NATIONAL OPEN UNIVERSITY OF NIGERIA

SCHOOL OF MANAGEMENT SCIENCES

COURSE CODE: PAD205

COURSE TITLE: INTRODUCTION TO PUBLIC BUDGETING

INTRODUCTION TO PUBLIC BUDGETING

PAD205

MAIN CONTENT

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Published by: National Open University of Nigeria 2008

First Printed 2013

ISBN: 978-058-005-0

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MODULE 1

Unit 1 Definition and Meaning of Budgeting

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UNIT 1: BUDGETING AND BUDGETARY CONTROL DEFINITION AND MEANING OF BUDGETING

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1.0 INTRODUCTION

Every individual or entity engages in budgeting. Budgeting is as old as man. Budgeting is essentially planning for expenditure as a person, group of persons, companies or even a nation. Jesus Christ used budgeting to explain the cost of being a disciple in Luke 14:28-31. Jesus talked of a man who intended to build a tower and did not sit down to do a budgeting. He got frustrated on the way after laying the foundation.

Jesus equally mentioned a king who went to war with his 10,000 soldiers without considering the strength of his opponent, (another king who had heavily armed 20,000 soldiers) and lost the battle.

Even a housewife prepares family budget very well and endeavours to keep within the budget limit.

2.0 OBJECTIVES

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

• Describe what budgeting means

• Explain budgeting from the point of views of individuals, groups or corporate entities.

• Analyze different definitions of budgeting.

3.0 MAIN CONTENT

3.1 Definition and Meaning of Budgeting

Budgeting means different things to different people. Wilder Sky (1964) cited by Omolehiwa (1995) gave definitions and interpretations given to a budget as follow:

1. A plan of work

2. A prediction

3. A link between financial resources and human behaviour to accomplish policy objectives.

4. A means for making choices among alternative expenditures

5. In the government it is a record for preferences that have prevailed the determination of national policy.

However, according to CIMA (Chartered Institute of Management Accountants) a budget could be defined as a plan stated in quantitative monetary terms which is prepared and approved prior to a defined period of time usually showing planned income to be generated and, or expenditure to be incurred during that period and capital to be employed to attain a given objective.

3.2 Deductions from the Meaning and Definitions: An analysis of the definitions shows that a budget is:

a. Essentially a plan quantified in monetary terms to attain a given objective.

b. Prepared and approved

c. Prior to a defined period (the budget period)

d. Usually showing planned income to be generated

e. Expenditure to be incurred

f. Capital to be employed during that period.

Hence, budgeting could be classified into long term and short term budgets. Long term budget of ten years is termed as strategic planning.

It sets out long-term goals, the general programme of actions, and the allocation of resources to carry out such actions. Long – term budget communicates long term goals. For example, programme for rural electrification. The long term budget defines the parameters with which managers have to draw short-term plans.

The short term budget defines objectives in concrete and quantitative terms for the firm as it provides guidelines as to how to achieve these objectives. The short term budget covers a period in time, monthly or quarterly break up.

4.0 CONCLUSION

The need for a budget arises due to improvement of control in an organization. It forces managers to be accountable for their decisions. So budget is a plan which is agreed in advance. It must be a plan and not a forecast. A forecast is a prediction of what might happen in the future whereas a budget is a planned outcome, which the firm hopes to achieve. A budget will show the money needed for spending and how this might be raised or sourced. Budgets are based on the objectives of businesses or corporate entities.

Information included in a budget may include revenue, sales, expenses, profit, personal, and cash and capital expenditure. For a state, it could include capital and recurrent expenditure. These variables are known as budget factors which can be given value.

5.0 SUMMARY

In this unit, you have learnt that budgeting is as old as man. It has been explained that budgeting is as good as planning and not a forecast which means prediction. It was also discussed that there are both long-term and short term budgets.

6.0 TUTOR - MARKED ASSIGNMENTS

1. What is budgeting?

2. Differentiate between long term and short term budgeting?

3. Who can make a budget?

7.0 REFERENCES/FURTHER READINGS

Ifurueze Mishark ((2006) Studies in Management Accounting and Finance

Otokiti and Awodun: (2001). Managing Business Finance and Investments

Pandy, I.M. (2000) Financial Management (8th Ed)

National Open University of Nigeria (2009). MBA728: Public Financial Management. NOUN, Lagos

UNIT 2: BUDGETING/BUDGETARY CONTROL PURPOSES AND ADVANTAGES OF BUDGETING

CONTENTS

1.0 INTRODUCTION

Budgeting is a management tool. Many benefits are derived from budgeting, although it is a means and not an end in itself. It is a feed forward process: it makes an evaluation of the variables likely to affect future operations of the enterprise. Budgeting predicts the future with reasonable precision and removes uncertainty to a greater extent.

2.0 OBJECTIVES

By the end of this unit, the students should be able to:

• Recall the meaning of budgeting

• Recall the definitions of budgeting

• Name the purposes and advantages of budgeting

• Itemize the benefits of budgeting.

3.0 MAIN CONTENT

3.1 Purposes/ Advantages of Budgeting

If budgets are carried out in a conscientious and effective manner before, during and after budgets are set, they will offer numerous benefits both to the organization and their employees. Those benefits will include.

Managers are compelled to analyze the activities of the organizations.

The attention of management is drawn from the present to the future.

Management can now anticipate projects or opportunities in time and deal with them effectively.

Reference point for control of actions or decisions decided upon is provided.

According to Professor I.M Pandey in Financial Management (8^{th} Edition), the following are the purposes and more significant advantages of budgeting:

Forced Planning

Management is compelled to plan for the future. It looks ahead and becomes more effective and efficient in administering the business operations. The habit of evaluating carefully the problems and related variables before making any decisions by managers is instilled or compelled by the process of budgeting.

Coordinated Operations

Budgeting helps to coordinate, integrate and balance the efforts of various departments in the light of the overall objectives of the enterprise. This results in goal congruency and harmony among the departments.

Performance Evaluation and Control

Budgeting facilitates control by providing definite expectations in the planning phase that can be used as a frame of reference for judging the subsequent performance. Budgeted performance is a more relevant standard for comparison than past performance since past performance is based on historical factors which are constantly changing.

Effective Communicating:

Budgeting improves the quality of communication. The enterprise objective, budget goals, plans, authority and responsibility and procedures to implement plans are clearly written and communicated through budgets to all individuals in the enterprises. This results in better understanding and harmonious relations among managers and subordinates.

Optimum Utilization of Resources – Both Capital and Human

It helps in directing total efforts of the firm into the most profitable channels.

Productivity Improvement

Budgeting increases the morale and so the productivity of the employees by seeking their meaningful participation in the formulation of plans and policies, bringing a harmony between individual and the enterprise objectives and by providing incentives to perform more effectively.

Profit mindedness is developed by budgeting and this in turn promotes cost – consciousness.

Management by exception is an offshoot of budgeting. Management attention is focused on significant matters through budgetary reports. It saves the management time and energy considerably.

Budgeting leads to efficiency as managements' self evaluation is permitted and the progress in attaining enterprise objectives.

4.0 CONCLUSION

Budgeting in the views of Professor Pandey and Dr. Ifurueze is a worthwhile activity which leads to efficiency as managements' self evaluation is permitted and objectives of the enterprise are attained.

More so, management is forced to plan and coordinate operations.

There is increase in the quality of communication and optimum utilization of resources.

5.0 SUMMARY

The process of budgeting guarantees the following advantages not only to the individuals but the organization as a whole:

- Acts as a plan
- Performs a coordinating role
- Creates a framework
- Offers an incentive and
- Provides a control facility

6.0 TUTOR - MARKED ASSIGNMENTS

1. Why is effective communication an advantage in budgeting?

2. Despite performance evaluation and control, what other benefits are there in budgeting.

7.0 REFERENCES/FURTHER READINGS

Lian, Maitland (1996). Budgeting for Non-Financial Managers

Ifurueze Mishark (2006). Studies in Management Accounting and Finance

PANDY, I.M (2009) : Financial Management (8th Edition).

UNIT 3: BUDGETING AND BUDGETARY CONTROL: APPROACHES TO BUDGETING

CONTENTS

1.0 INTRODUCTION

In this unit, effort will be made to teach you the different approaches or procedures to budgeting. Considering the fact that you can recall the meaning, definition and even the benefits of budgeting studied in the previous units, this unit will be easy to grasp.

The budgetary procedures which take place within businesses will vary from one organization to another. However, most firms will follow a similar series of steps as shown in the diagram or flowchart.

2.0 OBJECTIVES

By the end of this unit, students should be able to:

• Name and recall the basic advantages of budgeting.

• Itemize from sales forecast compiled to corrective action carried out.

• Explain the activities of the budget committees in any given organization.

3.0 MAIN CONTENT

3.1 Procedures to Budgeting

The sequences in which budgets are approached include the following: sales forecast compiled:

• Production forecast drafted

• Capital expenditure forecast composed

• Departmental forecasts drawn up.

• Budget committee receive forecast

• Budget committee confirms individual budgets

• Variation reports completed regularly.

• Corrective action identified

• Corrective action carried out.

The way in which a budget might be prepared is procedural. It is a step by-step process. The initial step is to decide upon a budget period and state the objectives, which are to be achieved. The budget period may vary according to the type of budget but one month or one year is usually normal.

According to Lain Maitland (1996), the following sequence is typical in most organizations: Compilation of sales forecast. It should be noted that there are differences between a forecast and a budget. They may look the same to all intents and purposes, a forecast sets out what is likely to happen, be required or whatever. Whereas, a budget states what should occur or else!

A sales forecast is drawn up by the manager and his team. They predict what the sales will probably be over the coming months and year, as appropriate. The sales forecast is the first to be compiled simply because majority of firms base their activities and planned expenditure around their anticipated revenues.

The drafting of the production forecast is the next step to be taken into account as it is based on the preceding sales budget forecast. Production capacity, which is the maximum amount that can be produced by a firm over a given period.

This is assessed and undertaken by the production manager and his colleagues. The production levels will be set in relation to estimated sales, whilst taking note of opening stocks and the required closing stock levels which may need to be higher or lower than at the outset. From these figures, direct materials, direct labours and factory overheads can be worked out and allocated as relevant.

The next level is the capital expenditure forecast. This implies that some items may have to be purchased because of exhausted existing equipment, changing technology and the like, with others being offloaded as appropriate. This decision is taken by the finance director or whoever, drawing on the information provided by the sales, production and other departmental managers within the organization.

The drawing of departmental forecast is the next in sequences. With relevant information from the sales and production budget forecasts being made available as necessary, additional budgets will be composed, setting down the revenues and the expenditures within the remaining departments-purchasing, marketing, finance, administration, personnel, distribution etc. These will be put together by the departmental heads/managers and their teams, typically working in close cooperation, with each other. Key data concerning capital goods will be passed to the finance department, or whoever is responsible for creating that capital expenditure budget.

Budget committee receives forecasts in order to vet and consequently approve or amend them. They also draw up a cash budget, budgeted profit and loss account and a budgeted balance sheet. The composition of this committee will vary according to individual circumstances and might be chaired by the finance director or whoever has ultimate responsibility for budgeting within the firm. The various departmental heads who compiled the forecast may act as members.

Master budget is set up by the budget committee, based on information acquired and assessed.

This is a tough and protracted task as it is improbable that all the forecasts will instantly gel together well and adjustments will have to be made to them. It is likely that the finance director or who ever has overall charge will have the last words in the decision making process.

The individual budgets are confirmed by the budget committee as agreement is reached on the master budget. The sales, production, capital expenditure and departmental ones can be established and confirmed by the appropriate departments.

The variation reports are regularly completed in order to adhere as much as possible to the budgets that have been set. A variation report simply records the estimated and actual revenues and, or expenditures which any variances noted along side of them-have to be filled in when major differences exist. Typically in excess of 10%.

Identification of corrective action as noticeable and potentially troublesome variances will be brought to the attention of the departmental manager. He identifies the corrective action needed to remedy the matter. It could be delayed payments, chase up outstanding debts, or whatever to improve poor cash flow situation.

At the end, corrective actions are carried out as identified. Those variances that cannot be remedied and which may have substantial knock-on effects on this and other budgets will need to be passed upwards so that adjustments and allowances can be made.

4.0 CONCLUSION

It is normal to have a budget of either one month or one year. This is preceded by the intended objectives of the budget which have to be achieved at the end of the day. The preparation of budgets is procedural and is a step by step activity which must follow a sequence as highlighted above.

