other property of the Government of the Federation and for the certification of the annual accounts of the Nation.

3.2.1 Function of Auditor-General for the Federation (AuGF)

He is given free hand to examine the accounts in such a manner as he may deem fit. At the end of the audit, he is expected to write a report, stating whether in his opinion:

(a) The accounts have been properly kept.

(b) All public funds have been fully accounted for, and the rules and procedures applied are sufficient to secure effective check on the assessment, collection and proper allocation of revenue.

(c) Monies have been expended for the purposes for which they were appropriated and the expenditure have been made as authorised.

(d) Essential records are maintained, and the rules and procedures applied are sufficient to safeguard public property and funds.

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

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

Self-assessment exercise

List two functions of Auditor-General of the Federation

3.3 Accounting Officers

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

3.3.1 Functions of the Accounting Officer

(a) To ensure that proper budgetary and accounting systems are established in his Ministry/Extra-Ministerial Department.

(b) Ensuring that the essential management control tools are put in place to minimise waste and frauds, if they cannot be completely eliminated.

(c) Ensuring that all Government revenue is collected and paid into the Consolidated Revenue Fund, promptly,

(d) Rendering monthly and other periodic accounting returns and transcripts to the Accountant-General of the Federation as required by the Financial Regulations.

(e) Ensuring the safety and proper maintenance of all Government assets under his care.

(f) Responding to all audit queries pertaining to the Ministry/Extra-Ministerial Department, including appearing before the Public Accounts Committee.

(g) Ensuring accurate collection and accounting for all public funds received.

(h) Ensuring prudence and accountability in the expenditure of public funds.

3.4 Sub-Accounting Officer

In accordance with Government Regulations, this officer who is entrusted with the receipts, custody and disbursements of public funds, is required to maintain one of the recognized cash books, together with such other books that may be required by the Accountant-General. Example includes Sub - Treasurer of the Federation, Federal Pay Officer (FPO), Police Pay Officer (PPO), Custom Area Pay Officer(CAP0), Director of Finance and Accounts(DFA), etc.

3.4.1 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 other-wise.

(d) Ensuring that proper provision is made for safe keeping of public funds, securities, stamps, receipts, tickets, licences and other valuable documents.

(e) Exercising supervision over all officers under his authority who are entrusted with the receipts and expenditure of public funds and taking precautions by putting in place efficient checks against the occurrence of fraud, embezzlement and carelessness.

(f) Supervising the expenditure of Government and ensuring that no payment is made without proper authorisation.

(g) Promptly charging in his accounts under proper Heads and Sub-Heads all disbursements.

(h) Checking all cash and stamps in his care to reconcile the amounts with the balances in the cash book and stamp register.

(i) Promptly bringing to account as a receipt, any cash or stamp found in excess of the balance shown in the cash book or stamp register.

(j) Making good any minor deficiency not caused by theft or fraud, in the cash or stamps, for which he is responsible and thereafter reporting in writing to the Minister of Finance.

(k) Promptly preparing such financial statements as are required by law or the Minister of Finance.

(l) Maintenance of cash book.

3.4.2 Treasury Cash Book

One of the main functions of Sub - Accounting Officer as stated above is the maintenance of treasury cash book, which is expressly stated in FR 201, that a Sub - Accounting Officer should keep a treasury cash book. The treasury cash book is a permanent record of accounts which is used to record all receipts, revenue and payments made by an organization. This treasury cash book is divided into two parts, namely: Debit and credit sides and each side contain eight columns, totaling 16 columns. Revenue and receipts are recorded on the debit (Dr) side, while payments and expenditure are entered on the credit (Cr) side with particular for all entries. The treasury cash book is to be balanced daily with cash specifications shows for each day. The signature of the Head of Accounts or Central Pay Officer will be taken as certifying the accuracy as well as correctness of the entries and cash balance.

ILLUSTRATION 2-1

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

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

Source: *Appendix 4 &Financial Regulations (Revised to 31 December, 2006)*

ILLUSTRATION:

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

Messrs A. Ayotunji and Amusat paid 480,000 and 4500,000 being tax, and contractor's

registration fee, respectively. Treasury receipt numbers 65 and 66 dated 16/9/20X1 were accordingly issued. The payments which were in bank draft numbers logo bank C184860 and C160868 dated 25/9/20X1, were received into Head 1001, Sub-heads 419 and 420.
On 26 September, 20X1, the State Ministry of Education made payments for feeding students and WAEC examination fees, totaling 1410,000,000 and 1440,000,000 respectively, through the CBN cheque numbers: NB 846264 and A/B 946270. The payment vouchers were numbered 60 and 63, respectively. The payment by the Ministry of Education was charged to Head 2004, Subheads 7 and 9, respectively.

Required:

(a) Draw both the debit and credit sides of a typical Treasury Cash Book.

(b) Post the above-stated transactions into the Cash Book.
(Ignore balances b/f and c/f).

SUGGESTED SOLUTION 2-2

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

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

3.5 Revenue Collector

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

3.5.1 Functions of the Revenue Collector

(a) Exercising supervision over the receipt of public revenue and ensuring their prompt lodgment into the banks.

(b) Promptly reflecting in the accounts, under the proper Heads and Subheads of the estimates, all monies collected by him on behalf of Government.

(c) Seeing that proper provision is made for the custody of public funds and securities.

(d) Supervision of all the officers under his authority who are entrusted with the receipts, custody and disbursement of public funds.

(e) Maintenance of efficient internal checks against the occurrence of malpractices.

(f) Checking all cash and stamps in his care; agreeing the amount with the balances in the Cash Book and Stamps Register.

(g) Making good any minor deficit which is not caused by theft or fraud and reporting accordingly in writing to the appropriate officer, e.g. Minister of Finance.

ILLUSTRATION
EXAMPLE OF REVENUE COLLECTOR'S CASH BOOK

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

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

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

Date	Prayer	Reasons for payment	Amount N
2/6/2008	Mrs. Mariam Gidado	Declaration	400.00
3/6/2008	Niger Killah	Court fine	2000.00
5/6/2008	Mr. Ibrahim Limoh	Court fine	8000.00
7/6/2008	Gani Waidi	Court	800.00
9/6/2008	Beko Ishola	Court	1200.00
13/6/2008	Mrs. Kudirat Eniola	Declaration	400.00
21/6/200 8	Yaro Balam	Court fine	1500.00
30/6/2008	Mrs. Adio	Court	500.00

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

(a) Declaration of age 01

(b) Court fine 04

(c) Court proceeding document 07

Mr. Ajonibode deposited the takings to the Sub Accounting Officer on 29 June, 2008 and was issued with treasury receipt number M 400201. The receipts used by him were N800401 to N800450. The one issued to Mrs. Mariam Gigado was N800417. On the assumption that receipts 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 WYSE LOCAL GOVERNMENT

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

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

Comment:

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

3.6 Imprest Holder

According to Government Regulation, this is an officer other than a Sub-Accounting Officer, who is charged with the disbursement of public money whose vouchers cannot be presented immediately to a Sub-Accounting Officer. He has to keep an lmprest Cash Book. An imprest is defined as a small amount of money set aside to meet petty cash payments, the vouchers of which cannot be presented to a Sub-Accounting Officer immediately. An imprest holder is therefore a petty cashier who handles such float of money and keeps necessary records for restoration to the earlier amount granted, at the appropriate time.

3.6.1 Types of Imprest

There are two types of imprest, namely:

(a) Standing Imprest: This imprest is operated from the commencement to the end of a financial year (1 January to 31 December of each year). On the last working day of the year, an account is rendered and all unspent balances lapse.

(b) Special lmprest: This imprest is operated from the commencement of a financial year until the objectives for which it is set up have been achieved. Upon the attainment of such objectives, an account will be rendered and all unspent balances shall lapse.

3.6.2 Operating an Imprest

(a) Any Ministry which intends to operate an imprest has to apply in writing to the Accountant-General of the Federation, stating the amount and purpose for which it is required.

(b) The Accountant-General of the Federation and the Accounting Officer of the Ministry or Extra - Ministerial Department will issue imprest after the Minister of Finance has conveyed the authority in the Annual General lmprest Warrant.

1LUSTRATION

EXAMPLE OF 1MPREST HOLDER'S CASH BOOK

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

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

ILLUSTRATION:

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

			₦
November	1	Tea and sugar	4,000
"	3	Purchase of petrol	800
"	4	Postal services	2,000
"	5	Postage stamps	1,000
"	6	Envelopes	2,000
"	8	Purchase of petrol	1,000
"	9	Gift	4,000
"	12	Purchase of petrol	800
"	13	Postage stamps	200
"	15	Alhaji Giwa - ledger account	16,000
"	16	Olamide - ledger account	10,000
"	17	Waste paper basket	600
"	18	Purchase of stationery	4,000
"	19	Purchase of engine oil	1,000

"	19	Toll gate fees	80
"	21	Aruna - ledger account	12,000
"	24	Tea and sugar	4,000
"	25	Biscuits	1,200
"	27	Calculator	1,400
"	30	Petrol and engine oil	2,000
"	30	Servicing of official car	1,200

Required:

(a) Enter the above transactions in a petty cash book, having analysis columns for motor expenses, postages and stationery, office entertainment, sundry expenses and ledger column.

Date	Reimbur-sement details	No of Bank credit slip	Cash ₦	Bank ₦	Date	To whom payable	P.V No	Classifi-cation	Cash ₦	Bank ₦	A N A L Y S I S					
											Motor expenses	Posta-ges	Statio-nery	Office Entertai nment	Sundry expenses	ledger
1/11 20XX	Reimburs ement		80,000	=	1/11/2008	Tea & Sugar			4,000					4,000		
					3/11/2008	Petro			800		800					
					4/11/2008	Postal Services			2,000			2,000				
					5/11/2008	Postage Stamps			1,000			1,000				
					6/11/2008	Envelops			2,000				2,000			
					8/11/2008	Petrol			1,000		1,000					
					9/11/2009	Gift			4,000					4,000		
					12/11/2008	Petrol			800		800					
					13/11/2008	Postage Stamps			200			200				
					15/11/2008	Alhaji Giwa Musa			16,000							16,000
					16/11/2008	Olamide			10,000							10,000
					17/11/2008	Basket			600						600	
					18/11/2008	Stationery			4,000				4,000			
					19/11/2008	engine Oil			1,000		1,000					
					19/11/2008	Tollgate fee			80		80					
					21/11/2008	Mr. Aruna			12,000							12,000
					24/11/2008	Tea & Sugar			4,000					4,000		
					25/11/2008	Biscuits			1,200					1,200		
					27/11/2008	Calculator			1,400				1,400			
					30/11/2008	Petrol			2,000		2,000					
30/11 20xx	Reimburs ement		69,280		30/11/2008	Servicing of Car			1,200		1,200					
					30/11/2008	Balance c/f			80,000							
			149,280	=					149,280		6,880	3,200	7,400	13,200	600	38,000
		bal.b/d	80,000													

3.7 Officer Controlling Expenditure

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

3.7.1 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 account under proper Heads and Sub-heads all disbursements.

(c) Ensuring that all books are correctly posted and kept up to date.

(d) Producing when required by the Accountant-General and the Auditor-General, all cash, stamps, etc., in his custody.
(e) Ensuring that funds are available under the appropriate Head and Sub-heads, to meet payments of specific vouchers.
(f) Effective monitoring of Government expenditure.
(g) Ensuring that there is no extra-budgetary spending.
(h) Ensuring that there is adequate security over the custody of public funds.
(i) Maintenance of the vote book.

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

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

3.7.3 Reasons for Keeping a Vote Book

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

ILLUSTRATION 2-7

Example of a Book

Head________________ Vote Book Authorised Appropriation:

Sub-Head_____________ AGW_________________

AIE__________________

Service_______________

OTHERS_______________

TOTAL________________

ILLUSTRATION:

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

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

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

SUGGESTED SOLUTION:
FEDERAL MINISTRY OF EDUCATION

Head —502
Sub-head-005 Vote Book Authorised Appropriation
Service-Stationery AGW-N1,000,000
AIE ________________
OTHERS_____________
TOTAL______________

line no	2 date	3 P.V No	4 Particulars	5 Payment	6 Cumm, Payment	7 Balance	8 Liability Ref	9 liability incurred	10 Liability Cleared	11 Outstanding Liability	12 Remarks	13 Uncomm-ited Bal.	14 Line No.	15 Line No.
1.	118/20xx		Authority Appropriation			1,000,000	-	-	-	-	-	1,000.000		1
2.	2/8/20xx	004	Odunuga BK	45,000	45,000	955,000						955,000		2
3.	6/8/20xx	0005	Abiola BK	50,000	95,000	905,000						905,000		
4.	10/8/20u				95,000	905,000	LPO 0044	100,000		100,000	LPO Issued to Lambus	805.000		

5.	18/8/ 20xx	0006	Lambus	100,000	195,000	805,000			100,000		Settle- ment to I ambits	805.000	4	5
6.	23/8/ 20xx	0007	Orita BK	20.000	215,000	785.000						785,000		6
	26/13 /^{7}0xx	0007	C55 13K	120,009	335 009	665 000	-	.		-		665.000		7
8.	27/81 20xx			-	335,000	665.000	LPO 00045	300,000		300.000	LPO Issued to Olorus	365,000		8
9.	30/8/ 203a	0008	Dossy BK	300.000	635.000	365.00 0						65,000		9
10.	31/8/ 20xx	0009	°torus Stores Ltd.	300.000	935,000	65.000			300.000		Settleme nt to Olorus	65,000		10

3.8 Federal Pay Officer

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

Self-assessment exercises
State three functions of a sub-Accounting Officer

4.0CONCLUSION

This unit concludes that there are key officers like the Accountant-General and those of the Auditor-General and other finance officers who help in the functioning of Government accounting.

5.0 SUMMARY

This unit dealt with the various powers and functions of the Finance Officers of Government Accounting. It stressed the functions of the Accountant-General and those of the Auditor-General.

In the next unit, you will learn of government Expenditure- the sources and classifications.

6.0 TUTOR-MARKED ASSIGNMENT

a) Write short notes on the functions of
   i) Accountant-General of the Federation.
   ii) Accounting Officers

b) Identify the functions of Officer Controlling Expenditure.

7.0 REFERENCES/FURTHER READING

ICAN Study Pack

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

UNIT 3 SOURCES OF GOVERNMENT REVENUE

CONTENTS

1.0 INTRODUCTION

In this Unit, sources of government revenue will be discussed, with regards to the sources and classifications. Other issues include: Federation Account Revenue Heads, Federation Accounts Allocation Committee – FAAC, State Joint Local Government Account Allocation Committee – SJLGAAC, Sources of Revenue Payable to the Federation Account, Federal Government Account or Consolidated Revenue Fund, Value Added Tax (VAT), Development Fund and Contingency Fund.

2.0 OBJECTIVES

At the end of studying this unit, you should be able to:

- Identify the various sources of Government revenue payable.
- State the appropriations.

.

3.0 MAIN CONTENT

3.1 Sources and Classifications of Government Revenue

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

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

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

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

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

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

3.2 Federation Account Revenue Heads

The Federation Account was established by Section 162 of the 1999 Constitution of the

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

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

3.2.1 Revenue Allocation Formula

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

NOTES:

- 13% of revenue derived from oil sources goes to the States from which it is obtained, in consonance with the principle of derivation.
- 7% and 4% of the gross revenue in the Federation Account are allocated to the Customs Service and Federal Inland Revenue Services, respectively
- The rates stated above are "first line charges." That is, 13% derivation source is adjusted (deducted) in the oil sector revenue received from the total oil proceeds; 11% (7% plus 4%) of other revenue receipts are taken out of the non-oil collections.
- Whatever remains in the Federation Account distributable pool is shared between the three tiers of Government as in column 'd' of the table above.
- The 24% allocation to the 36 States is distributable, net of the adjustments in the earlier three notes or bullets. Abuja is considered a State, to make 37 'States which will share 24%.
- The 20% of the Local Government allocation from the next balance is shared between the 774 Local Governments in Nigeria.
- The 24% allocation to the 36 States and Abuja treated as a 'State' for this

purpose, is redistributed, using the following criteria; 40% on the equality of all States;
40% on population;
15% on social development, e.g. primary school enrolment.
5% on the internally generated revenue effort.
100%

3.3 Revenue Control

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

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

3.4 Federation Accounts Allocation Committee - FAAC

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

3.4.1 Functions of FAAC

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

3.4.2 Composition of FAAC

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

Self-assessment exercise
State the function of FAAC

3.5 State Joint Local Government Account Allocation Committee - SJLGAAC.

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

3.5.1 Composition

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

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

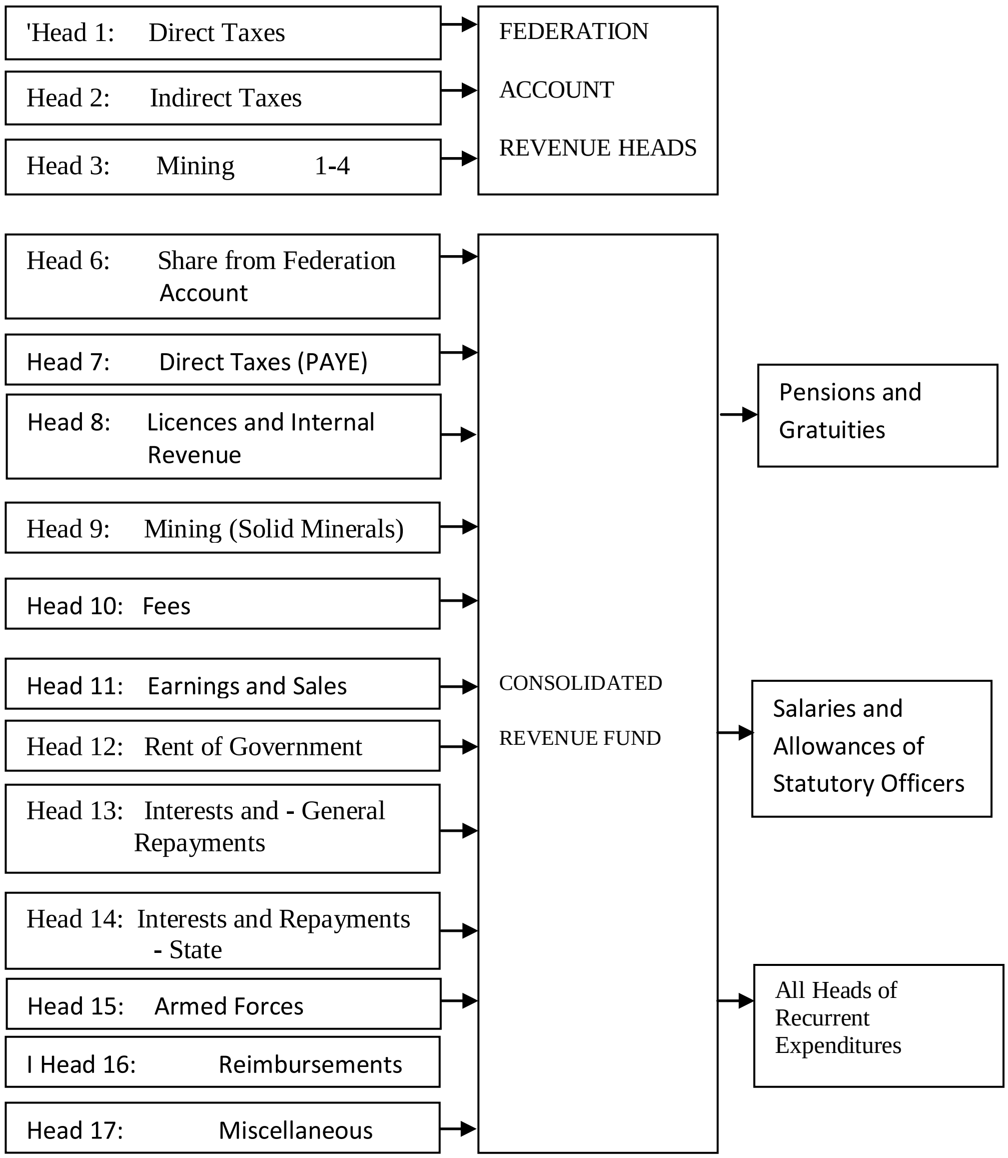
These are:

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

3.7 Federal Government Account or Consolidated Revenue Fund

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

3.7.1 Federation Account and Consolidated Revenue Fund in Diagrams



3.7.2 Analysis of the Various Sources of Revenue Payable to CRF

Analysis of various sources of income is given below:

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

(b) **Head 7-Direct Taxes:** These include PAYE of the Armed Forces and Police Personnel, Foreign Service Officers and Residents of the Federal Capital Territory, Abuja.

(c) **Head 8-Licence & Internal Revenue:** These are realized from the issues of licences, e.g. arms and ammunition licence fees, goldsmith licence fees, radio & T.V Licence fees, gold dealer's licence fees.

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

(e) **Head 10-Fees:** They are fees received on services rendered by Government officials, e.g., court fees, court fines and medical fees.

(f) **Head 11-Earnings and Sales:** Earnings and sales are derived from the use and subsequent disposal of Government property, e.g. sales of stores, publications and stamps, commission on money order and poundage on postal orders.

(g) **Head 12-Rent of Government Property:** The incomes include rent on Government quarters, land and buildings.

(h) **Head 13-Interest & Repayments (General):** These are interest and repayment of loans granted to individuals by the Government. Corporations and Government companies. An example is the repayment of motor vehicle loans.

(I) **Head 14-Interest & Repayments** (State): They are interest and repayment of loans granted to the State Governments.

(j) **Head 15-Armed Forces:** The sales of Armed Forces' property such as old vehicles and stores constitute revenue.

(k) **Head 16-Reimbursements:** These are refunds for services rendered to the State and Local Government Councils, Public Corporations and other Statutory Bodies by the Federal Government officers. Examples are reimbursements of audit fees and refunds of overpayments made to Government workers.

(I) **Head 17-Miscellaneous:These are** other sources of revenue, apart from those stated above. Examples are overpayments refunded, lapsed deposits.

All the revenues discussed above are paid into the Consolidated Revenue Fund.

3.7.3 Charges to the Consolidated Revenue Fund

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

(a) All **Recurrent Expenditure Heads in the approved estimates, e.g. personnel** cost, overhead cost and servicing of national debts.

(b) **Salaries and Consolidated Allowances of Statutory Officers:** These are expenditure chargeable directly to the Consolidated Revenue Fund, irrespective of budget approval. Statutory Officers include:

(i) Commissioners of the following Bodies:

- Police Service Commission.
- Public Complaints Commission
- Public Service Commission
- Nigerian Law Reform Commission
- Independent National Electoral Commission.

(ii) Auditor - General for the Federation.

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

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

(v) Chief Justice and Justices of the Supreme Court.

(c) Pension and Gratuity. These are the entitlements of both statutory and non-statutory officers, including members of the Armed Forces.

3.8 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).

Self-assessment exercise
VAT is what type of tax?

3.9 Development Fund

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

(a) **Contribution from the Consolidated Revenue Fund:** These are yearly transfers of money from the Consolidated Revenue Fund, in the Federal Government's wisdom, notwithstanding that the Constitution does not expressly state this.

(b) **External Grants:** These are usually received from foreign countries and non-financial institutions.

(c) **External Loans:** These may come from such foreign bodies as the International Monetary fund (IMF).

(d) **Internal Loans:** These are loans raised and retired within the country. They may be long-term loans, raised through development stocks, or short-term loans through Treasury Certificates, (which have a life span of two years,) and Treasury Bills which mature in 91 days.

3.9.1 Charges from the Development Fund

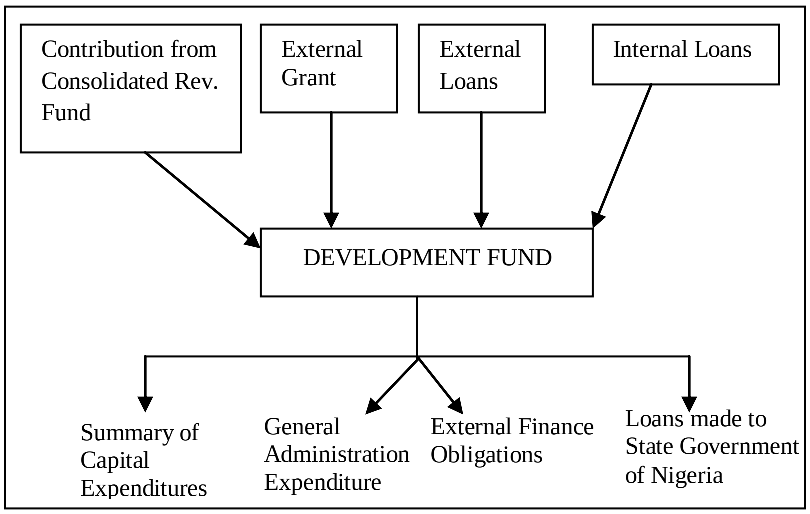
The charges from the development fund may also be categorized into four main classes, thus:

(a) Summary of Capital Expenditure Payments: This is expenditure incurred for the provision and maintenance of infrastructural amenities such as the construction of bridges and dams.

(b) General Administration: These are expenditure items made for the provision and maintenance of Army Barracks/Police Stations, Staff Houses, Motor Vehicles and Hospitals.

(c) External Financial Obligations: They are disbursements made for expenditure incurred to provide financial assistance to countries which are in need. The relief may be in form of donations, grants and aids, to neighbouring countries.

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



3.10 Contingency Fund

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

3.10.1 Charges on the Contingency Fund

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

ILLUSTRATION:

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

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

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

Police personnel	30,000
Residents of Abuja	20,000
Dividend from Federal Government Investments	120,000
Outflows:	
Remuneration of Statutory Officers	13,800,000
Recurrent expenditure	1,500,000
Transfer to: Development Fund	2,500,000
Contingency Fund	20,000

Note: The revenue allocation formula is:

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

SUGGESTED SOLUTION:

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

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

DISTRIBUTION:	N000
Fed. Govt: 48.5% of 151,900,000	73,671,500
State Govt: 24% of 151,900,000	36,456,000
Local Govt: 20% of 151,900,000	30,380,000
Special Fund: 7.5% of 151,900,00	11,392,500
151,900,000	

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

INFLOWS:

PAYE tax deductions from the emoluments of the following:

		N'000	**N'000**
(i)	Armed Forces Personnel	**400,000**	
(ii)	Police Personnel	30,000	
(iii)	Residents of Abuja	20.000	450,000
	Dividends from Federal Government Investments		120,000

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

NB:

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

Beneficiaries	**%**	**Statutory ₦biIlion**	**%**	**VAT**
Federal Government	52.68	102.53	15	5.13
State Government	26.72	52.00	50	17.09
Local Government	20.60	40.09	35	11.96
Derivation		21.24		
Tax& Revenue collection(FIRS & NCS)		4.28		

Self-assessment exercise

…………Fund is set up to meet unforeseen expenditure and urgent situations occasioned by natural disasters.

4.0CONCLUSION

In this unit, you learnt that there are various sources of Government Revenue which kept changing with exigency.

5.0 SUMMARY

This unit dealt with the various sources of Government Revenue, with emphasis on the Federation Account, the Consolidated Revenue Fund, the Development Fund and the Contingency Fund. In the next unit, you shall be taken through discussion on government expenditure and fund accounting.

6.0TUTOR-MARKED ASSIGNMENT

a) Identify two sources of Government revenue and explain their operations.

b) State the appropriations from:

i) The Federation Account and
ii) The Consolidated Revenue Fund

7.0 REFERENCES/FURTHER READING

ICAN Study Pack
National Open University Nigeria (2009), MBA728: *Public Financial Management* Lagos

UNIT 4 GOVERNMENT EXPENDITURE AND FUND ACCOUNTING

CONTENTS

1.0 INTRODUCTION

In this unit, you will learn of Government expenditure sighting the authority base on recurrent capital warrants and Fund accounting principles- the classification and types of funds. You will be led to identifying the tools for efficient government budget implementation and the techniques of fund accounting in the public sector.

2.0 OBJECTIVES

After studying this unit, you would be able to:

- Explain the authorization of Government expenditure.
- Classify types of Fund in the Public Sector.

3.0 MAIN CONTENT

3.1 Authorization of Government Expenditure

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

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

3.1.1 Recurrent Expenditure Warrants

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

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

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

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

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

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

(d) Reserve Expenditure Warrant (R.E.W.): This authorizes the release of funds included in the approved annual or supplementary estimates but excluded from the A.G.W. or S.G.W. It is the release of fund which the Minister of Finance had initially withheld in order to exercise special control.

(e) Supplementary (Contingencies) Warrant: This is issued in exceptional cases where:

(i) Virement is not possible

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

(f) Virement Warrant (V.W.); This is issued when, as a result of unforeseen circumstances during the time the annual estimates were being approved, an additional provision is required under a particular Sub-Head and an equivalent amount can be saved under another Sub-Head of the same Head. However, Virement Warrants should not be used to create a new Sub-Head or for items disallowed by the Budget or Estimate Committee.

To be successful, applications for virements should:

(i) be in writing;
(ii) state that a particular sub-head is in deficit;
(iii) state that another sub-head is in surplus;
(iv) indicate that both sub-heads are within the same economic Head;
(v) state that after the transfers, the other sub-heads will not be in deficit;
(vi) state that Virement Warrants are not sought to create new sub-heads,

(g) Supplementary (Statutory) Expenditure Warrants:

Supplementary (Statutory) Expenditure Warrants authorize additional expenditure over and above that included in the Annual General Warrant and Supplementary General Warrant, from votes chargeable to Consolidated Revenue Fund by legislation, other than Appropriation Acts, The original copy of a Supplementary (Statutory) Expenditure Warrant is addressed to the Accountant-General and a signed copy transmitted to the Auditor-General. It is customary for the Ministry of Finance to notify the officers who are in control of the relevant votes of the supplementary expenditure made available.

3.1.2 Capital Expenditure Warrants:

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

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

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

(b) Provisional Development Fund General Warrant: This is issued before the approval of the Capital Estimates by then National Assembly at the beginning of the financial year. It authorises the payment from the Development Fund of such amount that is necessary for carrying on the projects for which expenditure have been authorised in the previous financial year, for a period of six months or until the authority of the National Assembly has been obtained, whichever is shorter.

(c) Development Fund Supplementary General Warrant (DFSGW): The DFSGW authorises the AGF to issue funds, and the officers controlling votes concerned to incur expenditure, on projects as sanctioned by the National Assembly in resolutions approving supplementary capital estimates. The HMF may exclude from SDFGW any item of expenditure included in Supplementary Capital Estimates over which it is desired to exercise special control.

(d) Development Fund Reserved Expenditure Warrant : A DFREW authorises the release of funds in the approved Annual or Supplementary Capital Estimates, but excluded from the DFAGW & DFSGW, i.e. it is the release of funds which the HMF initially withheld in order to exercise special control.

(e) Development Fund Supplementary Warrant: A DFSW authorises additional expenditure over and above that which is included in theDFAGW or DFSGW for purposes of revote capital expenditure which was provided for in the previous financial year but not fully expended in that year, accelerate the provisions of funds already formally allocated but not voted for a project and also accelerate the completion of a specific capital project.