5.0 A SUMMARY OF THE PROCEDURES

Sales forecast

Production forecast

Capital expenditure forecast

Purchasing Department Forecast

Marketing Department Forecast

Finance Dept Forecast

Admin Dept Forecast

Personnel Dept Forecast

Distribution Dept Forecast

Budget committee

Budgeted cash budget Budgeted

Balance Sheet

Profit + Lost Acct.

Variation Report

Corrective Action Identified

Corrective Action Taken

6.0 TUTOR - MARKED ASSIGNMENTS

1. What are the sequences or procedures identified between sales forecast and corrective action carried out

2. Which manager heads the budget committee and why?

3. How long do most budgets last?

7.0 REFERENCES/FURTHER READING

Lain, Maitland: (1996).Budgeting for Non – Financial Manager.

Ifurueze Mishark: (2006). Studies in Management Accounting and Finance.

MODULE 2

UNIT 1: TYPES OF BUDGETS IN THE PRIVATE SECTOR: SALES, RAW MATERIAL PURCHASE AND RAW MATERIALS UTILIZATION BUDGETS

CONTENTS

1.0 INTRODUCTION

As Financial Plans that set out anticipated revenues / and or estimated expenditure over a period of time, typically one year, budget has types.

This unit attempts to discuss three types: the sales, the raw materials purchase and raw materials utilization budgets

2.0 OBJECTIVES

At the end of this unit, the students should be able to explain the following:

• Recall the prominent procedures of budgeting

• The sales budget as a foremost type of budget

• The raw materials purchase budget as essential for production

• The details of raw materials utilization budget

3.0 MAIN CONTENT

3.1 The Sales Budgets

The sales budget is the starting point of every budget because of its detailing of the revenue to be generated by a given organization.

Production budgets are made up of two types – the raw materials purchase and the raw materials usage or utilization budgets.

Is the foundation on which other budgets are made; it is a detailed plan of sales made by a firm or expected by a firm over a given period, say, a year and sub-divided over a shorter period usually of one month's duration each. The sales budget represents the starting point in any budgeting process because it is the only budget that estimates revenue to be generated in a period. It serves as a coordinator and a pre-requisite for other budgets.

The mechanism of sales budget involves the following:

1. Making a quantity decision which decides the quantity of goods to be produced based on consumer demand over the years.

2. Making a price decision which determines the standard unit price of products after due consideration of production mark up.

3. Making the revenue decision for the period using the following traditional methods:

a. Committee opinion method

b. Sales force method and

c. Statistical method.

3.2 Raw Materials Purchase Budget

This is a detailed plan showing the purchase or materials needed for production in a given period, showing all necessary adjustments made for normal losses in the production process. It is mathematically determined as material usage plus minimum closing stock minus closing stock of raw materials.

3.3 Raw Materials Utilization Budget

Shows a detailed plan of the quantity of raw materials required for a given level of production in a defined period. It is determined by multiplying the budgeted production units by the material mix.

4.0 CONCLUSION

For a meaningful budget, there has to be sales budget, detailed with its estimated revenue in order to facilitate other aspects of budgeting.

The raw materials purchase budget gives details of materials needed for production in a given period and shows the necessary adjustments made for normal losses in production.

The raw materials utilization budget takes into cognizance the plan of the quantity of raw materials need for a level of production for a given period.

5.0 SUMMARY

Sales budget is a sine qua non to any budgeting due to its revenue generating attribute in budgeting.

Raw materials purchase budget is also prominent as no firm can produce without consideration for necessary input.

The place of raw materials utilization is important due to the detailed plan of the quantity of materials required for a given level of production in a stipulated period.

6.0 TUTOR - MARKED ASSIGNMENTS

1. Discuss the relevance of sales budgets in any given budgeting exercise.

2. Differentiate between raw materials purchase and raw materials utilization budgets in any organization.

7.0 REFERENCES/FURTHER READINGS

Ifurueze, Mishark ((2006). Studies in Management. Accounting and Finance.

Lain, Maitland: (1996). Budgeting for Non-Financial Managers.

UNIT 2 : TYPES OF BUDGETS IN THE PRIVATE SECTOR: PRODUCTION, LABOUR AND OVERHEAD BUDGETS

CONTENTS

1.0 INTRODUCTION

This unit introduces three other types of budget. These include: Production, Labour and Overhead budgets. Effort will be made to give a precise explanation of these types through detailed analysis

2.0 OBJECTIVES

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

• Recall sales, raw materials purchase and raw materials utilization budgets

• Explain the meaning of production budget

• Discuss the labour budget

• Analyze the overhead type of budget.

3.0 MAIN CONTENT

3.1 The Production Budget

Specifies the various quantities of goods to be produced throughout the period in question, as well as the cost of the direct materials, direct labour and factory overheads involved in producing these amounts.

Direct materials are those raw items and components parts which are incorporated into the finished goods. Direct labour refers to that part of the workforce, which actually produce the goods. Factory overheads are those other production expenses like indirect materials, indirect labour and heat, light and power.

3.2 Labour Cost Utilization Budget

Is an estimated or cost of the services of employees whose efforts may be directly traced to specific product unit or job centre. This type of budget helps to determine the quantity of the labour and the amount required to satisfy its budgeted level of production directly.

Example: The budgeted production in Baba Agwa PLC is 8 500 chits.

It takes the factory worker 3 ½ hours to achieve a unit of the product.

The company has policy of paying N4.00 per hour of work done.

Prepare a labour cost budget for the period.

Solution

Baba AGWA PLC Labour cost budget for the year 1995 budgeted production units is 8500 units Labour hour required 8500 X 3 ½ hours = 29, 750 applying wage rate: N4 X 29750 hours = labour cost N119,000

3.3 Overhead Budget

Involves budgeting for all indirect expenses, e.g. indirect materials or labour and other cost supporting services incidental to the production process which cannot be traceable to a particular job center or product.

Examples are expenses, repairs, power and heating and depreciation.

Manufacturing over head budget is an aggregation of all the various manufacturing overheads and fixed overheads budgeted to be incurred during the production period.

4.0 CONCLUSION

Production budget indicates the various quantities of goods to be produced throughout the period in question as well as the cost of the direct materials, direct labour and factory overheads involved in the production of the quantity.

Labour cost utilization budget discusses the services of the employees whose efforts may be traced to specific product unit.

And overhead involves budgeting for all indirect expenses and other cost supporting services

5.0 SUMMARY

In these three types of budgets, it will be realized that production budget is all embracing. Labour and overhead budgets are all subsets to production budgets.

6.0 TUTOR - MARKED ASSIGNMENTS

1. Production budget embraces labour and overhead budgets. Discuss.

2. Overhead budget can be said to be a hiding place for fraudulent activities! How true is this assertion?

7.0 REFERENCES/FURTHER READINGS

Lain, Maitland: (1996).Budgeting for Non– Financial Managers.

Ifurueze, Mishark: (2006). Studies in Management Accounting and Finance

UNIT 3: TYPES OF BUDGETS IN THE PRIVATE SECTOR: CASH AND FLEXIBLE BUDGETS

CONTENTS

1.0 INTRODUCTION

In this unit, students will be exposed to more types of budgets and budgeting. These are cash and flexible budgets.

2.0 OBJECTIVES

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

• Recall and discuss production, Labour and Overhead budgets

• Explain cash budgets

• Analyze flexible budget.

3.0 MAIN CONTENT

3.1 A Cash Budget

A cash budget is a financial statement stipulating cash inflows and outflows for a given period. It highlights the implications of any venture in an organization in order to keep the management on their toes.

Flexible budget is a series of budgets designed to change in relation to the level of activity attained, it is prepared for a range of meaningful production due to knowledge of cost behaviour.

Is a statement of planned cash receipts and disbursements? It is a financial statement stating cash inflows and outflows for a particular period with a view to highlighting the cash implications of any venture by identifying the problems that could arise; allowing management the opportunity to nip such a problem in the bud.

A cash budget is important in the following ways:

• The availability of cash when required is determined

• The short-term and long term need of capital is promptly estimated

• It helps to establish any cash shortage that may arise and the financial arrangement needed to cover for the shortfall.

In the cash budget: it is expected to locate the following from where receipts of cash may come from.

i. Cash sales

ii. Payment by debtors (credit sales)

iii. Sale of fixed assets

iv. The issue of new shares or loan stock

v. The receipt of interest and or dividends from investments outside the business.

vi. Payroll cost or other operational expenses.

vii. Purchase of capital

viii. Payment of interest, dividend or taxation.

3.2 Flexible Budget

The flexible budget according to CIMA (Chartered Institute of

Management Accountants) is one which by recognizing the difference in behaviour between fixed and variables costs in relation to fluctuations in outputs turnover or other variables factors such as number of employees is designed to change appropriately with such fluctuations.

Hence, the flexible budget is structured to change or fluctuate in output.

It is a series of budgets designed to change in relation to the level of activity attained for various levels of activity. The knowledge of cost behaviours is a determinant as it is prepared for a range of meaningful production.

The following steps are followed in preparing flexible budgets:

a. Different levels of activity are determined for all the cost ranges

b. At the different levels, fixed costs are expected to be fixed unless in exceptional areas where the plant size changes.

c. All variable cost, elements will vary at each activity level

4.0 CONCLUSION

A cash budget is essential for indicating the availability of cash when required in an organization. Any cash shortage that may arise is established and prompt financial intervention is undertaken by management.

Flexible budget on the other hand recognizes difference in behaviour between fixed and variable cost in relation to fluctuations in output, turnover or other variable factors.

5.0 SUMMARY

Cash budget is a financial statement expressing the inflows and outflow of cash in a firm for a given period. It determines the availability or otherwise of cash and so prepares management for prompt actions.

On the other hand, flexible budget is structured to change or fluctuate in output. In preparing this, different levels of activity are determined for all the cost ranges. At those levels, fixed cost remains while all variable cost elements vary at each activity.

6.0 TUTOR-MARKED ASSIGNMENTS

1. Why is cash budget very important in any organization?

2. Explain why flexible budgets are not rigid?

7.0 REFERENCES/FURTHER READINGS

Lian, Maitland (1996). Budgeting for Non-Financial Managers

Ifurueze, Mishark Esq. (2006). Studies in Management Accounting and Finance

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UNIT 4: TYPES OF BUDGETS IN THE PRIVATE SECTOR: MASTER BUDGET

CONTENTS

1.0 INTRODUCTION

In this unit, students will be exposed to the mother of all budgets, the master budget. Details will be given as to why it summarizes all other budgets types.

2.0 OBJECTIVES

At the end of this study, the students should be able to:

• Recall the meaning of cash and flexible budget as discussed in the last unit.

• Name the different types of budgeting studied.

• Explain the meaning of master budget with clear explanations.

• Discuss why master budget is all embracing.

3.0 MAIN CONTENT

3.1 The Master Budget

The Master budget summarizes all functional budgets of a firm. It is made of three broad subsets or key documents. They are the cash budget which exposes the ongoing cash position of the organization, the budgeted profit and loss account which discusses a company's sales revenue during a given period and all necessary costs incurred while generating the revenue, leaving a profit or a loss and the budgeted balance sheet which outlines the firms' assets and liabilities.

Represents a summary of all functional or operating budgets of an organization. It includes the sales materials, labour overhead and other financial budgets. It coordinates the revenue expenditure, equipment, capital and other classes of budgets.

In most cases, the master budget is always referred to as the profit and loss account and the balance sheet budget. In effect, the master budget pulls all budgets together, to produce three key documents – a cash budget, a budgeted profit and loss account and a budgeted balance sheet.

A cash budget set down the ongoing cash position of a firm by recording anticipated cash inflows and outflows during the relevant period of time.

A budgeted profit and loss account show firm sales revenue over the period in question and all relevant costs incurred in order to generate the revenue, leaving a profit or a loss on trading activities.

A budgeted balance sheet sets out the firm's assets such as equipment, machinery and stocks of raw materials, plus its liabilities like debts to suppliers as at the end of the period.

The following are the steps involved in preparing a master budget.

- Revenue or sales budget

- Production budget

- Direct materials budget

- Direct labour budget

- Factory overhead budget

- Ending inventory budget

- Cost-of-goods-sold budget

- Selling and administration budget

- Budgeted income statement

4.0 CONCLUSION

The major components of the master budget include the following: sales or revenue, production cost, direct materials, direct labour, factory overhead, ending inventory, costs of goods sold, selling and administration costs and budgeted / income statement (which is made up of sales revenue, cost of goods – sold and selling and administration costs).