(f) Development Fund Special Warrant: A DFSW is issued in exceptional cases where:

- (i) Virement is not possible
- (ii) Provision for the release of additional funds reveals such high degree of urgency that the release of funds cannot be postponed until a Supplementary Capital Estimate is approved. If the issue of fund is postponed, it will cause serious injury to the public interest. The amount to be expended under these Warrants must not exceed the balance of the Development Fund remaining after all other expenditures provided for in the Capital Estimate have been incurred.

(g) Development Fund Virement Warrant:

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

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

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

Self-assessment exercise

Differentiate between Recurrent between Expenditure Warrants and Capital Expenditure Warrants.

3.3 Funding Principles

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

3.3.1 Classification of Funds

Funds can be classified into three categories, namely:

(a) Government Funds: **They** are used to accrue for resources which are derived from the general tax and revenue powers of Government. Examples are debt service fund, special fund and revolving fund.

(b) Proprietary Funds: These are funds used to account for the resources derived from the business activities of Government and its Agencies such as the Parastatals.

(c) Fiduciary Funds: These are used to account for resources held and managed by Government in the capacity of a custodian or trustee. Such funds are Petroleum Technology Development Fund, Trust and Agency Fund and Pension Trust Fund.

3.3.2 Types of Funds

(a) General Fund: It is a fund established for resources which are devoted to financing the general administration or services of Government. It is also called Consolidated Revenue Fund. Section 5 of the Finance (Control and Management) Act of 1958) Cap 144, 1990 stipulates that the management of the Fund shall be in accordance with the requirements of the Constitution of Nigeria.

(b) Capital Project Fund: This is a Fund created to accommodate resources meant for the acquisition of capital assets or facilities. It is also known as Development Fund. It came into existence by virtue of Section 18 of Finance (Control and Management) Act of 1958.

(c) Special Fund: It is a Fund created for specific purposes, e.g. South African Relief Fund, African Staff Housing Scheme Fund (A.S.H.S.).

(d) Trust Fund: It is a Fund whose resources are held by Government as a trustee. It is used for the purpose stated in the Trust Deed, e.g. Petroleum Technology Development Fund and Research Foundation Fund.

(e) Contingency Fund: It is a Fund whose resources are meant for expenditure or anticipated expenditure of uncertain amounts. An example is the expenditure on natural disaster. Section 15 of the Finance (Control and Management) Act 1958 brought the Fund into existence.

(f) Inter-Governmental Service Fund: This is established to provide service to other Funds, e.g. Government Clearance Fund which helps to maintain (transitionally) the balance between the Federal Government and other State Governments in respect of transactions.

(g) Revolving Fund: Revolving Fund is also known as Working Capital Fund. It was created to finance services provided by a designated unit to other Departments within a single Governmental set-up. An example of a Revolving Fund is Revolving Loan Fund.

(h) Self-liquidating Fund: This is a Fund into which resources are transferred periodically and out of which any money or amount left has to be transferred to a current fund, e.g. Deposit Fund. Deposits are moneys held on behalf of third parties.

Self-assessment exercise

All Warrants should be issued and signed by the Minister of ……….
.

4.0CONCLUSION

You learnt of how the budget of government is implemented through two sub-heads namely recurrent and Capital as well as fund accounting

5.0 SUMMARY

This unit discussed Government expenditure which is divided into Recurrent and Capital Expenditure Warrants. It also dealt with Fund Accounting. In the next study unit, you will be taken through discussion of expenditure control.

6.0TUTOR-MARKED ASSIGNMENT

a) What are the vital tools for the implementation of Government budget?

b) Identify the importance of techniques of Fund Accounting in the Public Sector.

7.0 REFERENCES/FURTHER READING

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

UNIT 5 GOVERNMENT EXPENDITURE CONTROL

CONTENTS

1.0 INTRODUCTION

In this unit, you will learn of how to control expenditure in Government showing the procedure through the arm of, institutions and departments. Public Accounts Committee and the various types of control exercised over government expenditure will be introduced to you.

2.0 OBJECTIVE

After studying this unit, you should be able to:

- Identify the various types of controls exercised over Government expenditure.
- List the arms, institutions and departments involved.

3.0 MAIN CONTENT

3.1 Expenditure Control

Expenditure control could be defined as the strings of coordinated actions which have to be taken to ensure that all expenditures are 'wholly', 'necessarily', 'reasonably' and 'exclusively' incurred for the purposes for which they are meant. The following are the basic controls exercised over Government expenditure:

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

3.1.1 The Executive Control

The Executive comprises the President and his cabinet members who have the responsibility for the efficient and effective control of the administration of the country - politically and economically. The Constitution created two other arms of government, called the Legislative and the Judiciary for purposes of checks and balances. All measures and policies taken by the President are subject to the approval of the Legislature within the ambit of the Constitution. Consequently, in accordance with Section 75(1) of the Constitution, "The President shall cause to be prepared and laid before each House of the National Assembly at anytime in each financial year, estimates of revenue and expenditure of the Federation for the following financial year."

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

3.1.2 The Legislative Control

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

3.1.3 Auditor-General for the Federation

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

Self-assessment exercise

Differentiate between executive control and legislative control

3.1.4 Ministry of Finance Control

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

3.1.5 Controls by Warrants

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

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

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

3.1.7 Inspectorate Division

Inspectorate Officers from the Office of the Accountant - General of the Federation visit the various Ministries and Departments to evaluate the system of internal control. They do this to ensure that the accounting system and maintenance of various books of accounts conform to the approved regulations and procedures.

3.1.8 Internal Audit

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

3.1.9 Departmental Control over the Budgeted Expenditure

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

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

Self-assessment exercise

Why is there need for expenditure control?

3.2 Public Accounts Committee

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

4.0CONCLUSION

In this unit, you learnt of how to control expenditure in Government showing the procedure, the arm of, institutions and departments.

5.0 SUMMARY

This unit dealt with Expenditure Control, with emphasis on the various forms of control over Government expenditure. These include the Executive, Legislative, Ministry of Finance, the Treasury and Departmental Controls. In the next study unit, you will be taken through discussions on auditing of Government Accounts.

7.0TUTOR-MARKED ASSIGNMENT

a) What are the various types of controls exercised over Government expenditure.

b) List the arms, institutions and departments involved.

7.0 REFERENCES/FURTHER READING

ICAN Study Pack

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

UNIT 6 AUDITING OF GOVERNMENT ACCOUNTS

CONTENTS

1.0 INTRODUCTION

In this unit, you will learn of auditing of government accounts and audit alarm committee, introducing the nature, types, factors contributing to an Effective Audit, Audit Alarm Committee, the Federal Audit, and reliance of the External Auditor on the Internal Auditor's Work, Assurance Engagement and The Objectives of Internal Auditing.

2.0 OBJECTIVES

After studying this unit you should be able to:

- Explain Auditing, Objectives and Types of Audit
- Explain Investigation and steps in investigation.
- State the objectives internal auditing

3.0 MAIN CONTENT

3.1 Nature of Auditing

Auditing is an independent appraisal process often governed by statute, for examining, investigating and verifying the financial statements of an organisation, by a person competently appointed. The Auditor seeks to establish an opinion concerning the truth, accuracy, validity, reliability and fairness or otherwise of the statements and the underlying records on which the statements have been built and whether or not they comply with any statutory or other requirements. He also makes a report to the users of the financial statements, giving his opinion concerning the accuracy and integrity of the accounting records and information.

3.2 Types of Audit

These may be briefly discussed, as follows:

3.2.1 External Audit

In an external audit, a report is made to a person external to the audited entity and its management. External Audit is carried out by a professional who has the authority of the law to vouch the financial statements and records of the entity. Under paragraph 85 of the 1999 Constitution, the Auditor-General for the Federation vouches the financial statements and records of Public Offices. He has indirect control over the accounts and audit of the Federal Parastatals/Agencies. Conversely, the State Auditor-General, under section 125 of the 1999 Constitution, exercises the same powers and influence as his Federal counterpart. Nonetheless, by the laws creating the Parastatals/Agencies, they have the authority to appoint independent auditors. These are external auditors.

3.2.2 Internal Audit

An internal audit is an independent appraisal activity within an organisation for the review of accounting, financial and other operations as basis for services to management. It is carried out by an individual designated as internal auditor as a control process. In Government, audit certificates are issued before contactors and suppliers are paid.

3.2.3 Annual/Statutory Audit

Annual audit is a regular responsibility covered by the statute. It is a requirement of the law. It is carried out on a yearly basis by an independent person to establish proper, adequate and accurate stewardship on the part of management.

3.2.4 Ad-Hoc or Special Audit

Ad-hoc or special audit is a "one-off" assignment arising from a special request for investigation to be made. It could be in respect of an arm or a unit of the organisation; for example, a case of fraud involving an officer could be the ground for investigation.

3.2.5 Pre-payment Audit

Pre-payment audit is carried out before payment is effected. It is common in Government Services. An example is the audit carried out before contractors are paid. 'Prepayment audit' is carried out by the internal auditor to evaluate the extent to which management has achieved economy, efficiency and effectiveness and adhered to laid down rules and regulations. The Objectives of Pre-payment Audit are:

(a) To guide against unreasonable or extravagant expenditure;
(b) To ensure that sufficient funds are available to enable payment to be effected.
(c) To ensure compliance with budgetary, civil service rules, financial memorandum, legislation and other legal requirements on payment; and
(d) To ensure that goods/services conform with the prescribed standards before payments.

3.2.6 Post-Payment Audit

Post-payment audit is carried out after payment for the goods and services has been effected. 'Post payment audit' is executed by both Internal and External Auditors. The exercise is to complement the prepayment audit and ensure that disbursments take place in consideration of organisational interests and policies.

3.2.7 Value-for-Money Audit

Value-for-money audit is the review of the financial transactions to confirm that an organisation has received adequate benefit for themoney expended. In other words, we can describe it as a review to confirm whether or not a company has committed its resources economically, efficiently and effectively.

The steps to be taken in carrying out Value-For-Money audit are:

(a) Do initial analysis of the financial statements.
(b) Review the management system.
(c) Plan and control.
(d) Carry-out compliance test. Check for approval by authorized office and limits of

authority.

(e) Carry out substantive tests which is subdivided into three, as follows:

(i) Economy Test. The objective of Economy Test is to ensure that resources (inputs) are obtained at the cheapest prices.

The tests to be carried out are: Oral interview, and Circularization.

(ii) Efficiency Assessment. The objective of Efficiency Assessment is to ensure that wastages are reduced to the barest minimum.

The tests to be carried out are: Physical asset verification, Check to 'third party' evidence, Review computation, Review extension, Circularization, Conduct oral interview, Review internal audit report.

(iii) Carry out 'Effectiveness Review'. The objective of' Effectiveness Review' is to confirm the popularity of the policy adopted by the organisation.

The tests to be carried out are: Circularization, and Oral interview.

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, circular for debtors and conduct oral interview.

3.2.8 Interim Audit

This is an audit carried out by the external auditor for the earlier months of the year. It is designed to reduce the workload at the end of the year. It has the advantage of early detection of frauds and mistakes, and evaluation of the adequacy of the existing internal control.

3.2.9 Final Audit

This is the audit carried out after the end of the year to finalise the audit since the interim audit was carried out.

3.2.10 Management Audit

Management Audit is a review of the performance of management during a period. It is synonymous with the investigation or performance review of the management, otherwise called 'operational audit.'

3.2.11 Operational or Systems Audit

The review concentrates on the operational aspect of management performance. The review evaluates the efficiency and effectiveness of management practices in rendering services to the members of the public.

3.2.12 Vouching Audit

Vouching audit checks the relevance and adequacy of the supporting documents of a transaction. Receipts are checked to third parties while evidence and all other financial papers are traced to the ledgers.

3.2.13 Verification Audit

This is a review to confirm the existence and ownership of the assets. It is undertaken by physical asset verification and review of evidence of ownership.

Self-assessment exercise

In your own words explain internal audit.

3.3 Factors Contributing to an Effective Audit

The following factors make for an effective audit:

(a) **The independence of the auditor:** He should be given free hand to do a good job. The auditor should not be under the control of management of the Organisation.

(b) The adequacy and scope of **the auditor's power:** The authority of the auditor should be guaranteed. The Auditor must be given adequate authority to discharge his responsibilities.

(c) **The expertise and professionalism of the Auditor and his staff:** The Auditor should be adequately trained, versatile and skilful at his job.

(d) The resources at **the Auditor's** disposal: There should be enough funds at the disposal of the Auditor to carry out his assignment.

(e) **Freedom of reporting and the qualitative nature of reports the** reports which the auditor transmits should be promptly looked into and timely and effective decisions taken.

3.4 The Objectives of Internal Auditing

The objectives of Internal Auditing may be outlined, thus:

(a) Determining the adequacy of the system of internal control which is in existence.

(b) Investigating compliance with the existing financial memorandum, laws and financial regulations.

(c) Checking the adequacy of monthly returns of activities.

(d) Verification of the physical existence of assets and liabilities.

3.4.1 The Scope of Internal Audit Functions

The duties and responsibilities of internal auditors are at the discretion of management. However, from empirical studies, the following are the areas of interest to an internal auditor, viz:

(a) Pre-audit.

(b) Vouching of payroll and third party claims.

(c) Auditing of store movements and records.

(d) Conducting internal investigations and evaluation for management.

(e) Constant review and appraisal of the existing internal control measures.

3.4.2 The Role of a Government Internal Auditor in the Presidential

System

The main idea of introducing the presidential system of Government is to further ensure accountability and probity. In this perspective, there are various laws, rules and procedures that must be complied with, to ensure sanity in the polity and Governance. The Internal Auditor is expected to render 'exception reports' on continuous basis on the financial activities of Government. He writes his reports to the Accounting Officer and copies the Auditor General. The presidential system of Government empowers the Legislative House to interview the Auditor-General on his position on actions already taken by the Executive arm which he had endorsed as correct. The system of Government expects him to ensure budget discipline through continued monitoring of receipts and payments. He is expected to be objective, fair and articulate in reacting to the views of opposing parties on financial matters. The Auditor-General for the Federation can audit any State or Local Government Council on how the Federal's special allocations as Ecology Fund are being utilized.

Self-assessment exercise

Outline the objectives of Internal Auditing in government

4.0 CONCLUSION

In this unit, you have learnt that Control of expenditure is necessary to ensure that the resources obtained are used for the purposes for which they are meant. Audit is an independent appraisal of financial statements of an organisation, with a view to expressing opinion on the fairness and truth or otherwise of those statements.

5.0 SUMMARY

In summary, the following were discussed Auditing of Government Accounts and Audit alarm committee. In unit 5, you will learn of government advances. This unit is end of module 1, in the next module; the first study shall be preparation of vouchers.

6.0TUTOR MARKED ASSIGNMENT

a) Explain Auditing. Types of Audit.
b) State the objectives of Internal Auditing in the public sector

7.0REFERENCES/FURTHER READING

ICAN Study Pack

MODULE 2

UNIT 1 PREPARATION OF VOUCHERS

CONTENTS

1.0 INTRODUCTION

In this unit, you would be introduced to the preparation in vouchers, identifying various types and the essential features of a valid voucher, rules guiding issuance, loss, receipt, adjustment and the use of payment vouchers in the public sector.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Identify uses, types of vouchers
- The essential features of a valid voucher

3.0 MAIN CONTENT

3.1 Definition of Voucher

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

3.2 Types of Vouchers.

Vouchers may be classified into three categories, viz:
(a) Payment Vouchers.
(b) Receipt Vouchers.
(c) Adjustment Vouchers.

3.2.1 Payment Vouchers

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

3.2.2 Essential Features of a Valid Payment Voucher

A valid payment voucher must contain the full particulars of such services rendered or goods purchased like date, serial number, quantity and price. It has to be supported by relevant documents such as invoices, local purchase orders and letters of authority. The following are the essential features of a well-prepared payment voucher:
(a) Date of the voucher, which indicates its life span.
(b) Classification code, i.e. Head and Sub-Head of expenditure.
(c) Amount in words and figures.
(d) Voucher number.
(e) Description of payment.
(f) Name and address of payee! beneficiary
(g) Supporting documents, such as local purchase orders, invoices, store receipt vouchers and contract agreements.

(h) Authority such as the signature of the officer controlling expenditure and the type of Warrant which will release the money
(i) Signature of the cashier.
(j) Signature of the payee.
(k) Voucher certification, which indicates the following, in a box:

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

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

ILLUSTRATION 6-1
EXAMPLE OF A PAYMENT VOUCHER
Head..Station……………………..
Sub-Head ....
Voucher Serial No…………………Amount ₦ …………………
Name of Beneficiary…………………………………………………
Address: ………………………………………………………………
Date Description of payment Rate Amount payable
- Authority by: (i) Warrant …………………………………
(ii) Officer Controlling Expenditure ....
- Amount in words...
- Signature of payee..
- Signature of Cashier..

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

……………..……………………………………
Signature of Officer Authorising the Expenditure

3.2.3 Rules Guiding Issuance of Payment Vouchers

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

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

Government Financial Regulations specify the rules which should be strictly observed in the preparation of payment vouchers, as follows:

(a) Vouchers shall be made in ink or ball point pens or indelible pencils or shall be type-written. All copies must be legible.

(b) No erasure of any kind, whether in typescript or manuscript. Use of correcting fluid is not allowed.

(c) A single thick horizontal line shall be drawn immediately before and immediately after the Naira (4) figure. Where it appears in words space shall not be allowed.

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

3.2.4 Loss of a Payment Voucher

If a payment voucher is reported lost:

(a) prompt investigation should be carried out;

(b) it should be established whether payment has been made on it or not;

(c) it should be ascertained whether or not the cash drawn is still on hand;

(d) report should be made by the Accounting Officer to the Accountant-General, stating the circumstance of the loss.

Head: ____________________________ Receipt No: ___________

Sub - Head:________________________ Date:_________________

Received From:____

The Sum of:_____________________ ₦ ______________________

Being Payment for:____

Signature of Cashier:____

Signature of the Payee:______________________________________

Self-assessment exercise

List the essential features of a valid payment voucher?

3.2.5 Receipt Vouchers

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

3.2.6 Adjustment Vouchers

Adjustment voucher is a documentary evidence of formal entries which enables transfers to be made from one account to another without actual receipt or payment of Cash. Adjustment voucher is used in any of the following circumstances:

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

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

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.
(d) Particulars of Treasury or Audit Query, where the adjustment is as a result of such an investigation.

3.2.7 Variation Control Sheet

Variation Control Sheet is used to effect changes in staff salary. Such changes can be due to promotion/demotion, overtime, acting allowances etc. It is also used to analyse the difference between the previous month's salary figure and that of the current month. The sum total of the variations should be added to or subtracted from the relative total of the previous month. The figure obtained must correspond with that on the summary payroll of each pay point.

Self-assessment exercise

Prepare a typical voucher.

4.0 CONCLUSION

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

5.0SUMMARY

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

6.0 TUTOR MARKED ASSIGNMENT

a) State the essential features of a valid voucher.
b) Distinguish receipts voucher from adjustment voucher

7.0REFERENCES/FURTHER READING

ICAN Study Pack

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

UNIT 2 TREASURY ACCOUNTS

CONTENTS

1.0 INTRODUCTION

In this unit you will learn of the Treasury Department, the (organogram) organization chart of the Office of the Accountant-General of the Federation, Preparation of Federal Government Accounts, Final Accounts Unit, revised Financial Statements and state the objectives of International Public Sector Accounting, Standards (IPSAS) of the International Federation of Accountants (IFAC) in the public sector in Nigeria.

2.0 OBJECTIVES

After studying this unit, you should be able to;

- Outline the Preparation of final accounts of Government.

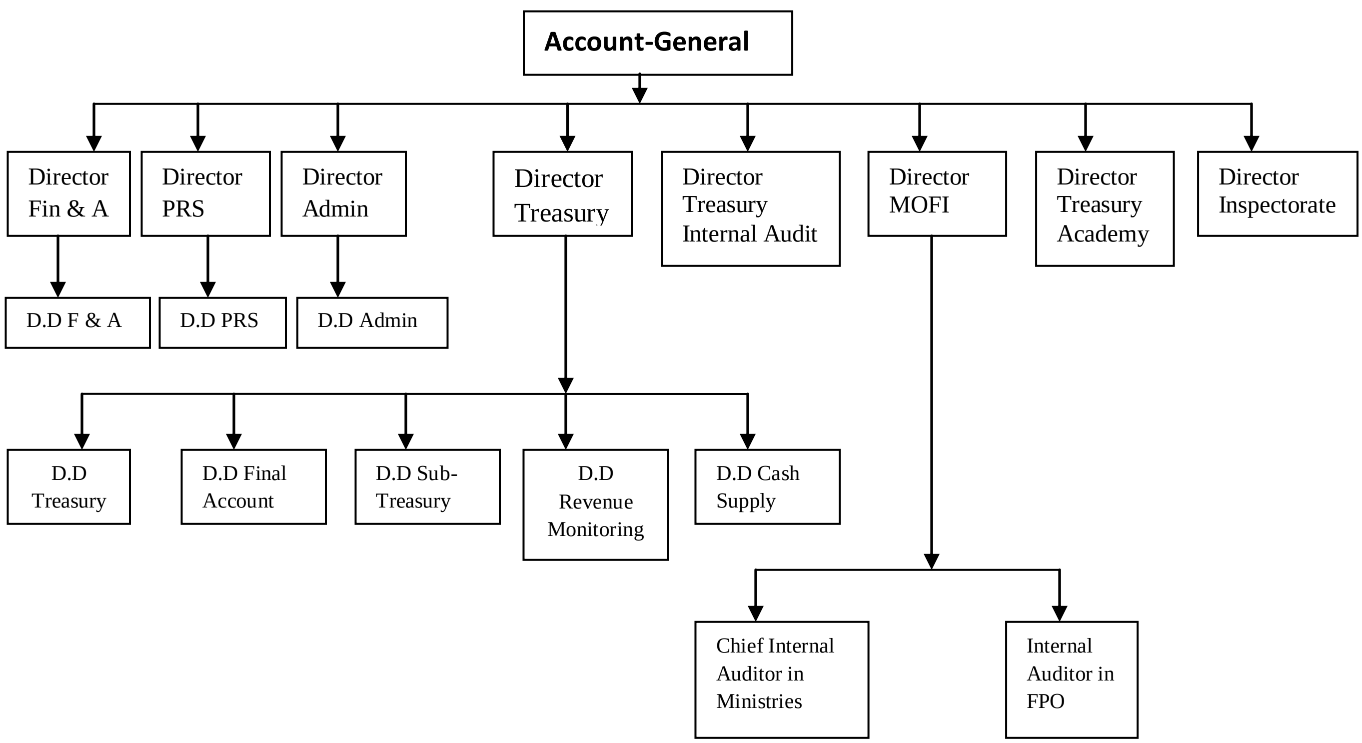
- State the rules and regulations guiding the preparation of financial statements as contained in the International Public Sector Accounting Standards (IPSAS).

3.1 The Treasury Department

The Treasury Department of the Federal Ministry of Finance is charged with the responsibility of producing and publishing the accounts of the Federal Government of Nigeria, in such a manner that will show a true and fair view of the financial position of the Government and its relationship with the States and Local Government Councils. The Treasury Department as part of the Office of the Accountant-General of the Federation is shown below in the organogram:

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

The organogram (organization chart) of the office of the Accountant-General of the Federation is as follows:



3.3 Preparation of Federal Government Accounts

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

(a) Transcripts from the Ministries and Extra-Ministerial Departments

(b) Accounts from the Federal Pay Offices, States and Local Government Councils
(c) Accounts from the Nigeria High Commissions Overseas.

3.4 Final Accounts Unit

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

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

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

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

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

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

3.4.2 Statement No. 2 - Statement of Assets and Liabilities

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

Statement of Assets and Liabilities

	N'000		N'000
Consolidated Revenue Fund	xxx	Cash	Xxx
Development Fund	xxx	Fixed Deposits	Xxx
Contingencies Fund	xxx	Investments	Xxx
Others	xxx	Advances	Xxx
Deposits	xxx		
	xxxx		xxxx

3.4.3 Statement No. 3.0- Statement of Consolidated Revenue Fund

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

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

3.4.3.1 Statement No.3.1 - Statement of Recurrent Revenue

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

3.4.3.2 Statement No.3.2 - Statement of Recurrent Expenditure

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

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

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

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

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

3.5 Revised Financial Statements

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

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

(i) Preface to the financial statements, where the Minister of Finance/Commissioner for Finance gives an overview of the financial statements of the Government as prepared and presented by the Accountant-General. The overview may cover:

- Global view of the economy.
- Specific comments on Government performance.
- Future outlook of the economy and any other relevant remarks.

(ii) Declaration of responsibility for the Financial Statements where the Accountant-General of the Federation (or the State) states, among others, that the financial statements have been prepared in accordance with the provision of the Finance (Control and Management) Act, Cap 144 LFN 1990 (as amended) and in compliance with the generally accepted accounting practice.

(iii) Auditor-General's Certificate indicating whether or not the financial statements present a true and fair view of the financial position of Government as at 31st December of the relevant Year and its operations for the year ended on that date.

(iv) Statement No. 1: Statement of Cash Flows.

(v) Statement No. 2: Statement of Assets and Liabilities.

(vi) Statement No. 3: Statement of Consolidated Revenue Fund.

(vii) Statement No. **4:** Statement of Capital Development Fund.

FORMAT OF STATEMENT NO 1

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DEC., 2XXX

	NOTE	CURRENT YEAR ~~N~~m	PREVIOUS YEAR ~~N~~m
Cash flow from Operating Activities			
Receipts			
Statutory Revenue Allocation	3	x	x
VAT	4	x	x
Internally Generated Revenue	5	x	x
Grants / Subventions	6	x	x
Miscellaneous	7	x	x
Total Receipts.		x	x
Payments			
Personnel Emoluments	8	(x)	(x)
Pensions and Gratuities		(x)	(x)
Consolidated Revenue Fund Charges		(x)	(x)
Overhead Costs		(x)	(x)
Public Debt Charges		(x)	(x)
Recurrent Grants and Subventions		(x)	(x)

Subsidies		(x)	(x)
Miscellaneous Expenses	9	(x)	(x)
Total Payments.			
Net Cash Flow from Operating Activities		(x)	(x)
Cash Flow from Investment Activities			
Purchase / Construction of assets	10	(x)	(x)
Purchase of Financial Market Instruments		(x)	(x)
Proceeds from sale of Assets		x	x
Net Cash Flow from Investing Activities		x	x
Cash Flow from Financial Activities			
Proceeds from Loans and Other Borrowings	11	x	x
Dividends Received	12	x	x
Repayment of Loans	13	(x)	(x)
Net Cash Flow from Financing Activities		x	x
Net Increase/ (Decrease) in cash & Its Equivalent		x	x
Cash & Its equivalent at 1/2/2xxx		x	x
Cash & Its equivalent at 31/12/2xxx		x	x

The accompanying notes are an integral part of these Statements.

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

		ACTUAL	
	NOTES	CURRENT YEAR ₦m	PREVIOUS YEAR ₦m
ASSETS			
Liquid Assets			
Cash and Bank	14	xx	xx
Balances	15	xx	xx
Others		xxx	xxx
Investments		xx	xx
Min. of Finance Incorporated	16	xx	xx
ADVANCES	17	xx	xx
TREASURY CLEARANCE A/CS	18	xxx	xxx
LIABILITIES			
Consolidated Revenue Fund	19	xx	xx
Capital Development Fund	20	xx	xx
Other Government Funds	21	xx	xx

		xxx	xxx
Foreign Loans	22	xx	xx
Internal Loans	23	xx	xx
Development Loan Stock	24	xx	xx
		xxx	xxx

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

ACTUAL PREVIOUS YEAR ₦m		NOTES	BUDGET CURRENT YEAR ₦m	ACTUAL CURRENT YEAR ₦m	VARIANCE %
xx	Opening Balance		xx	xx	x
	ADD REVENUE (INCOME)				
xx	Statutory Revenue Allocation				
xx	Fines & Sales	25	xx	xx	x
xx	Earning & Sales	26	xx	xx	x
xx	Rent on Government Property		xx	xx	x
xx	Interest & Dividend	27	xx	xx	x
xx	Taxes (Direct & Indirect)	28	xx	xx	x
xx	Miscellaneous	29	xx	xx	x
xxx	**TOTAL REVENUE** (a)		xxx	xxx	x
	LESS: EXPENDITURE				
xx	Administrative Services		xx	xx	xx
xx	Education Services		xx	xx	xx
xx	Transport Services	30	xx	xx	xx
xx	Health Services		xx	xx	xx
xx	Agriculture Services	31	xx	xx	xx
xx	Others of General Nature		xx	xx	xx
xx	Subsidies		xx	xx	xx
xx	Miscellaneous	32	xx	xx	xx
xxx	TOTAL EXPENDITURE (b)		xxx	xxx	x
xxx	OPERATING BALANCE (a-b)		xxx	xxx	x
APPROPRIATE/TRANSFERS					
xx	Capital Development Fund		xx	xx	x
xx	Loan Repayment Fund		xx	xx	x
xxx	CLOSING BALANCE		xxx	xxx	x

The accompanying notes are an integral part of these Statements.

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

ACTUAL PREVIOUS YEAR Nm		NOTES	BUDGET CURRENT YEAR Nm	ACTUAL CURRENT YEAR Nm	VARIANCE %
xx	Opening Balance		xx	xx	x
	ADD: CAPITAL RECEIPTS				
xx	Value Added Tax		xx	xx	x
xx	Transfer from CRF		xx	xx	x
xx	Internal Loans	33	xx	xx	x
xx	External Loans	34	xx	xx	x
xx	Grants/ Subventions	35	xx	xx	x
xx	Miscellaneous	36	xx	xx	x
xxx	TOTAL CAPITALS RECEIPTS (a)		xxx	xxx	x
LESS: CAPITAL EXPENDITURE					
	Economic Sector				
xx	Agriculture	37	xx	xx	x
xx	Livestock		xx	xx	x
xx	Forestry		xx	xx	x
xx	Fisheries		xx	xx	x
xx	Manufacture		xx	xx	x
xx	Power		xx	xx	x
xx	Commerce and Finance		xx	xx	x
	Social Service Sector				
xx	Education	38	xx	xx	x
xx	Health		xx	xx	x
ioc	Housing		xx	xx	x
xx	Others		xx	xx	x
	Regional Development Sector				
xx	Niger Delta Dev. Commission	39	xx	xx	x
xx	River Basin Authority		xx	xx	x
	Administration Sector				
xx	Administration sector	40	xx	xx	x
xxx	**TOTAL EXPENDITURE (b)**		xxx	xxx	xxx
xxx	**CLOSING BALANCE (a-b)**		xxx	xxx	xxx

The accompanying notes are an integral part of these Statements

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

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

The National Assembly is considering the Nigerian Accounting Standards Board Act, 2003, the approval of which will give rise to its redefinition as Financial Reporting Council Act. It will also create the Public Sector Accounting Standards Board which will be responsible for setting Generally Accepted Accounting Principles (GAAP) for Government entities. Nonetheless, it is noted that the new reporting system is already being implemented by the three-tiers of Government.

ILLUSTRATION -1:
ILUDUN Polytechnic had the following ledger balances in respect of EguAwori Memorial than Fund as at 31 December, 2007:

	DR	CR
	4'000	4'000
Cash	8,400	
Loan Receivable	316,000	
Investments	202,000	
Fund Balance		526,400
	526,400	**526,400**

During the year 2000, the following transactions took place:

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

Required:

(a) Open the ledger accounts and record the year 2008 transactions.

(b) Extract a trial balance and prepare the balance sheet of the Fund as at 31/12/2008.

(c) Prepare a statement of changes in the fund balance.

SUGGESTED SOLUTION

EGU-AWORI MEMORIAL LOAN FUND

(a) (i) CASH ACCOUNT

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

(ii) **Loan Receivable Account**

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

(iii) **Investment Account**

	N'000		N000
Balance b/f	202,000	Investment Disposal A/c	61,600
	Bal. c/d		140.400
	202.000	202.000	
Balance b/d	N140,400		

(iv) **Fund Balance A/C**

	N'000		N'000
		Balance b/f	526,400
		Cash Account	6,000
		Investment Disposal A/C	2,200
Balance c/d	538.100	Bad Debt Recovered A/c	3,500
	538,100		538,100
		Balance b/d	538,100

WORKINGS

(1) Investment Disposal Account

	N'000		N'000
Investment Account	61,600	Cash Account	63,800
Fund Balance (Profit on Disposal)	2.200		
	63,800		63 800

(2) Bad Debt Recovered Account

	N'000		N'000
Loan Receivable Account	1,500	Cash Account	5.000
Transfer to Fund Balance	3,500		
	5,000		5,000

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

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

(c) Statement of

	₦'000	₦'000
Balance b/f		526,400
Add: Gift received	6,000	
Bad debt recovered	5,000	
Profit on disposal of investment		13,200
		539,600
Less: Bad debt written off		1,500
Balance carried forward		538.100

ILLUSTRATION 2:

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

Reserve Fund	33,500
Cash on hand	53,000
Bank Overdraft	5,700
Revenues (recurrent/capital)	158,500

Expenditures (recurrent/capital)	125,390
Loans	200,000
Deposits into (the L.G.C. Treasury)	23,450
Advances (granted by L.G.C.)	25,560
Investments	15,200
Suspense accounts	202,000

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

SUGGESTED SOLUTION

AKINYELE LOCAL GOVERNMENT
TRIAL BALANCE AS AT 31 MARCH 200X

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

3.5 (b) At the Level of Local Governments:

(i) A Declaration of Responsibility for the Financial Statements to be issued and signed by the Treasurer of the Local Government Council concerned, in accordance with the provisions of the Finance (Control and Management) Act Cap 144 LFN 1990 (as amended) and the generally accepted accounting practice.

(ii) Audit Certificate to be issued and signed by the Auditor-General for Local Government, in accordance with the provisions of the 1999 Constitution of Nigeria and generally accepted auditing standards.

(iii) Statement No. 1: Cash Flow Statement.

(iv) Statement No. 2: Statement of Assets and Liabilities.

(v) Statement No. 3: Statement of Revenue and Expenditure.

Self-assessment exercise

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

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

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

IPSAS 2 - CASH FLOW STATEMENTS: The cash flow statement identifies the sources of cash inflows, the items on which cash was expended during the reporting period, and the cash balance as at the reporting date.

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

IPSAS 4 - THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES An entity may carry on foreign activities in two ways. It may have transactions in foreign currencies or it may have foreign operations. In order to include foreign currency transactions and foreign operations in the financial statements of an entity, transactions have to be expressed in the entity's reporting currency and the financial statements.

IPSAS 5 - BORROWING COSTS

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

1PSAS 6 - CONSOLIDATED FINANCIAL STATEMENTS AND ACCOUNTING FOR CONTROLLED ENTITIES: An entity which prepares and presents financial statements under the accrual basis of accounting should apply this Standard in the preparation and presentation of consolidated financial statements for an economic entity. This Standard applies to the preparation and presentation of consolidated financial statements, and accounting for controlled entities.

1PSAS 7 - ACCOUNTING FOR INVESTMENTS IN ASSOCIATES: An entity which prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting by an investor for investments in associates where the investment in the associate leads to the holding of an ownership interest in form of a shareholding or other formal equity structure. This Standard provides the basis for accounting for ownership interests in associates. That is, the investment in the other entity confers on the investor the risks and rewards incidental to an ownership interest. The Standard applies only to investments in the formal equity structure (or its equivalent) of an investee. A formal equity structure means share capital or an equivalent form of unitized capital, such as units in a property trust, but may also include other equity structures in which the investor's interest can be measured reliably. Where the equity structure is poorly defined it may not be possible to obtain a reliable measure of the ownership interest.

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

IPSAS 9 - REVENUE FROM EXCHANGE TRANSACTIONS: This Standard prescribes the accounting treatment of revenue arising from exchange transactions and events. In accounting for revenue, the primary issue is determining when to recognise revenue. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured reliably. This Standard identifies the circumstances in which these criteria will be met and therefore revenue will be recognised. It also provides practical criteria. The Standard uses revenue as encompassing both revenues and gains in place of the team "income".

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

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

- Identifies the arrangements that are to be classified as construction contracts;

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

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

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

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

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

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

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

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

IPSAS 18- SEGMENT REPORT1NG: The objective of this Standard is to establish principles for reporting financial information by segments. The disclosure of this information will:

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

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

IPSAS 20- RELATED PARTY D1SCLOSURES: The objective of this Standard is to require the disclosure of the existence of related party relationships where control exists and the disclosure of information about transactions between the entity and its related parties in certain circumstances. This information is required for accountability purposes and to facilitate a better understanding of the financial position and performance of the reporting entity. The principal issues in disclosing information about related parties are identifying which parties control or significantly influence the reporting entity and determining what information should be disclosed about transactions with those parties.

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

Self-assessment exercise

State four objectives of International Public Sector Accounting Standards

4.0CONCLUSION

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

5.0SUMMARY

This unit dealt with the final accounts prepared by the Accountant-General of the Federation through the Treasury department summarised into: Statement Number 1 - Statement of Cash Flows, Statement Number 2 - Statement of Assets and Liabilities, Statement Number 3 - Statement of Consolidated Revenue Fund and Statement Number 4 - Statement of Capital Development Fund.
In the next unit, you will be taken through discussions on Government Budgeting and Control

6.0 TUTOR MARKED ASSIGNMENT

a) Mention sources from which information are obtained to produce Government Accounts in Nigeria.

b) List the objectives of International Public Sector Accounting Standards of the International Federation of Accountants.

7.0 REFERENCES/FURTHER READING

ICAN Study Pack

UNIT 3 GOVERNMENT BUDGETING

CONTENT

1.0 INTRODUCTION

In this unit, you will learn about budgeting and control in the public sector. You will learn how to explain budget, types, uses, preparations and implementations in the Public Sector.

2.0 OBJECTIVES

After studying this unit, you will be able to:

- Explain budget, its purpose
- Prepare the different methods of budget.
- List the advantages and disadvantages of each method of budget.
- Outline Budget implementation in the Public Sector.
- Explain Budgeting and budgetary control in the Public Sector.

3.0 MAIN CONTENT

3.1 Budget

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

(a) As a guide for the present and future.
(b) To plan, control and estimate the amount to be received and spent during a specified period.
(c) To distribute limited resources.
(d) To motivate managers towards the achievement of corporate goals.
(e) As a means of evaluating performance.
(f) To inform managers about the results and operations of their responsibility domains.
(g) As a standard of measurement for the purpose of controlling on-going economic endeavours.

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

3.2 The Purposes of Budget

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

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

3.3 Methods of Preparing Budgets by Government in Nigeria

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

3.3.1 Traditional/Line Items/Incremental Budgeting

The traditional budgeting method which is also often called 'Incremental Budgeting' involves picking last year's figures and adding a percentage to arrive at this year's budget. The percentage added is based essentially on three factors, namely: Trend of economic event; inflation and the available funds, and budgeting in Government can be appreciated as being made up of two main elements. The first aspect is the procedure of Budgeting. This consists of the practices, documentations and norms which govern the preparation, approval, implementation and review of the budget. The second element is "Budgeting System." This has to do with the management process: This provides for the purchase, allocation and use of available resources by setting in advance operational criteria which result in the achievement of corporate goals. The line-item budgeting system has certain features, which include the following:

(a) The budgets refer to the Ministries and Extra-Ministerial Departments for which they are prepared. No prominence is given to the ends for which the funds are provided.
(b) The current year's budget is arrived at through routine and incremental reasoning,

and not by scientific analysis.

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

3.3.2 Advantages of Line-Item Budgeting Method

These include the following:

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

3.3.3 Disadvantages of the Line-Item' Budgeting Method

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

(a) The method allows past errors to be carried forward. It is therefore not efficient in its operations.
(b) Detailed scrutiny is not contained in the budget. The budget preparation is consequently not well researched.
(c) It fails to clarify the cost of alternative methods of achieving programmed objectives.
(d) It results in continual growth budget totals related to inflation, as opposed to serious economic needs.
(e) It fails to fund new programmes of high priority on &sufficiently reasonable scale.
(f) The method does not clearly spell out the relationship between capital and recurrent expenditure. The approach is based on organisational set-ups rather than programmes.

Self-assessment exercise

List three different budgeting methods.

3.4 'Zero-Base Budgeting' Technique (ZBB)

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

'Zero-Base' budgeting seeks to avoid perpetuating obsolete expenditure items. In Government, the three key users of the 'Zero-Base' technique are:

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

The Legislature is more concerned with shifting emphasis on issues of objectives and priorities. Ministries and Extra-Ministerial Departments require adequate information to focus on implementation and efficiency. 'Zero-Base budgeting involves the use of decision-package approach, based on the identification of activities which may be classified into the following five basic events:

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

3.4.1 Advantages of Zero-Base Budgeting

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

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

3.4.2 Disadvantages/Problems of Zero-Base Budgeting

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

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

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

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

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

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

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

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

3.5 Planning, Programming and Budgeting System (PPBS)

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

> "Primarily, a system associated with corporate management which identifies alternative policies, presents the implications of their adoption and provides for the efficient control of those policies chosen. It embraces several established concepts and analytical techniques within the framework of a systematic approach to decision making, planning, management and control. The principal features of Planning, Programming and Budgeting system are that it relates to objectives and outputs, as it emphasises the choice." Planning, Programming and Budgeting Systems is a budgeting approach which is based on systems theory, output and objective orientation, withsubstantial emphasis on resource allocation on the principle of economic analysis. The technique is not based on the traditional organisational structure but on programmes which involve grouping of activities which have common objectives. The resources which are available to public sector organisations are limited, when compared with the demands for them. Consequently, choices have to be made to make sure that the meagre resources are distributed fairly to maximise benefits.

3.5.1 The Main Steps in Planning, Programming and Budgeting System

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

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

(c) Planning and analysis: These involve continuous process of developing, comparing and analyzing alternative programmes, so as to evolve the most appropriate package for the organisation.
(d) Development of the appropriate measures of performance for the programmes of the organisation.
(e) Programming and Budgeting: The agreed package of "programmes"complete with resource requirements and expected results are expressed in the form of "programmed budgets".
(f) Reporting and Controlling: Planning, Programming and Budgeting System requires sophisticated information service which is able to monitor the progress made towards meeting the organisational objectives. Performance evaluation, therefore, emphasizes the attainment or non-attainment of the desired objectives, rather than the amount spent which is the focus in traditional budgeting system.
(g) Development, each year, of a multi-year programme and financial plan.

3.5.2 Advantages of Planning, Programming and Budgeting System the technique

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

3.5.3 Disadvantages of Planning. Programming and Budgeting System

The system is associated with the following disadvantages/ problems:

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

3.6 Performance Budgeting

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

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

3.7 Periodic Budgeting

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

3.8 Flexible Budget

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

3.9 Capital Expenditure Budget

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

3.10 Base Estimate

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

3.11 Rolling Plan or Continuous Budgets

Continuous Budget or Rolling Plan can be defined as the continuous updating of a medium- term plan spanning a specified period of time. For example, "1998 to 2000" within which special and core capital projects, such as the completion of Ajaokuta Steel Rolling Mill, will be accomplished. The time-horizon is a challenge or target date within which the capital project is expected to be completed. However, if constraints do not permit accomplishment, a fresh plan period will emerge to accommodate the development. **Nigeria started adopting Rolling Plan from the year 1990. The country had "1990 to 1992" Rolling Plan, to start with.**

3.11.1 Rolling Budget

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

3.11.2 Perspective Planning

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

Self-assessment exercise

Outline Budget implementation in the Public Sector.

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

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

(a) Human Element

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

(b) Uncertainties Underlying Data Inputs

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

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

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

(d) The Problem of Inflation

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

(e) Political, Social and Cultural Elements.

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

(f) Changing Government Policies.

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

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

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

(h) Low Agricultural Output.

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

(i) Fiscal Indiscipline.

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

3.13 Committed Growth

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

3.14 Procedure for Preparation and Approval of Budgets

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

3.14.1 The Ministerial or Pre-Treasury Board Phase

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

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

3.14.2 Executive Council Phase

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

3.14.3 The National or State House of Assembly/Legislative Phase

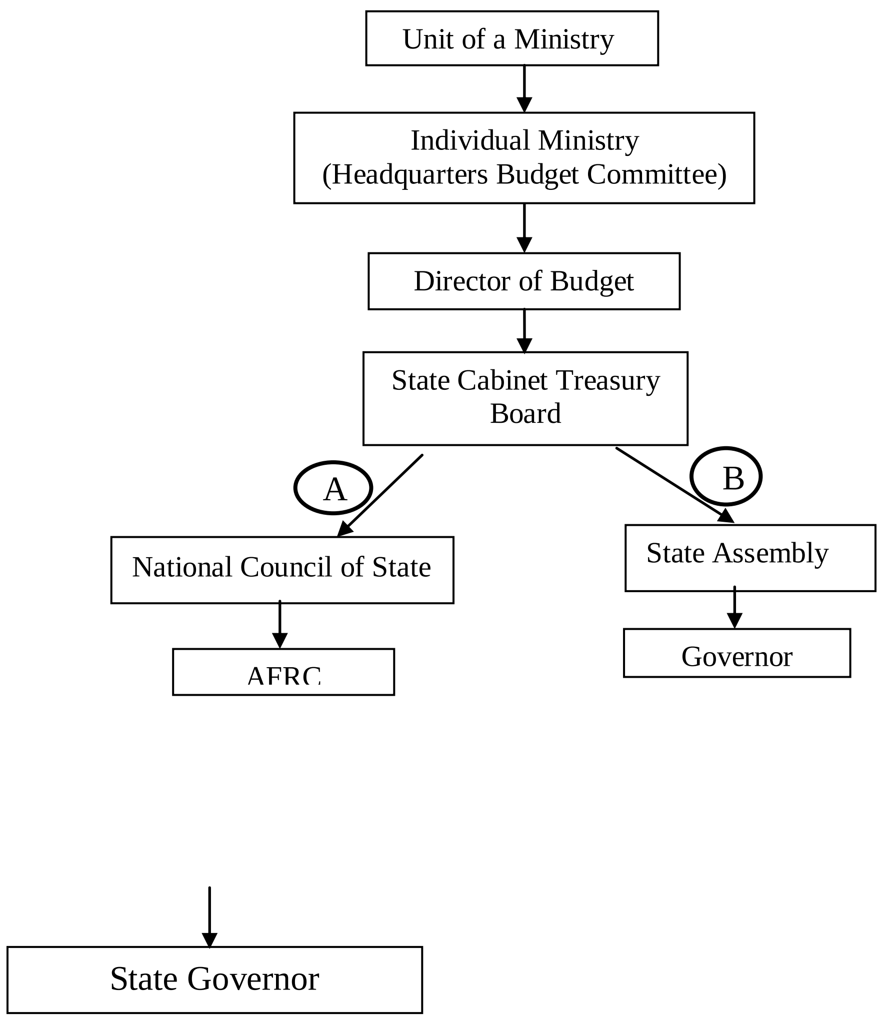
The President of Nigeria or State Governor presents his budget package and speech to the National Assembly (the joint meeting of the two Houses) or House of Assembly at the State Government Level. The meeting is known as the "Budget Session." In each House, there is a Standing Committee which considers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

3.14.4 Presidential/Governor's Assent

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

ILLUSTRATION

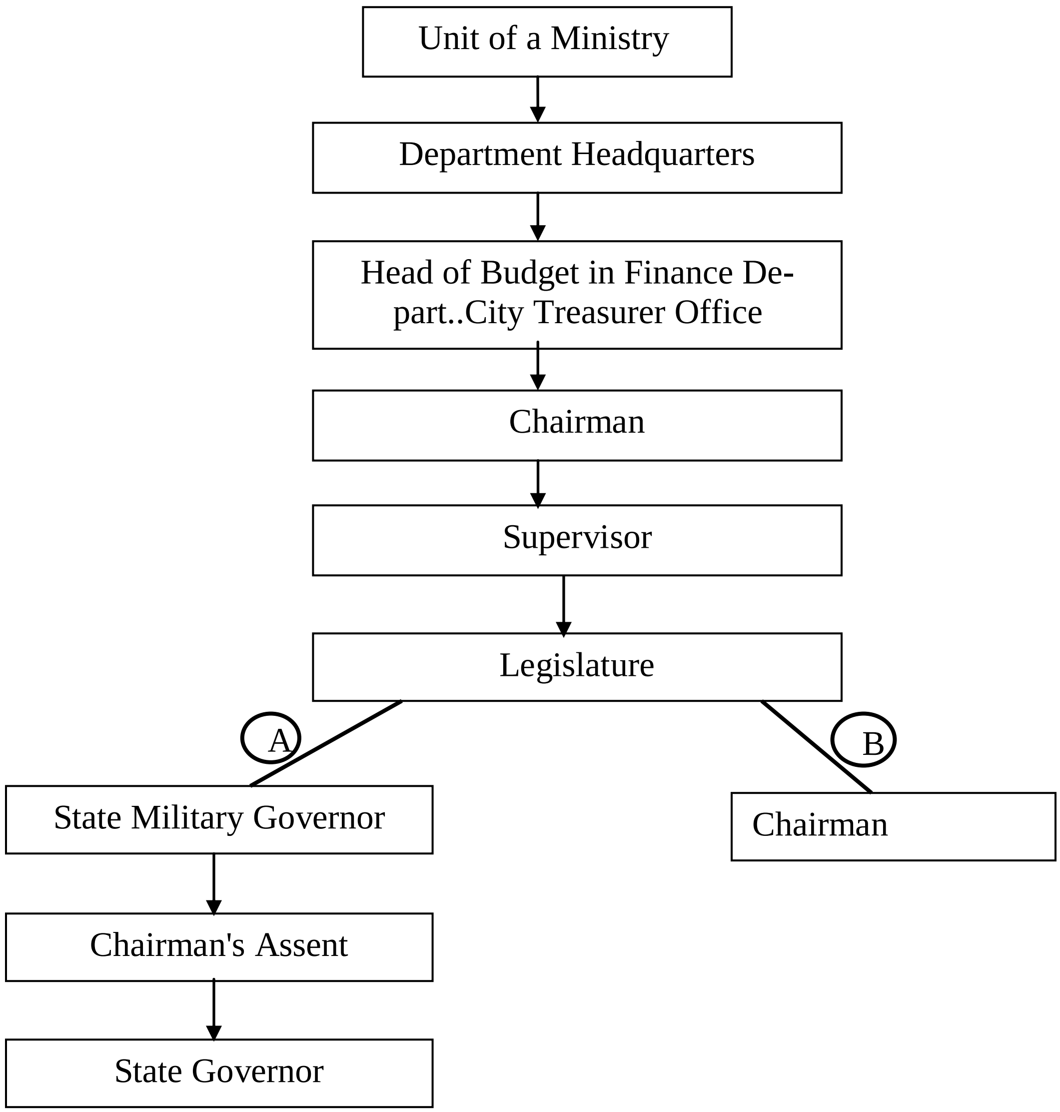
TYPICAL STAGES OF BUDGET PREPARATION IN A STATE IN NIGERIA



A Military Regime
B Civilian Regime

ILLUSTRATION

TYPICAL STAGES OF BUDGET PREPARATION IN LOCAL GOVERNMENTS



A Military Regime
B Civilian Regime

3.15 Reserves/Balances

If the estimated income is more than the estimated expenditure the excess is 'budget surplus'. Conversely, if the estimated income is less than the estimated expenditure there would be 'budget deficit'. Surplus or deficit financing is a policy of Government.

3.16 Supplementary Estimates

Government may request the National or State Assembly, as many times as possible, for supplementary allocation during the year. Unforeseen circumstances tend to force Government to request for such funds. However, Government may vire (or transfer) money between Sub-heads, provided they belong to the same Head or title of expenditure. Currently, Government requires the approval of the National Assembly before virements can take place, notwithstanding the stipulation in the Financial Regulations which vests the authorisation in the Minister of Finance.

3.16.1 Conditions for Approving Supplementary Funds

The conditions under which such requests may be granted are as follows:

(a) The supplementary request must manifestly be in the public interest.

(b) The need is so urgent that the additional provision request cannot be deferred till the following year when it will be incorporated in the new Estimates.

(c) The need could not be foreseen when the current Estimates were being approved.

(d) The money required cannot be sourced through virement.

4.0 CONCLUSION

In this unit, you learnt that 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 which is prepared annually, being implemented through budgeting and budgetary control in the Public Sector.

5.0 SUMMARY

In summary, you learnt that a Government Budget is prepared periodically for the approval of the National or State Assembly before implementation. Budgeting and budgetary control are powerful tools of sound financial management, most especially in the Public Sector..

6.0TUTOR MARKED ASSIGNMENT

a) Explain budget and the different methods of preparing it.

b) Describe Budgeting and budgetary control in the Public Sector.

7.0REFERENCES/FURTHER READING

ICAN Study Pack

UNIT 4 STORES ADMINISTRATION

CONTENTS

1.0 INTRODUCTION

In this unit, you will introduce to Stores Administration with attention on classification, maximum and minimum levels and cost of stores in the public sector in Nigeria. Government Financial Regulations states that "Stores include all moveable property purchased with public funds or otherwise acquired by Government." All purchases of and indents for stores have to be authorised by the Officer controlling expenditure, and the local purchase orders or indents signed by him.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Classify stores for proper administration
- To fix the maximum and minimum levels of the unallocated store holdings

3.0 MAIN CONTENT

3.1 Stores Administration and Classification

Stores are classified into two. These are: 'Allocated Stores' and 'Unallocated Stores'.

3.2.1 Allocated Stores

'Allocated stores' are stores the costs of which are chargeable direct to and remain a charge to the sub-head of expenditure in which funds for their purchase are provided for in the budget estimates. They may be either purchased direct or obtained from the unallocated stores' stock. They are taken on numerical charge and may be placed in an Allocated Stores or put to immediate use.

3.2.2 Unallocated Stores

Unallocated Stores are those purchased for general stock rather than for a particular work or service, for which the final vote of charge cannot be stated at the time of purchase. The cost of purchase is debited to an Unallocated Stores sub-head in the expenditure estimates. They are held on charge by both value and unit and when issued for use, are charged to the appropriate sub-head of expenditure as Allocated Stores. The corresponding credit entry is made in the Unallocated Stores sub-head.

3.2.3 The Purposes of Unallocated Stores

Unallocated stores are acquired for the following purposes:

(a) Acquiring stores of a standard design and in constant demand.
(b) Saving storage space by holding minimum stock requirements, to avoid 'stock outs'.
(c) Making the stocks immediately available when required for a project or service.
(d) Allowing the vote of the relative project, department or service to be charged with the value of the stores when issues are made from the unallocated stores.
(e) Reducing overall cost and maximising benefit.

3.2.4 Further Classification of Stores

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

(a) Non-expendable stores are of a permanent nature like plant and machinery, motor vehicles, furniture, which have a considerable number of years of serviceable life.
(b) Expendable stores are stores of a semi-permanent nature such as shovels, paint-brushes and machetes which are of short period of serviceable life.
(c) Consumable stores are those with items which, once used, cease to exist as store items. Examples are soap and stationery.

Self-assessment exercise

For store administration purposes, classify stores.

3.3 Maximum and Minimum Levels

The Store Officer has to fix the maximum and minimum levels of the unallocated store holdings. He has to work out the re-order level for each item of stores. Once fixed, the maximum limit of the value of the stores which may be held in stock at any one time may not be exceeded without the authority of the Minister of Finance.

3.4 Cost of Stores

The cost of Unallocated Stores for accounting purpose is obtained, as follows:

(a) For imported stores - the invoice price (fob), freight inspection fees, marine insurance and customs duty.

(b) For stores purchased locally - the full purchase price less discount, if any

Two other methods of arriving at the value at which stores are to be taken on charge are:

3.4.1 Fixed Price Method

The arithmetic mean of the value of the items in stock and the known or estimated price of the stores is taken and an approximate unit price is picked. The hypothetical unit price will remain as a fixed valuation price until there is a variation in the cost of a replacement.

3.4.2 Last Known Price Method

The articles may be taken on charge at the last known price when the details of the full landed cost are not immediately available.

Self-assessment exercise

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

3.5 Storekeeper's Records

The storekeeper should keep a separate tally card or bin card for each item in the store to correspond with items recorded in the stores ledgers. A tally card has to bear the relevant ledger folio, to facilitate reference. Tally cards should be immediately available for entries and checking. Receipts and issues have to be posted to the bin cards immediately the stores are physically received or issued.

3.6 Receipt of Stores

The sources of store items are from the following:

(a)Acquisitions through local purchase orders.

(b)Transfers from other stores.

(c)Converted or manufactured goods.

(d)Acquisitions through letters of awards.

(e)Returned stores.

(f)Excess taken on charge
(g)Other avenues.
There must be efficient internal check in the ordering, collection of deliveries and payment procedures.

3.7 Payments for Stores

The storekeeper has to certify that stores have been received and taken on charge in the appropriate ledger. A payment voucher has to be supported with a copy of the purchase order, invoice and a copy of stores receipt voucher issued by the storekeeper. Expendable and consumable stores obtained in small quantities for immediate use (that is, not for stock) e.g., soap, brooms and uniforms, should be taken on charge. A certificate should be inserted in the payment voucher to the effect that the stores were required for immediate use and not taken on charge. For some types of consumable stores, records of consumption may be necessary for purposes of control and to guide against misappropriation, for example, logbooks record the issues of liquid fuel for vehicles and the mileage covered.

3.8 Transfers of Stores

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

3.9 Issues of Stores

Requests for stores should be signed only by the officer authorized to incur expenditure, or so authorized in the departmental stores instruction to do so. The Officer has to ensure that funds are available. Demands must be made on the prescribed stores requisition forms. Stores requisition sheets and issue vouchers support all issues of stores. The requisition is made in the prescribed forms, in ink or indelible pencils. Stores Issue Vouchers are always prepared in duplicate. After issue, the storekeeper will post his tally card at the actual time of issue.

3.10 Stores Issue for Manufacture or Conversion

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

3.11 Condemned Stores

Where a Board of Survey has condemned some items of stores and approval given to write them off, a store issue voucher has to support the issue of the stores, duly authenticated.

3.12 Issue of Stores: On Payment

Government property must not be sold, except where specifically authorized by the Minister of Finance. To arrive at the selling price, the cost of such stores is made up of the gross cost (allocated store) or current issue price (Unallocated Store) plus a ratable percentage store charge approved by the Minister. Stores may be issued on the payment only of the appropriate selling price when the Head of a Ministry or Extra-Ministerial Department is satisfied that such sales are in the public interest. Store Issue Vouchers take care of stores-on-payment releases, but such stores will not be issued until the purchaser presents to the schedule officer, a Treasury Receipt, for the payment on the stores and all associated additional costs, including stores and transport charges. The Treasury Receipt number is entered on the Store Issue Voucher. Where credit facility has been authorized, the store issue voucher bears reference to the authority.

3.13 Functions of the Store Keeper

(a) Maintenance of proper books of accounting records to timely reflect the transactions.
(b) Diligent arrangement of the store.
(c) Ensuring cleanliness of the store.
(d) Invitation of purchase requisitions from the needy department.
(e) Collection of store items from the supplier to ensure that the items supplied agree with the specification and the agreed price stated on the Local Purchase Order (LPO).
(f) Updating the bin or tally cards.
(g) Issuing of items out of the store, on the strength of properly authenticated store requisitions.
(h) Preparation of store receipt and issue vouchers.
(i) Ensuring that there is adequate security over the custody of the store materials.

3.14 Procedures for Stores Procurement

Upon receipt of the purchase requisition initiated by the Store Keeper or authorized

Department, the Purchasing Department will:

(a) Obtain approval for the purchase of the items from the Officer controlling the vote.

(b) Carry out a market survey or obtain quotations/tenders from prospective suppliers.

(c) Indicate a closing date for submission of tenders.

(d) Constitute a Contract Tenders' Board, after the closing date.

(e) Issue Local Purchase Orders to the contractors for the supply of the goods within the time frame agreed.

The duty of the Tenders Board is to determine the lowest bidder and recommend award of the contract accordingly. The Head of Department is to approve the recommendation of the Board.

3.15 Hand Over Of Stores

When an officer hand over the custody of stores to another, the in-coming Officer will ensure that the physical count agrees with the figures shown in the bin cards/store ledger. If there are no differences, both officers will jointly sign a certificate or Store Form 10.

However, in the absence of the outgoing Officer, a Stock Verifier or Board of Survey may have to check and do the handing over to the in-coming Officer. The out-going Officer is answerable for any discrepancy reported at the time of hand-over while the in-coming Officer will account for any deficiency not discovered at the time of hand over, but which was later uncovered.

Self-assessment exercise

What are the functions of a store keeper?

3.16 Procedures for Reporting Loss of Stores

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

(a) The original cost of each item is not more than N5,000 and the total sum of the value of the items does not exceed 420,000.

(b) There is no weakness in the internal control system.

(c) There is no evidence of fraud or theft.

(d) Where negligence is involved, the offending Officer has been disciplined according to the laid down rules and regulations.

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

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

(a) Report to the Head of Department.

(b) Report to the nearest Police station, if there is any possibility of fraud or theft.

(c) Initiate action on Treasury Form, 146 "Report on Loss of Funds or Stores". The Officer will complete part I of the form and forward it to the Head of Department.

(d) Ensure that if there are weaknesses in the internal control system, immediate action is taken to prevent a re-occurrence of the loss.

3.16.2 Actions to Be Taken By the Head of Department

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

(a) Forward brief details of the loss to the Accounting Officer of the Ministry.

(b) Investigate the loss and complete parts **II & Ill** of Treasury Form 146.

(c) Recommend, to the Accounting Officer, the convening of a Board of Enquiry where the circumstances warrant an investigation.