5.0 SUMMARY

This unit has discussed the master budget as a summary of operating budgets of an organization. No wonder it is always referred to as the profit and loss account and the balance sheet budget. 2.1 make this clearer.

6.0 TUTOR - MARKED ASSIGNMENTS

1. What constitutes a master budget of a company?

2. Why the master budget is called the profit and loss account and the balance sheet budget?

7.0 REFERENCES/FURTHER READING S

Ifurueze, Mishark (2006). Studies in Management Accounting and Finance.

Lain, Maitland (1996).Budgeting for Non-Financial Managers.

MODULE 3

Unit 1 Budgeting system in a democratic state

Unit 2 Methods of Budgeting: Traditional or Incremental

Budgeting, Zero-Base Budgeting

Unit 3 Planning, Programming Budgeting System, Performance

Budgeting

Unit 4 Rolling or Continuous Budgets

UNIT 1: REPARATION OF BUDGETS IN THE PUBLIC SECTOR: BUDGETING SYSTEM IN A DEMOCRATIC STATE

CONTENTS

1.0 INTRODUCTION

Budgeting by a government has been considered a significant and statutory responsibility of the executives. Budgeting however involves the preparation and implementation of budget in a given establishment.

It is a financial and, or quantitative statement prepared and approved prior to a defined period of time usually showing anticipated revenue or income and expenditure to be incurred in a given accounting period so as to achieve a basic goal for the establishment.

To the government, budget usually serves as:

a. An estimate of revenue and expenditure for a given fiscal year;

b. A guide towards the execution of the year's activities; and

c. An instrument of evaluating performance.

Based on the information above, budget in the public sector is normally used as an effective instrument for the following.

i. As an instrument for economic policy

ii. Instrument for effective management

iii. Instrument for evaluating performance

2.0 OBJECTIVES

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

- Recall budgeting in the private sector
- Explain budgeting in the public sector
- Narrate the processes of budgeting in a democratic state
- Identify the stages of approval of budgets in the public sector.

3.0 MAIN CONTENT

3.1 Budgetary Process in a Democratic State

The President is empowered by the Constitution of the Federal Republic of Nigeria 1999, Section 81 to prepare and present an Annual Budget in a specific format to the National Assembly for approval.

Budget Department of the Presidency initiates budget policy which is sent to the ministry of budget and planning for consolidation.

The guidelines are given to the various ministries in form of Call Circulars for action in the various ministries.

What is sent to the Ministry of Budget and Planning is further reviewed, revised and modified by the Draft Estimate Committee before transmission to the President who would present same to the National Assembly for approval.

There are three Phases of approval which include the Ministerial, the Executive and the National Assembly or Legislative Phases.

The preparation and approval of the Annual budgets are essentially the duties of the Executive and the legislature respectively. Statutorily, a provision of section 81 of the 1999 constitution of the Federal Republic of Nigeria requires the president of the nation to prepare and present an annual estimate of revenue and expenditure of each fiscal year in a specific format to the National Assembly for approval.

Budget consolidation is normally achieved through the Budgets and Planning Ministry after receiving budget policy from the Budget Department of the Presidency. Budget guidelines are sent by the Ministry of Budgets and Planning in form of Call Circulars to the various Ministries and other government establishments, requesting them to prepare and forward their estimates of revenue and expenditure for the coming year.

On receipt of the Call Circulars by the various ministries and government establishments, departmental budget committees are set up for the preparation of the estimates and then consolidated at the ministry's budget committee level which do the necessary modification and consolidation of the budget before forwarding to the ministry of Budget and Planning by the Chief Accounting Officer of the Accounting unit.

On receipt of the Estimates from each Ministry, the Ministry of Budget and Planning sets up a draft Estimate Committee to review, modify and consolidate the various Estimates submitted by the various Accounting Units.

This will then be forwarded to the president, the chief executive who will now present the budget to the legislature for approval.

3.2 Budget Approval Phases

Approval of budget normally takes three phases, these are:

1. Ministerial phase

2. Executive phase

3. National Assembly or Legislative phase

3.2.1 Ministerial Phase

This is the Phase where the Ministry of Budget and Planning on receipt of the various Estimates sets up a draft Estimate Committee and also invites each Ministry representatives as Accounting Officers to come forward and defend their Estimates. The Ministry does the necessary revision, modification and consolidation of the various budgets. On successful defence of the various Estimates, the consolidated budget will be sent to the President.

3.2.2 Executive Phase

This is the phase of budget approval whereby the President receives the estimate and then presents such to the Council of Ministers for proper deliberation and approval. The President transmits such budget to the National Assembly for final approval.

3.2.3 Legislative or National Assembly Phase

This is the third and final Phase of Budget approval in Nigeria. Here the President presents the Budget to the lower and upper houses of Assembly (Federal House of Representatives and the

Senate in a joint session. This is called Budget Session at which there are standing committees of the two houses. Whenever there are discrepancies or conflicts, a Finance Committee will be set up for necessary adjustments, modifications; reduction etc and their final decisions will be valid.

The two houses will then later meet to approve the budget after which the President will give his assent and the Budget, from a draft Estimate will be converted into appropriate bills which later become an Appropriation Act. Hence, an Appropriation Act refers to the approved Budget.

4.0 CONCLUSION

It should be noted that government activities are normally financed by Budgets which are therefore required to be approved by the Legislative arm of the government. Consequently, budgets as being used in the private sector are also used in the public sector for the following reasons:

i. Planning

ii. Control

iii. Coordination and Allocation of Resources

iv. Motivation

v. Authorization of Action

vi. Communication and organization of government policies

vii. Evaluation of performances

viii. Decision making etc.

5.0 SUMMARY

Section 81 of the 1999 Constitution of Nigeria empowers the President to present an Annual Budget. This is prepared through the Budgets Department in the Presidency to the Ministry of Budget and Planning, via the different ministries, parastatals, extra-ministerial arms and back to the President for presentation to the National Assembly in a joint Budget Session.

The phases of approval of budget include the ministerial, the Executive and the National Assembly Phases.

6.0 TUTOR - MARKED ASSIGNMENTS

1. What does budget in the public sector entail?

2. Explain the process of preparation of budgets in a democratic state?

3. What are the phases of budget approval? Discuss them.

7.0 REFERENCES/FURTHER READINGS

Rotimi, Ajibola: (2005). Public Finances – Principles and Practice.

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Allen, Schick: (1980). Perspectives on Budgeting

UNIT 2 : METHODS OF BUDGETING: TRADITIONAL OR INCREMENTAL AND ZERO- BASE BUDGETING

CONTENTS

1.0 INTRODUCTION

In this unit, we shall explain the methods of Budgeting in the Public Sector, considering the fact that Budgeting is such a universal and essential activity of governments. Though, a budget wears many faces.

For an Accountant, Budget is a means of tracking government finances;

For an Economist, it is a means of manipulating revenue and expenditure to influence the production of goods and services.

A Political Scientist's budget is one in which some people pay so that others may benefits;

A Public Administrator's budget is a source of funding for government agencies and programme.

This unit considers traditional or incremental budgeting system (IBS) and Zero Base Budgeting (ZBB). We shall explain them fully and cite the advantages and disadvantages of each of them.

2.0 OBJECTIVES

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

- Recall the roles of the Executive, the Ministers and Legislature in budgeting and budget approval.
- Explain the meaning of traditional method of budgeting.
- Discuss the Zero Based Budgeting

• Give the advantages and disadvantages of each type.

3.0 MAIN CONTENT

3.1 The Traditional or Incremental Budgeting System

Traditional or Incremental Budgeting System is the type of Budgeting which involves the utilization of the previous periods budgets thereby increasing it by a specific percentage; considering the economic trends, inflations and fund availability, a new estimate is arrived at.

The proposed year's budget = this year's budget X inflation factor + cost of new activity

This is simple to operate and suitable for Nigeria's development as appropriation standards are complied with.

On the other hand, the Zero Based Budgeting System which is a systematic process as management takes careful examination of the basis for allocating resources in accordance with the formation of budget requirements and Programme Planning. Every provisional head or manager must justify his entire budget from the scratch (Zero Base).

This method avoids the problem of incrementation and makes room for value-for-money approach wasteful. Spending is reduced and there is room for the participation of individual organs of the decision unit.

This is also called line items budgeting system. It is also an input approach to budgeting. It is a budgeting system which involves the utilization of the previous period budgets thereby increasing it by a specific percentage (%) to arrive at a new Estimate with full consideration of economic trends, inflation and fund availability. In this type of budget, attention is directed towards changes that occur between existing appropriations and proposed expenditures. Such a progress accepts existing base and examine only the increments, which extends the only budgeting programme in the future. Only the desired increments are subsequently analyzed. This method of budgeting is good for recurrent expenditure, thus the proposed year's budget can be calculated as follows:

Next year's budget = this is year budget X inflation factor + cost of new activity.

The Advantages in This Method Include The Following.

• It is adequate and good for recurrent expenditure,

• It ensured compliance with appropriation standards,

• It has simplicity of operation,

• It is suitable for Nigerian development.

The Disadvantages of This Budgeting Include The Following

i. Past inconsistencies and errors are carried forward.

ii. It concentrates on costs and expenditures, which are inputs rather than outputs.

iii. It funds programmes of low or expired usefulness on overgenerous scales.

iv. It fails to fund new programmes of high priority on sufficiently generous scales.

v. It results on a continual growth in budget totals related to cost inflation.

vi. It limits public understanding of government activities.

vii. It fails to clarify cost of alternative methods of achieving programmes objectives.

viii. It examines the momental changes in greater details than the budget as a whole.

ix. It leads to inefficiency

x. Lack of accountability may result.

3.2 The Zero Bases Budgeting (ZBB) Method

This is used in conjunction with any other type of Budgeting. Its development arises from the criticism of the Traditional Budgetary System. It is an approach to Budgetary Planning which rejects the customary views of the Incrementalist. It is a systematic approach / process by which management takes the careful examination of the basis for allocating resources in accordance with the formation of budget requirements and programme planning. It is a budgeting system which requires every provisional head, manager, etc to justify his entire budget from the scratch (Zero Base). Any item that cannot be justified will automatically be eliminated. The Manager shall ignore what had been done in the past and shall attempt to justify the futurist items. ZBB is a cost benefit approach to budgeting, which ensures value for money activities. It however involves the use of decision packages.

According to Cornelius E. Tienny in Handbook of Federal Accounting Practices, the goals of ZBB as summarized by the office of Management and Budget (OMB) in USA are as follows:

a. To examine the need for an accomplishment and effectiveness of existing government programmes as if they were proposed for the first time.

b. To allow proposed new programme to compete for resources on a more equal footing with existing programmes

c. To focus budget justifications on the evaluation of discrete elements and programmes or activities of each decision unit aid.

d. To secure extensive management involvement at all levels in the budget process.

Generally speaking, ZBB consists of the following important stages/ procedures:

i. Identification of Decision Unit

This is the smallest unit where decisions are made.

ii. Development of Decision Packages

These consist of accumulation of decision units. It is a proforma documentation used in describing decision units and their cost of operation.

iii. Evaluation and Banking of Decision Packages.

iv. Determination of cut-off points using a realistic cut-off procedure.

v. Allocation of resources or consolidation of budgeting justification of resources.

vi. Implementation, monitoring and re-evaluation.

The Advantages of This Budgeting Include:

• It avoids the problem of incrementation

• It allows for value-for-money approach

• There is efficient resources allocation.

• It is futuristic - It focuses on future rather than on past activities.

• It allows for the participation of individual organs of decision making unit.

• It provides a yardstick for measurement of performance.

• It acts as a tool of change, which is beneficial to the nation.

• Wasteful spending is reduced

• Important project can continue to obtain improved funding.

• It is good for Capital Expenditures.

The Disadvantages of ZBB Includes:

1. Cost is very high

2. There is problem of identifying a suitable decision unit.

3. There is high volume of paper work in the system.

4. There is problem of producing suitable decision packages

5. It may cause a shift in resources allocation

6. Lack of accurate, sufficient and reliable data.

7. There is lack of qualified and competent personnel.

8. Switching to ZBB may require a modification of the system, which may necessitate a general review, overhauling, adding to or scrapping of activities, functions etc.

9. Bureaucracy may undermine its effectiveness

4.0 CONCLUSION

This unit has described the concepts of traditional or incremental budgeting system alongside with the Zero-Based Method. Their advantages and disadvantages are highlighted. The procedure for the Zero-Based Budgeting is also systematically explained.