(d) Ensure that if there is weakness in the internal control system, measures are taken to plug the existing loopholes.

(e) Obtain copies of Police report or court proceeding and transmit them to the Accounting Officer of the Ministry.

4.0CONCLUSION

In this unit you studied store administration and the distinction between Allocated, Unallocated and the understanding of the use of the composition of the maximum and minimum levels of the unallocated store holdings and the duties and responsibilities of store keeper.

4.0 SUMMARY

This unit discussed stores administration in general, with classification of Allocated and Unallocated Stores. Classify stores for proper administration. To fix the maximum and minimum levels of the unallocated store holdings

Store Accounting will be discussed to complement the administration of stores in 400level – Public Sector Accounting and Finance

6.0TUTOR MARKED ASSIGNMENT

a) Discuss how stores are classified.
b) Discuss the key issues in store administration in the public sector

7.0REFERENCES/FURTHER READING

ICAN Study Pack

UNIT 4 LOCAL GOVERNMENT ACCOUNTING

CONTENT

1.0 INTRODUCTION

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

(a) The consideration of economic planning and the making of recommendations to State Commission on the development of the Local Government areas.
(b) Establishment and maintenance of cemeteries, burial grounds and homes for destitute or the infirmed.
(c) Licensing of bicycles, trucks, motor cars, etc.
(d) Establishment and maintenance of markets, car parks and public conveniences.
(e) Construction and maintenance of roads, streets, drain, parks and other public facilities prescribed by the State Legislature.
(f) Naming of roads and numbering of houses.
(g) Provision and maintenance of public conveniences and facilities for refuse disposal.
(h) Registration of deaths, births and marriages.
(i) Control and regulation of outdoor advertising, movement and keeping of pets, shops, kiosks, restaurants and other places for sale of food to the public and laundries.
(j) Licensing regulation and control of sale of liquor.
(k) In addition, LGCs in conjunction with the State Governments, make
Provision for primary education, primary health care services,for rural water supply and rural feeder road.
(I) All such other functions as may be conferred on a Local Government Council by the House of Assembly of the State.

3.0 OBJECTIVES

After studying this unit, you should be able to:

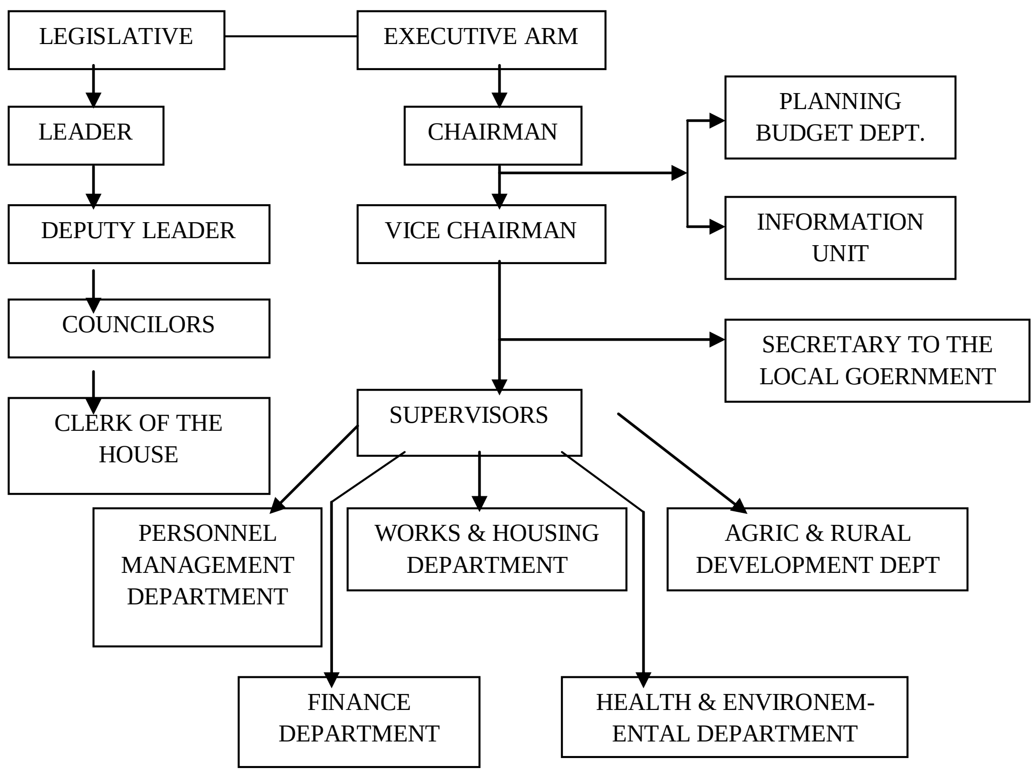
- List the sources and functions of revenue of Local Government Council.

- Mention the roles and functions of the Principal Officers of a LGC.
- Identify types of expenditures incurred and budgetary control in a LGC.
- Explain the statutory allocation formula applicable to the third-tier of Government.

4.0 MAIN CONTENT

4.1 Local Government Organisational Set-Up

THE ORGANOGRAM OF A TYPICAL LOCAL GOVERNMENT COUNCIL (LGC)



3.2 Sources of Revenue of a Local Government Council

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

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

3.2.1 Statutory Sources of Revenue

(a) Statutory allocations from the Federation Account. 20% of the federally collected revenue accrues to the Local Government Councils, paid directly by the Federal Government.

(b) 10% of the State's internally generated revenue.
(c) Fees and other charges imposed by the Council under its instrument of creation and Acts of Parliament promulgated from time-to-time,

3.2.2 Permissive Sources of Revenue

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

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

3.2.3 Incidental Sources of Revenue

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

Self-assessment exercise

Identify the various sources of revenue in the Local Government.

3.3 Assessment of Tenement Rates

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

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

3.3.1 Annual Value Method

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

3.3.2 Capital Value Method

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

3.4 Statutory Allocation

The statutory allocation of money to the Local Government Councils by the Federal and State Governments is covered by the Revenue Allocation Act of 1982. This Act was amended in 1986, 1988 and 1989. Paragraph 162(3)(5) of the 1999 Constitution lends weight to the extant laws earlier cited. Up to 31/12/91, 15% of the collections in the Federation Account accrued to the Local Government Councils. As from 1 January, 1992 the allocation rate rose to 20%.

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

3.5 Administration of Local Government Councils

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

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

3.5.1 Chairman as Accounting Officer

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

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

(a) Management of the Local Government Council for proper development.

(b) Preparation and execution of the budget.

(c) Managing the community efforts on development.

3.5.2 Vice-Chairman and Supervisors

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

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

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

(a) As the political Heads of Departments, they are Vote Controllers and are accountable to the Council Chairman.

(b) They are members of the Cabinet of the Local Government Council and automatic members of the Finance and General Purposes Committee.

(c) Supervisors give directives to the executive Heads of Departments on general policy issues. They do not interfere in the day-to-day running of the departmental affairs.

(d) They assist the Chairman in supervising the execution of Local Government Council projects under their purview.

3.5.3 Treasurer

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

(i) Rendering financial advice to the Council;

(ii) Serve as the Secretary to the Budget Committee;

(iii) Receiving and disbursing money for the authorized ends;

(iv) Keeping proper accounting records of money collected or utilized;
(v) Verifying the accuracy and integrity of all accounting records;
(vi) Ensuring compliance with all financial instructions or laws for safe custody of the Council money;
(vii) Ensuring that vouchers are correctly made out and that funds are available in the appropriate vote of charge;
(viii) Rendering necessary contemplated statutory returns to the State and Federal Governments;
(ix) Ensuring that all revenue belonging to the Council are collected as at when due;
(x) Ensuring that fiscal policies are executed and expenditure incurred with due diligence;
(xi) Maintaining effective run and staffed financial operations;
(xii) Keeping up to date statistical information in such a form as will enhance the submission of prompt and accurate reports;
(xiii) Submitting recommendations to the Council's in his capacity as the financial adviser;
(xiv) Serving as a signatory to the Council's bank account and other disbursements
(xv) Offering expert opinions on short, medium and long term bases.

3.5.4 Secretary to the Local Government

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

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

3.5.5 Head of Personnel Management

The Head of Personnel Management has assumed the position of dominance as a result of the Federal Government's Circular of 20th May, 1991. The circular listed the following duties/functions of Head of Personnel Management-designated as the Council Clerk, in addition to his other normal duties:

(a) All vouchers and cheques shall be signed by the Head of Personnel Management.
(b) All contractual agreements, local purchase orders, works and such other

documents relating to contracts and supplies shall be signed by the Head of Personnel Management, subject to the approval of the Council Chairman.

(c) The Head of Personnel Management is a facilitator to the Audit Alarm Committee of the Local Government Council.

(d) He is the recognized second signatory to all the disbursements of the Council.

(e) Based on Federal Government circular of May, 1991, he assumes the position of the Clerk of the Council Legislature, even if temporarily.

(f) He implements audit reports on the weakness areas identified in the administration procedures.

(g) He is the Head of the Junior Staff Management Committee.

(h) He is also the Secretary and Chief Administrative Officer of the Council.

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

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

(a) Receiving and considering monthly expenditure proposals of all Departments as collated by the Treasurer.

(b) Arranging the payment of contractors' fees and approving all disbursements from the coffers of the Council, especially for the settlement of personnel emolument.

(c) Deliberating on the monthly financial statements prepared by the Treasurer.

Self-assessment exercise

State three function of Treasurer

3.6 The Council Legislature

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

(a) Debating and passing of Local Government Legislations.

(b) Debating, approving and possibly amending the Local Government Council's annual budget, subject to the Chairman's veto, which could be over-ridden by two-thirds majority of the Council members

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

3.7 Types of Expenditure Incurred By the Local Government Council

These may be discussed as follows:
(a) A Local Government Council incurs expenditure on a day-to-day running of its affairs. Examples are:
  (i) Personnel costs.
  (ii) Maintenance and repairs, petrol costs, rents, electricity and water bills.
(b) Capital expenditure are incurred in constructing roads, motor parks,toilet facilities, etc.

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

3.7.1 Highlights of the Accounting Procedures

(a) The sum total of the amounts disbursed under the Sub-heads of a particular Head is aggregated at the end of the financial year. The numbering of the sub-heads under a particular Head varies from one expenditure to another. In some cases, they may be over twenty.
(b) The capital expenditure of a Local Government Council are written off in the years incurred. Memorandum entries only are kept for expenditure incurred on fixed assets. Consequently, the balance sheet of a Local Government Council will not disclose any information on the fixed assets acquired.
(c) Capital or proprietorship interest as in the case of private organisation is not shown.
(d) The differences between receipts and payments are referred to as General Revenue Balance or surplus, rather than profit or loss. The reserve or excess of income over expenditure is transferred to the Statement of Assets and Liabilities.
(e) What we have in the Statement of Assets and Liabilities is an array of current assets and liabilities.

Self-assessment exercise

Identify types of expenditures incurred in a LGC.

3.8 The Typical Local Government Council Final Accounts

The typical final accounts are made up of:

(a) A Statement of Income and Expenditure, for the year ended 31 December, 200X.

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

3.8.1 The Typical Format of a Statement of Revenue & Expenditure

JIBOWU LOCAL GOVERNMENT COUNCIL

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

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

	N
Advances/Debtors	x
Cash and Bank	x
	x
Deposit	x
General revenue	x

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

(i) Declaration of Responsibility for the financial statements by the Treasurer of the Local Government Council stating, among other matters, that the financial statements have been prepared in accordance with the provisions of the Finance (Control and Management) Act Cap 144LFN 1990 and that they comply with the general accepted accounting practice.

(ii) Auditor-General's Certificate stating in his opinion whether or not the financial statements present a true and fair view of the financial position and operation of the Local Government Council as at and for the year ended 31st December 2xxx.

(iii) Statement No 1: Cash Flow Statement

(iv) Statement No 2: Statement of Assets and Liabilities

(v) Statement No 3: Statement of Revenue and Expenditure

STATEMENT NO 1

CASHFLOW STATEMENT

FOR THE YEAR ENDED 31ST DEC., 2XXX
LOCAL GOVERNMENT COUNCIL

	NOTES	CURRENT YEAR Nm	PREVIOUS YEAR Nm
Cash flow from Operating Activities			
Receipts			
Internal Generated Revenue	3	x	x
Grants/ Subventions	4	x	x
VAT	5	x	x
Statutory Revenue Allocation	6	x	x
Miscellaneous	7	x	x
Total Receipts		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 &Others			
Borrowings	11	x	x
Dividends Received	12	x	x
Repayment of Loans	13	(x)	(x)
Net cash Flow from Financial Activities		x	x
Net Increase (Decrease) in Cash & Its Equivalent		x	
Cash & It Equivalent at 112/2xxx		x	x
Cash & Its equivalent at 31/12/2xxx		x	x

Accompanying notes are an integral part of these Statements.

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

	NOTE	CURRENT YEAR ₦m	ACTUAL PREVIOUS YEAR ₦m
ASSETS			
Cash and Bank Balances	14	xx	xx
Investments	15	xx	xx
Advances	16	xx	xx
Others	17	xx	xx
		xx	xx

LIABILITIES			
Deposits	18	xx	xx
Loans	19	xx	xx
General Revenue Balanced	20	xx	xx
		xx	xx

Accompanying notes are an integral part of these statements.

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

ACTUAL PREVIOUS YEAR		NOTE	BUDGET CURRENT YEAR	ACTUAL CURRENT YEAR	VARIANCE
Nm			**Nm**	**Nm**	**%**
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 & Sales	23	xx	xx	xx
xx	Rent on Government Property		xx	xx	xx
xx	Interest & 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	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
xxx	OPERATING BALANCE(a-b)		xxx	xxx	xxx

The accompanying notes are an integral part of these Statements.

3.9 Accounting Policy Peculiar to Local Government Councils

The "cash basis" of accounting is generally used, just as it applies to the first and second tiers of Government. Income is recognised only when the cash is received. Expenditure is recognised when the liability is paid for.

3.10 Financial Control of Local Government Councils

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

These are discussed as follows:

3.10.1 Internal Controls

The internal control measures are:

(a) Issuance of financial authorities, e.g Supplementary Warrants.
(b) Appointment of Committees for different services.
(c) Centralization of all payments.
(d) Preparation of standing orders and instructions on the signing of cheques issued, payments on accounts, etc.
(e) Establishment and maintenance of Internal Audit.
(f) Preparation of estimates of income and expenditure for the year.
(g) Budgetary control and feedback processes.

3.10.2 External Controls

The following are the external control measures:

(a) Legislative control (National Assembly and State Assembly)
(b) Federal Government and State Executive Control.
(c) Control by the general public comments by individuals on Local Government Councils.
(d) External auditor control. Control from
  (i) Auditor-General for the Local Government.
  (ii) Auditor-General for the State; and
  (iii) Auditor-General for the Federation of Nigeria.

3.11 Problems/Limitations of Local Government Councils

These are:

(a) Local Government Councils are not allowed to raise tax or introduce a new form of tax without express permission from the State Government.
(b) They have limited revenue sources.
(c) They cannot raise loans or maintain loan funds without permission.

(d) Because they cannot raise loans, Councils find it difficult to execute essential capital development projects.
(e) Poor revenue collections may cause delay in the payment of staff salaries and difficulty in executing essential capital development projects.
(f) The non-payment or delay in payment of Federal/State Government grants or shares of oil revenues to the local authorities.
(g) The non-viability of certain local authorities, especially those whose areas have small population figures.
(h) Rising cost and increasing demand for improved services.
(i) Ineffective financial and management controls, internally and externally

3.12 Local Government Councils Spending Limit

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

Internal generated revenue ₦	Council chairman ₦	Vice chairman ₦	Head of personnel Management ₦	Head of department ₦
Above 2M	250,000.00	50,000.00	10,000.00	5,000.00
1-2M	100,000.00	20,000.00	5,000.00	3,000.00
Below 1M	50,000.00	10,000.00	3,000.00	2,000.00

3.12.1 Conditions/Procedures for Disbursing Money

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

Self-assessment exercise

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

3.13 Objectives of Grants-1n-Aid System

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

control.

3.14 Fee Charging Policies in Local Government Councils

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

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

3.15 Distribution of Revenue in the Federation Account

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

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

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

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

The allocations can be restated as follows:

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

3.16 Budgeting and Budgetary Control

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

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

4.0 CONCLUSION

This unit concludes that the accounting requirements for the Local Government is based on 1999 constitution requirement and State Governments have considerable influence.

5.0 SUMMARY

This unit discussed the functions of the Local Government stated at the fourth Schedule, Part I of the 1999 Constitution. Its sources of income and types of expenditure are recognised statutorily.

6.0TUTOR MARKED ASSIGNMENT

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

7.0REFERENCES/FURTHER READING

ICAN Study Pack

UNIT 6 GOVERNMENT CONTRACTS

CONTENTS

6.0 Tutor Marked Assignment
7.0 References/Further Readings

1.0 INTRODUCTION

The unit discusses the procedures for awarding contracts in the Public Sector. It highlights the requirements and the implementation of the electronic payment system. The role of Tenders Boards in the award of contract applying the Due process Guidelines on Government Contracts will be discussed.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Explain 'Construction Contract'.
- Discuss the procedures for awarding such contracts.
- Discuss the role of Tender Boards in the award of contracts.
- Explain the accounting procedure for construction contracts.

3.0 MAIN CONTENT

In this unit, you will learn of government construction, contracts and procurements in the Public Sector.

3.1 CONTRACT PAYMENT VOUCHERS

All payment vouchers relating to contract awards should contain the following information:

(a) The names and addresses of the contractors.
(b) Contract numbers.
(c) The votes of charge.
(d) Description of projects.
(e) Certificate numbers being paid.
(f) The gross amounts and retention fees (if any) of the contracts.
(g) The authority for payment.
(h) If it is part payment of a certificate, a statement to show the full amount of the contract and the balance outstanding, should be disclosed.

3.1.1 Payments for Contracts and Procurements

The Federal Government's policy from January 2009 is that public fund would henceforth be made electronically; payments are henceforth to be effected to the contractors by electronic transfers to their bank accounts. The objective of the new system is to eliminate delay in effecting payments to the creditors, contractors, etc. of government and minimise undue interaction between the agents of Government and third parties. The ultimate objective is to reduce, if not completely put a stop to, corruption and other vices.

3.1.2 Implementation of the E-Payment Procedure

Treasury Circular Reference No TYR/A8 &B8/2008, reference OAGF/CAD/026/ Vol. 11/465 of 22nd October, 2008 conveys the guidelines for the implementation of the 'e-payment' procedure, as follows:

(i) All forms of payments from all government funds are to be made through the banks, either Commercial Banks or Central Bank of Nigeria.

(ii) All organs of Government, Ministries, Departments and Agencies are to stop using cheques to make payments to contractors.

(iii) All bank accounts in respect of all Government funds shall cease to be cheque accounts.

(iv) Government contractors must indicate their current accounts particulars with Commercial Banks on the invoices submitted for payment under their corporate seals.

(v) Mandates containing details of payments shall be issued to Banks authorizing them to pay into the contractors' designated bank accounts, the proceeds of executed contracts and supplies.

(vi) In addition to the existing monthly financial returns, every organization of Government, Ministry, Department or Agency must forward copies of mandates issued to Banks to the Office of Accountant-General of the Federation.

(vii) Henceforth, all employees of the Federal Government of Nigeria must open accounts with the commercial banks into which all payments due to them as individuals would made.

(viii) On no account should Central Pay Officers (CPO) collect cash from the bank for the purpose of disbursement to any government official.

3.1.3 Contract Registers

Copies of all contract agreements must be forwarded to the Accounts Division of relevant Ministry or Extra-Ministerial Deparment. They should be entered in a Contract Register maintained.

The register will contain the following information:

(a) Name and address of contractor.

(b) Contract number.

(c) Contract sum.

(d) Contingency and variation (if any).

(e) Payment terms.
(f) Completion period of contract work.
(g) File number.
(h) Particulars of payment and balance outstanding.
(i) Signature of officer controlling expenditure.

In the case of a big project in respect of which there are many contracts a project register may be maintained as a summary of various contracts, to ascertain at any given time how much has been paid.

3.1.4 Attachments to Contract Payment Vouchers

Before a contract payment voucher is processed for payment, the following items should be ascertained and attached:

(a) A copy of the minutes of the Tenders Board awarding the contract. It should be ascertained that the amount of the contract is within the Board's power.
(b) A completion certificate of work done, signed by a competent authority in the field, such as an Engineer, a Surveyor or an Architect.
(c) A copy each of the letter of award and contract agreement.
(d) In the case of supplies, original copies of delivery notes and store receipt vouchers issued.
(e) A bill or invoice submitted by the firm requesting for payment.

Self-assessment exercise

Explain 'Construction Contract'.

3.2 The Tenders' Board on Contracts

A tender is a proposal for the supply of some services or goods. It is usually made and presented as a result of an invitation. It is legally accepted as an offer for acceptance.
The Tenders Board is the assemblage of public officers constituted to handle public tenders in respect of all government contract works and/or services.

3.2.1 Types of Tenders' Boards

The Departmental Tenders Board and the Federal Tenders Board have been abrogated. The functions are now assumed by the Permanent Secretaries and Ministerial Tenders Board, respectively. Contracts of works, services and purchases of up to one million naira (141,000,000) can be approved by the Permanent Secretary/Chief Executive without open competitive tendering. However, at least three relevant written quotations should be obtained from suitably qualified contractors/ suppliers. All expenditure incurred under this policy should be documented and reported to the Honourable Minister on quarterly basis, for information.

3.2.1.1 Ministerial Tenders Board

The set-up may be discussed, as follows:

(a) Composition

The Chairman is the Permanent Secretary/Chief Executive of the Ministry or Extra-Ministerial Department, respectively. Other members are all Directors/Heads of Departments in the Ministry or Establishment.

(b) Limit of Expenditure

The Ministerial Tenders Board is empowered to award any contract which its value exceeds N1,000,000.00 (One million naira) but not more than N50,000,000.00 (Fifty million naira).

(c) Approval

The decision of the Ministerial Tenders Board (MTB) shall be confirmed by the Honourable Minister.

3.2.1.2 Armed Forces/Ministry of Defence Tenders Board Composition the composition of the Board is:

(a) The Chairman of the Armed Forces/Ministry of Defence Tenders Board shall be the Permanent Secretary, Ministry of Defence.

(b) Other members are representatives of the Army, Navy, Air Force and the Director of Finance and Accounts of the Ministry of Defence.

(c) Approval

The decision of the Armed Forces/Ministry of DefenceTenders Board shall be subject to the confirmation of the Minister of Defence.

3.2.1.3 Nigeria Police Tenders and Purchasing Board (Ministerial)

According to Government Financial Regulations and the Ministry of Finance's circular No. F15775 of 27 June, 2001, the Composition of the Board is:

(a) The Chairman shall be the Permanent Secretary, Police Affairs.

(b) Other members are:

(i) The Deputy Inspector-General of Police (Finance and Administration).

(ii) All the Heads of Departments.

(iii) The Head of Finance and Accounts Department.

Approval

Each contract awarded by the Nigeria Police Tenders and Purchasing Board shall be subject to the confirmation of the Minister of Police Affairs.

3.2 Powers of Boards of Corporations and Parastatals/ Government agencies over Tenders

(a) The Chief Executive of a Parastatal/Government agency is empowered to make purchase or award a contract, the value of which does not exceed 14700,000.00 (Seven hundred thousand Naira) only, without open competitive tendering. However at least three relevant written quotations should be obtained from suitably qualified contractors or suppliers. Any expenditure incurred under this policy should be documented and reported to the Chairman of the Board of the Corporation on quarterly basis, for information, see 13.28(a) for current situation.

(b) Any contract exceeding 44700,000.00 (Seven hundred thousand Naira) but not more than 420,000,000.00 (Twenty million Naira) shall be referred to the Board of the Corporation, for approval, see 13.28(a) for current situation.

(c) Any contract whose value exceeds 4420,000,000.00 (Twenty million Naira) but not more than 450 million (Fifty million Naira) shall be referred to the Ministerial Tenders Board (MTB) of the relevant supervising Ministry or Corporation/Parastatal, for consideration, see 13.28(a) for current situation.

3.4 Federal Executive Council

Any contract, the value of which exceeds N50,000,000.00 (Fifty million Naira) shall be approved by the Federal Executive Council, see 13.28(a) for current situation.

3.5 Tender Splitting

Government's Financial Regulation regards it as "an offence for any public officer to deliberately split tenders, contracts of works, purchases procurement or services so as to circumvent the provisions of this chapter and the circular earlier referred to. Such breach of the rules will be severely dealt with by a competent disciplinary authority".

3.6 Competitive Tenders

The Ministerial Tenders Board must adopt the open competitive tendering procedures. However, if it is considered necessary to use selective or limited tender procedures, the short-listing or selection of contractors or suppliers should be done by the Ministerial Tenders Board. In addition, the following procedures and practices should be adopted:

(a) All contracts above 410million (Ten million Naira) should be advertised in at least two national dailies and/or Government gazette. The advertisement will be at least six weeks before the deadline for submitting bids for goods and works, and at least one month for consultancy services. Notices of all other tenders must be pasted at the notice board of procuring agencies.

(b) Opening of tenders must be done in the 'open' at a designated date and time and opening should immediately follow the closing of the bidding period, to minimize the risk of bid tampering. The following people should be invited to the opening tender:
  (i) The bidders or their representatives.
  (ii) Members of the civil society.
  (iii) Members of the press, if they wish to attend.

(c) Bid evaluation criteria should be clearly defined in the bidding documents and the award of all contracts should be based on the criteria so defined.

(d) There should be a committee made up of professionals for the evaluation of the bids. The Secretary of the Tenders Board should be Secretary of the Committee. Members of the Evaluation Committee, Tenders Boards, and approval authorities should be obliged to declare any conflict of interest and exclude themselves from bid evaluation and approval processes.

(e) The award of any major contract of 420,000,000 (Twenty million Naira)and above should be published in two national dailies, stating:
  (i) Description of the contract.
  (ii) Name of the contractor.
  (iii) Contract price.

(f) Contract awards should be properly handled so as to avoid or minimize variations. Contract variations should not be allowed except when absolutely necessary, subject to approval and/or the recommendation of the Ministerial Tenders Board (MTB). The method for determining price variation during contract execution should be incorporated into the contract. Such price variations shall be for contracts extended for more than eighteen (18) months.

3.7 Bid Security

All contracts established to cost NW million (Ten million Naira) and above should attract a Bid Security in an amount of not less than the bid price in form of bank guarantee issued by reputable banks.

3.8 Performance Bond Guarantee

Performance Bond Guarantee in an amount of 10% of contract price should be obtained for all contracts in the sum of N10 million and above.

3.9 Mobilization Fee

Mobilization fee where necessary and appropriate shall not exceed 25% of the contract sum. However, payment of such mobilization fee shall be effected upon written application and an unconditional Bank Guarantee for equivalent amount valid until the goods are supplied or until the mobilization fee has been repaid, in the case of works contracts. Only Unconditional Bank Guarantees issued by reputable Banks should be accepted.

3.10 Interest on Delayed Payment

There shall be a provision of interest payment to contractors for delayed payments by Ministries/Extra Ministerial Departments. Such payment should however be made:

(a) At the interest rate specified in the contract agreement;

(b) If there is delay in the settlement of the claim of more than 60 days, from the date of submission of the contractor's invoice/valuation certificate and the confirmation/authentication by the relevant Ministry.

3.11 Registration of Contractors/Suppliers

All eligible contractors/suppliers must be duly registered with the Federal Ministry of Works and Housing or their respective Ministries or Extra-Ministerial Departments. They must produce their VAT Registration Certificates before registration.

3.12 Audit Inspection

The following must be forwarded to the Auditor-General for the Federation:

(a) Certified true copies of all contract agreements.

(b) The minutes of Tenders Board meetings, and

(c) Full records of all tendering processes which shall be made available for the inspection of Auditor-General for the Federation and the Accountant-General, at short or no notice. The records shall be kept for verification for a period of seven (7) years, from the date of completion and takeover of the project.

As a condition for final payment for contracts exceeding N5million (Five million Naira), the Auditor-General for the Federation or his representative and a very senior member of the Ministry/Agency should countersign the certificate releasing final payment.

3.13 Operation of Tender Boards

When approval has been obtained in respect of a contract for the supply of goods and/or services and availability of fund confirmed, the Tenders Board Secretariat will be informed of the magnitude of the amount so required. The Secretary to the relevant Board will inform the Chairman as to when the contract will be slated for consideration.
Where the Board meets periodically, the Secretary will present the issue at such a meeting. However, where the contract award necessitates any urgency, an emergency meeting may be summoned.

3.14 Notice of Invitation

At its meeting, the Board orders a notice of invitation to tender for the contract to be put up. Such notice will include all necessary details in respect of the jobs/services to be awarded. Where the use of tender forms applies the information disclosed in the notice may be limited while the form will contain the details. The media through which such notice shall be published includes one official gazette and/or the national newspapers and magazines. The notice board of the offices of the Ministry concerned shall also be used in displaying the advertisement. A specific date is always given as closing date for the submission of tenders.

3.15 Selective Tenders

Where the implementation of a project is to be accelerated, selective or limited tender procedure may be applied. In this case, the number of contractors to be invited to tender shall not be less than five.

3.16 Deposits 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 theform is considered at all. Sometimes, the Treasury receipt or the amount paid by the depositor is confirmed before the tender form is issued.

3.17 Tender Procedure

Tenders are usually submitted in sealed envelopes to the Secretariat of the Tenders Board. At the close of the notice of invitation to tender, the Secretary under the close supervision of the Chairman or a member deputizing for him, will open the Tenders. They will be numbered serially and authenticated by the initials of the Secretary, with the dates indicated. The tenders will thus be listed, in duplicate, and kept in safe custody.

A meeting of the Board will then be summoned to, among other things, discuss the tenders and make necessary selections for onward transmission to the approving authority. The Board usually selects the best of the tenders. Consideration will include the past records of the contractors, the quality of service being offered, and experience as can be deduced from the tender price (rate). It is necessary to emphasis that the lowest tender does not necessarily have to be the best, as many other things are considered. If all the tenders are rejected, fresh applications shall be called for. However, if one of the tenders is recommended, all the bids shall be forwarded with a duplicate list to the approving authority with comments or remarks on why each tender is recommended or not.

3.18 Award of the Contract

The approving authority will communicate his position to the Tenders Board. The Secretary will subsequently write a letter of award to the successful tenderer and/or invite him for the signing of the contract. Where necessary, a bond will have to be signed and/or sureties provided. In principle, the award of the contract has to be published in the newspapers and gazette and unsuccessful tenderers informed as such.

As earlier stated, certified true copies of the contracts are to be forwarded to the Auditor-General as well as the Accountant-General. It should be emphasised that Government contracts are not to be 'sub-let', "assigned", except the terms of the agreement require or permit this. The sale of Government property may be made by tender, in the same way as award of contract.

3.19 Post Contract Award Activities

These may be briefly discussed, as follows:

(a) **Tender Board Information on Voucher**

Payment voucher in respect of a contract awarded through tender must contain among other things:

- (i) Certified true copy of all the minutes of the meetings of the Tenders Board in relation to the award of the contract.
- (ii) Certified true copy of the contract agreement.
- (iii) Copy of the approving authority.
- (iv) Copy of each voucher in respect of payments already made on the contract.

(b) Tenders Board Information Availability

Minutes of the Tenders Board meetings and the full records in respect of the various types of tendering, shall be made available to the Accounting Officer on request and for inspection of the Auditor-General, on demand.

3.20 Terms on Contract

These are:

(a) Contingencies Clause

This is one of the clauses in contract agreements which states that if the contractor had taken reasonable care in executing the job and he is still faced with unexpected situation, the contractee or the owner of the project shall bail out the contractor by making more money available, or review upward the contract sum. If otherwise, the contractor will bear the cost.

(b) Retention Fee

It is a clause in a contract agreement which states that after the completion of the project, Government shall with-hold about 5% of the contract sum, for six (6)months. The amount withheld will be paid to the contractor thereafter if the project is properly executed and constructional error is not noticed. If the job is not properly executed, e.g if there is a crack on the wall and is due to an error which arose from construction, then the amount withheld will be used to correct the anomaly. If the amount withheld is not enough, Government will ask the contractor to pay in the difference. If the contractor fails to pay it in, he may be blacklisted.

Self-assessment exercise

What is mobilization fee?

3.21 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.

3.22 Limit of Authority to Incur Expenditure/Spending Limit

	Officer/Body	Spending Limit	Action Required
1.	Permanent Secretary/ Accounting Officer	₦1,000,000	Report to the Hon. Minister on quarterly basis
2.	Ministerial Tenders Board Board (MTB)	₦1000,001-₦50,000,000	Decisions of MTB must be confirmed by the Honorable Minister or Head of Extra-Ministerial Department
3.	Armed forces/Ministry of Defence Tenders Board	₦1,000,001-₦50,000,000	
4.	Federal Executive Council	More than ₦50,000,000	
	Officer/Body	Spending Limit	Action Required

5.	Parastatals, Corporations, Authorities, Agencies, Commissions. etc. (a) Director-General/Chief Executive	Not more than ₦700,000,000	Report to the Chairman of the Parastatal' Board of Directors on quarterly basis
	(b)Board of Directors of Parastatals	₦700,001- ₦20,000,000	
	(c)Ministerial Tenders Board of the Supervi-sing Ministry of the relevant parastatal	₦20,000,001 To ₦50,003,000	
	(d)Federal Executive Council	More than ₦50,000,000	

Above spending limits were those in operation before circular No. SGF/OP/1/ 5.3NI11/57 of 11[11] March, 2009 was issued. Details of the circular are given below; vide 13.28(a), (b) and (c).

3.23 Revised Guidelines and Thresholds on Public Procurements

According to circular No SGF/OP/1/5.3N111/57 of 11th March, 2009 issued by the Secretary to the Government of the Federation, the Federal Government has approved a review of the existing guidelines and thresholds on public procurements. The revised guidelines and thresholds are for service-wide application and special application to the Federal Ministry of Petroleum in relation to Nigerian National Petroleum Corporation (NNPC) expenditure. The revised guidelines are as follows:

(a) **Procurement Approval Thresholds for Bureau of Public Procurement, Tenders Boards and Accounting Officers (PSs and (CEOs) for all Ministries, Departments and Agencies**

Approving Authority/ "No Objection" to Award	Goods	Works	Non-Consultant Services	Consultant Services
BPP issues No Objection"to award/FEC approves	N100million and above	N1.0billion and above	4100million and above	N100million and above

Ministerial Tenders Board	45million and above but less than N100million	410million and above but less than 41.0billion	45million and above but less than N100 million	N5million and above but less than MOO million
Parastatal Tenders Board	42.50million and above but less than N50million	N5million and above but less than 4250millior	N2.50million and above but less than N50million	N2.50million and above but less than MOO 450million

Approving Authority/ "No Objection" to Award	**Goods**	**Works**	**Non-Consultant Services**	**Consultant Services**
Accounting Officer: Permanent Secretary	Less than N5 million	Less than ₦l0million	Less than ₦5 million	Less than N5 million
Accounting Officer: Director General/CEO	Less than 142.50million	Less than ₦5million	Less than ₦2.50 million	Less than N2.50 million

(b) Revised Special Financial Limits and Thresholds, Procurement Methods and Thresholds of Application and for Expenditure related to the Nigerian National Petroleum Corporation:

Approving Authority/"No Objection" to award	Special Works (NNPC)
BPP issues "No Objection" to award/FEC approves	₦2.70billion (US$20m) and above
Ministerial Tenders Board (NNPC Tenders Board)	₦1.40billion (US$10m) and above but less than N2.70billion (US$20m) for NINPC Tenders Board
Group Headquarters/Tenders Board	₦540million (US$4m) and above but ₦1.40billion (US$10m) for GEC NINPC
Parastatal Tenders Board (Refinery & Petro-chemicals/Exploration & Production/Corporate Supply Chain Tenders Boards)	₦270million (US$2m) and above but less than 14540million (US$4m) for SBU B/GED/(DEXCOM)
Parastatal Tenders Board (Minor Refinery &Petrochemicals/Exploration & Production/ Corporate Supply Chain Tenders Boards)	₦70million (US$0.5m) and above but less than N270million (US$2m) for SBU MD/MT/(MEXCOM)
Parastatal Tenders Board (Business Unit Refinery & Petrochemicals/Exploration Production/Corporate Supply Chain Tenders Boards)	₦1350million (US$0.10m) and above but less than N70million (US$0.50m) for SBU ED/MT/(DIVCOM)
Accounting Officer: Permanent Secretary (Group Managing Director at CHQ Level)	Less than ₦40million (US$0.30m)

Accounting Officer: Director General/CEO (Managing Director at SBU Level)	Less than ₦13.50million (US$0.10m)

(c) Procurement Method and Thresholds of Application

Procurement/Selection Method and Prequalification	Goods	Works (₦)	Non-Consultant Services (₦)	Consultant Services
International/National Competitive Bidding	N100million and above	₦l billion and above	₦100million and above	Not Applicable
National Competitive Bidding	₦2.5million and above but less than ₦100million	₦2.5million and above but less than ₦l billion	₦2.5million and above but less than ₦100million	Not Applicable
Procurement /Selection Method and Prequalification	Goods	Works (-₦)	Non-Consultant Services (₦)	Consultant Services (₦)
Shopping (market Survey)	Less than ₦25million	Less than ₦2.5million	Less than ₦2.5 million	Not Applicable
Single Source/Direct Contracting (Minor Value Procurements)	Less than ₦0.25million	Less than /40.25million	Less than ₦0.25 million	Less than ₦0.25million
Prequalification	₦100million and above	₦300million and above	₦100million and above	Not Applicable
Quality and Cost Based	Not applicable	Not applicable	Not applicable	₦25million and above
Consultant Qualifications	Not applicable	Not applicable	Not applicable	Less than ₦25 million
Least Cost	Not applicable	Not applicable	Not applicable	Less than ₦25 million

(d) Composition of Tenders Boards

Ministry:	Chairman:	Permanent Secretary
	Members:	Heads of Departments
Parastatals:	Chairman:	Chief Executive Officers
	Members:	Heads of Departments

4.0 CONCLUSION

In this unit, you have learnt that Government contracts are awarded after the bids have been reviewed by one of the different Tender Boards. The contract execution and payments should follow due process of tendering and subsequent awards of contract.

5.0SUMMARY

In summary, the following were discussed; government construction, contracts and procurements, emphasizing Contract Payment Vouchers, Tenders Board, Award of Contract and Operation of Public Procurement Act 2007

6.0TUTOR MARKED ASSIGNMENT

a) Discuss the procedures for awarding such contracts.

b) Explain the doctrine of Due Process in Government contract.

7.0REFERENCES/FURTHER READING

ICAN Study Pack

MODULE 3

UNIT 1 GOVERNMENT ADVANCES

CONTENTS

1.0 INTRODUCTION

In this unit, you will learn of government advances, identifying consideration for and repayments of Advances and the general rule thereof. Personal and non personal advances will be discussed and treated

2.0 OBJECTIVES

After studying this unit, you will be able to:

- Explain the types of Government advances.
- List the conditions for granting the various advances.

30 MAIN CONTENT

3.1 Advances

Generally, advances are cash sums as short-term loans granted to the employees in the service of an organisation. Advances are granted by the three-tiers of Government, public and private enterprises. In the Federal Government Service, granting advances is guided by Chapter 17 of the Financial Regulations of Year 2006. Basically, advances can be grouped into two categories. These are 'personal' and 'non-personal' advances, discussed as follows:

3.1.1 Non-Personal Advances

Advances of non-personal nature shall be authorised by the Minister of Finance, through the Accountant-General of the Federation. They are chargeable to the non-personal account of the Ministry or Unit concerned; for example, an advance for training of staff outside Headquarters. Advances granted under the authority of the Financial Regulations and those up to 450,000 in value are approved by the Accounting Officer. Specifically, a non - personal advance is one granted to an officer to carry out certain tasks for the organisation. This type of advance has to be retired within a reasonable time; otherwise, the total sum advanced shall be deducted from the officer's salary embloc. It is against the spirit of Financial Regulation to grant a non - personal advance to an officer when the initial ones are yet to be retired,

3.1.2 Personal Advances

These are advances of cash to individual officers in the employment of the Federal Government of Nigeria for their personal benefits. These include:

3.1.2.1 Salary and Rent Advances

Salary and rent advances are granted to officers under the following conditions:

(a) If an officer is returning from leave of not less than 21 days duration, and/or he is to proceed on transfer and bear the cost of his transportation.

(b) If an officer is assuming first appointment and is not living in Government residential quarters.

(c) If an officer is returning to Nigeria by sea and is to be stationed elsewhere other than in Lagos.
(d) If an officer is on posting to an overseas office of the Ministry of External Affairs.

3.1.2.2 Motor Vehicle Advance/Refurbishing Loan

Motor vehicle advances and/or refurbishing loans are granted to the following categories of officers:

(a) All officers on grade level 8 and above are entitled to motor vehicle loans.
(b) Officers on salary grade levels 06 and 07 shall be granted advances for the purchase of motor cycles while those on salary grade level 01-05 shall receive advances for bicycles.

Self-assessment exercise

What is advance in government sector?

3.2 Considerations for and Repayments of Advances

(a) No Officer shall be eligible for an advance until after five years of previous advance, except where the vehicle so purchased had become a 'write-off', based on the evidence from an insurance company. Moreover, the previous advance ought to have been fully repaid.
(b) All payments for the purchase of the motor vehicles shall be made to the vendors.
(c) An Officer to whom an advance is given to purchase a motor vehicle will be required to insure the vehicle comprehensively with an insurance company on the approved Government list during the period of repayment of the advance.
(d) A salary/rent advance of one month shall be repaid in three (3) installment monthly deductions. Advances of up to two (2) and three (3) months salary shall be repaid in six equal installments, respectively.

3.2.1 Correspondence Advances

These are advances taken for correspondence courses. The conditions to be fulfilled for the grant of a correspondence advance are:

(a) That the ability and efficiency of the officer warrant his taking the course.
(b) That the subjects in the course to be pursued are related to his work.
(c) That the study is likely to increase his efficiency.
(d) That the course is with a reputable college or establishment.
(e) That its completion does not itself constitute grounds for

advancement.

(f) That the officer will enter into agreement for repayment.

(g) That the advance shall be granted free of interest.

(h) That the officer produces receipts to show that the whole advance has been appropriately utilized.

(i) That the advance does not include an element for postage, stationery, examination or other fees, etc.

(j) That the advance shall be recovered in twenty-four (24) consecutive installments.

3.2.2 Bicycle Advances

Accounting Officers are authorized to approve bicycle advances, subject to the following conditions:

(a) That they are satisfied that a bicycle will facilitate the performance of the duties of the official or employee concerned.

(b) That the advance does not exceed the actual purchase price of the bicycle to be acquired, subject to an overriding maximum of N20,000.00.

(c) That the official or employee concerned has not received a bicycle advance within a period of two years, provided that a fresh advance may be granted if the bicycle bought with the previous advance has been stolen or damaged beyond repairs and if the old advance has been fully repaid.

(d) The rate of interest chargeable shall be 4%.

(e) That the officer receiving the advance completes the agreement form T.F. 50B and the interest shall be deductible en block in the first instalment.

3.2.3 Advances for Estacode for Overseas Tours

Cash advances may be granted to meet estacode allowance due to an officer travelling overseas. It will normally be drawn in Nigeria in the form of traveler's cheques made payable to the officer travelling singly or to a designated officer travelling with a delegation. The traveler's cheques will be obtained from the Central Bank of Nigeria, against a cheque drawn on Government Account.

At the end of any duty tour, officers shall submit all the receipts and air tickets in order to account for the amount received as travelling expenses for the duty tour. This will serve as a proof that the journeys were undertaken for the number of days approved.

3.2.4 Motor Vehicle Advances

Under the Financial Regulations of Year 2006, motor vehicle advances are granted to officers on salary grade level 08 and above, upon the written approvals of Accounting Officers of the Ministries and Extra-Ministerial Departments. However, an officer may not be considered for an advance when the maintenance cost of the car and installment repayments will likely cause him financial embarrassment.

All Heads of Departments, confirmed officers and Police Officers on the above-stated salary grade levels are covered under the dispensation.

The amounts of the various advances granted now vary from one State Public Service to another and repayment terms are not uniform. This form of advance has been abolished in the Federal Public Service and some State Governments.

3.2.5 Spectacle Advances

Interest free advances, not exceeding 1415,000.00, may be granted to officers by the Permanent Secretaries/Heads of Extra-Ministerial Departments for the purchase of spectacles, provided they have been prescribed by a Medical Officer and an Optician's receipt is subsequently provided as evidence of payment. The advance will be refunded in not more than twenty four (24) consecutive monthly installments.

3.2.6 Advances to Retiring Officers

In order to minimize the sufferings of retiring officers, an advance payment of three (3) month salary shall be paid to every retiring officer by his Ministry/Extra-Ministerial Department which shall be deducted en-bloc from his final entitlements. Accounting Officers must ensure that the advances taken by the retiring officers are reflected in their pension forms. This form of advance has also been abolished in the services, as a result of introduction and implementation of Pension Reform Act of 2004.

3.3 General Rule

As a general rule, an officer may be granted more than one type of advance at a time but care has to be taken to ensure that the total recoveries will not result in financial embarrassment to the officer or be more than two thirds (V,) of his monthly salary. All advances will be recorded in total in the control ledger account while details of each individual advance will be reflected in the subsidiary ledger in the name of the officer to whom the advance has been granted. Referring to the Financial Regulations which deals with advances on motor vehicles, motor cycles and bicycles have been modified with the circular on monetization of fringe benefits. The monetization policy states that car loans are to be provided by the banks on a single digit interest, to be guaranteed by the employer, Federal Government. Car loans are at the following rates:

1.	Officers on GL 01 – 05	-	100%	of	Annual	Basic
2.	Officers on GL 06 – 07	-	150%	of	Annual	Basic
3.	Officers on GLO8 and Above	-	200%	of	Annual	Basic

4.0 CONCLUSION

In this unit it was concluded that Advances are cash granted by the Government to employees, under different conditions, for various reasons and needs.

5.0 SUMMARY

In summary, you learnt of the types of Government advances and the conditions for granting the various advances and repayments of advances in the public sector accounting.

6.0TUTOR MARKED ASSIGNMENT

a) Differentiate the types of Government advances.

b) Identify the conditions for granting the various advances.

7.0REFERENCES/FURTHER READING

ICAN Study Pack

UNIT 2 INVESTMENT APPRAISAL IN THE PUBLIC SECTOR

CONTENTS

7.0 References/Further Reading

1.0 INTRODUCTION

In this unit, you will learn of investment appraisal in the public sector. Here investment decisions, different procedures like cost benefit and factors in Capital Budgeting will be discussed.

2.0 OBJECTIVES

After studying this unit, you will be able to:

- Explain the nature of investment decisions.
- Apply the different methods of investment appraisal in the public sector.
- Outline the procedures, advantages and disadvantages of different investment appraisal
- State Risk and Uncertainty Factors in Capital Budgeting.

3.1 The Nature of Investment Decisions

Resources have to be committed today to achieve gains tomorrow. Though it is easy to determine how much will be committed, there is some difficulty in accurately forecasting the gains from the investment in future. Going into a business therefore involves taking risks. As money becomes available, it has to be put to productive use. A greater part of management effort is therefore in taking investment decisions. The balance sheet merely shows the results of, not the causes or reasons for, undertaking an investment.

3.2 Investment Appraisal

Investment Appraisal is a technique directed at finding out the least possible costs of an investment and the maximum economic benefits which may accrue from the commitment of resources in it.

3.3 Methods of Investment Appraisal

There are many techniques available for the appraisal exercises, which can be classified into discounted cash flow (DCF), non-discounted cash flow (NDCF) and investment decisions in Government - Cost Benefit Analysis, Cost Effectiveness Analysis. However, in this Study Pack, only the following will be examined, thus:

(a) Accounting Rate of Return (ARR).

(b) Pay-Back Period (PBP).

(c) Discounted Cash Flow (DCF).
   (i) Net Present Value
   (ii) Internal Rate of Return
(d) Profitability Index (PI)
(e) Cost-Benefit Analysis
(f) Cost-Effectiveness Analysis
(g) Life Cycle Costing.
(h) Value Analysis/Value Engineering.

3.4 Discussion of the Appraisal Methods: The appraisal methods are discussed as follows:

3.4.1 Accounting Rate of Return

1. This is the return on initial outlay or return on average capital. It is computed, using the formula:

$$ARR = \frac{\text{Average Annual Accounting Profit}}{\text{Average Investment}}$$

Where average investment is:

$$\frac{\text{INITIAL INVESTMENT + RESIDUAL VALUE}}{}$$

2. Profit is the accounting profit.' To get this, we will take 'income' and deduct all necessary expenses incurred in earning the revenue. In using the Accounting Rate of Return as an investment appraisal method, the decision rule is to pick the option which gives the highest rate of return.

   Advantages of ARR Method These may be stated as follows:

   (a) It considers the profits of a project throughout its useful life.
   (b) It is simple to calculate and understand.
   (c) It facilitates expenditure follow-up due to more readily available data on accounting records.

   Disadvantages of ARR
   The following are the disadvantages associated with the use of the method:
   (a) It does not take into account the time value of money
   (b) It ignores the fact that profits from different projects may accrue at an uneven rate.
   (c) It fails to cater for risks and uncertainties.

ILLUSTRATION

Agbede Local Government Council supplied the following information:

Projects:

	'xl'	dx2'	'x3'
Profit Figures-Year 1	1,000	500	5,000
2	2,000	1,500	4,000
3	4,000	2,000	500
4	5,000	2,500	1,000
Initial investment sums	15,000	10,000	15,000
Residual Investment	1,000	1,000	2,000

Using the accounting rate of return as performance measurement, in which project should Agbede Local Government Council invest?

SUGGESTED SOLUTION

Computation of the Accounting Rate of Return Projects: xl x2 x3

Profit Figures Year 1	1,000	500	5,000
2	2,000	1,500	4,000
3	4,000	2,000	500
4	5,000	2.500	1,000
Total	12,000	6,500	10,500

Average Annual Accounting Profit:

Projects	xl	x2	x3
	₦	₦	₦
	$\frac{12\ 000}{4}$	$\frac{\$6,500}{4}$	$\frac{10\ 500}{4}$

(a) Average Annual
Accounting Profit = ₦3,000 ₦1,625 ₦2 625

To obtain Average Investment: $\frac{\text{Investment + Residual Value}}{2}$

Projects	xl	x2	x3
Initial Investment	15,000	10,000	15,000
Add Residual Value	1,000	1,000	2,000
	16,000	11,000	17,000

Average Investment :	$\frac{₦16,000}{2}$	$\frac{₦11,000}{2}$	$\frac{₦17,000}{2}$
(b) Average Investment =	₦8 000	₦5,500	₦8,500

(c) Accounting Rate of Return (a/b):=	$\frac{N3,000}{N8,000}$	$\frac{N1,625}{N5,500}$	$\frac{N2,625}{N8,500}$
=	0.38	0.30	0.31
	OR	OR	OR
Accounting Rate of Return =	38%	30%	31%

Agbede Local Government Council should invest in project xl because it has the highest accounting rate of return of 38%.

3.4.2 Pay-back Period Method

The method focuses on the time taken by an investment to recoup the amount of money put into it. The shorter the pay-back period, the more preferable the project is. A project will be undertaken only if the pay-back-period is shorter, or at worst, equal to the maximum set standard period. For a single project, the pay-back period is compared with a set standard. For mutually exclusive projects, they are ranked and the one with the shortest pay off time is selected.

Advantages of Pay-Back Period Method

The following are the advantages of pay-back period:

(a) It is a useful measure of liquidity, since the method ensures the selection of projects that provide the hope of immediate cash recoupment.
(b) It may be used as a safeguard against risk, particularly if the latter increases as pay-back period lengthens
(c) It is simple to calculate and understand.
(d) The method is popular with public project evaluation where liquidity predominates over profitability.
(e) It serves as a useful screen to evaluate all projects.
(f) The approach uses cash flows rather than accounting profits, to appraise.

Disadvantages of the Pay-Back Period: These are highlighted as follows:

(a) It does not consider the time value of money.
(b) It ignores variations in the timing of cash inflows within the pay-back period.
(c) Cash inflows outside the payback period are ignored.
(d) It does not take into consideration risks and uncertainties.

ILLUSTRATION

Omidan Local Government Council is considering investing in one of the following three available projects. Using the payback period method advise on which of the projects should be selected.

N3,00	1	2
0	625	625
8,000	5,50	8,50
0.38	0.30	0.31
OR	OR	OR
38%	30%	31%

Projects:		B1	B2	B3
		₦	₦	₦
Initial Investment Outlays		100,000	150,000	180,000
	Year	Cash Inflows		
		₦	₦	₦
	1	70,000	10,000	50,000
	2	30,000	20,000	60,000
	3	20,000	10,000	80,000
	4	10,000	40,000	90,000

SUGGESTED SOLUTION 19-2

Omidan Local Government Council Payback period method

Projects:	B1	B2	B3
	₦	₦	₦
Initial Investment	(100,000)	(150,000)	(180,000)
Less Inflow in Year 1	70,000	10,000	50,000
	(30,000)	(140,000)	(130,000)
Less Inflow in Year 2	30,000	20.000	60.000
	NIL	(120,000)	(70,000)
Less Inflow in Year 3		10,000	80 000
		(110,000)	10,000
Less Inflow in Year 4		40.000	90,000
Unrelieved investment cost at the end of the Year		(70,000)	NIL

From the appraisal conducted, project 61 was able to pay off its initial capital injected in year 2. 62 could not generate enough cash inflows for the period of four (4) years. Project 83 made its own in 2.88years approximately. 6115 therefore more profitable than 63, 62 should be dropped completely. The pay-back period of 2.88years in above is computed, using mathematical calculation of proportion.

3.4.3 Discounted Cash Flow (DCF) Criteria

There are two discounted cashflow methods of project appraisal, namely: Net Present Value and Internal Rate of Return which are discussed below:

3.4.3.1 Net Present Value (NPV)

This method refers to the equivalents in present value terms of the cash inflows and outflows from a project when discounted at a particular or given cost of capital. The appropriate discount rate chosen is one firm's or Corporation's opportunity cost of capital, which is equal to the required rate of return. The decision criterion is that a project is acceptable if it has a positive NPV, and rejected, if it has a negative NPV. In total, the present value of cash inflows should be greater than that of cash outflows. The positive nature of the net present value pre-supposes the potential increase in consumption made possible by the investment, valued in present day terms. For mutually exclusive projects, they would be ranked. The one with the highest net present value is selected.

The formula for the computation of the net present of value is:

$$NPV = \left\{ \frac{C_1}{(1+K)} + \frac{C_2}{(1+K)^2} + \frac{C_3}{(1+K)^3} + \frac{C0}{(1+K)^n} -- C0 \right\}$$

Where C series represent cash inflows, 'K' the opportunity cost of capital, C_o is the initial cost of the investment and 'n the project's expected life.

Advantages of Net Present Value (NPV)

The advantages associated with the use of net present value are:

(a) Timing of cash flows is considered.
(b) Cash flows on the entire lives of the projects are taken into consideration.

Disadvantages of Net Present Value (NPV)
However, the following disadvantages can be identified:

(a) There is the obligation for management to determine the appropriate cost of capital to use.
(b) It is not suitable where capital rationing situation exists.
(c) There is the assumption that the cash inflows will come as predicted which may not necessarily be so.

ILLUSTRATION

The following are the information provided by Yabus Local Government Council. Using the net present value method, advise the Local Government Council on which of the projects 'T', 'M', 'X', is the most viable and should be picked.

		Project T	Project M	Project X
		₦	₦	₦
Cost of	Initial Investment	100,000	180,000	150,000
Receipts	from the			
Projects:	Year 1	40,000	10,000	50,000
	2	50,000	30,000	10,000
	3	60,000	50,000	90,000
	4	70,000	70,000	10,000
	5	80,000	120,000	40,000

Assume that the cost of capital is 10%. Use the discount table stated below:

Year	Discount Factor
1	0.9090
2	0.8264
3	0.7513
4	0.6830
5	0.6209

SUGGESTED SOLUTION

Yaba Local Government Council: Investment Appraisal - Net Present Value method

Project 'T'

Year	Cash Flow	Discount Factor	DCF
	₦	(10%)	₦
0	(100,000)	(1,000)	(100,000)
1	40,000	0,9090	36,360
2	50,000	0.8264	41,320
3	60,000	0.7513	45,078
4	70,000	0.6830	47,810
5	80,000	0.6209	49,672
		NPV	**120,240**

PROJECT ‘M’

Year	Cash Flow	Discount Factor	DCF
	₦	(10%)	₦
0	(180,000)	(1,000)	(180,000)
1	10,000	0.9090	9,090
2	30,000	0.8264	24,792
3	50,000	0.7513	37,565
4	70,000	0.6830	47,810
5	120,000	0.6209	74,508

		NPV	**13,765**

PROJECT 'X'

Year	Cash Flow ₦	Discount Factor (10%)	DCF ₦
0	(150,000)	(1,000)	(150,000)
1	50,000	0.9090	45,450
2	10,000	0.8264	8,264
3	90,000	0.7513	67,617
4	10,000	0.6830	6,830
5	40,000	0.6209	24,836
		NPV	**2,997**

The Local Government Council is advised to invest in project 'T' because it has the highest net present value of 14 120,240. Projects 'M' and 'X' have net present values of 14 13,765 and N 2,997, respectively.

19.4.3.2 Internal Rate of Return (IRR)

The approach is also known as "discounted cash flow yield." The "internal rate of return" is the discount rate, which when applied, gives zero net present value. It can be found by either drawing a "present value profile" or graph, or mathematically through linear interpolation, using the formula stated thus:

$$R1 + \frac{P(R2 - R1)}{P + N}$$

where: R1 is positive rate
R2 is negative rate
P is positive net present value (NPV)
N is negative net present value (NPV)

In using the internal rate of return model, the 'decision rule' is to accept the project appraised where the calculated rate is greater than the company's cost of capital. The project with the highest percentage of internal rate of return is picked where two or more mutually exclusive investments are being considered.

ILLUSTRATION

SAB Airways Authority (SAA) is preparing the capital budget for the forthcoming year. Three (3) mutually exclusive projects are being considered. The projected performance of each of the projects is as follows:

Projects:	A	B	C
	₦'000	₦'000	₦'000
Initial Cash Outlays	3,450	3,563	3,938
Inflows of Cash:			
Year 1	1,500	2,250	375
Year 2	1,500	1,125	375
Year 3	1,500	1,125	4,875

The Authority's cost of capital is 10% per annum.

As the Management Accountant of the Airways Authority, advise on the desirability or otherwise of choosing any of the three projects, using the internal rate of return method.

The following discount factor table is applicable for use:

Year	10%	15%
1.	0.91	0.87
2.	0.83	0.76
3.	0.75	0.66
4.	0.68	0.57
5.	0.62	0.50

SUGGESTED SOLUTION

SAB Aviation Authority

Project A

(i) Using 10% Discount factor (rate)

Year	Cash Flows ₦'000	Discount Factor (10%)	PV ₦'000
0	(3,450)	(1.00)	(3,450)
1	1,500	0.91	1,365
2	1,500	0.83	1,245
3	1,500	0.75	1,125
		NPV	**285**

Project A Using 15% Discount factor (rate)

Year	Cash Flows ₦'000	Discount Factor (15%)	PV ₦'000
0	(3,450)	(1.00)	(3,450)
1	1,500	0.87	1,305
2	1,500	0.76	1,140
3	1,500	0.66	990
	NPV		(15)

$$IRR = R1 + \frac{P}{P + N}(R2 - R1)$$

Project A

$$= 10 + \frac{285}{285 + 15}(15 - 10)$$

$$= 10 + \left(\frac{285}{300}\right)5$$

$$= 10 + (0.95)\,5$$

$$= 10 + 4.75$$

$$IR = 14.75\%$$

Project B

(i) Using 10% discount rate

Year	Cash Flows ₦'000	Discount Factor	PV ₦'000
0	(3,563)	(1.00)	(3,563.00)
1	2,250	0.91	2,047.50
2	1,125	0.83	933.75
3	1,125	0.75	843.75
		NPV N	**262.00**

(ii) Using 15% discount rate

Year	Cash Flows N'000	Discount Factor	DCF N'000
0	(3,563)	(1.00)	(3,563)
1	2,250	0.87	1,957.50
2	1,125	0.76	855.00
3	1,125	0.66	742.50
		NPV N	**(8)**

IRR $= R1 + \frac{P}{P+N}\ (R2 - R1)$

$= 10 + \left(\frac{262}{262+8}\right)\ (15 - 10)$

$= 10 + \left(\frac{262}{270}\right)^{5}$

= 10 + (0.970)5

= 10 + 4.85

IRR = 14.85%

P + N

=10+7 262 (15 - 10)

62 + 82

$=10 + (262)_5$

270

=10 + (0.970)5

=10 + 4.85

1RR =14.85%

Project C
(i) Using 10% Discount Rate

Year	Cash Flows N'000	Discount Factor	NPV N’000
0	(3,938)	(1.00)	(3,938.00)
1	375	0.91	341.25
2	375	0.83	311.25
3	4,875	0.75	3 656 25
		NPV N	370.75

Project C
(ii) Using 15% Discount Rate

Year	Cash Flows N'000	Discount Factor	DCF N’000
0	(3,938)	(1.00)	(3,938.00)
1	375	0.87	362.25
2	375	0.76	285.00
3	4,875	0.66	3,217.50
		NPV N	(109.25)

$$\text{IRR} = \text{RI} + \frac{\text{P}}{\text{P+N}} \ (\text{R2 - R1})$$

$$=10+\left(\frac{370.75}{370.75+109.25}\right)^{(15-10)}$$

$$=10 + \left(\frac{370.75}{480}\right)^{5}$$

$=10 + (0.772)\ 5$

$=10 + 3.86$

IRR $=13.86\%$

Based on the above computations, the Airways Authority is advised to pick project 'B' with the highest IRR of 14.85%. The other projects have lower figures of 14.75% and 13.86%, respectively, and should be rejected.