5.0 SUMMARY

Incremental Budgeting System accepts the existing base and estimates only for the targeted year, taking the economic factors (inflation, availability of funds etc) into view. The shortcomings of this method are many. Past inconsistencies and errors are carried forward as it limits public understanding of government activities. It also leads to inefficiency and shield lack of accountability.

Zero Based Budgeting Method leads to the justification of every item in the estimate otherwise; such an item is automatically eliminated.

This is a cost benefit approach to budgeting, which ensures value for money activities. There are also some low points which include the high cost of preparation, lack of accurate, sufficient and reliable data along side with negative influence of bureaucracy on its effectiveness.

6.0 TUTOR-MARKED ASSIGNMENTS

1. What are the shortcomings of the Traditional Budgeting System?

2. Explain the Incremental Budgeting System in the public sector.

3. What does Zero-Based Budgeting mean?

4. Highlight the advantages of this (ZBB) method of budgeting to the Nigerian public sector

5. Itemize the procedures for preparing the Zero Based System of Budgeting

7.0 REFERENCES/FURTHER READINGS

Rotimi, Ajibola : Public Finance Principle And Practice

Oremadu S.O: Modern Public Finance, Theory and Practice

Golemblem, Sidi Rabin: Public Budgeting and Finance.

UNIT 3: PLANNING, PROGRAMMING BUDGETING SYSTEM (PPBS) AND PROGRAMME AND PERFORMANCE BUDGETING SYSTEM

CONTENTS

1.0 INTRODUCTION

In this unit, we shall discuss additional methods of budgeting - Planning, Programming Budgeting and Programme and Performance Budgeting Systems. We shall give detailed explanation and cite their high points and low points in the public sector finances.

2.0 OBJECTIVES

At the end of this unit, the students are expected to:

• Recall the first two methods of budgeting discussed in the previous unit.

• Explain in simple terms the meaning of Planning, Programming Budgeting and Programme and Performance Budgeting Systems.

• Itemize the pros and cons of the two budgeting methods

• Analyze the features of these methods of budgeting in the public sector.

3.0 MAIN CONTENT

3.1 Planning, Programming Budgeting System:

Planning, Programming Budgeting System is that style that provides regular procedures for reviewing goals and objectives, for selecting and planning programming over a period of years in terms of output and resources. It enables resources allocation choices to be made on the basis of benefit/cost relationship.

The programme and performance budgeting insists that allocation of funds should be related to what is intended to be achieved. The essence of this method of budgeting is that results to be achieved should override considerations of expenditure to be incurred. The goals, sub goals, objectives and activities are identified as there is possibility of monitoring of projects by the National Assembly members. Efficiency of work performed is increased.

This provides regular procedures for reviewing goals and objective, for selecting and planning programmes over a period of years in terms of output and resources. It also facilitates the allocations of resources between programme and their implementation, processes and control.

Therefore, the key characteristics of PPBS is that objectives and programmes costs are formulated over a period of years within the context of a medium term plan, thus permitting a longer financial perspective than Traditional Budgeting would allow.

In such a plan, the continuity of projects, the extent of commitment, and the future financial consequences of current expenditures, can be recognized.

It must be noted that those who formulate plans are forces to consider the full financial implications of their policies.

The Features/Elements of PPBS Include The Following

a. Identification of goals and objectives in each major area of governmental activity.

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

c. Measurement of total programme cost not just for one but for at least several years ahead.

d. Formulation of objectives and programmes extending beyond the single year of the annual budgets

e. Analysis of alternatives to find the most effective means reading basic programme objectives.

The High Points of PPBS are:

i. It provides information on the objectives of the organization

ii. It cuts across conventional lines of responsibility and departmental structures by drawing together the activities that are directed towards a particular objective

iii. It exposes programme that are over lapping or contradictory in terms of achieving objectives.

iv. It concentrates on long term effects.

v. It provides information on the impacts that the existing and alternative programmes will have an objective, and the associated programme costs.

iv. It enables resources allocation choices to be made on the basis of benefits/cost relationship.

vi. It promotes rational decisions.

The Low Points of PPBS Are:

i. It requires skilled manpower which is not available in most of the developing countries.

ii. It is capital intensive in nature and requires the use of computers which may not be available.

iii. It requires excellent statistical sources and data storage which are not available in most of the developing countries.

iv. It is costly and time consuming

v. Many activities are of multi-purpose nature and it is always difficult to determine how the costs of such activities should be allocated to a particular output categories.

3.2 Programme and Performance Budgeting System

Is the budgeting type in which the input of resources is related to the output of service/product? It can also be described as one, which represents the purposes and objectives for which funds are requested. It can also be described as a method that emphasizes the thing which government buys.

This budgeting system was first adopted by the Federal Government of Nigeria in 1981 and was later abandoned.

The features of Programme and Performance Budget include the following:

a. Classification of budgets in terms of functions, programme and activities;

b. Measurement of work or output provided by each activity;

c. Expression of the budget in a way which allows a direct comparison between cost of funds and the work to be performed for each programme or activity;

d. Monitoring of actual against budgeted cost and performance.

There Are Advantages in This Budgeting Style and They Are:

a. The goals, sub-goals, objectives and activities are identified.

b. Monitoring of projects is possible by the National Assembly members

c. Fund allocated will always be spent on what it was meant for since measurement of work done is possible.

d. It eliminates double allocation.

e. It increases efficiency of work performed.

The Other Side of the Budgeting System Includes:

a. It requires much paper work and it is time consuming

b. It requires skilled manpower which at present is not adequately available in the developing countries.

4.0 CONCLUSION

This unit has discussed the features, advantages and disadvantages of planning, programming budgeting system and that of programme and performance budgeting system.

5.0 SUMMARY

Planning and programming budgeting system puts into consideration costs and benefits before deciding on which project to focus attention.

Hence, the decision maker should have available the fullest possible knowledge of the results of alternative courses of action open to him.

The programme budgeting assigns costs to programme in order for government to make more rational and efficient budgeting. Here, budgeting is made for a specific programme – Tarring of Onitsha Owerri Expressway.

6.0 TUTOR MARKED ASSIGNMENTS

1. What are the high points of planning, programming budgeting system in any economy?

2. What disadvantages are in programming and performance budgeting?

7.0 REFERENCES/FURTHER READINGS

Daniel, A.I – (1996). Pubic Sector Accounting

Uremadu, S.O Modern Public Finance (Theory and Practice)

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UNIT 4: METHODS OF BUDGETING: CONTINUOUS OR ROLLING BUDGET

CONTENTS

1.0 INTRODUCTION

In this unit, students will be exposed to another type or method of budgeting which is not as popular as those earlier discussed in other units. This is the Rolling or Continuous budgeting method or system.

2.0 OBJECTIVES

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

• Recall the four types of budgeting discussed in the other units

• Explain the meaning of Rolling or Continuous budgeting system.

• Highlight the advantages and disadvantages of the Continuous or Rolling budgeting system.

3.0 MAIN CONTENT

3.1 Rolling or Continuous Budgeting

The rolling budget involves updating of budgets through reviewing of actual results of a specific period in the budget. A budget is then determined for the corresponding time. The most realistic budget figure is produced through this method.

(Chartered Institute of Management Accountants) CIMA, They defines a Rolling Budget as the continuous updating of a short term budget by adding say, a further month or quarter months, and deducting the earliest month or quarter months so that the budget will reflect current conditions.

It is a system that involves the continuous updating of budget through review of actual results of a specific period in the budget, and determining a budget for the corresponding time or period.

There are advantages in this method of budgeting. They are:

i. It reduces the elements of uncertainty in the plan that might be caused by inflation.

ii. It produces the most realistic budget figure.

There is a disadvantage that cannot be ignored. It consumes much time and even manpower as the budget needs to be reviewed regularly.

4.0 CONCLUSION

The meaning, advantages and the disadvantages of rolling budget have been discussed meaningfully in the unit.

5.0 SUMMARY

The Rolling budget produces a realistic budget figure due to the periodic and continuous review. Issues of uncertainty resulting from inflation are quickly dictated and checked.

6.0 TUTOR - MARKED ASSIGNMENTS

1. Recall the four other methods of budgeting earlier discussed.

2. What is Rolling Budget?

7.0 REFERENCES/FURTHER READINGS

Daniel, A.I – (1996). Pubic Sector Accounting

Uremadu, S.O - Modern Public Finance (Theory and Practice)

Rotimi, Ajibola – (2003). Public Finance Principles and Practice

MODULE 4

Unit 1 Budgetary Control

Unit 2 Weaknesses of Budgets

Unit 3 Development Plan: Meaning, Features & Rationale

Unit 4 Development Planning in Nigeria

UNIT 1: BUDGETARY ISSUES IN PUBLIC FINANCE: BUDGETARY CONTROL

CONTENTS

1.0 INTRODUCTION

In this unit, we shall explain the essence of budgetary control in public finance. It should be noted that budgeting is one of the primary devices for accomplishing control in organization. This is because budgets are used to plan and monitor all aspects of business activities in any enterprise. Costs are controlled, responsibilities are assigned, decisions and even departments are coordinated through budgets.

2.0 OBJECTIVES

At the end of the unit, students should be able to:

- Recall budgeting methods in the previous modules / units.
- Define budgetary control.
- Itemize the steps in budgetary control
- Discuss the functions of budgetary control in the public finance
- Analyze the features of budgetary control.

3.0 MAIN CONTENT

3.1 Budgetary Control

Budgetary Control is a technique encompassing the entire process, starting from the preparation of the budget or the action plan, covering monitoring and review and culminating in corrective action.

It encourages cost efficiency and cost effectiveness.

It reveals inefficiency of some Managers / Accounting Officers as corrective measures are continuously taken.

Over- expenditure is reduced to the barest minimum on the part of the spending officers.

The essential features in budgetary control are:

Relevance and timeliness, controllable and non controllable items, budget figures, adequate information, proper books, internal control, regular checks etc.

Budgetary Control is defined by CIMA (Chartered Institute of Management Accountants) as "the establishment of the budgets relating to the responsibilities of the executive to meet the objective of an organization and the continuous comparison of actual with budgeted estimates so that, if remedial action is necessary, it may be taken at an early stage".

It can also be defined as "a continuous process which reviews and adjusts budgetary targets during the financial year and produces a control mechanism to hold budget holder to account".

Hence, the following facts arising from the above definitions should be of note:

a. It is a management technique used to plan, execute and control operations and activities aimed at achieving set targets within a stipulated time frame.

b. It is a review of planned estimates against actual results to achieve performance evaluation

c. It ensures that actual results are positively in accordance with the overall financial and policy objectives of an establishment.

d. It is a continuous process which reviews and adjusts budgetary target during a particular period.

There are steps involved in budgetary control. They include:

i. Preparation of a budget or a detailed action plan;

ii. Identification of responsibility centers in the organization to execute or carry out specific activities or operations forming part of the action;

iii. Adaptation of mutually agreed targets of achievements or outputs to serve as milestones or other indicators of progress in the actions plan in financial and physical terms;

iv. A system for periodical monitoring of performance or activities of every segment or responsibility center involved;

v. Careful comparison of the actual performance and outcome with the corresponding parts of the plan;

vi. Assessment of deviations and variances in actual performance and activities in relation to the plan and identification of causes of such a deviation;

vii. Initiation of corrective action aimed at ensuring that the planned activities and actions are adhered to as far as possible.

It then means that budgetary control is a technique encompassing the entire process, starting from the preparation of the budget or the action plan, covering monitoring and review and culminating in corrective action.

Its main purpose is to enable management to plan and carry out projects, operation or activities with effectiveness and efficiency in the use of resources.

The concept of control in budgeting cannot be overemphasized particularly in terms of cost efficiency and cost effectiveness. The concept encompasses the functions of:

• Fund control

• Expenditure control

• Revenue control

• Payment or Disbursement control

• Cash control

• Cost control

• Cash or payroll control.

Budgetary control is important in the following ways:

a. It increases efficiency as individual accounting officer knows that he will be accountable for the fund allocated to his unit and his performance will be evaluated visa-a-vis his output.

b. It reveals inefficiency of some managers/accounting officers' as such corrective measures will be taken.

c. It reduces greater losses since it is a continuous measuring of actual and budgeted positions and as such the loopholes will be blocked

d. The causes of variances between the budgeted and actual are known and necessarily steps taken to forestall the occurrences.

e. It reduces over-expenditure on the part of the spending officers.