3.3 Profitability Index Technique

This is another investment appraisal technique which compares the present value of cash inflows with the present value of cash outflows in ratio terms. The formula is given as:

$$\text{PI} = \frac{\text{Present Value of Cash Inflows}}{\text{Present Value of Cash Outlay}}$$

OR

$$\text{PI} = \frac{\text{Net Present Value of Cash Inflows}}{\text{Present Value of Cash Outlay}}$$

The decision rule in Profitability Index is to accept every project whose PI is positive or greater than 1

i.e. Accept Project if PI = 1 or > 1

Reject Project if PI = 0 or < 1

ILLUSTRATION

Abejoye Local Government in an effort to boost its revenue base decided to acquire a tractor that will be hired out to farmers at affordable charges. The tractor will cost 4600,000 and will generate an annual net cash inflow of N180,000 for six years. The cost of borrowing to procure the tractor is 10%.

Required:

Using the Profitability Index Technique of Investment Appraisal, advise the chairman of Abejoye Local Government.

Discount Factors to be used are:

Year	Discount Factor
1	0.9091
2	0.8264
3	0.7513
4	0.6830
5	0.6209
6	0.5645

SOLUTION

Year	Cash Flow ₦	Discount Factor @ 10%	Present Value ₦
0	600,000	1.0000	(600,000)
1	180,000	0.9091	163,638
2	180,000	0.8264	148,752
3	180,000	0.7513	135,234
4	180,000	0.6830	122,940
5	180,000	0.6209	111,762
6	180,000	0.5645	101,610
		Net Present Value	183,936

Present Value of Cash Inflows = 783,936

Present Value of Cash Outflow = 600,000

Profitability Index = $\frac{783,936}{600,000}$

= 1.31 approximately

Decision: Since PI > 1 the project should be accepted for implementation

Advantages of Profitability Index

(a) It recognises time value of money
(b) It is a variant of the Net Present Value Method. It therefore requires the same computation as in NPV method.
(c) It is a relative measure of a project's profitability since the present value of cash inflows is divided by the present value of cash outflows.
(d) It is generally consistent with the wealth maximisation principle.

Disadvantages of Profitability Index

(a) It can only be used to choose projects under simple, one period, capital constraint situation.
(b) It does not work mutually exclusive projects or dependent projects are being considered.
(c) The technique is not popular in public sector project appraisal.

Self-assessment exercise

Explain profitability index technique

3.6 Investment Decisions in Government

Investment is the judicious utilization of resources on viable opportunities, with a view to earning reasonable returns beneficial to the providers of fund or finance. Investments of Government may be financed through:

(a) internally generated revenue and statutory allocations;
(b) funds raised through the capital and money markets.

Investment decisions are taken after the feasibility and viability of projects have been considered. Not only the financial benefits but also the societal advantages which will accrue from embarking upon the specified projects will be considered. Investment decision-making in any organisation is managerial in nature. It focuses on goals. An investment decision addresses choice, and for the latter to qualify as such, there must be a commitment to apply resources. The choice invariably turns out to be an investment.

According to management literature, there are two types of decisions, namely:

(a) Non-Programmable Decision: This is strategic in nature. It deals with critical issues such as how to allocate resources, and managing community relations in the face of capital rationing. An unprogrammed decision is long-term. It is made for organisational survival.
(b) Programmable Decision: This is a tactical or short-term decision. It is concerned with proffering a solution to a routine problem determined by rules and conventions. A programmed decision is used for uncomplicated issues. By its nature, it limits freedom or initiative, as the organisation decides what is to be

done.

Although investments are undertaken in the public sector organisations just as in the private sector, operating environments and the goals pursued are different. While non-profitable projects may be dropped in the private sector, it may be unreasonable to act in this way in the public sector for political, socioeconomic, historical and security reasons.

3.7 Investment Evaluation Techniques In Government

There are many investment evaluation techniques used in Government, Ministries, Extra - Ministerial Departments and Agencies. They are discussed, as follows:

3.7.1 Cost-Benefit Analysis

Cost-Benefit Analysis is defined as an analytical tool in decision-making which enables a systematic comparison to be made between the estimated cost of undertaking a project and the estimated value of benefits, which may be obtained from its execution. Cost-Benefit Analysis is the most popular technique used for project evaluation in the public sector. The technique seeks, as a minimum, the point of equilibrium between costs and benefits of a proposed project, initiated by either the Government or demanded by the populace. It is applied in such areas as transportation, postal services, communication projects, educational projects and road construction. Where it is difficult to estimate the benefits of a project, 'shadow prices' are used. A shadow price is the measure of the maximum contribution foregone, in consequence of the failure to obtain one additional unit of limited capacity in a defined situation.

Cost-Benefit Analysis can be used in the allocation of resources among the three-tiers of Governments. The research and study into the Cost-Benefit Analysis came into prominence in the early 1960's, though it was applied in the USA in the 1930's and UK in the 1950's. The development of 'Cost-Benefit Analysis' has not only brought about enhanced project appraisal in the public sector but also assisted in investment planning, commercial policy and the development of policy evaluations. It considers the following:

(a) Externalities, which may be either positive or negative. An externality is a consequence of an action not taken into consideration when making a decision, but which has direct or indirect effects on the communities, towns, or society at large. An externality can be beneficial (positive) as well as harmful (negative). An externality represents the cost or benefits to the third parties.

(b) Income redistribution in the society; It is a technique which aims at assisting decision makers by identifying and measuring the social and other costs and advantages which may accrue. It measures the social costs and benefits of a plan by translating them into monetary values. It quantifies the economic intangibles by assessing the effects of actions taken not only on the decision-maker, but also on the society as a whole.

3.7.1.1 Procedures for Conducting Cost-Benefit Analysis

The steps involved in carrying out a cost benefit analysis are as follows:

(a) Examine the problem with the proper definition of the objectives of the analysis in focus.

(b) Consider alternative courses of actions, which would achieve the defined objectives in (a) above.

(c) Enumerate the costs involved and the benefits, which would accrue from the particular courses of action, to the establishment and the society.

(d) Evaluate the costs and benefits.

(e) Draw conclusions as to the economic and social effects of a particular choice.

(f) Re-examine the problem and the chosen objectives to determine accomplishment.

3.7.1.2 Cost Benefit Analysis and Commercial Investment Appraisal

Consideration of the procedures above may indicate that Cost-Benefit Analysis is synonymous with commercial investment appraisal techniques, thereby suggesting that they may be used interchangeably. Deep examination of the procedures involved however, will clearly highlight the areas of similarities and dissimilarities of the two approaches.

3.7.1.3 Similarities between Cost-Benefit Analysis and Commercial Investment Appraisal Methods

The areas of similarities are:

(a) They adopt a common approach in basic model formulation.

(b) Consideration of the effective allocation of costs and benefits to periods in which they occur is the same.

(c) They both focus on the justification of present investment cost in terms of its future return.

(d) They apply discounting techniques which take time value of money into consideration.

(e) They apply decision rules for selecting investments.

3.7.1.4 Dissimilarities between Cost-Benefit Analysis and Commercial Investment Appraisal Methods

(a) The application of Cost-Benefit Analysis focuses more on the macro-economy and the attendant benefits, while commercial investment appraisals address evaluation on micro-perspective level.

(b) The Cost-Benefit Analysis considers all factors, including the cost of 'harms' done to the environment, unhealthy competition, the effects on the work force, etc. The only cost relevant in commercial appraisal is that falling directly on the enterprise.

(c) On the principle of preparedness to pay, Cost Benefit Analysis adopts wider definition to include what can be over or below the commercial price. On the other hand, commercial appraisal considers only the effective demand, i.e. buying more at lower price or less at higher price.

3.7.1.5 Cost-Benefit Analysis and Project Evaluation

The following methods are adopted in the evaluation of projects under Cost-Benefit Analysis:

(a) Benefit/Costs Comparison

This method compares estimated benefits and costs of project to be taken. The decision criterion is that if benefits are greater than the costs of a project, it should be accepted for implementation, otherwise, it should be rejected. The major weaknesses of this method are:

(i) It ignores the effect of inflation on values used in the computation.

(ii) The figures and other details used are not relative.

(b) Benefit/Cost Ratio

This method assesses estimated benefits as a ratio of estimated cost. The decision rule is that if the ratio is greater than one (1) the project should be accepted, otherwise, it should be rejected.

Advantages of the Benefit/Cost Ratio

(i) It produces comparable results.

(ii) The benefits/costs used in the calculations are discounted.

Disadvantages of the Method

The method ignores the time-value of money as in Benefit/ Costs Comparison approach.

Merits and Demerits of Cost-Benefit Analysis

Merits of the Technique

The advantages of the approach are as follows:

(i) It takes into consideration monopolistic power of Government over vital public projects.

(ii) It considers not only financial commitments on a project but also favourable and unfavourable impacts of the project on the society. Non-consideration of these impacts may jeopardize the lofty goals of the project despite the size of finance committed.

(iii) Cost-Benefit Analysis is a viable option for project appraisal in Government, bearing in mind its service-rendering goal.

(iv) The appraisal technique serves as a check on the excesses of political decisions which most of the time ignore economic and social costs and benefits of a project on the society.

(v) It is easy to apply.

Demerits of the Approach

These may be appreciated, as follows:

(i) Dissimilar projects are not, most of the time, evaluated and considered together, e.g. cost-benefit of constructing a road and school will not be considered, but only similar items.

(ii) Final selection may be based on unjustifiable factors, e.g. political, social, geographical and historical factors.

(iii) It requires comprehensive and intelligent data collection and analysis for which the public sector is noted to be deficient.

(iv) Indirect User Benefits: Alternative methods of valuing benefits yield different outcomes. Given the different approaches, there is difficulty in choosing an appropriate monetary measure. One has to contend, therefore, with the problem of whether or not to use the technique as a means of investment appraisal.

(v) Spillover Effects: There is the necessity to distinguish between technological and pecuniary 'spillovers'. The decision maker faces the problem of how to include these effects in the analysis. "Spillover" is a situation where an action or project has a lot of indirect benefits. For example, a raw material supplier may install modern and efficient machinery for production. Apart from the availability of cheap raw materials, other benefits derivable may include standardised, quality and timely supply always.

(vi) Double Counting: A difficult problem to address is 'double counting'. This is a situation in which the cost may be accounted for twice, in view of the process complication. For example, the cost may be taken into account as raw material and later as finished product.

(vii) Rate of Interest Chosen for Discounting: The problem here is the ability to determine the appropriate interest rate to apply for discounting future costs and benefits. "The market rate" and "the social rate" have to be considered. 'social rate' of interest is that fixed for some other reasons, such as connection, It is lower than the market rate and may be fixed for a group of individuals. The market rate is for the supply and demand of money in the money market. It is the commercial rate which reflects the worth of money.

(viii) Uncertainty: The problem is how to reach decisions in situations where trend analysis affords little or no guidance for the future. Situations of uncertainties, unlike risks, do not offer themselves for mathematical manipulation.

(ix) Evaluating the Distributional Effects: The idea of formal cost benefit analysis does not distinguish between benefits received by 'different individuals' or group of people. It does not take position with regards to who benefits and who bears the cost. There is a misgiving that prevailing fashions and human behaviour may blur the interpretation of the distribution effects.

(vi) Subjectivity: Measuring costs and benefits may involve using subjective indices to draw conclusions.

3.7.2 Cost-Effectiveness Analysis - (CEA)

The Cost Effectiveness Analysis (CEA) is an approach to picking among alternative lines of action in public sector organisations in regard to their effectiveness in attaining specified objectives.
The approach identifies either the least cost method of realising an objective or the maximum output attainable at a given cost.

In contrast to Cost-Benefit Analysis (CBA), the focus is on cost and not so much on the benefit. Cost Effectiveness Analysis does not attempt to supply information on the benefits of achieving goals. Rather, the emphasis is on the least or minimal cost of achieving the specific objective of a public sector project.

3.7.2.1 Procedure of Cost Effectiveness Analysis in the Appraisal of a Public Project

These are:

(a) Objective definition is to determine what actual target is. What are the projects?

(b) Sourcing and assessment of alternatives:
After the public project has been determined, what are the cost alternatives that are available? The information in this regard have to be collated.

(b) Selection of measure to be adopted:
It has to be determined what types of approaches will enable management to achieve the set objectives within a reasonable period of time.

(c) Development of cost estimates:
Cost estimates have to be collated, addressing the issues of what to include and how to measure them.

(d) Having ascertained the adequacy of cost effectiveness measures and relying on the information on cost estimates, the public sector organisation evolves the final decision, based on the principle of least cost.

3.7.3 Limitations of Cost-Effectiveness Analysis

(a) Procedures are subjective, since they are based on the personal judgment of the decision-maker.

(b) What is an appropriate measure of effectiveness cannot be easily resolved.

(c) It may lead to wrong decisions resulting from imperfect information on which costs are based and benefits derived.

3.8 Life Cycle Costing

This is a costing approach which attempts to optimize the use of costs by aggregating the entire original and operation costs of assets over their estimated lives. It is used for evaluating the desirability of acquiring an asset, in preference to others, based on cost minimisation. The concept adopts the discounting technique so as to evaluate assets. Life cycle costing is the financial arm of terotechnology. The Committee for Terotechnology defines terotechnology as "the combination of management, financial, engineering and other practices applied to physical assets in pursuit of economic ends". The pursuit of economic objectives demands that a company's objective should be to reduce as much as possible, the total life-cycle costs in maintaining physical assets during their economic life-span. In life cycle costing, consideration is given to the following factors:

(a) Original costs, of physical assets, including the costs of design, specification, acquisition, and installation.
(b) Operating costs which include those of labour, materials and energy.
(c) Maintenance costs, relating to materials and labour.
(d) Lost profits and the cost of recovering lost profits.
(e) Disposal value. This is the residual value less disposal costs incurred. The annual equivalent cost of a physical asset is computed, using the formula:

$$\frac{\text{Purchase Cost}}{\text{Cumulative PV Factor}}$$

ILLUSTRATION

You are given the following details in respect of two300KVA generators:

		Yakoyo	**Jeun T**
Acquisition and installation		₦'000	₦'000
		50.000	40.000
Annual costs:	Maintenance	5,000	6,000
	Oil and Lubricants	7,000	9,000
	Salaries	20.000	26,000
		32.000	41,000
Estimated life		5yrs	4yrs
Real cost of capital		20%	20%

Discount Factors:

Cost of capital 20%

Year	
1	0.8333
2	0.6944
3	0.5787
4	0.4823
5	0.4019
6	0.3349

7	0.2791
8	0.2326

Calculate the "annual equivalent costs" and "costs in use" and advise on which of the two generators to accept.

Cumulative factor is the addition of discount figure for 5 years.

Year	
1	0.8333
2	0.6944
3	0.5787
4	0.4823
5	0.4019
	2.9910

Cumulative factor is the addition of discount factors for 4 years.

Year	
1	0.8333
2	0.6944
3	0.5787
4	0.4823
	2.5887

SUGGESTED SOLUTION

	Gen. B	**Gen.T**
Costs in use	₦	₦
Annual Equivalent cost (see	16,716,817	15,499,98
Add: Operating costs	32,000,000	41,000,00
	48,716,817	**56,449,98**

The 'costs in use' of the asset are now compared to evolve a choice. Usually the asset with the least cost is selected. In this case, YAKOYO B generator is picked as it involves lesser 'costs in use' of 448,716,817, as against that of Jeun T of 456,449,981

WORKINGS

	Yakoyo B	Jeun T
	₦'000	₦'000
Annual Equivalent cost		
Purchase cost	50,000	40,000
Cumulative PV factor	2,991	2,589
50.000	= ₦16,716,817	40.000 = ₦1,545,000

2,991	2,589

ILLUSTRATION
Assume the same facts as in example 1. However, the estimated life of each generator is now 5 years. The cost of a generator is 1450m. Which of the generators should be accepted?.

SUGGESTED SOLUTION

	Yakoyo B				Jeun T	
Year(s)	4	DF	PV		DF	PV
	'000	20%	4'000	'000	20%	4'000
0	(50,000)	1,000	(50,000)	(50,000)	1.000	(50,000)
1-5	(32,000)	2,991	(95,712)	(41,000)	2,991	(122,263)
		PV	(145,712)		**PV**	(172,631)

The decisions informed by the computations above, is that Yakoyo B should be chosen, in preference to Jeun T. The cost implication of picking Yakoyo B is 14145,712,000 as against that of Jeun T of 14172,631,000.

3.9 Value Analysis/Value Engineering

Value engineering aims at trying to reduce costs and prevent any unnecessary costs before the product or service is produced. It endeavours to eliminate any costs which will not contribute to the value and performance of the product or service. Value Analysis is the same process when it is aimed at cost reduction after the product or service has been introduced. Value engineering involves innovative and critical thinking, it uses a formal procedure which examines the purpose of the product or service, its basic functions and its secondary functions.

3.10 Problems of Investment Appraisal Methods

Some of the problems have been identified, thus:

(a) Future events are difficult to forecast with complete accuracy.
(b) Investment decisions are sometimes determined by political factors.
(c) The choice of an appropriate investment appraisal method is subjective.
(d) The calculation of the cost of capital to be used is a matter of opinion. There is nothing sacrosanct about any decision.
(e) The treatment and measurement of risk are not easy tasks.

3.11 Risk and Uncertainty in Capital Budgeting/Investment Appraisal

'Risk' is the quantification or measurement of the extent to which actual cash inflows will vary from the forecast earnings. Such risks which abound in business lives include inflation, drop in market demand and changes in Government policies. The probability of occurrence of such a risk is between 0 and 1. 'Uncertainty', however, is a confused state. Under 'uncertainty' any development can take place. The business development is so unpredictable that no probability of occurrence can be assigned.

Using the Probability Concept to Measure Risk

All the appraisal methods discussed so far assume that the cash inflows forecast will be realized as predicted. This is a situation of certainty which hardly exists in the dynamic world, especially of business, and which is therefore unattainable. In order to provide for the presence of risk, the decision maker will assign reasonable and scientific probability considerations to the forecast (uncertain) cash inflows. The expected values obtained are then used for the appraisal of the investment under review.

ILLUSTRATION

GBOGBONSE Local Government Council intends to set aside 14100,000 for the production of cassava to boost internally generated revenue and earn foreign currency. The expectation of the Council is that in three (3) years' time all will be well with the outcome of the venture. The following information are available:

The Council's opportunity cost of capital is 10%. Is the project viable?

SUGGESTED SOLUTION

GBOGBONSE LOCAL GOVERNMENT COUNCIL

Computation of the Expected Net Present Values of the Cassava Production Project

$$ENPV = \frac{N(100,000)+}{1} \frac{1452,000}{1.10} + \frac{1472,000}{(1.10)2} + \frac{1457,500}{(1.10)^3}$$

$$=(14100,000) + 447,273 + 459,501 + 443,200$$

$$= 1449.974$$

Calculation of the Expected Cash inflows

Year 1: 0.20(4100,000) + 0.80(1440,000)
= 14 (20,000 + 32,000)
= 1452,000

Year 2: 0.80(1460,000) + 0.20(120,000)
= 4(48,000 + 24,000)
= 1472.000

Year 3: 0.25(480,000) + 0.75(450,000)
= (20,000 + 37,500)
= 457 500

ALTERNATIVE SUGGESTED SOLUTION Calculation of the Expected Cash Inflows

Year	Cash Flow	Probability	Expected Value	Total Expected Value
	₦	₦	₦	₦
	100,000	0.2	20,000	
	40,000	0.8	32,000	52,000
2	60,000	0.8	48.000	
	120,000	0.2	24,000	72,000
3	80,000	0.25	20,000	
	50,000	0.75	37,500	57,500

Computation of the expected Net Present Value

Year	Cash flows	Discount factor (10%)	Present Value
	₦		₦
0	(100,000)	1.0000	(100,000)
1	52,000	0.9091	47,273
2	72,000	0.8264	59,501
3	57.500	0.7513	43,200
Net Present Value			+49 974

The project is viable with positive expected net present value of N49,974. It is recommended for implementation.

Self-assessment exercise

In your word highlight what constitute a viable project in the public sector

4.0CONCLUSION

The conclusion is that it is essential for an organisation, whether public or private sector, to make investment decisions where the establishment is faced with different alternatives, using different techniques of investment appraisal. In practical life there are challenges in making choices.

5.0 SUMMARY

In summary, you learnt of investment appraisal in the public sector and investment decisions, different procedures like cost benefit and factors in Capital Budgeting were discuss. In the next unit Accounting in Public Enterprises will be discussed.

6.0TUTOR MARKED ASSIGNMENT

a) What are the advantages and disadvantages of Cost-Benefit-Analysis?

b) List Risk Factors in Capital Budgeting.

7.0REFERENCES/FURTHER READING

ICAN Study Pack

UNIT 3 PUBLIC ENTERPRISE ACCOUNTING

CONTENTS

4.0 Conclusions
5.0 Summary
6.0 Tutor Marked Assignment
7.0 References/Further Readings

1.0 INTRODUCTION

In this unit, you will learn of parastatal/government agency and public enterprise accounting as is practiced in Nigeria and the enabling Act to support as appropriate.

2.0 OBJECTIVES

After studying this unit, you will be able to:

- Identify the Enabling Act that establishes a Parastatal or a Public Company.
- State the objectives of setting up Public Enterprises.
- Explain the Accounting requirements of Public Enterprises.
- Identify the Sources of income and types of expenditure of Public Enterprises.

3.0 MAIN CONTENT

3.1 Parastatals/Government Agencies and Public Companies

Parastatals and public companies are agencies established by Government for specific purposes. Examples are Corporations, Boards and public companies. The characteristics of Parastatals or Corporations are outlined, thus:

(a) Corporations are special organisations set up by Government with the aim of carrying out certain projects or performing beneficial services to the Nation. Examples are the River Basin Authority which was set up to harness the agricultural benefits of the River Basins, the National Electric Power Authority (NEPA) now Power Holding Company of Nigeria (PHCN) for the generation and supply of electricity to the citizens at subsidized rates, and the Federal Environmental Protection Agency (FEPA) aimed at safeguarding Nigeria's environment. Most of the Corporations are not-for-profit organisations. However, some of them are to recover their operating costs and make some margin or surplus.

(b) Each Corporation or Parastatal has its own Enabling Act. This is the law setting it up, and will show in detail the following:

  (i) The name of the Corporation, its functions and objectives.
  (ii) The Principal Officers of the Board, their functions and mode of appointment.
  (iii) The Supervising Ministry.

  Parastatals or Corporations are usually not governed by the provisions of the Companies and Allied Matters Act, Cap. C20, LFN 2004. Hence, a Corporation's name will not end with the word 'Limited' or 'Public Limited Company.'

(c) State and Federal Governments are free to set up their own Corporations after due processes. Such Parastatals, Boards or Corporations are quite different from the Ministries. Ministries and Extra-Ministerial Departments have the same accounting system, unlike the Boards and Corporations. Government regulations which apply to the Ministries may not be applicable to Government Agencies. The term 'Parastatal' also refers to a Government Company, Board, Corporation or a Tertiary Institution such as the Lagos State Polytechnic, University of Nigeria, Nsukka

(d) All Corporations have supervising Ministries. Regulations passed by a Corporation are called 'bye-laws'. The supervising Ministry and Government approve the following for a Corporation, before they become operative:

(i) Increases in the prices of goods and services delivered. For example, the Federal Ministry of Aviation would approve any price increase by the Nigeria Airways before it is implemented.
(ii) All the bye-laws.
(iii) The Corporation's Annual Budget.
(iv) Any major foreign agreement.

The supervising Ministry recommends the appointments of the Managing Director or General Manager, Executive Director and Key Officers of the Corporations to the President or National Assembly, for approval.

3.2 Sources of Income of Parastatals

Although Corporations are set up mainly to render social services to the public at the least possible costs and are principally self-financing, the appropriate Government makes funds available to them in form of subventions. The money given to a Corporation by the Government is income to the coorporation and is usually classified into recurrent and capital grant or subvention.

3.3 Expenditure

All Corporations incur expenses such as the payment of staff salaries and maintenance of facilities. The expenditure incurred is either revenue or capital in nature. Most Corporations depreciate their assets using appropriate policy.

3.4 Main Objectives of Setting up Corporations / Parastatals / Public Enterprises

The following are the main objectives of setting up Parastatals:

(a) To bring the means of production under public ownership.
(b) To avoid high prices of goods normally charged by the private sector.
(c) To avoid duplication of facilities.
(d) To ensure close Government control over certain 'key' sectors of the economy.
(e) To ensure the survival of the Industries.

(f) To enhance the standard of living of the people.

Self-assessment exercise

Discuss the accounting requirements in a public enterprise.

3.5 Accounting in the Public Enterprises

The nature and structure of accounting in the public enterprises depend largely on the scope and objectives of setting them up.

The accounting structure will thus vary from one enterprise to another. Despite the differences in their structure and objectives, any accounting system set up for a public enterprise should be able to:

(a) provide detailed financial information adequate for policy formulation;
(b) facilitate extraction of relevant financial statements which comply not only with the requirements of the enabling law but also the needs of the information users;
(c) accommodate changes that become necessary; and
(d) facilitate the work of the auditors appointed to examine the books of the enterprises.

3.5.1 Financial Statements

The financial statements of an enterprise are expected to comply with the normal accounting standards in operation, requirements of the laws regulating the activities of the enterprises, etc. For profit-making public enterprises, the financial statements will include:

(a) Trading and Profit and Loss Accounts.
(b) Balance Sheet.
(c) Value-Added Statements.
(d) Notes to the Statements.
(e) Cash Flow Statements.
(f) 5-year Historical Summary.

However, for the not-for-profit making public enterprises, the financial statements are expected to include:

(a) Income and Expenditure Accounts.
(b) General Revenue Accounts.
(c) Balance Sheet
(d) Cash Flow Statements.
(e) Value-Added Statements.
(f) 5-year Historical Summaries.

3.6 Classes of Government Enterprises

Public enterprises are establishments owned either partially or wholly controlled by Government. They come into existence through the promulgation of appropriate Federal or State laws. Government enterprises may take the following forms:

(a) *Public Utilities.* These are parastatals providing essential services to the citizens either at 'nil' cost or at subsidized rates. This is to bring about proper balance between social and economic objectives.

(b) *Regulatory Agencies:* These are Government Agencies or partially autonomous establishments executing general policies of the Government within specified areas. Examples are National Communication Commission (NCC) and Nigeria Copyright Commission. They may be fully or partially commercial in nature although they still look forward to Government's financial assistance in meeting their obligations.

(c) *Commercial Enterprises: They* are bodies established by Government in line with the appropriate laws of the country, to create competitive environment and make profit from their operations. Government-owned companies are usually in different sectors of the economy, such as mining, banking, insurance, manufacturing, trading and transportation. Such companies are autonomous in structure and operations. They are incorporated and must comply with the existing laws. The laws governing their operations include the Companies and Allied Matters Act, Cap C20, LFN 2004, Insurance Act of 2000 (as amended), the Banks and Other Financial Institutions Act 1990 (as amended) and Bankruptcy Act of 1979 (as updated).

3.7 Audit

The laws setting up most of the Federal Corporations state that:

(a) An Internal Audit Department should be established. The Department should audit the Corporation and copies of reports forwarded to the Auditor-General for the Federation, for information only.

(b) The accounts of the Corporation must be verified by an External Auditor yearly.

3.8 Accounting Policies of Corporations

Each Corporation adopts the accounting policy which suits its operations. The most common policies adopted by parastatals are briefly discussed, as follows:

a) Most Corporations adopt the principle of accrual accounting. The concept stipulates that the income relating to a particular period should be recognised in that period, whether or not cash has been received. Conversely, expenses have to be charged against profits when they occur, even if they have not been paid for.

b) Some corporations prepare Income and Expenditure Accounts while others prepare the Profit and Loss Accounts. From the information available in the books of a Corporation, it is easy to ascertain the type of accounts prepared. For example, where Income and Expenditure Accounts have been prepared the net result is normally described as surplus or deficit. If it is a profit oriented entity Profit and Loss Accounts are prepared at the end of the financial year.

c) The capital or proprietorship of the organisation is represented by 'fund account,'

d) Parastatals, unlike the three-tiers of Government, show fixed assets with their historical costs, accumulated depreciation to date and net book values.

e) Government subventions and grants are stated as the amounts received during the year, on cash basis. However, some Corporations credit their Income and Expenditure Account with the amounts receivable and show the amounts as current asset in the Balance Sheet (accrual basis).

f) Interests receivable on fixed deposit accounts are usually accounted for, on cash basis. However, some Corporations use the accrual method, treating interests receivable as in 'e' above.

g) Foreign currency transactions are translated as follows:

    (i) Income and expenditure items are translated at the average rate of conversion.
    (ii) Fixed asset translations are made at the historical costs.
    (iii) Other assets and liabilities are translated at the rate ruling on the Balance Sheet date. Profit or loss on translation is shown in the Profit and Loss Account on a yearly basis.

3.9 Types of Accounts

Some Corporations such as the Federal Airports Authority of Nigeria (FAAN)and Power Holding Company of Nigeria (PHCN) prepare the following accounts:

(a) Income and Expenditure Accounts, and
(b) Balance Sheets,

ILLUSTRATION

A Typical format of Income and Expenditure Account of The Federal Airport Authority of Nigeria for the year ended 31 December, 2008 is shown below:

	2007		2008	
	₦	₦	₦	₦
Income				
Government Subventions	x		x	
Licence Fees	x		x	
Parking Fees	x		x	
FAAN Citizen Tax	x		x	
Staff School Income	x		x	
Guest House Income	x		x	
Sundry Income	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 NIGERIAN
A TYPICAL FORMAT OF BALANCE SHEET AS AT 31 DECEMBER 2008

	2007		2008	
	₦	₦	₦	₦
Fired Assets		xx		xx
Current Assets:				
Stocks	x		x	
Debtors & Prepayments	x		x	
Bank	x		x	
Cash	x		x	
Less: Current Liabilities:				
Creditors	(x)		(x)	
Accrued expenses	(x)	x	(x)	x
Total Net Assets		xx		xx
Financed by:				
Capital Fund				

Other Funds
Reserves

3.10 Hospital Accounting

Hospitals undertake functions such as treating the sick, conducting research, and teaching. A major purpose of hospital accounting is to assist Hospital Administrators in the efficient and effective management of resources. Government hospital accounting has the following features:

a) Fund accounting system is operated.

b) The financial activities of hospitals are covered by budgeting and budgetary control procedures.

c) Subsidiary and principal books of accounts are kept to facilitate the extraction of information. Such books include ledger accounts, journal and DVEA book.

d) An autonomous Government hospital is required to prepare financial statements, to determine proper stewardship in fund disbursements and general resource management, as follows:

(i) *Income and Expenditure Accounts: These* are prepared to show the surplus or deficit of the organisation during a specified period of time, usually one year. They are extracted showing the comparative figures for the preceding year.

(ii) *Balance Sheet:* This is prepared to ascertain the financial strength of the hospital, as at the end of that period. The balance sheet is extracted with the comparative figures for the preceding year.

(iii) *Cash Flow Statement:* A cash flow statement is prepared to establish the hospital's sources of cash inflows and directions of outflows, The cashflow statement is very revealing of the liquidity preparedness in meeting short-term obligations. Preceding year's figures are disclosed as well, for comparative analysis.

(iv) *Notes to the Accounts:* These are modifiers or amplifiers, accompanying the financial statements. They disclose information such as the hopital's accounting policy and method of depreciation which the final accounts do not supply.

(v) *Memorandum Statement of Account of Capital Fund* The statement shows the financial information of all the fixed assets and capital projects in progress as at a particular period. The standard accounting practice is to transfer any portion of the project completed in any financial year to the fixed assets account. 'Capital Work in Progress' is determined based on valuer's certificates.

The Statement of Capital Fund contains only the financial information in respect of capital projects. Funds are transfered to augment the balance available in the Capital Fund.

(iv) *Memorandum Statement of Account of Recurrent Funds:The* statement highlights the financial information of all the recurrent items. These include unutilized grants for research, stocks, and debtors,

3.11 Sources of Revenue

The hospital generates revenue from various sources which include:

a) *Capital Subvention:* This is in the nature of contributions made by Government, at intervals, for the execution of capital projects of the hospital.
b) *Recurrent Subvention:* This is the amount contributed by the Government at intervals for meeting recurrent expenditure. Examples are the personnel cost of staff, overhead costs covering repairs of the facilities of the hospital and purchase of drugs.
c) *Charges: These* represent fees realized from the services rendered by the hospital. The charges include fees realized from the School of Nursing, X-Ray and laboratory facilities.
d) *Miscellaneous Revenue. These* include revenue generated from sundry sources, examples of which are income from investments, reimbursements, disposal of assets, rent on property and donations from philanthropic organisations and individuals.

3.12 Development and Property Corporations

Some Parastatals are established for the following aims and objectives:

(a) Constructing buildings for sale.
(b) Upgrading land for sale.
(c) Property ownership.
(d) Managing facilities on Government estate.
(e) Maintenance of industrial estates.

An example of such a Corporation is the Lagos State Property Development Corporation.

3.12.1 Main sources of income of Corporations

These include:

(a) Sale and rent of houses.
(b) Sale of land.
(c) Miscellaneous income (dividends, interests on fixed deposit accounts, etc.).

(d) Surplus from property management.
(e) Professional service income, e.g. survey fees for private land.
(f) Government grants.
(g) Gifts and donations.

3.12.2 The expenditure incurred by the Corporations includes:

(a) Payment of salaries;
(b) Cost of construction, e.g. drainage, building.
(c) Cost of land clearing.
(d) Interest on loan;
(e) Compensations made to those who are dispossessed of their landed property.

3.12.3 Development and Property Accounting

Corporations which engage in the development of property prepare the following final accounts:

(a) General Revenue Account. It is in this Account that the expenses relating to general development and estate management as well as transfers to the various reserves are consolidated.
(b) Property and Permanent Works Capital Accounts.

The accounts are meant for transactions relating to capital projects like land and buildings under construction and for ultimate sale to the public.

ILLUSTRATION

ILUDUN STATE DEVELOPMENT CORPORATION
Typical Format of General Revenue Account for the Year ended

Interest on loan	x	Surplus from Gen. Dev. Expenses Account	
Balance cid	x	Surplus from Estate Management Accounts	
		Rent on Properties Other Income	
	xx		xx
Loan Repayment	x	Balance b/d	x
Transfer to Cap. Reserve	x		
Unappropriated Bal. c/f	x		
	xx		xx

ILLUSTRATION

ILUDUN STATE DEVELOPMENT CORPORATION
TYPICAL FORMAT OF PROPERTY AND PERMANENT WORKS CAPITAL ACCOUNTS
for the year ended 31 December, 2008

		Expenditure			Income		
	Details 1	B.F 2	Additions 3	Total 4	B/F 5	Additions 6	Total 7
1	Land Development	x	x	x	x	x	x
2	Construction of Drainage	x	x	x	x	x	x
3	Construction of Nursery/ Primary Schools	x	x	x	x	x	x
		x	x	x	x	x	x

(c) Capital Works-in-Progress Account

The Account shows the projects of the Corporation which are under construction and as valued by the professionals.

(d) General Development Expenses Account

The account records the levies made on capital works carried out on the Agency's project executed by the Corporation or as agent of Government to cover overheads incurred. On the expenditure side of the account are recorded such items as "net expenditure from General Income and Expenditure Account" and "Repayment of General Purpose Loan." Whatever balance is left in this account is transferred to "General Revenue Account."

ILLUSTRATION 21-5

ILUDUN STATE DEVELOPMENT
Typical Format of General Development Expenses Account for the Year ended 31 December 2008

Expenditure	₦	Income	₦
Repayment of general purpose loan	xx	Charges on Capital Works	xx
Net Expenditure from General Income and Expenditure Account chargeable.	xx		x
Balance transferred to General Revenue Account	xx		
	xx		xx

(e) General Income and Expenditure Account

This Account shows the surplus or deficit from development and administration, architects' and surveyors' services, fees, and such other income accruing from housing property sale ground rent, improvements for sale and other sources of income.

The Account is classified into two, namely:

(i) Estate Management Account.

(ii) Services on Capital Works Account.

The Estate Management Account is to accommodate all relevant and incidental expenses. The second account is for services rendered on capital works for which general development expenses are charged. The general revenue expenditure, after the direct charges to the relevant capital projects, is apportioned between the General Development Expenses and Income and Expenditure Accounts. Other direct expenses are allocated to the two accounts. With these, the profitability of each of the projects can be determined. Revenue items are treated on the same basis.

The items identified in the Income and Expenditure Account are:

(i) Net rent income receivable (that is, rents and service charges, less bad or doubtful debts).

(ii) Housing grants from Government.

(iii) Investment income.

(iv) Amounts appropriated to the Grant Redemption Fund.

(v) Gross surplus or deficit for the period, before grants receivable and taxation.

(vi) Net surplus after taxation and deficit grants.

(vii) Transfers to, or from, reserves.

Notes to the accounts have to reveal additional information on items such as depreciation, and taxation.

ILLUSTRATION

ILUDUN STATE DEVELOPMENT CORPORATION
Format of Recurrent Expenditure for the
Year ended 31 December, 2008

	Details	Total	Chargeable to Capital Works	Chargeable to Estate Mgt.
		₦	₦	₦
(i)	Staff Expenses	x	x	x
(ii)	Office	x	x	X
(iii)	Quarters	x	x	X
(iv)	Office	x	x	X
(v)	Transport	x	x	X
(vi)	Miscellaneous	x	x	X
(vii)	Interest on	x	x	X

(viii)	Preliminary	x	x	X
		x	x	X

Format of Recurrent Income for the year ended 31 December, 2008

	Details	**Total**	**Chargeable to Capital Works**	**Chargeable to Estate Mgt.**
		₦	₦	₦
(i)	General Rent	x	x	x
(ii)	Int. On Invest.	x	x	x
(iii)	Fees	x	x	x
	Net Expenditure Carried to General Dev. Exp. And Estate Mgt. Account	x	x	x
		x	x	x

(f) Property Management Account

The account records rent generated from operations, miscellaneous income received and expenses incurred.

ILLUSTRATION

1LUDUN DEVELOPMENT CORPORATION

Typical Format of Property Management Accounts

for the year ended 31 December 2008

Income:	Total	Scheme	Scheme	Miscellaneous
	₦	₦	₦	₦
Rent on property items	x	x	x	x
Cost recovered	x	x	x	x
Reduction in provision for irrecoverable rent	x	x	x	x
Total income (a)	xx	xx	xx	xx
Expenditure:				
Estate Mgt. Expenses	₦	₦	₦	₦
Rent and Rates Interest	x	x	x	x
on Loan Repairs	x	x	x	x
Insurance	x	x	x	x
Legal Charges	x	x	x	x
(Loss of rent on unoccupied flats)	x	x	x	x
Depreciation	x	x	x	x

Total Expenditure (b)	xx	xx	xx	xx	
Net rental income transferred to Gen. Rev. Account (c) [That is, (a) — (b)]	x	x	x	x	x

(g) Balance Sheet

This shows the financial strength of the Corporation as at a particular date. It reports all items which are unique to the property and development sector, with corresponding figures of the preceding year. A Property Development Corporation's Balance Sheet should disclose the following items:

(i) Movements on the Grant Redemption Fund,
(ii) Deficit grants receivable.
(iii) Particulars of investments held.
(iv) Information on loans granted.
(v) Information on loans made to the members of the management committee.

ILLUSTRATION

1LUDUN DEVELOPMENT CORPORATION
Typical Format of Balance Sheet as at 31 December 2008

Capital		*Fixed Assets*		
	N		N	N
Capital Revenue	x	Plants and Machinery	x	
General Reserve	x	Motor Vehicles	x	
Long term Liability	x	Factory Building	x	x
Property & Investments				
Permanent Works:				
Capital Income	x	Treasury Bills	x	
Others	x	Fed Govt. Stocks	x	x
Deposits for Plot	x	Property & Permanent Works		
		Capital Account		
		Capital Work-In-Progress		
		Current Liabilities		
Current Assets				
Sundry Creditors	x	Stock	x	
Prepaid Rents	x	Debtors	x	
	__	Bank	x	x
	xx			xx

Self-assessment exercise

List the expenditure incurred by the Corporations.

4.0CONCLUSION

In this unit, you learn of parastatal/government agency and public enterprise accounting as is practiced in Nigeria and concluded that their operation depend on the enabling Act.

5.0 SUMMARY

This unit discussed the establishment of different types of corporations, the accounting policies, income receivable, expenditure incurred and the peculiar reporting system.

6.0TUTOR-MARKED ASSIGNMENT

a) State the objectives of setting up Public Enterprises in Nigeria?

b) List the sources of income of Public Enterprises.

7.0 REFERENCES/FURTHER READING

ICAN Study Pack

UNIT 4 PUBLIC FINANCE

CONTENTS

1.0 INTRODUCTION

In this unit, you will learn that Government participation in economic activities varies according to the philosophy of the State. The proportion of total output produced through Government budget and total income collected in taxes are dependent on the economic doctrine of the State. Besides, the budgetary functions and other ways by which Government actions affect the course of economic activities include monetary, regulatory and other devices.

Musgrave stated that the complexity of financial problems which operate through the revenue and expenditure processes of Government is traditionally referred to as 'Public

Finance.' Prof. Dalton postulates that Public Finance is that which is concerned with the income and expenditure measures of public authorities. Therefore, Public Finance could be defined as the *financial operations of the public sector and the implications thereof* It analyses the effects of government taxation and other revenue sources and state expenditure on the economic situations of individuals, institutions and the whole economy. According to Taylor, Public Finance deals with the finance of the public as an organized group under the institution of government.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Note the theory of Public Finance, public expenditure, revenue allocation, reasons for increase in Government expenditure, price stability, full employment.
- Explain the principles of taxation.

3.0 MAIN CONTENT

3.12 Scope of Public Finance

The scope of Public Finance is logically concerned with the operations of the Public Treasury. It also deals with how the Public Treasury operates and the repercussions of the various policies which the Treasury might adopt. Public tax and expenditure measures affect the economy in a number of ways and may be designed to serve many purposes. The underlying policy objectives may be categorised into four, as follows: Allocation of resources, Adjustment in the distribution of incomes and wealth, stabilization of prices and employment, and Attaining balance of payments equilibrium. Any discourse in Public Finance is inconclusive if consideration is not given to how the private sector reacts to the various fiscal measures, such as taxation, expenditure and public debt. It has to be emphasized that detailed knowledge of the various components of fiscal policy and relevant institutional factors have to be taken into consideration in the analysis. As modern Government operates at different levels, so also does the scope of Public Finance deal with the financial aspects of different Governments and inter-governmental financial relations?

3.2 The Theory of Revenue

This deals with the various sources through which Government generates funds to finance its activities. Such sources include taxation, borrowing, fines, fees, and income from public undertakings, rent and royalties. It also deals with the comparative advantages and disadvantages of each of these sources of revenue. Special attention should be paid to the treatment of taxation and public debt as sources of revenue.

3.3 The Financial Administration

Financial administration deals with Government budget, the implementation and evaluation of the various objectives set out in it.

3.4 The Theory of Public Revenue

Public revenue could be defined as the funds required by Government to finance its activities. Such funds are generated from the various sources such as taxes, borrowing, fees, fines, income from public undertakings, sales of government assets, rents, mining and royalties. According to Prof. Dalton, it is useful to make a distinction between public revenue and public receipts. While public receipts include all sources of incomes to Government, public revenue is of much narrower definition and does not include borrowing, sales of government assets or income from the "printing press" (printing of more money by the Central Bank). This distinction is also emphasised in the 1979 Constitution of the Federal Republic of Nigeria in which Section 149 refers to 'revenue' and Section 74(1) refers to 'other moneys'. The main sources of revenue of Government can be divided into *Oil revenue and Non-oil revenue sources.* Oil revenue sources include sales of crude oil, petroleum profits tax, rent, royalties, and Nigerian National Petroleum Company earnings.Non-oil revenue comprises company income tax, customs and excise duties, and independent revenue sources which include fees, licences, rent on Government property, etc. The above sources of revenue, can also be classified into: Direct Taxes, Indirect Taxes and Minning revenues. Direct taxes comprise petroleum profit and company income taxes while indirect taxes include customs and excise duties. Prior to the oil boom of early 1970's, agriculture was the mainstay of the Nigeria economy The sector's contribution to gross domestic product was about 70%. This contribution has now fallen to less than 30%, with the advent of the oil. Since the arrival of oil, the "black gold," the trend has changed in favour of the latter. It is the oil revenue that now contributes the lion share of the Federal Government revenue. With respect to indirect taxes, import duties are predominant as the economy is highly dependent on foreign goods and technology

Self-assessment exercise
Discuss Public Finance.

3.5 Revenue Allocation in a Federal System of Government

The problem of how best to allocate or share the revenue in the Federation Account among the component parts is a controversial issue in all countries that practice the federal system of government like Nigeria. Revenue sharing in Nigeria is faced with series of problems. This situation arises from the fact that States lack the authority to either raise certain types of tax or collect the proceeds. Consequently the problem centres not on who should raise taxes but how the proceeds should be shared. This problem of revenue sharing is not peculiar to Nigeria. Older Federations such as Australia, Canada and United States have faced similar problems. These older Federations were able to solve their problems in their own way given their stable economic and political environment. Furthermore, these Federations have settled constitutional history as none is still undergoing the kind of changes in the number of fiscal units as it is the case in Nigeria where the number has risen from 3 to 4, 12 to 19, 21 to 30 and to 36 States within a space of three and a half decades. The primary motivation of revenue sharing in older Federations is economic. It is to assist those States which are financially and fiscally weak, with the federally collected revenue. In these Federations, federally collected revenue forms a small fraction of the State resources. Consequently, federally generated revenue is a supplementary rather than a primary source of resources for the States.

In Nigeria, the above scenario is not the case since revenue sharing reflects to a great extent the political power of the parties to the bargain. Besides, many States are economically weak to fund their activities. To solve this problem of revenue sharing, a number of Commissions and ad-hoc Committees were set up at various times in the past.

3.6 Causes of Revenue Allocation Problems in Nigeria

The factors causing perennial revenue allocation problems in Nigeria include:

(a) Political and Economic Instability

The political and economic instability in Nigeria has led to the absence of planning. This situation slows down economic growth and development. The instability is evidenced by the large number of Heads of State who had governed the country from the time of independence to date.

(b) Constitutional Framework

The absence of a stable Constitution is a significant aspect of the problem of revenue allocation in Nigeria. The situation has not abated as there have been continued calls for constitution review. This is one of the key issues which the National Assembly is now grappling with.

(c) Financial Weakness:

Since most of the physical units were created without guiding political and economic philosophy, they are financially weak to stand on their own. Consequently, the States are always agitating for increase in the share of the proceeds of the Federation Account.

(d) Insincerity.

There is observation insincerity on the part of the Judiciary, Legislature and the Executive to address the problems of revenue allocation once and for all. The issue of the goose that lays the golden egg can also not be wished away.

3.7 Nigeria's Experience in Revenue Allocation

Successive governments realised that revenue allocation is always a thorny issue in the country hence the setting up of several revenue allocation Commissions and committees to design an ideal formular for revenue distribution among the component parts of Nigeria. Notable revenue allocation Commissions are:

(a) The Philipson Commission - 1946

The constitutional change to be introduced in 1946 by Richardson created the need to formulate proposals to enable the newly created regions of West, East and North, perform their new political and economic functions.

The Philipson Commission was charged with the responsibility of formulating financial and administrative procedures to be adopted under the new Constitution. The Commission divided regional revenues into two categories, namely: "DECLARED" and "NON-DECLARED." 'Declared revenues were those locally collected by the regional authorities, such as direct taxes (personal income tax), licences, fees, income from property and rent. It was the central Government that determined what portion of the non-declared revenue was to be shared among the Regions. For the sharing of the non-declared revenues among the Regions, Philipson considered three basic principles: DERIVATION, EVEN-PROGRESS AND POPULATION.

(b) The Hicks-Philipson Commission - 1951

The changes envisaged by the 1951 McPherson Constitution and the dissatisfaction with the Philipson's scheme led to the appointment of Prof. John Hicks and Sir Sidney Philipson to develop a new scheme that would achieve a more equitable sharing of revenue. The Commission recommended that the Regions should have power to raise, regulate and appropriate to themselves certain items of revenue. The commission proposed that revenue should be shared on the principles of DERIVATION, NEED AND NATIONAL INTEREST.

(c) The Chick Commission - 1953

The Constitutional conference of 1953 gave an opportunity for the review of the previous allocation scheme. Sir Louis Chick was then appointed to ensure that the total revenue available was allocated in such a way that the principle of derivation was followed and compatible with the needs of the Central as well as the Regional Governments. Chick did not merely adhere to the instruction, he expanded the allocation scheme to include not only import and excise duties, but also export duties, mining, rent and royalties and personal income taxes.

(d) The Raisman Commission - 1958

The Commission was appointed to review the tax jurisdiction as well as the allocation of revenue from these taxes such that the Regions could have the maximum possible proportion of the funds within their exclusive competence. To facilitate the sharing of some federally collected revenues, the Commission created the 'Distribution Pool Account' now called Federation Account, for the purpose of equitable sharing among the Regions. However, two principles were proposed, namely: DERIVATION AND NEED.

(a) The B1nns Commission - 1964

The Commission was set up under Section 164 of the 1963 Republican Constitution. The terms of reference of the Commission were to review and make recommendations with respect to the allocation of mining rent and royalties, and the sharing of funds in the distributable pool account among the Regions. The Commission applied the principle of financial comparability which was somewhat of a hybrid between NEED and EVEN-DEVELOPMENT.

(b) The Military Era - (1967/1975)

The period of 1967 to 1975 was characterized by series of military pronouncements. Act No.15 of 1967 resolved the problem of revenue sharing by allocating equally the percentage that belonged to the Northern Region, among the six new States created. The problem of the East and West appeared resolved among the new States, on the basis of population.

(c) Dina Interim Revenue Allocation Review Committee - 1968

The Committee was appointed in 1968 to probe into the existing system of revenue allocation as a whole and make necessary suggestions. The Committee was also to determine new revenue sources for both the Federal and State Governments. The Committee renamed the distributable pool account as "State Joint Account." It established a special grants account and recommended a permanent Planning and Fiscal Commission to administer the account, undertake continuous study and review of revenue allocation schemes. The report was rejected by the Federal Military Government and was therefore not published. Act No.13 of 1970 adopted a two-factor formula, namely: population and equality of States, while Act No. 9 of 1971 gave to the Federal Military Government absolute right to revenue from 'off-shore' rent and royalties. Act No. 6 of 1975 emphasized that all revenue to be shared by the States had to be passed through the distributable pool account, except 20% of the 'onshore' mining rents and royalties due to the State of origin, on the basis of the principle of derivation.

(d) The Aboyade Technical Committee - 1977

In line with the political programme, the Technical Committee on revenue allocation was set up in 1977 to review the existing allocation scheme. The Committee recommended that all federally collected revenue without distinction be paid into the Federation Account and that the proceeds of the account be shared among the Federal, State and the Local Governments, in the following proportions:

(a) Federal Government 60%

(b) State Government 30%

(c) Local Government 10%

The Committee created a special grants account (3% from the Federal Government's share) to be administered by the Federal Military Government to the benefit of mineral producing States and other areas in need of rehabilitation from emergencies and disasters. The principle for sharing among the States was built into five-factor formula, as follows:

(a) Equality of access to development opportunities.
(b) National minimum standards.
(c) Absorptive capacity.
(d) Independent revenue and tax effort.
(e) Fiscal efficiency.

(e) The Okigbo Commission - 1979 was inaugurated on 23 November, 1979, to device a method of allocation that would be understood and equitable. For this reason, the Commission deliberated on the meaning of "revenue" in Sections 149(1) and 149(6) of the 1979 Constitution and concluded that receipts from repayment of loans, sales of Government capital assets and reimbursements cannot be regarded as revenue and therefore should not form part of the Federation Account or the total revenue of the Federal Government. The 1979 Constitution accorded the Federal Capital Territory, Abuja, the status of a State as from 1st October, 1979, participating with other States in the share of money from the Federation Account. Section 149 of the 1979 Constitution also provided that all revenue collected by the Federal Government should be paid into the Federation Account, except for the proceeds of personal income tax of the Armed Forces personnel, the Nigerian Police personnel, the Ministry of External Affairs and the residents of the Federal Capital Territory, Abuja.

The Commission recommended that the proceeds of the Federation Account should be shared among the Federal, State and the Local Governments, as listed hereunder:

(a) Federal Government 53%
(b) State Government 30%
(c) Local Government 10%
(d) Special Fund 7%

The 7% Special Fund was to be applied as follows:

(a) Initial development of the Federal Capital Territory 2.5%
(b) Special problems of mineral producing areas2.0%
(c) Ecological and similar problems: Flood, erosion, etc. 1.0%
(d) Revenue Equalization Fund 1.5%

The Commission further recommended the use of four-factor formula for allocation to the State Governments, using the following weights:

a)	Minimum responsibility of government		40%
b)	Population		40%
c)	Social development factor:		
	Direct primary school enrolment	11.25%	
	Inverse primary school enrolment	3.75%	15%
d)	Internal revenue effort		5%
			100%

The 3-tiers of Government prior to and mid-way into Ibrahim Babangida's regime, shared the proceeds of the Federation Account, thus:

(a)	Federal Government	55%
(b)	State Government	35%
(c)	Local Government	10%

The 35% accruing to the States which was paid into "States Joint Local Government Account" was in turn shared thus:

(a)	Direct to the States	30.5%
(b)	Mineral producing areas on derivation basis	2.0%
(c)	Amelioration of ecological problems	1.0%
(d)	Development of oil producing areas	1.5%

The respective shares of the various Governments out of the Federation Account are known as "Statutory Allocation." In his speech on the eve of his fourth year in office, Ibrahim Babangida announced a new revenue allocation formula approved by the Armed Forces Ruling Council (AFRC), as follows:

(a)	Federal Government	50%
(b)	State Governments	30%
(c)	Local Governments	15%
(d)	Special Funds	5%

The Armed Forces Ruling Council also decided that any surplus arising from the sale of gas should be separately accounted for and lodged in the Federation Account.

3.8 The National Revenue Mobilization Allocation and Fiscal Commission (NRMAFC)

The Commission headed by Lt. Gen. T. Y. Danjuma (Rtd) was established in 1989 as a permanent revenue allocation body. It was charged with the regular review of allocation formula.

The Commission applied the following basis, viz:

(a) Federal Government 48.5%

(b) State Government 24.0%
(c) Local Government 20.0%
(d) Special Funds 7.5%

The 7.5% of the special funds is utilized, thus:
(a) Ecological problems 2.0%
(b) Emergency problems 2.5%
(c) Mineral producing areas 3.0%

3.9 The Principles of Revenue Allocation

The various principles of revenue allocation which have been suggested and/or adopted over the years are summarised below:

a) Derivation: The principle was mainly applied to the proceeds of exports and taxes on agricultural products. It asserts that the State from which the bulk of revenue is obtained should receive an extra share above what other States receive. This principle is hinged on the need to be just.
b) Even Development The goal of Government is that the Federation itself should grow and develop at an optimal rate and that each constituent State should develop at that benchmark (but necessarily equally) rate. The principle requires that growth and development be spread so that serious inequalities or imbalances are reduced in the Federation. These may be achieved by sacrificing efficiency in the form of reduced overall growth.
c) Need: The rate of development which a State is able to achieve depends on the revenue it can generate. The States require financial as well as other resources to maintain existing facilities and develop additional capacities. Given a set of these other resources, a State requires funds to enable it realise its potentials. When the needs of a State are put against those of others, it may require transfer of financial resources from one State to another.
d) National Interest: This principle is used residually by the highest level of Government to intervene and transfer funds to lower levels or Units to serve various considerations. It lies therefore in the sphere of discretionary grants to be administered by the highest tier, the Central Government of the Federation.
e) Independent Revenue: The principle is that each level of Government should be able to raise and keep some revenue for its use. The bulk of the revenue of a State comes from what is raised and collected by the Federal Government. The main sources left to the State Governments are those on personal income taxes, capital gains tax from individuals, withholding tax and stamp duties, all of which should be exploited.
(f) Continuity of Government Services: The principle suggests that each level of Government has certain minimum responsibility and that the level of services provided should not be allowed to fall below that minimum.

(g) Equality of State: All men are created equal, but are endowed differently. Similarly, States are created equally but they emerge at creation and through passage of time, with different endowments of economic, financial and political power. The principle asserts that revenue sharing among the States should be done on equal basis.

(h) Equality of Access to Development Opportunities: This principle was introduced to correct unequal endowments of the States. The principle asserts that preferential treatment should be given to those States which by some measure of development, lag behind others or fall below certain norms.

(i) Absorptive Capacity It represents the capacity of a State to make proper use of funds. That means that funds should be released to those States which could best make use of them.

(j) Population: The principle asserts that since Government is about people, development is about people and that the purpose of Government is the welfare of the people. Therefore, States with larger population should receive extra share over and above others with smaller population.

(k) Tax Effort: The principle applied in most Federations, is designed to encourage States to exploit their tax capacities. The realization of a State's potential in respect of tax revenues will widen its development possibilities.

(I) Fiscal Efficiency: This principle asserts that States would minimize the cost of fiscal administration or obtain the maximum revenue from a given cost. Fiscal efficiency reflects not only on the ability to raise taxes and collect them, but the structure of tax base itself and the overall administrative machinery of government.

3.9.1 Reforms Suggested For Revenue Allocation In Nigeria

In spite of the large number of revenue allocation commissions which were set up and the number of amendments introduced into the allocation formular, revenue allocation issue has continued to generate wide spread controversy. It is on this premise that some notable experts have suggested the following reforms, with a view to address the problem of revenue allocation formula:

(a) Increase the share of oil producing states.
(b) De - empasise the population criterion in revenue allocation.
(c) The need for Local Government shares to pass through the State.

3.10 The Theory of Public Expenditure

Public expenditure refers to the expenses which Government incurs in the performance of its operations. With increasing State activities, it may be difficult to judge what portion of public expenditure can be ascribed to the maintenance of Government itself and what portion to the benefit of the society and the economy as a whole. In spite of the fact that public expenditure has increased rapidly over the years, and in spite of its growing role and importance in the national economy, the area of public expenditure remains relatively unexplored. Studies have generally been concentrated on taxation and the effects of public expenditure on employment and prices. Two notable theories of public expenditure are examined, viz:

(a) *"The Law of Increasing State Activities":* A German Economist- Adolph Wagner in 1890 postulated this theory. According to him, there are inherent tendencies for the activities of Government to grow, both intensively and extensively. He added that there exists a functional relationship between the growth of an economy and that of Government activities, and that the Governmental sector grows faster than the economy. All categories of Governments, irrespective of their levels, intentions and sizes, had exhibited the same kind of tendencies of increased expenditure.

(b) *"The Displacement Theory"*
Jack Wiseman and Allan T. Peacock put forth the theory in 1961. Their main argument was that public expenditure does not increase in a straight or continuous manner, but in "Jack or Stepwise" fashion. At times, some social or other disturbances occur which show the need for increase in public expenditure, which the existing level of revenue cannot meet. Therefore, public expenditure increases will make the inadequacy of the existing level of revenue clear to everyone. The movement from the initial and low level of expenditure and taxation to a new and higher level is known as the "displacement effect," while the inadequacy of the revenue as compared with the required expenditure creates the "inspection effect." Both Government and the people would attain a new level of "tax tolerance" by reviewing the revenue position and finding solution to the problem of inadequate finance. Since each major disturbance always leads Government to assume a larger proportion of the national economic activities, the net result is the 'concentration effect'. Therefore, 'concentration effect' is the tendency for Government activities to grow faster than the economy.

3.11 Reasons for Increase in Government Expenditure

A number of factors have been identified as inevitably leading to growth in Government spending in many countries over time. Some of these factors are general, and apply to all countries, while others are specific to some developing countries, such as Nigeria. The major reasons include the following:

(a) The traditional functions of Government such as defence, maintenance of law and order, are becoming extensive and cumbersome. Defence is becoming expensive more than ever before. The country's administrative set up is increasing both in coverage and intensity. For example, Government machinery has to be manned by experts in their respective fields. In addition, various complexities of economic and social measures develop which make efficient administration complex and expensive.

(b) Apart from the traditional functions of the State, there is the growing awareness of additional responsibilities. Government is expanding its activities in various areas which include the need to enrich the cultural life of the society and those designed to provide social securities to the people, such as pensions and old peoples' homes.

(c) Increasing population is also a determinant of public expenditure growth. The scale of various public goods and services has to rise in conformity with the growth of the population. The need for more schools, hospitals, security etc cannot be over-emphasized in the light of increasing population.

(d) It has been suggested that urbanisation and the resulting congestion have increased the need for more infrastructure, public goods and services. Moreover, quite a number of incidental services as those connected with traffic, roads, pedestrian bridge have to be provided.

(e) The tendency for prices to go up has equally contributed to the growth of public expenditure. The increase in the prices of inputs and other goods purchased by the public has resulted in an increase in public expenditure. It is the responsibility of Government to protect the citizenry against the evils of price mechanism. Consequently, anti-cyclical and other regulatory measures are put in place. Efforts are made to reduce income and wealth inequalities and bring about social and economic justice.

(f) Increasing public expenditure can also be explained in terms of increasing cost of debt servicing. Since States are related to one another through various economic transactions, there are tendencies to run into debts which have to be settled.