There are features that cannot be ignored as they are essential in budgetary control. They include the following:

a. Relevance and Timeliness: If budgetary control system is to work properly, the information sent to the officer concerned must be relevant and timely.

b. Controllable and Non-Controllable Items: In order to carry out the budgetary control of an organization or an aspect in the organization, the controllable and non-controllable items should be clearly distinguished between the variables that are directly controllable and non-controllable.

c. Budget Figure: For any meaningful budgetary control, it must include the budget figure not only for the whole year but also for the appropriate proportion of the year.

d. Adequate Information: Before a good budgetary control can be carried out there must be adequate information which must be understandable and contain the right amount of details.

e. Proper Books: The Statement and Accounts prepared at the end of a period give an idea of the activities / flow of funds.

Therefore, for the purposes of budgetary control proper books of

Account must be maintained.

f. Regular Checks: Monitoring is a continuous surveillance at the implementation of a project or a programme. It seeks to ensure that various activities are carried out according to the budget and programme progresses according to the plan. Therefore surprise checks should always be carried out at any time of the year.

g. Internal Control: This is defined as "the whole system of controls, financial and otherwise established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records (ICMA). Therefore, internal control can be broadly sub-divided into three groups of control–Administrative, Accounting and Internal Audit controls.

h. Disclosure of Committed Balances: In the Ministries and Extra Ministerial Departments, cash / commitment basis has been the accounting basis in use. Here, only the cash received and cash payments are recorded. It is therefore important for an effective budgetary control; the committed balance in the vote book should be disclosed.

3.2 Deductions from the Main Content – Budgetary control

Budgetary Control is a technique encompassing the entire process, starting from the preparation of the budget or the action plan, covering monitoring and review and culminating in corrective action.

It encourages cost efficiency and cost effectiveness.

It reveals inefficiency of some Managers / Accounting Officers as corrective measures are continuously taken.

Over- expenditure is reduced to the barest minimum on the part of the spending officers.

The essential features in budgetary control are:

Relevance and timeliness, controllable and non controllable items, budget figures, adequate information, proper books, internal control, regular checks etc.

4.0 CONCLUSION

In this unit, budgetary control has been explained; the advantages, features and steps are highlighted

5.0 SUMMARY

Budgetary control is a management technique used to plan, execute and control operations and activities aimed at achieving set targets in a stipulated time frame.

There are seven steps involved in budgetary control. The system controls funds, expenditure, payment or disbursement cash, cost and payroll.

6.0 TUTOR – MARKED ASSIGNMENTS

1. What are the features of budgetary control

2. In what ways are budgetary control important

7.0 REFERENCES/FURTHER READINGS

Daniel, G.I: (1996). Public Sector Accounting

Koontz et al: Management.

UNIT 2: WEAKNESSES OF BUDGETS

CONTENTS

1.0 INTRODUCTION

Budgeting is a systemic approach to the solution of problems. But it is not fool–proof as it suffers from certain problems and limitations. The major problems in developing a budgeting system include the following:

- Seeking the support and involvement of all levels of management.

- Developing meaningful forecasts and plans, especially the sales plan.

- Educating all individuals to be involved in the budgeting process and gaining their full participation.

- Establishing realistic objectives policies, procedures and standard of desired performance.

- Maintaining effective follow-up procedures and adapting the budgeting system whenever the circumstances change.

2.0 OBJECTIVES

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

• Recall the essence of budgetary control in any system

• Itemise areas of danger in any given budget..

• Explain those limitations inherent in well planned budgets.

• Discuss how management judgment, goal conflict, unrealistic targets etc have constituted a nuisance to budgeting.

3.0 MAIN CONTENT

3.1 Weaknesses, Dangers in Budgeting

The following are the limitations in budgeting that must be quickly tackled by management in solving managerial problems.

Management judgment should be devoid of subjectivism and biases for an adequate managerial judgment.

There should be continuous adaptation to the rapidly changing programme.

All hands must be on deck in terms of implementation of budget.

There should not be complacency in budgeting management, instead, intelligence, foresight and management styles are applied.

There should be no unnecessary details and unrealistic targets.

As a device to solving managerial problems in using budgeting system, the following limitations must be considered by management:

Management Judgment

Budgeting is not an exact science as its success is dependent on the precision of estimates. These are based on facts and managerial judgment which can sometimes suffer from subjectivism and personal biases. The adequacy of budgeting therefore depends on the adequacy of managerial judgment.

Continuous Adaptation

The installation of a perfect system of budgeting is not possible in a short period. As business conditions change rapidly, budgeting programme should be continuously adapted. Budgeting has to be a continuous exercise since it is a dynamic exercise / process.

Management should not be impatient but keep trying various techniques and procedures in developing and using the budgeting system.

Ultimately, they will achieve the success and reap the benefits of budgeting.

Implementation

A skillfully prepared budgetary programme will not itself improve the management of an enterprise unless it is properly implemented. For the success of the budgetary programme it is necessary that it is understood by all and that the managers and subordinates put concerted effort for accomplishing the budget goals. All persons in the enterprise must have full involvement in the preparation and execution of budgets; otherwise, budgeting will not be effective.

Management Complacency

Budgeting is a management tool that details a way of managing and not the act of management itself. The presence of budgetary system should not make management complacent. To get the best results of managing, management should use budgeting with intelligence and foresight along with other managerial techniques. Budgeting assists management but cannot replace management.

Unnecessary Details

Budgeting will be ineffective and expensive if it is unnecessarily detailed and complicated. A budget should be precise in format and simple to understand. It should be flexible and not rigid in application.

Goal Conflict

The purpose of budgeting will be defeated if carelessly set budget goals conflict with enterprise objectives. This confuses means with the end result. Budget goals are the definite targets to achieve the overall enterprise objective. They must be in harmony with the enterprise aims.

Evaluation Deficiencies

Budgeting will hide inefficiencies instead of revealing them, if a proper evaluation system is lacking. There should be a continuous evaluation of the actual performance on regular basis too, standards should be re examined.

Unrealistic Targets

Budgeting will lower morale and productivity if unrealistic targets are set and if it is used as pressure tactic. It could be used as a pressure device but its extent must be carefully determined.

4.0 CONCLUSION

In the unit, the limitations and weaknesses of budgets have been highlighted. The areas of worry have been itemized and explained.

5.0 SUMMARY

The unit has given detailed insight into the limitations or weaknesses of budgeting. The points trashed include: management judgment, continuous adaptation implementation, management complacency, unnecessary details, goal conflicts, evaluation deficiency and unrealistic targets.

6.0 TUTOR - MARKED ASSIGNMENT

What are the areas of danger in any given budget?

7.0 REFERENCES/FURTHER READINGS

Pandey, I.M Financial Management

Otokiti et al. Managing Business Finance & Investment

UNIT 3 : DEVELOPMENT PLAN: MEANING, RATIONALE AND FEATURES

CONTENTS

1.0 INTRODUCTION

According to Jawaharial Nehru "Planning is the exercise of the intelligent to deal with facts and situations as they are, and find a way to solve problems".

Planning can be defined as a process and procedures of determining the goals and objectives of a company and designing strategies to achieve them. Forecasting usually preceeds planning and it involves environmental scanning and evaluation in planning, Concrete objective have to be drawn up and planning efforts have to be geared towards the achievement of set objectives. A good planning usually leads to efficient control. Planning can either be tactical, operational or strategic and can also be short term or long term, depending on the time horizon.

2.0 OBJECTIVES

At the end of the unit, students should be able to:

- Discuss the weaknesses and limitations of budgets.
- Explain the meaning of Economic and Development Plans.
- Define the term planning
- Itemize the features of a development plan
- Mention the rationale for development plan

3.0 MAIN CONTENT

3.1 Meaning, Features and Rationale of Development Planning

A development plan takes comprehensive view of the national economy in order to work out a coordinated and consistent public policies and programmes.

It entails a more systematic project evaluation, in terms of social cost and benefit. Additional institutional machinery for efficient planning is necessitated by development plan. The private sector is influenced toward national goals and objectives by the important development plan. The importance of development plan include, among others: It attracts foreign assistance, Aids and necessitates economic growth.

Resources are mobilized through such projects as rural banking in order to enhance rural dwellers' living standard.

Socio – Economic development is effected by affecting some institutional and structural changes in the economy.

Economic Planning is a conscious governmental effort to influence, direct and in some cases, control changes in the principal economic variables (consumption, investment, savings, export, import etc) of a certain country or region over the course of time in order to achieve a predetermined set of objectives.

The essence of economic planning is summed up in the notion of governmental influence, direction and control.

Perspective planning is a planning process that examines the long term development options opening to an economy. It involves the selection of best options with a view to achieving desired objectives in the near future.

Therefore, development plan is a deliberate governmental strategy for achieving well defined national goals over a given period of time.

It is a proposal for mobilizing and utilizing resources (domestic and foreign) to achieve economic growth and development. A development plan has been considered a more fruitful strategy of modern development in that it is used in setting and prescribing targets for productions infrastructure, employment, foreign trade etc; especially in the public sector.

A development plan takes a comprehensive view of the national economy in order to work out coordinated and consistent public policies and programme.

A well defined development plan has the following features:

i. It is comprehensive in that it takes a holistic view of the global economy, incorporating both the private and public sectors.

ii. It involves elements of macro economic forecasting, making projection of expected movements of the economy.

iii. Development plan entails a more systematic project evaluation in terms of social cost and benefits. It ensures that a project is executed if the benefits outweigh the cost.

iv. Development plan aims at deliberately influencing the private sector towards national goals and objective

v. It attempts to define policy objectives based on the political views and goals of the government for future development of the economy.

It usually necessitates the establishment of additional institutional machinery for efficient planning.

It covers a long period of time e.g. five years, but supplemented by annual plans.

The rationale for development plan includes the following:

a. Inefficiency of Market Mechanism

The failure of market system to efficiently allocate resources in an economy necessitates the existence of government intervention in the area of development plan.

b. Economic Growth

This refers to the increase in the volume of goods and service produced over time. Government's conscious effort and planning is needed to achieve a particular developmental target at a future time.

c. Indigenization of the Economy

Development plan promotes indigenization of the economy and so reduces foreign domination as much as possible. This is because a foreign dependent economy is open to shocks and imbalances from foreign countries.

d. Foreign Aid

The formulation of detailed development plan with specific sectoral output as well as carefully designed project is a necessary condition for mobilization of international financial support.

e. Favourable Balance of Payment

Development plan is prepared to achieve favourable balance of payment by setting a target import that will guarantee surplus in the balance of payment account.

f. Resource Mobilization:

An efficient resource allocation and equitable distribution of income can be achieved through a well articulated and formulated development plan. For instance, rural banking is aimed at enhancing the living conditions of the rural dwellers.

g. National Unity

A detailed and comprehensive development plan can bring people together and mobilize popular support for nation building. For instance, poverty alleviation programme

h. Socio-economic Development

Government embarks on development planning in order to promote changes and adaptation to socio-economic situations by effecting some institutions and structural changes in the economy

4.0 CONCLUSION

In this unit, the meaning of not only Development plan, Economic plan but even Planning has been clearly explained. The feature and rationale behind development plan has also been highlighted.

5.0 SUMMARY

Economic plan is a specification of quantitative economic targets to be reached in a given period in time. Economic plan is comprehensive when targets are set to cover all aspects of the national economy while partial economic plan covers only a part of the national economy such as industry, agriculture, public sector, private sector etc

While Development Plan is a deliberate governmental strategy for achieving defined national goals. The basic attributes of a well defined Development Plan are articulated in seven points.

The eight point rationale for Development Plan are clearly stated and explained.

6.0 TUTOR-MARKED ASSIGNMENTS

1. Differentiate between Economic and Development plan in the economy

2. What is Development Plan?

7.0 REFERENCES/FURTHER READINGS

Rotimi, Ajibola: (2005). Public Finance Principles and Practice

Uremadu, S. O: Public Finance Principles and Practice

UNIT 4: DEVELOPMENT PLANNING IN NIGERIA

CONTENTS

1.0 INTRODUCTION

It was after the Second World War that modern economic planning took place in Nigeria. For many countries comprehensive national development plans were drawn up only after political independence.

It was in 1946 that Development planning started in Nigeria following the initiative of the secretary of state for the colonies. It was then the ten years plan of development and welfare (1946- 1956) came into being.

Under this plan nearly N112 million was spent on development about half of which was provided in the form of grants from the United Kingdom.

Following the creation of region in 1954, separate development programmes were prepared for the federal, western, eastern and northern regions for the years 1955 – 60. Economic Development Plans were later revised and extended to cover 1960 – 62, at an estimated total cost of N328 million, although, actual expenditure amounted to only N170 million during the first five years.

2.0 OBJECTIVES

At the end of the unit, students should be able to:

• Recall the meaning of Economic and Development plans.

• Discuss the development plans before independence of Nigeria

• Explain the first two development plans after independence.

• Describe the circumstance that led to the 3rd and 4th National Development plans.

3.0 MAIN CONTENT

3.1 Development Planning In Nigeria

Nigeria has formulated and implemented 4(four) types of Development Plans between 1962 and 1985.

Amongst the items and programmes to be improved upon, Agriculture was on the top, all through. Other items of importance include: Education, Manpower, Industry, Transport and Communications etc.

In the first Development Phase, the projects that were successfully completed are – an oil refinery, a paper mill, sugar mill, the Nigeria Dam, the Niger Bridge, Port extension, and construction of trunk roads, a security and minting plant.

The second development phase was originally aimed at reconstruction of facilities destroyed or damaged during the civil war 1967 – 1970.

This was not fully realized as there were shortfalls and difficulties which led to a one year extension.

The third which lasted from 1975 to 1980. Emphasis was on transport and communications, manufacturing and crafts and general administration.

The fourth National Development Plan lasted between 1981 – 1985 and the overriding interest was to bring about improvement in the living conditions of the people.

The total investment of N82 Billion was envisaged as the Public was to take N70.5 Billion while the private sector was to have N11.5billion.

Since Independence in 1960 Nigeria has formulated and implemented three comprehensive National Development plans and a 4th was adopted in 1981.

3.2 First National Development Plan 1962 – 1968

Under the plan which was launched in June 1962, the GDP was expected to grow at approximately 4% a year. The total planned investment expenditure was N2366 million, of which N1386 million was to be carried out in the public sector. The highest priorities were given to Agriculture, Industry and the training of high level and intermediate Man power.

Most of the planned goals were actually exceeded due to the performance of the private sector. For example, a growth rate of 4% approximately was planned but 6% rate of growth per annum was achieved. Total public investment expenditure amounted only to N798 million or 50.3% of the planned figure. Many of the goals of the public sector were not achieved owing to the outbreak of the political crisis in 1965, and the civil war in 1967. The following are some of the major projects successfully completed by the government. An oil refinery, a paper mill and a sugar mill; the Nigeria Dam, the Niger Bridge, Ports Extension and the construction of trunk roads, a security and minting plant.

3.2.1 Second National Development Plan 1970-1974

The plan was aimed in part at the reconstruction of facilities destroyed or damaged during the civil war, 1967-1970. Its five principal objectives were to establish:

i. A united, strong and self-reliant nation

ii. A great and dynamic economy

iii. A just and egalitarian society.

iv. A land of bright and full opportunities for all citizens.

v. A free and democratize society.

GDP was expected to grow at the average rate of 6.6% p.a during the period of the plan. Total investment was originally estimated at 3192 million but later revised to N3203 million as a result of increase in foreign exchange available. The amount of N671 million of gross fixed investment was to be carried out by the public sector and the main priorities were Agriculture, Industry Transportation and Manpower development.

Actual development expenditure fell considerably below their planned levels because of:

a. Poor project preparation

b. Difficulties with the ability of the economies absorb high levels of investment (weak absorptive capacity).

c. Weaknesses in manpower planning and development.

d. Shortage of construction materials and difficulties due to other domestic bottlenecks.

Because of the difficulties and shortfalls experienced in the plan implementation, the plan was extended by one year to 1974/75. This was to allow for completion of projects and better preparation of the third National Development plan, especially in view of increased government financial resources expected from the petroleum sector.

3.2.2 Third National Development Plan 1975-80

This plan, covering five years was launched in April 1, 1975 (1975/76 – 1979/80). The basic objectives of the plan were:

a. To expand and diversify the productive capacity of the economy

b. To restore stability. To promote a more equitable distribution of the national income.

Within these general objectives, emphasis was on transport and communications, manufacturing and crafts and general administration.

The revised public sector investment programme was to be financed from recurrent budget surplus (government savings), domestic borrowing mostly from the banking system and loans from the international financial markets.

Government investment expenditure totalled N1760 million during the first three years (1975/76, 1976/77 and 1977/78) of the plan; thus actual investment spending exceeded the level anticipated under the revised public investment programme. There are strong indications however that government investment outlays may have declined in the last two years of the plan. This coupled with the rising rate of inflation, may have resulted in substantial shortfalls in the implementation of the plan, especially in physical terms.

Though, the plan was originally expected to terminate on 31st March 1980, its life span was extended by nine months to 31st December, 1980.

3.2.3 The Fourth National Development Plan 1981 – 85

This plan ran from January 1981 to December 1985. The participation of the local government authorities featured for the first time. The overriding aim was to bring about improvements in the living conditions of the people. The following specific objectives were set out in the plan.

• Increase in the real income of the average citizen;

• Increase even distribution of income among individuals and socioeconomic groups;

• Reduction in the level of unemployment and under-employment;

• Increase in the supply of skilled manpower;

• Reduction of dependence of the economy on narrow range of activities;

• Increase participation by citizens in the ownership and management of productive enterprises;

• Greater self-reliance; that is increased dependence in the country's own resources in seeking to achieve the various objectives of the society. This also implies increased effort to achieve the most use of human and material resources;

• Development of technology;

• Increased productivity;

• The promotion of a new national orientation towards greater discipline, better attitude to work and cleaner environment.

Of the total of N82 billion investments envisaged under the plan, the share of the public sector was expected to be N70.5 Billion or 85.9%.

The balance of N11.5 Billion or 14.1% was reserved for the private sector.

The priority list included agricultural production and processing, education, manpower development, strengthening of economic infrastructure – power and water supply, telecommunication, housing and health development.

4.0 CONCLUSION

In this unit, effort has been made to discuss fully the Nigerian National Development Plan. Each of the four national plans was fully enumerated. Prior to the era of independence in 1960, there were two separate development plans under the colonialists. The entire era, general objectives and specific ones are properly highlighted with their highpoints.

5.0 SUMMARY

Nigeria had two Development Plans during the Colonial Era. In the wake of her Independence in 1960 plans for development commenced as follows:

1st Development Plan – 1962 – 68

2nd Development Plan – 1970 – 74

3rd Development Plan – 1975 – 80

4th Development Plan – 1981 – 85

6.0 TUTOR - MARKED ASSIGNMENTS

1. What do you understand by development plan in Nigeria?

2. Outline the main objectives of 2nd National Development Plan?

7.0 REFERENCES/FURTHER READINGS

Rotimi, Ajibola: (2005), (2005). Public Finance Principles and Practice

Daniel, G. I: (1996). Public Sector Accounting

MODULE 5: BUDGET MANAGEMENT - INTRODUCTION TO BUDGETING

UNIT 1: BUDGET-- INTRODUCTION TO BUDGETING

1.0 Introduction

2.0 Objective

3.0 Main Contents

4.0 Summary

5.0 Conclusion

6.0 Tutor Marked Assignment

7.0 References/Further Readings

1.0. Introduction

The main purpose of this unit is to give you a meaning of budget. The unit covers the definitions of budget. The other sections are the conclusion and summary. Self-assessment exercise and tutor marked assignment are also included for your self-development.

2.0. Objectives

After studying this unit, you should be able to:

a. Define budget

b. Define budget management

3.0. Main Content

3.1. Definitions/Meaning

3.1.1 Definitions of Budget

A budget is the main tool for executing strategies in the government programmes. A budget is therefore a process of translating government's programmes into a series of activities for annual implementation aimed at improving service delivery and socio-economic development.

3.1.2 Definitions of Budget Management

Budget Management is the process of planning, implementing, monitoring and reporting the various activities contained in the budget cycle.

3.1.3 Meaning of annual Budget

An annual budget is a tool for implementing government programs and these programs are translated into activities with estimated resource inputs and expected outputs.

3.1.4 Meaning of Public Expenditure Management System

This refers to the structures, laws and procedures through which decisions are made and implemented in relation to the allocation and management of public resources.

3.1.5 Meaning of Core Budge Process

The process refers to the annual or series of fiscal activities involving planning, preparing, executing, monitoring and evaluation as well as reporting of the budget activities.

Self Assessment Exercise 1

1. Define the following terms in your own words

    a. Budget

    b. Budget Management

    c. Annual Budget

4.0. Conclusion

This discussion in this unit centered on the budget as a whole. In this course of this discussion, wer sere able to point out the subtle differences between them.

5.0 Summary

The budget is both a technical and political vehicle for achieving government policy goals, including MDGs. The budget provides the platform for operationalizing both technically and financially the projects and programs of the government.

Finally, sound budgeting system is crucial to making progress in improving quality of public services and in reducing poverty. It is therefore central to government ability to achieve significant economic development and improve the living standard of the people.

6.0 Tutor Marked Assignment

Explain the difference between the Public expenditure Management system and core budget proves.

7.0. References/Further Reading

1. Budgeting and Budgeting Control (2004) CMD Participants manual

2. Budgeting for Efficient Economic Management (2006) CMD participants manual.

3. Guidelines for Public Expenditure Management (1999), IMF

4. Understanding and Reforming Public Expenditure Management (2001), Guideline for DFID, version 1.

5. Understanding the politics of the Budget: What drives changes in the budget process (2007) DFID Briefing.

UNIT 2: ANNUAL BUDGET PLANNING

CONTENTS

1.0 introduction

2.0 objectives

3.0 Main Content

3.1.1 Definition of Annual Budget Planning

This is mainly concerned with all background activities that precedes the issuance of the annual call-circular and its starting point is the formulation of annual fiscal targets.

This stage in the annual budget process focuses on the activities that are undertaken before preparing of the annual budget.

3.1.2 Budget Planning and Calendar

The first step is for the budget office to assemble its staff to hold budget planning meetings and draw up a fiscal management calendar in consultation with the treasury and Planning Commission. At the outset, a fundamental distinction needs to be drawn between budget planning and budget preparation. Effective annual budget planning is considered a pre-requisite for successful budget preparation and consists of all activities undertaken before the issuance of annual call-circular, which is the start of budget preparation sub-process.

3.1.3 Budge Committee

The next step is for the budget department to inaugurate the budget committee to properly harmonize all issues relating to the medium term fiscal targets and annual fiscal priorities. The key members of the committee may include :-

a. Accounting General

b. Ministry of finance

c. Planning Commission

d. Internal Revenue Service

e. Office of the Economic Adviser

f. Auditor General

The duties and responsibilities of this committee include the following:

a. Review of fiscal targets

b. Review aggregate spending limit

c. Review sector spending ceilings

d. Review and make recommendations on fiscal policy trust

Self Assessment Exercise 1

1. Explain the meaning of annual budget planning

5.0. CONCLUSION

The discussion in this unit centered on the overview of the annual budget planning. In the course of this discussion, we were able to point out the budget planning and calendar and budget committee.

5.0 Summary

Since the annual budget planning stage in the annual budget process focuses on the activities that are undertaken before preparing of the annual budget. It should resolve the following questions:-

a. What government activities should be covered

b. How are short-run expenditure projections to be made

c. What is the framework in which budget decisions are made

d. What are the contents of budget calendar

e. Provide a route for involving the public in planning services

6.0 Tutor-Marked Assignment

a. Who are the key members of Budget committee

b. What are the duties of the budget committee

7.0. References/Further Reading

Budgeting and Budgeting Control (2004) CMD Participants manual

Budgeting for Efficient Economic Management (2006) CMD participants manual.

Guidelines for Public Expenditure Management (1999), IMF

Understanding and Reforming Public Expenditure Management (2001), Guideline for DFID, version 1.

Understanding the politics of the Budget: What drives changes in the budget process (2007) DFID Briefing.

UNIT 3: MEDIUM TERM EXPENDITURE FRAMEWORK

CONTENTS

1.0 INTRODUCTION

The main purpose of this unit is to give you meaning of medium term expenditure framework. The unit covers benefits of MTEF.

The other sections are the conclusion and summary.

2.0. OBJECTIVES

After studying this unit, you should be able to:-

a. Explain MTSF

b. Benefits of MTEF

3.0 MAIN CONTENT

3.1 Meaning of MTEF

The medium Term Expenditure Framework (MTEF) is an annual rolling three year-expenditure planning". Such a framework would provide the medium-term expenditure priorities on a government wide basis as well as specific fiscal constraints against which sector plans can be developed and refined.