(g) Efforts of Government to reduce income and wealth inequalities, bring about social and economic justice and protect the economy from market failures entail the adoption of anti-cyclical and other regulatory measures which invariably increase public expenditure.

(h) Subsidies and other avoidable commitments also contribute to increase in public expenditure.

(d) In view of the size and nature of public services increasing specializations are required. Improved quality services and higher qualified administrators, engineers, technicians, teachers, medical personnel, etc, imply higher cost of public services which will also bring about increased public expenditure.

Self-assessment exercise

List the Principles of Revenue Allocation

3.12 The Effects of Public Expenditure

These may be appreciated, thus:

(a) Public Expenditure and Economic Stabilisation:

The philosophy of laissez faire leaves much to be desired in terms of economic results. The more advanced and free the market, the more the economy is prone to the vagaries of income, employment and price fluctuations. Public expenditure as an anti-cyclical tool can be devised in such a manner as to create effective demand, thereby stimulating investment activities. It may be emphasised that the total demand need to be regulated so that the demand flows match the supply flows, otherwise the stimulating effect would result in inflationary pressure.

(b) Public Expenditure and Production:

Public expenditure can help the economy to attain a higher level of production. Through stimulation of investments, it can create conditions favourable for market forces to push up production. It can be used to create human skills through education and training and maintenance of social overheads. Public sector investment can be specifically directed towards the creation of particular supplies and facilities, which may form an important and necessary input for other industries. Through research and development, new and effective methods of production can be found whereby local resources are used.

(c) Public Expenditure and Economic Growth:

In a developed economy, through economic stabilisation and stimulation of investment activities, public expenditure helps to maintain a smooth growth rate. In an under-developed economy, public expenditure has an important role to play in reducing regional disparities, developing social overheads, creation of infrastructure for economic growth in terms of communication and transportation facilities, education and training, growth of capital goods industries, research and development. When expenditure is incurred, it may be directed towards a particular investment or used to bring about reallocation of investible resources in the private sector of the economy. An important way in which expenditure can accelerate the rate of economic activities is by reducing the divergence between the social and marginal productivity of certain investments.

(d) Public Expenditure and Distribution:

A serious havoc of market mechanism is the inequalities of income and wealth which arise and get widened through the institution of private property and inheritance. Such income and wealth disparities not only result in social and economic injustice but also distort production and employment patterns. Low level income and wealth inequalities contribute towards economic in stability. Welfare consideration favours an equitable distribution of income and wealth since the purpose of economic policy is to attain the maximum level of social benefits possible. A shift towards equality may be achieved through various forms of public expenditure, especially those that are meant to help the poorer sector of the society Items of common consumption may be subsidised while the production of those which are in short supply can be taken up by the public sector. In the face of market mechanism the supply of merit goods may not be possible. Public expenditure through direct purchase, production or subsidies can ensure that their supply is augmented to the desired level. Similarly, public expenditure through appropriate subsidies and other purchase and store policies can boost labour intensive technology of production, thereby reducing unemployment and improving income and wealth distribution.

3.12.1 Standard Expenditure Decisions

Expenditure decisions should be guided by the following standards, among others:

(a) Economy: The nation's resources are scarce, compared with the needs of the society. It is therefore important that no wastage is allowed in public expenditure. The process of public spending should not involve the use of more resources than are actually necessary Wasteful usage of public fund must be avoided. Scientific approach towards assessment of required expenditure must be adopted. Budgeting techniques such as Planning and Programming Budgeting System and Zero-Base Budgeting System could be adopted.

(b) Benefit: Public expenditure should be viewed against the benefits that will accrue therefrom. It should be incurred only if it is beneficial to the society.

(c) Surplus: Government should avoid persistent deficit budgeting. It should be consistently prudent and aim at meeting its current expenditure needs out of current revenue. Government should not over- spend and eventually run into debt. Moderate surpluses over some years will take care of any unavoidable deficit during any other year.

(d) Sanction: All public expenditure should be subjected to legal appropriations and authorisations. Any contravention of expenditure procedure and due process should be sanctioned. As required by law all unspent appropriations should be returned to the Treasury at the financial year end.

3.13 Price Stability

Price stability refers to a situation where the general price level of goods and services changes very little or experiences no change at all. Price level stability exists where the annual rate of increase in prices, measured by the appropriate indices, is less than 2%. Common measures of price stability are:

(a) Consumer price index.
(b) Wholesale price index.
(c) National product deflator.

3.14 Full Employment

Full employment is a concept that cannot be precisely defined. Full employment does not mean that everyone has a job. This is because there will always be people such as babies, and very old people who cannot work, even if they are willing to do so. This situation makes every Government to define its full employment level. For example, in the United States of America full employment level is 97%, In Canada it is 96%. The balances of 3% and 4% respectively are the unemployment rates. In Nigeria, however, full employment policy has not been given a place of prominence and specific target has not been a consideration. Unemployment is a 'welfare loss' to the society in terms of total output that is being forgone. It is equally a 'welfare burden' borne by the individuals.

3.15 Economic Growth

Economic growth can be defined as an increase in a country's physical output over a long period of time. A country is said to have experienced economic growth when the real output of goods and services is increasing at a faster rate than the rate of growth of its population. Countries pursue economic growth in order to enjoy the benefit of a greater output, thus improving the standard of living of their citizens.

3.16 Economic Development

Economic development can be defined as the elimination or reduction in poverty, inequality and unemployment within the context of a growing economy; there may be growth without economic development.

3.17 Balance Of Payments (Bop) Equilibrium

Balance Of Payments (BOP) equilibrium is a record of a country's transactions with the rest of the world, over a period of time, in respect of visible and invisible items. The balance of payments index provides an indicator of a country's international economic position. Because of the importance of the above index, balance of payments equilibrium becomes an important objective of economic stabilization policy.

3.18 Equitable Distribution of Income

This has to do with how income is being distributed in the economy. Normal expectation is a fair and equitable distribution. Unfortunately, in less developed countries the income distribution pattern is asymmetrical, i.e. it is not evenly distributed. This accounts for the widespread poverty in such countries. The policy instruments used to achieve the above macro-economic objective include:

(a) Monetary Policies.
(b) Fiscal Policies.

(c) Income Policy.
The monetary policy is a measure designed to influence cost, allocation and distribution of credit in order to change the level of money supply in the economy. A fiscal policy refers to the deliberate action which Government takes in the areas of spending and/or levying taxes, with the objective of achieving macroeconomic variable. The income policy, on the other hand, relates to the regulation of the rewards that go to the factors of production such as labour (minimum wage legislation). It also includes the regulation of product prices (minimum and maximum price legislation).

3.19 Reasons for Government Intervention in Economy

Many arguments have been put forward to justify Government intervention in / or existence in the economy. These arguments include:

(a) The problem of economic instability
It has been observed that price mechanism creates the problem of economic instability such as inflation, unemployment and trade imbalance. The only way by which the problem can be minimized is to allow Government to exist in an economy.

(b) The problem of market imperfection
In an economy where there are problems of market imperfection such as the existence of monopoly, it is not appropriate to allow price mechanism to allocate resources. Consequently, as a way of solving the problem, Government needs to exist in the economy, so as to provide social or public goods, such as education, healthcare services, defence and electricity. The only way to guarantee the provision of these services cheaply to the society is for Government to monopolize their production and distribution.

(c) The rationale for planning
Government intervention permits the economy to be well planned for the purpose of accelerating economic growth and development.lt also permits the establishment of strategic industries such as iron and steel.

(d) Government exists in an economy for redistribution reasons. In the absence of Government intervention, the prevailing state of income distribution depends on factor endowments and their rewards in the market. The distribution of income may not be in line with what the society considers as fair or just, hence the need for Government intervention.

(e) The divergences between private benefit and social costs and between social benefit and private costs dictate the need for Government's presence.

Self-assessment exercise
Discuss briefly public expenditure in Nigeria.

4.0CONCLUSION

In this unit it was concluded that Public Finance is also concerned with how Government allocates costs or benefits when externality occurs. The income distribution aspect of Public Finance is concerned with how income is justly and fairly distributed in an economy.

5.0 SUMMARY

Public Finance deals with the features and methods of funding Government expenditure and the keeping of adequate records for money raised and spent. Essentially, Public Finance deals with acquiring, spending and accounting for money which passes through the Government.

6.0TUTOR-MARKED ASSIGNMENT

a) What is the theory of Public Finance?

b) State the principle of Taxation

7.0 REFERENCES/FURTHER READING

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UNIT 5 INTRODUCTION TO NATIONAL FISCAL RESPONSIBILITY

CONTENTS

1.0 INTRODUCTION

In this unit, you will be introduced to National Fiscal Responsibility in Nigeria established to strengthen the Nigerian economy, fast track the tempo of socioeconomic development and ensure value for all resources deployed into physical and intrinsic development; the Nigerian Government has enacted various laws by setting up various legally backed commissions. Fiscal Responsibility Act, 2007 was enacted as a means of providing for prudent management of the Nation's resources, ensuring long-term macro-economic stability of the national economy and securing greater accountability and transparency.

2.0 OBJECTIVES

After studying this unit, you will be able to:

- Explain the purpose of the Fiscal Responsibility Act.
- List the functions of the Fiscal Responsibility Commission.
- Preparation and explain the Medium-Term Expenditure Framework.
- Explain annual budget accompaniments.

3.0 MAIN CONTENT

3.1 Fiscal Responsibility Commission

This Commission was established by the Fiscal Responsibility Act, 2007 to carry out the following functions, among others:

(a) Monitoring and enforcing the provisions of the Act, thereby promoting the economic objectives of the Nation.

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

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

3.1.1 Composition of the Commission

The commission is to consist of:

(a) A chairman who will be the Chief Executive Officer and Accounting Officer of the Commission.

(b) One member representing;

(i) organized private sector;

(ii) civil society engaged in causes relating to probity, transparency and good governance;

(iii) organized labour;

(c) A representative of the Federal Ministry of Finance not below the rank of a Director;

(d) One member to represent each of the six geo-political zones;

All the members of the Commission shall be persons of proven integrity.

3.1.2 Functions of the Fiscal Responsibility Commission

The Act empowers the Commission to, among other matters, to

(a) formulate and provide general policy guidelines for the discharge of the Commission's functions;

(b) superintend the implementation of such policy guidelines;

(c) appoint employees to ensure proper and efficient performance of its functions; and

(d) Determine the conditions of service of employees and fix their remuneration allowances and benefits.

Self-assessment exercise

List the functions of the Fiscal Responsibility Commission.

3.2 Expenditure Framework- Medium-Term

The Federal Government in consultation with the States would:

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

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

3.2.1 Preparation of the Medium-Term Expenditure Framework

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

(i) The macro-economic framework.

(ii) Fiscal Strategy Document.

(iii) The strategic, economic, social and developmental priorities of Government.

(iv) Such other matters as he may deem necessary.

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

The Minister shall seek inputs from the following organizations:

(i)National Planning Commission.

(ii)Joint Planning Commission.

(iii)National Commission on Development Planning.

(iv)National Economic Commission.

(v)National Assembly.

(vi)Central Bank of Nigeria.

(vii)National Bureau of Statistics.

(viii)Revenue Mobilization Allocation and Fiscal Commission.

3.2.2 Content of the Medium-Term Expenditure Framework

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

(b) Fiscal strategy document setting out:

(i) Federal Government's medium-term financial objectives;

(ii) the policies of the Federal Government for the Medium Term relating to taxation, recurrent expenditure borrowings, lending and investment and other liabilities;

(iii) the strategies, economic, social and developmental priorities of government for the next three financial years;

(iv) an explanation of the financed objectives, strategic, economic, social and developmental priorities and fiscal measures;

(c) An expenditure and revenue framework which will set out:

(i) estimates of aggregate revenue for the Federation for each financial year, based on the pre-determined commodity Reference Price adopted and tax revenue projections;

(ii) aggregate expenditure for each of the next three financial years;

(iii) minimum capital expenditure projection for the Federation for each of the next three financial years;

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

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

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

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

(i) based on reliable and consistent data;

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

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

3.3 Aggregate Expenditure Ceiling

The estimates of aggregate expenditure and the aggregate amount appropriated by the National Assembly for each financial year shall not be more than the estimated aggregate revenue plus a deficit which must not be more than 3% (three percent) of the Estimated Gross Domestic Product or any sustainable percentage as may be determined by the National Assembly for each financial year. Aggregate expenditure for a financial year may exceed the ceiling indicated above if in the opinion of the President there is clear and present threat to national security or sovereignty of the Federal Republic of Nigeria.

3.3 The annual budget

This must be accompanied by:

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

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

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

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

(e) A fiscal target document derived from the underlying Medium - Term Expenditure Framework setting out the following targets for the relevant financial year:
(i) Target inflation rate (ii) target fiscal account balances (iii) Any other development target deemed appropriate.

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

4.0CONCLUSION

This unit introduce fiscal responsibility at all levels of public administration and in Nigeria. It discussed such fiscal issues like duties of the Fiscal Responsibility Commission, Medium Term Expenditure Framework of government.

5.0 SUMMARY

In this unit, you were introduced to National Fiscal Responsibility, its composition and functions of the Fiscal Responsibility Commission; Medium Term Expenditure Framework and its preparation and Annual Budget.

6.0TUTOR-MARKED ASSIGNMENT

a) Explain the purpose of the Fiscal Responsibility Act.

b) List the functions of the Fiscal Responsibility Commission.

8.0 REFERENCES/FURTHER READING

ICAN Study Pack

UNIT 6 PUBLIC DEBTS AND ITS MANAGEMENT IN NIGERIA (INTERNAL/DOMESTIC)

CONTENTS

1.0 INTRODUCTION TO 'PUBLIC DEBT'

In this unit, you will learn that 'Debt' arises when income falls short of expenditure. 'Public debt is therefore that part of money owed by the Government to various creditors, institutions, other governments and individual resident in and outside Nigeria. The Debt Management Office in the Presidency manages the Nation's public debt with the assistance of the Central Bank of Nigeria. The issue of public debt can be examined from two perspectives, namely: Internal/Domestic Debt and External/Foreign Debt. At this level you shall deal with domestic/internal debt

2.0 OBJECTIVES

After studying this unit, you should be able to:

- List the causes of internal (domestic) debt.
- State general causes of public debt and consequences.
- Identify causes of Nigeria's debt crisis.
- Explain relief for Nigeria's debt situation.
- State reasons for and disadvantages of borrowing.

3.0 MAIN CONTENT

3.1 Internal or Domestic Debt

Nigeria has contracted a number of domestic debt obligations, which can be classified into two major groups, discussed as follows:

(a) Internal debts contracted through financial instruments. This type of internal public debt is contracted through the financial instruments of the Central Bank of Nigeria, from the Commercial and Merchant Banks and the non-bank public. The debts are normally contracted through financial instruments such as Treasury Bills, Treasury Certificates and Government Development Stocks. The Central Bank of Nigeria underwrites the instruments on behalf of the Federal Government and takes up unsubscribed parts of the loans.

(b) "Trade-related" debts owed directly to contractors and suppliers. Government borrows from the economy for the purpose of financing certain expenditure that will alter the position of economic variables like consumption, saving and investment, employment, price level and output of goods and services. This arises when payments to contractors and suppliers are delayed or remain unpaid by Government due to lack of fund. The increase in the domestic debts reflected the rapidity with which debt procurement was carried out to finance projects. The increase also reflected the rapid changes in the indices of the macro-economic environment. Mature debts were often liquidated by re-issuing new debt instruments, hence the contention that Government does not repay debt arising from the issue of Treasury Bills. Currently, Treasury Bills constitute the largest source of domestic debts while the Central Bank of Nigeria is the largest holder of short-term domestic debts, reflecting its outstanding attribute of underwriting role.

3.1.1 Instruments of Domestic Borrowing

Government projects are usually financed through the issuance of debt instruments such as Treasury Bills, Treasury Certificates, Government Development Stocks, General Obligation Bonds, Revenue Bonds, and Special Assessment Bonds. The most frequently used of the instruments are discussed as follows:

(a) *Treasury Bills (TBs)*- These are highly liquid financial obligations of the Federal Government issued by the Central Bank of Nigeria, in multiples of 41,000 every week, with 91 days maturity. They are principal instruments of open market operations in Nigeria.

(b) *Treasury Certificates* - They are financial instruments just as Treasury bills, with maturity ranging from one to two years. The Treasury Certificate interest rates are usually higher than those of Treasury Bills. The major investors in Treasury Certificates are the discount houses, commercial and merchant banks.

(c) *Government Development Stocks* - Development stocks are capital market instruments. They are either medium or longterm, issued to finance development projects or plans. The longer the maturity the higher the yield. The principal investors in development stocks are the insurance companies, commercial banks, Central Bank of Nigeria and other types of institutions like mortgage banks. Federal Government Stocks are debts raised by the country. The issuance procedure is usually handled and managed by the Central Bank of Nigeria, which files its application with the Securities and Exchange Commission. The security is approved for listing on the Stock Exchange.

(d) *Revenue Bonds* - Revenue Bonds are issued by the State and Local Government Councils. They are backed up by the pledge of revenue to be generated from the project being financed. They are municipal bonds issued on the promise that principal and interest will be repaid from the revenue generated from the facilities to be constructed with the proceeds of the issue.

3.1.2 Causes of Domestic Debt

The rapid increase in the stock of domestic debts is caused primarily by the need to:

(a) Finance ever-rising Government expenditure.
(b) Finance Government budget deficit
(c) React positively to increased socio-economic responsibilities.
(d) Finance high domestic and international inflation rates, resulting in increased cost of Government administration and development programmes.
(e) Cope with the sharp decline in Government revenue, following the collapse of the international market.

3.1.3 Management of Internal or Domestic Debt

The management of domestic debt by the Federal Government is a statutory obligation of the Central Bank of Nigeria, but which is now handled by the Debt Management Office in the Presidency. It is the Central Bank which is entrusted with the issue and management of Federal Government loans publicly issued in Nigeria, upon such terms and conditions as may be agreed between the Federal Government the banks and the contractors. The management of domestic debt involves:

(a) Advising on the timing of flotation of debt instruments and terms of issue.
(b) Advertising for public subscriptions to the issue.
(c) Collecting the proceeds of issue by the Central Bank of Nigeria on behalf of the Government and maintaining proper books of accounts in respect of receipts and disbursements.
(d) Supervising the issue of certificates and warrants to the lenders.
(e) Paying of interest and principal on the due dates.
(f) Managing the 'sinking fund' set up to facilitate debt redemption.
(g) Providing information on regular basis and advising Government about the position and implications of domestic debt.

3.1.4 Economic Indicators of Domestic Debt

Some economic indicators of domestic debt burden are the ratios of debt stock and the fiscal deficit to the Nation's gross domestic product. The ratios were 5% and 6.9% in 1970 and 1974, respectively. By the middle and late 1970's, when domestic debt instruments became veritable sources of financing the budget deficit of the Government, the domestic debt stock as a ratio of the gross domestic product rose rapidly from 8% in 1975 to 21% in 1980. Thereafter, the ratio rose even more sharply, registering 39% and 41% in 1985 and 1991, respectively. Similarly, the annual budget deficit as a percentage of the gross domestic product rose significantly, fluctuating between 4% and 10% during 1980 and 1986, and standing at 12.4% at the end of 1991. There is a New Guidelines on Borrowing as enunciated by the Fiscal Responsibility Act, 2007. Borrowing is interpreted to mean any financial obligation arising from:

(a) any loan, including principal, interest and fees on such loan;
(b) deferred payment for property, goods or services;
(c) bonds, debentures, notes or similar instruments;
(d) letters of credit and reinbursement obligations in respect thereto;
(e) trade or bankers' acceptance;
(f) capitalised amount of obligations under leases entered into primarily as a method of raising financing or of financing the acquisition of the asset leased;
(g) agreements providing for swaps, ceiling rates, ceiling and floor rates, contingent participation or other hedging mechanisms with respect to the payment of interest or the convertibility of currency; and
(h) Conditional sale agreements, capital leases or other title retention agreement.

3.2 General Causes of Public Debt

At independence, African Governments had little choice but to increase expenditure, even if they had to borrow, for survival and developmental projects. The following reasons justified the need to borrow so heavily, as at that time, viz.:

(a) Increased population, with the attendant responsibility to cater for the welfare of the people.
(b) Need to provide infrastructural amenities in cities and villages.
(c) The problem of urbanisation.
(d) The pace of industrialisation.
(e) Expansion of Governmental activities and facilities such as the creation of Ministries, Government Departments and Local Government Councils.
(f) Provision of social security, state security, health, education, etc.
(g) Inability to collect revenue efficiently.
(h) Need to provide employment, improve the standard of living and general economic well being of the citizens.

3.2.1 Consequences of Public Debt

(a) Funding excessive interest rate on public debt is in hard currency which poses a serious burden on the Government and the society at large.
(b) Capital repayment presents serious imposition on the economy, since Government must find the means to repay.
(c) Borrowing makes the Government to have more cash to fund its various expenditure. A direct effect of this are rising costs and prices.
(d) Stiff borrowing conditions from the international financial institutions carry grave repercussions such as expenditure reduction, trade liberalization and economic disorder. These demand highly technical approach to economy, which developing Nations lack and which result in economic hardship to the people.
(e) The problem of committing short and medium-term loans to long term projects. A good number of projects were hardly completed before amortisaton was due, thus aggravating the debt servicing problem.
(f) Several economies are characterised by heavy dependence on one or a few agricultural and mineral products. The manufacturing sector at the infant stage relied heavily on imported inputs hence, the vulnerability to external debt portfolios.
(g) Dwindling foreign exchange receipts and decline procurement in development assistance and other concessional loans led to procurement of loans at high costs and stiff conditionalities which ultimately caused aggregate external debt to increase considerably.
(h) Borrowed funds were not used to finance economically viable projects. They were diverted to prestigious projects which had little or no economic benefits. Besides, there was the Nation's inability to generate enough foreign exchange with which to repay the externally borrowed funds.
(i) Occurrence of natural disasters such as persistent drought, desertification and decimation of crops. Apart from reducing the level of exports, those disasters had also led to increase in the food import bills. Such imports were either financed with borrowed funds or they contributed to the build-up in the payment arrears.

3.2.2 Approaches to Solving Debt Problems in Nigeria

As part of the efforts to reduce the burden of external debt in Nigeria, the following measures have been taken in recent years:

(a) Placement of embargo on new loans to prevent additional debt burden and fixing the maximum level of debt commitment for Federal and State Governments.
(b) Reduction of importation of non-essential items.

3.2.3 Causes of Nigeria's Debt Crisis

There are factors which led Nigeria and other developing countries into the debt crises. The major causes include the following:

(a) Change in the economic fortune in the oil sector. Nigeria enjoyed oil boom in the 70's and what followed was excessive supply of crude petroleum, leading to oil glut in the world market and sharp drop in revenue.

(b) Nature of Nigeria's Economy. Nigeria's economy is heavily dependent on one or a few agricultural or mineral commodities. The manufacturing sector is mostly at the infant stage and relies heavily on imported inputs. Nigeria equally depends on the advanced countries for the supply of other imports and finance needed for economic development.

(c) The shift from official to private sources of credit. For a private loan, interest would be higher and the period of maturity very short, while the reverse is the case in respect of an official loan.

(d) The problem of satisfying the International Monetary Fund's conditionalities has made developing countries, including Nigeria, to accept expensive loans from private money lenders, the effect of which is the problem of debt service.

(e) The low level of savings and high propensity to consume foreign goods.

(f) Gross mismanagement, compounded by inappropriate monetary, fiscal and exchange rate policies.

3.3 Reasons for Borrowing

The following reasons have been advanced for borrowing:

(a) Countries borrow to finance assets, particularly those whose benefits spread over several years. An example is the damming of River Niger at Kanji for the generation of electricity.

(b) To finance public sector enterprises like the airport and the seaport.

(c) To finance recurrent expenditure, e.g salaries of public servants and maintenance of public utilities.

(d) To meet emergencies, such as war, flood and drought.

(e) To finance budget deficit.

(f) To achieve the goal of economic stabilisation.

(g) Governments borrow because of the limitation surrounding the printing of the Nation's currency.

(h) Governments borrow when it is difficult to increase taxes to generate additional revenue.

3.3.1 Conditions for Borrowing

(a) Any Government in the Federation or its agency and Corporations which intend to borrow, should specify the purpose for which the borrowing is intended and present a cost-benefit analysis, detailing the economic and social benefits of the purpose to which the intended borrowing is to be applied.

(b) Government at all tiers shall borrow only for capital expenditure and human development, and such borrowing shall be on concessional terms with low interest rate and with a reasonable long amortization period.

(c) Each borrowing shall be subject to:

(i) The existence of prior authorisation in the Appropriation or other Act or Law for the purpose for which the borrowing is to be utilised.
(ii) The proceeds of the borrowing being applied solely towards long-term capital expenditure.

(d) Level of public debt as a proportion of national income should be held at a sustainable level as prescribed by the National Assembly.
(e) Federal Government may borrow from the Capital Market.
(f) The Fiscal Responsibility Commission shall verify compliance with the limits and conditions for borrowing by each Government in the Federation on quarterly basis.
(g) The Debt Management Office shall maintain comprehensive, reliable and current electronic data base of internal and external public debts, guaranteeing public access to the information.
(h) Servicing of external debts will be the direct responsibility of the Government that incurred the debt.
(i) The cost of servicing Federal Government guaranteed loans shall be deducted at source from the share of the debtor Government from the Federation Account.
(j) Violators of the limits set by the Constitution and relevant Act shall:
(i) be prohibited from borrowing either internally or externally;
(ii) bring the debt within the established limit by restricting funding commitments.

(k) All banks and financial institutions shall request and obtain proof of compliance with the provisions of the relevant sections of the Fiscal Responsibility Act before lending to any Government in the Federation.

3.3.2 Disadvantages of Borrowing

They include:

(a) It increases the cost of financing Government activities as interest has to be paid on the debts.
(b) It imposes future obligations on the tax payers, particularly if the debt is not used to finance projects with long-term benefits.
(c) Borrowing creates wealth illusion. When Government borrows there is the tendency to spend recklessly, as the taxpayers do not bear the burden of the money borrowed in the immediate period. For this reason, the public may decide to fold hands without challenging the frivolous spending of the Government.
(d) It is an ineffective way of controlling inflation.
(e) Borrowing goes along with unbearable conditionalities of the International Monetary Fund, like trade liberalisation, withdrawal of subsidies from petroleum products, non-increase of salary of public servants and allowing economic forces to dictate 'fair salary' and demand.

3.4 General Obligation Bonds

Such bonds are issued by a State Government. They are backed up by the full fledged credit and tax generating power of the issuing Government. Where a State Government issues general obligation bonds, the rating of the bonds is limited to the economic resources of the local tax payers and the State's share of revenue from the Federation Account. The bonds are frequently used to pay for the construction of roads, schools and other public buildings.

3.4.1 Special Assessment Bond

They are financial instruments backed up by the proceeds from a special tax or assessment levied against those who are expected to benefit from the services or the envisaged improvement.

3.4.2 Special Requirements for Revenue Bonds

The special requirements are:

(a) Identification of Government's authority to borrow and the types of activities to which the enabling legislation applies.
(b) General grant of power to acquire, construct, improve or extend the special improvement to issue revenue bonds and pledge same for the payment of these bonds.
(c) Requirement that the issuing body should establish sufficient charges or rates to operate and maintain the projects and meet principal and interest payments as scheduled.
(d) Guarantee that the revenue bonds have all the qualities of a negotiable instrument under the appropriate law of the State.
(e) Provisional design to secure the successful operation of the project.
(f) Remedies to be initiated where there is default.

3.5 Documentation for State Government Debt Instrument Project -Tied Debt

The documentation is highlighted as follows:

(a) Profile of the State, showing its population, major industries, their locations and other major projects embarked upon. The information has to be submitted with an application to the Securities and Exchange Commission.
(b) A profile of the assets and liabilities of the State in the last five years in addition to a 5 year projection.
(c) Sources of revenue for the past 5 years, indicating the percentage contribution of each to the total revenue.
(d) The law of the State authorising it or its agency to borrow from the capital market.
(e) A feasibility report of the project to be financed.
(f) A draft of the Trust Deed in respect of the proposed issue.

(g) The consent of the Federal Ministry of Finance to the State's request to borrow from the capital market.
(h) Letter of authority from the State Government to the Central Bank of Nigeria or the Accountant-General of the Federation, to permit the Customs and Excise to seek direct recovery of loans and interest from the affected Government's statutory allocation, in case of default.

Self-assessment exercise

What are the problems of Debt Conversion Programme?

3.6 Problems Facing State Government in Financing Projects Through Capital Market

The problems include:
(a) Poor situation of accounting on the part of a State Government.
(b) Lack of qualified personnel to effectively evaluate, appraise and monitor projects.
(c) Poor performance of existing State Government projects which act as disincentive to potential investors.
(d) Inability of Government to package and market viable projects to the investing public.
(e) Lack of awareness of the potential of the investing public.
(f) Preference for short-term investments by the public.

3.7 Funded, Floating and Unfunded Debt (Loan)

The classical prescription for debt management has been that sound debt policy requires funding on more or less long-term basis. Short-term debts are said to leave the Government at the mercy of impatient lenders. For this reason, legitimate borrowing in peace time should be long-term. In time, war debt, if not issued long in the first place, should be converted in the post war period. A 'funded debt' is one which matures after more than one year. Provision for its repayment is made from the first year of enjoying the benefit of the loan, so that the working capital position of the debtor nation would not be perturbed.

Funded Debt: A funded debt has the additional advantage of simplicity and certainty. It gives room for orderly plan for debt retirement. The major argument for long-term debt is that of the protection which it affords the Treasury against sudden insistence by lenders that debt be paid off; leaving the Treasury tottering around on the verge of bankruptcy.

Unfunded Debt: An unfunded debt, on the other hand, matures within one year. In view of the obligation to make repayment within twelve calendar months, the debt may impact seriously on the working capital position of the country.

Floating Debts: Floating debts are those which may not have specific maturity dates, but part of which may be repayable, subject to various terms and conditions.

3.14 Marketable and Non-Marketable Loans:

Marketable loan is that can be sold by the existing holders while non-marketable loans are the ones issued in favour of particular debt holders only, and cannot be sold to others.

Self-assessment exercise
Differentiate between London Club and Paris Club

4.0CONCLUSION

In conclusion, you learnt that Public Debt is total money raised or borrowed by the Government. The Debt Management Office in the Presidency manages the Nation's Public Debt which has escalated to unprecedented level in recent years.

5.0 SUMMARY

In summary, you learnt that 'Debt' arises when income falls short of expenditure.
'Public debt as part of money owed by the Government to various creditors, institutions, other governments and individuals resident in and outside Nigeria is managed by the Debt Management Office in the Presidency in Nigeria.

6.0TUTOR-MARKED ASSIGNMENT

a) Explain debt management in Nigeria.

b) List causes of public debt.

7.0 REFERENCES/FURTHER READING

ICAN Study Pack