The MTEF aims at facilitating a number of important outcomes:-

a. Sound fiscal balance

b. Improved inter and intra-Sectoral resource allocation

c. Greater budgetary predictability for spending units and

d. More efficient use of public funds

Improved economic balance, including fiscal discipline, can be attained through good estimates of the available resource envelope, which are then used to make budgets that fits squarely within the available envelope.

The medium Term Expenditure Framework specifically involves:-

1. Developing realistic macro economic projections of total resources both domestic and foreign
2. Developing comprehensive sector ceilings for a three year period early in the process so that ministries can prepare their budgets based on these ceilings, thereby avoiding the usual game of budget negotiations.
3. These ceilings need to be based on top down decisions of how resources should be allocated between sectors based on government priorities.
4. The budget preparation process focusing on estimating the resources required to meet government objectives through clear definition and costing of ministries plans, thereby moving away from the incremental approach to budget preparation.

3.1.2 Benefits of MTEF

The following are the expected benefits of the MTEF

1. Improved macro-economic balance, especially fiscal discipline
2. Better inter and intra-sectoral resource allocation
3. Greater budgetary predictability for the ministries
4. More efficient use of public funds
5. Greater political accountability for public expenditure outcomes through more legitimate decision-making process
6. Greater credibility of budgetary decision making (Political restraint)

Self Assessment Exercise 2.

1. What are the benefits of the MTEF

4.0 CONCLUSION

The discussion in this Unit centered on the overview of the MTEF. In the course of this discussion, we were able to point out the benefits of MTEF and its specifically involvement in the annual budget.

5.0 SUMMARY

MTEF is deployed to improve inter and intra sectoral resource allocation by effectively prioritizing all expenditure and dedicating resources only to the most important ones. A further objective of the MTEF is greater budgetary predictability, which is expected as a result of commitment to more creditable sectoral budget ceilings.

6.0 Tutor Marked Assignment

1. What are the outcomes of MTEF in the budget planning

7.0 REFRENCES/FURTHER READING

Budgeting and Budgeting Control (2004) CMD Participants manual

Budgeting for Efficient Economic Management (2006) CMD participants manual.

Guidelines for Public Expenditure Management (1999), IMF

Understanding and Reforming Public Expenditure Management (2001), Guideline for DFID, version 1.

Understanding the politics of the Budget: What drives changes in the budget process (2007) DFID Briefing.

UNIT 4: BUDGET POLICY STATEMENT

Content

1.0. INTRODUCTION

The main purpose of this unit is to give you meaning of budget policy statement. This unit covers the contents of the budget policy statement.

The other sections are the conclusion and summary.

2.0. OBJECTIVES

After studying this unit, you should be able to:-

a. Explain budget policy statement

b. Contents of the budget policy statement

3.0. MAIN CONTENT

3.1 Meaning of Budget Policy Statement

Budget policy statement is essentially a product of the MTEF process but it is of crucial importance to the annual budget planning sub-process because it provides a broad guide and perspective to the annual budgeting.

The setting of the fiscal targets derived from the BPS and refined by the central Budget office leading to allocation of resources. Executive Council would set budget priorities and allow the strategic negotiations among the sector for resource allocation. The outcome of these negotiations defines and amplifies the budget policies.

Now the ministries have their map to work on their portfolios. The distribution of budget policy statement initiates the budget call-circular. The budget is on the Sectors and the planning (Finance) ministry assumes its monitoring role unit, the sectors present their annual portfolio budget proposals.

At present, the state government in Nigeria does not use budget policy statement but there are different documentations at the state level which contains pieces of information that would be useful in developing sound budget policy statement.

3.2. Contents of the Budget Policy Statement

The following are the contents of the budget Policy statement:-

1. Broad annual budget goals and targets, expected fiscal performance of the general government operations during the year under consideration.
2. Broad guide on sectoral priorities and justifications
3. Annual Aggregate spending limit – (revenue forecast minus contingency reserve)
4. Planning Reserve – (included in the annual aggregate spending limit) this would be used to argument any shortfall in sector resource allocations.
5. Contingency Reserve – This is a special reserve for emergency or unexpected occurrences during the budget execution stage.
6. Annual sector ceiling- this ceiling should include recurrent and capital costs.
7. Gender mainstreaming of social issues, identifying significant and crucial issues requiring special attention for funding e.g. improved enrolment of girl-child, maternal healthcare.

Self Assessment Exercise 1

Explain the meaning of budget policy statement in your own words.

4.0. CONCLUSION

The discussion in this Unit, centered on the budget policy statement. In the course of this discussion, we were able to point out the contents of the budget policy statement.

5.0. SUMMARY

The main outputs of the budget preparation is Annual Call Circular which provides the detailed guideline and information on budget preparation and executive council would set budget priorities and allow the strategic negotiations among the sectors for resource allocation and the outcome of these negotiations defines and amplifies the budget policies.

6.0. TUTOR MARKED ASSIGNMENT

1. What are the contents of the budget Policy statement

7.0. REFERENCES/FURTHER READINGS

Budgeting and Budgeting Control (2004) CMD Participants manual

Budgeting for Efficient Economic Management (2006) CMD participants manual.

Guidelines for Public Expenditure Management (1999), IMF

Understanding and Reforming Public Expenditure Management (2001), Guideline for DFID, version 1.

Understanding the politics of the Budget: What drives changes in the budget process (2007) DFID Briefing.

UNIT 5: BUDGET PREPARATION

content

1.0. INTRODUCTION

The main purpose of this Unit is to give you overview of budget preparation sub-process. This unit covers the budget call circular, preparation of budget proposals by spending units, and bilateral discussion.

The other sections are the conclusion and summary

2.0. OBJECTIVES

After studying this unit, you should be able to :-

a. Explain how budget proposals are prepared by the spending units

b. Explain the essences of bilateral discussion.

3.0. MAIN CONTENTS

3.1 Overview of budget preparation sub process.

With the conclusion of the annual budget planning, the budget department having obtained all the necessary approvals would now set in motion the general government fiscal operations. One of the most important outputs from the previous stage is the budget calendar, which establishes a timing schedule for all activities regarding budget preparation and beyond. Another important output is the budget policy statement, which outlines the government wide priorities and sector spending ceilings.

3.2 Budget Call Circular

The formal budget preparation process starts with issuance of budget call circular to all Ministries, Departments and Agencies (MDAS) of government. In principles, the call circular should include the following which have already been developed and agreed at the annual budget planning state:-

a. Economic and Fiscal outlook of the stage government for the fiscal year.

b. Aggregate spending Limit (stating planning and contingency reserves)

c. A summary of budget policy statement

d. Government wide priorities

e. Explanations and guidelines on admitting projects and programmes in the government activities and medium Term Sector Strategies (MTSS) of component of MTEF.

f. Sector Spending Ceiling

g. Form and Format the budget estimates would take

h. Input spending boundaries (e.g. Capital versus recurrent and personnel versus overhead costs)

i. Guidelines for preparing recurrent expenditure (particularly personnel cost)

j. Budget classification and chart of Accounts

k. Instructions for completing the budget forms

l. Detailed costing templates

m. Detailed timetables for submission of proposal and defense

3.3 Preparation of budget proposals by Spending Units.

The Ministries, Departments and Agencies (MDA's) on receipt of a budgets call circular are required to prepare detailed proposal which should be submitted to the budget office.

The MDA proposal is expected to:-

1. Be in the approved form and format
2. Apply the proper budget classification and codes
3. Have a qualitative presentation of the substance of their budget submission
4. Contain detailed review of last fiscal year (and current half year) performance
5. Outlook of the MDA

6. Have the strategic direction of the MDA, their constraints and challenges.
7. Specific and measurable policy targets and strategies
8. Justification for all the new projects and programmes
9. Costing mechanism for the projects and programmes
10. Costing mechanism for the projects and programmes in the proposal.
11. Contain recurrent implication of new projects and programmes and provisions made in the proposal to cover the costs.
12. Contain performance indicators and methods of measuring outputs and outcomes of new projects and programmes.

To product the above stated documents within the timeframe each MDA or main organization is expected to:-

1. Constitute MDA budget sub-committee (to be chaired by Perm-Sec in case of ministry)
2. Send copies of the budget call-circular or Ministries (Main Organisation) circular to all sub Organisations calling for their proposal.
3. The sub Organisation would prepare detailed proposal in accordance with the approved form and format
4. The Sub Organisation would also prepare qualitative presentation of the budget
5. The Ministry (or Main Organisation) budget sub-committee would review the submissions form all the sub-Organisation.

3.4 Bilateral Discussion

The budget office on receipt of budget proposals from MDA,s would carry bilateral discussion/negotiation with MDS's on their proposals.

The essence of bilateral discussion is as follows:-

1. Review the proposals with MDA to ensure consistency with approved proposal completion guidelines
2. To ensure that the MDS's proposal is within ceiling
3. To ensure that the MDA complied with the input spending boundaries.
4. Review the personnel and over head input and its compliance with government overall recurrent expenditure policy (particularly the personnel profile)
5. To verify that the strategy, projects and programmes are consistent with budget policy as well as sector policies.

6. Review and judge the reasonableness of the costing mechanism of the projects and programmes in the proposal
7. Where necessary allocate additional resources form the planning reserve for funding important projects and programmes not covered within the MDA resource envelope (expenditure ceiling)
8. Review to MDA performance indicators and method of measuring output and outcome to ensure consistency with the approved system.

Self Assessment Exercise

What are the expectation of the MDA proposal

4.0. CONCLUSION

The discussion in this Unit, centered on the budget preparation. In the course of this discussion, we were able to point out the overview of budget preparation sub process, budget call-circular preparation of budget proposal by spending units and bilateral discussion.

5.0. SUMMARY

After review of the consolidated proposals, the President/ the Governor is expected to present the draft budget to the National Assembly/House of Assembly.

The draft proposals to the legislature need to be :

- Timely
- In a manner that allows for oversight responsibility of legislatures

The legislatures are responsible for officially enacting the budget or approving it at the formal legal level.

The approved budget will be presented to the President/Governor for his assent. Finally, the detailed analysis of the budget will be presented by ministry of Finance to the public. The approved budget together with the budget policy statement will be published and circulated.

6.0. TUTOR MARKED ASSIGNMENT

What are the essence of bilateral discussion in the budget preparation.

7.0. REFERENCES/FURTHER READINGS

Budgeting and Budgeting Control (2004) CMD Participants manual

Budgeting for Efficient Economic Management (2006) CMD participants manual.

Guidelines for Public Expenditure Management (1999), IMF

Understanding and Reforming Public Expenditure Management (2001), Guideline for DFID, version 1.

Understanding the politics of the Budget: What drives changes in the budget process (2007) DFID Briefing.

UNIT 6: BUDGET EXECUTION

CONTENTS

1.0. INTRODUCTION

The main purpose of this Unit is to give you an overview of budget execution. The unit covers the definition of IFMIS – Integrated Financial Management Information System and Budget executions options.

The other sections are the conclusion and summary.

Self Assessment exercise and tutor marked assignments are also included for your self-development.

2.0. OBJECTIVES

After studying this unit, you should be able to:-

a. Explain budgets execution

b. Define IFMIS

c. Explain main outputs of budgets execution options

3.0. MAIN CONTENT

3.1 Overview of Budget Execution

Budget exectution is one of crucial sub-provesses in the budget cycle and consists of a series of activities that starts as soon as the budget is passed into law. These activities would usually begin in January, the first month of the fiscal year with request from the budget office calling for capital expenditure work plan from spending units or MDA's.

This Sub-process relies on the budget classification and chart of accounts used in allocating resources and recording transactions. Budget is executed by spending units classified as administrative entities such as Organisation (Ministries) and sub-organisation (Service providers).

An effective budget execution depends on robust budget classification and coding as well as standard chart of accounts in order to efficiently relate actual expenditures to the approval budget provisions.

3.2 What is IFMIS

Integrated Financial Management Information System is the comprehensive linking of budget and accounting leading to integration of revenue, expenditure, asset and liabilities planning, management, control, auditing, monitoring and reporting.

3.3 Budget Executive options

The main output from this sub-process are:-

1. Description
    a. Statement of Quarterly Workplan
    b. Monthly Expenditure Transcriptions
    c. Consolidated monthly Expenditure
    d. Summary of Monthly Revenue Collection
    e. Consolidated Monthly Revenue Collection
    f. Draft Final Accounts
    g. Audit Final Accounts
    h. Project Implementation Report
    i. Monthly Expenditure Transcriptions
    j. Consolidated Monthly Accounts
2. Responsible Agency
    a. MDA – Ministries, Departmentals, Agencies
    b. MDA –
    c. Ministries of Finance
    d. MDA
    e. Ministries of Finance
    f. Final Accounts Dept.

g. Office of the Auditor-General

h. PIU – Project Implementation Unit and MDA

i. MDA

j. Ministries of Finance

3. Calendar

a. January

b. Monthly

c. Monthly

d. Monthly

e. Monthly

f. Annually

g. Annually

h. Ad-hoc

i. Monthly

j. Monthly.

Self Assessment Exercise 1

Define the following terms in your own words

a. Budget execution

b. Integrated Financial Management Information System.

4.0. CONCLUSION

The discussion in this unit centered on the budget execution. In the course of this discussion, we were able to point out the management information system.

5.0. SUMMARY

An effective budget execution depends on robust budget classification and coding as well as standard chart of accounts in order to efficiently relate actual expenditures to the approved budget provisions.

Finally budget classification and chart of accounts provided broad view of the inter-relationship of budget and accounting functions within the budget execution sub-process.

1. Budget classification (BC)
    a. Medium Term Expenditure Framework (MTEF) ceilings
    b. Budget Ceilings
    c. Changes to plans
    d. Revenue Collections
    e. Expenditure Commitments
    f. Payment requests
2. Chart of Accounts (COA)
    a. Planning/Budget Reports e.g.

       MTEF

       Budget for Parliament

       Cash forecasts
    b. Control Statements e.g.

       Daily cash position

       Budget vs Actual

       Warrant/Commitment Control.
    c. Reporting Statements e.g.

       Institution reports

       Consolidated reports

       Accounting Standards

6.0. Tutor Marked Assignment

Explain the meaning of budget execution in details

7.0. References/Further Reading

Budgeting and Budgeting Control (2004) CMD Participants manual

Budgeting for Efficient Economic Management (2006) CMD participants manual.

Guidelines for Public Expenditure Management (1999), IMF

Understanding and Reforming Public Expenditure Management (2001), Guideline for DFID, version1.

Understanding the politics of the Budget: What drives changes in the budget process (2007) DFID Briefing.

UNIT 7: BUDGET EXECUTION AND CONTROL

CONTENTS

1.0. INTRODUCTION

The main purpose of this unit is to give you preparation of the workplan. The units covers the expenditure projection, cash forecast and expenditure warrant (general).

The other sections are the conclusion and summary.

Self-Assessment exercise and tutor marked assignment are also included for yourself development.

2.0. OBJECTIVES

After studying this unit, you should be able to :-

a. Explain the particulars for preparation of the Workplan

b. Explain cash forecast in details

3.0 MAIN CONTENT

3.1 Preparation of the Work plan

At the beginning of the fiscal year, the budget office would request all spending units to prepare their capital expenditure Workplan on a quarterly basis in accordance with the approval budget estimates. The quarterly capital expenditure workplan would be submitted to the budget office with the following pariticulars:-

a. Name of Entity

b. Entity code

c. Project/Program Description

d. Budget Control Code
e. Approved Provision
f. Implementtion Period
g. Start-up
h. Funds required per quarter

3.2 Expenditure Projection

On the basis of the Work plan submitted by the spending units for capital Investment, the budget department would meet the Accountant-General's Office to produce aggregate expenditure projections by function and line item:-

a. Personnel costs
b. Overhead (Operational) costs
c. Capital Investment costs
d. Other.

3.3 Cash Forecast

The Ministry of Finance is responsible for cash planning. An effective cash planning and management system should:-

1. Recognise the time value and the opportunity cost of cash
2. Enable line ministries to plan expenditure effectively.
3. Be forward-looking-anticipating macro-economic development while accommodating significant economic changes and minimizing the adverse affects on budget execution.
4. Be responsible to the cash needs of line ministries
5. Be comprehensive, covering all inflows of cash resources, and
6. Plan for the liquidation of both short and long-term cash liabilities.

The approach followed by the ministry of Finance would be to request the revenue generating agencies to provide realistic revenue collections for first quarter and subsequent quarters per each sources of revenue.

The forecast revenue collections by MDA's would normally include the following information:-

1. Name of Entity
2. Entity Code
3. Sources of Revenue, approved estimates and Code

4. Revenue collection by source.

The Ministry of Finance would collate the submission form all revenue generating agencies and produce a consolidated revenue forecast for the government. The aggregated cash forecast would be reviewed and compared with the cash requirements derived from the expenditure projections. Government have in place a cash Management/Allocation Committee (or Treasury Board) that is responsible for allocating cash to each entity usually chaired by the President/Governor and comprising Minister/Commissioner for Finance, Perm Sec (Finance) and the Federal/State Accountant General.

3.4 Expenditure Warrant (General)

Once the Cash Management Committee meets and approved cash allocation to the spending Units, the budget office would prepare and sent out warrants to the MDS's to enable process their documents for accessing the fund form the treasury.

Warrant: There are three types of general expenditure warrants for personal expenses overhead and capital expenditures. In general, the procedures are the government to de3duct the sum equivalent to last year's operating cost before arriving at the available fund for the capital development for period.

Self Assessment Exercise 1.

What are the particulars for the Workplan

4.0. CONCLUSION

The discussion in this unit centered on the preparation of the workplan. In the course of this discussion, we were able to point out the expenditure projection, cash forecast and expenditure warrant.

5.0. SUMMARY

The budget office request all spending units to prepare their capital expenditure workplan on a quarterly basis in accordance with the approved budget estimates.

The Ministry of Finance is responsible for cash planning and there are three types of general expenditure warrant for personal expenses, overhead and capital expenditures.

6.0. TUTOR MARKED ASSIGNMENT

What are the ingredient of the cash forecast.

7.0 REFERNCES/FURTHER READING

Budgeting and Budgeting Control (2004) CMD Participants manual

Budgeting for Efficient Economic Management (2006) CMD participants manual.

Guidelines for Public Expenditure Management (1999), IMF

Understanding and Reforming Public Expenditure Management (2001), Guideline for DFID, version 1.

Understanding the politics of the Budget: What drives changes in the budget process (2007) DFID Briefing.

UNIT 8: DUE PROCESS

CONTENTS

1.0 INTRODUCTION

The main purpose of this unit is to give you meaning of due process. The unit covers the release of mandate (cash Backing) and procurement process.

The other sections re the conclusion and summary

Self-Assessment exercise and tutor marked assignment are also included for yourself development.

1.0. OBJECTIVES

After studying this unit, you should be able to:-

a. Explain due process

b. Explain procurement process

2.0. MAIN CONTENT

3.1 Due Process Certification

Due Process is a mechanism for ensuring strict compliance with openness, competition and cost accuracy rules and procedures that should guide contract award within government.

There are two levels of due process certification in the government and there is also a due process unit.

a. Resident Due Process located in the MDA with approval limit of up to N100million.

b. Central Due Process Unit located in the Governor's office.

3.2 Release of Mandate (cash Backing)

As soon as the due process requirements are met, the certificate is issued to the spending unit and copies are sent to the Budget Office and Ministry of Finance. On the basis of the certificate issued to the spending unit the treasury would issue a cash mandate to the spending unit and private sector commercial bank at the state level and CBN at the Federal Level.

3.3 Procurement Process

There are three levels of tendering process in the government

1. Departmental Tenders Board
2. Ministerial Tenders Board
3. Tenders Board

The procedures and activities of the tenders board are guided by strict rules and regulations documented in the financial instructions and other manuals in the public service. The size and value of the project or expenditure would specifically determining the rules that would apply.

There are two types of procurement procedures at the government level;

1. Selective tendering – requiring at least three bidders
2. Open tendering- this is a publicly advertised tenders in the local and national media following pre-qualifications.

Self-Assessment Exercise 1

What is due process

3.0. CONCLUSION

The discussion in this unit centered on the due process. In the course of this discussion, we were able to point out the release of mandate (cash Backing) and procurement process.

4.0. SUMMARY

The start up of project execution would normally lead to constituting a project implementation team with the spending unit (MDA's) with a desk officer designated who would be responsible for regularly liaising with all implementing parties of the project. Depending on the size and complexity of the project, there might be a need to engage an outside consultant (or short term expert) who would provide specialized services to the spending unit.

5.0. Tutor Marked Assignment

a. What are the levels of tendering process in the Government;

b. What are the types of procurement procedures in the Government.

c.

6.0. REFERENCES/FURTHER READINGS

Budgeting and Budgeting Control (2004) CMD Participants manual

Budgeting for Efficient Economic Management (2006) CMD participants manual.

Guidelines for Public Expenditure Management (1999), IMF

Understanding and Reforming Public Expenditure Management (2001), Guideline for DFID, version 1.

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UNIT 9: PROJECT IMPLEMENTATION

CONTENTS

1.0 INTRODUCTION

The main purpose of this unit is to explain project implementation in relationship with budget. The unit covers the project implementation project implementation reporting, payment process and pre-payment audit (Internal Auditing), Expenditure recording and Accounting and Bank Reconciliation by the spending unit.

The other sections are the conclusion and summary.

Self Assessment exercise and tutor marked assignment are also included for your self development

1.0. OBJECTIVES

After studying this unit, you should be able to:-

a. Explain payment process

b. Explain pre-payment audit

2.0. MAIN CONTENT

3.1 Project Implementation.

The Government have a project implementation located in the Government House which carries out project monitoring and issues certificate of completion to the contractors for payment purposes. This unit would normally make use of short term external experts for technical evaluation of projects. In addition, the spending unit would have a desk officer.

3.2 Project Implementation Reporting

The desk officer in the spending unit and project implementation unit would normally prepare a project implementation report for each project being executed by the government which is basically a value for many assessment. The following information would be captured by the project implementation report:-

a. Project Description

b. Budget Control Code

c. Executing Agency

d. Desk Officer

e. Contractor

f. Sub-Contractor

g. Original Value of Contract

h. Cost Variation (If any)

i. Project Tenure

j. Start-up date

k. Completion date

l. No of Disbursement

m. Total Value of disbursement

n. Value of Commitment

o. Value of Outstanding Bills

3.3 Payment Process

The payment and recording process is essential accounting functions with a number of financial controls which is intended to enhance accountability of resource management.

The following steps apply for payment and recording:-

a. Project inspection

b. Certificate of completion

c. Invoice Received

d. Verification of services or Goods Delivered

e. Payment Authorization/Specific Warrant

f. Preparation of Payment Vouchers

g. Pre-payment audit

h. Payment

i. Preparation of Accounts.

The project inspection would be carried out by the desk officer and the project implementation unit in the government before a certificate of percentage completion is issued to the contractor. On the basis to certificate, the contractor would submit an invoice with the certificate attached.

But for supply of capital goods or services, when the invoice is submitted the verification is carried out by the internal audit, stores unit and the user department before the goods are accepted.

3.4. Pre-Payment Audit (Internal Auditing)

The pre-payment audit in the government is aimed at ensuring that each payment voucher has compiled

The following check list is usually reviewed by the pre-payment audit:-

1. Project Description
2. Budget Control Code
3. Organization Code
4. Sub-head Code
5. Contractor Name
6. Sub-contractor Name
7. Tender's Board Minutes of Meeting
8. Contract Document
9. Certificate of Completion
10. Percentage of Completed and Value
11. Contractor/Cub-contractor's invoice.

3.5 Expenditure Recording and Accounting (Vote Book Management)

The government financial instructions reassure each spending unit to maintain a set of books of accounts to record all transactions relating to revenue by sources and expenditure by ine items.

Basic book of accounts are:-

1. Departmental Vote Books
2. Registers (e.g. Contractors Register)
3. Cash Book
4. General Ledger.
5. Budget Performance Statement

3.6 Bank Reconciliation by the Spending Unit

Spending unit is required to ca4ry out a monthly bank reconciliation of each bank account maintained and they are expected to forward the bank statements and reconciliation schedules to the treasury each month. This information enables the state treasury produce cash situation within the government operations and take decisions on the cash management requirements and liquidity position of the government.

Self Assessment Exercise 1

What is payment process?

4.0. CONCLUSION

The discussion in this unit centered on the budget implementation. In the course of this discussion, we were able to point out the project implementation reporting, payment process, pre-payment audit, expenditure recording ad accounting and Bank reconciliation by the spending unit.

5.0. SUMMARY

The start up of project execution would normally lead to constituting a project implementation team with the spending Unit (MDA) with a desk officer designated who would be responsible for regularly liaising wit all implementing parties of the project. Depending on the size and complexity of the project, there might be a need to engage an outside consultant, who would provide specialized services to the spending unit.

The following information would normally be generated by the project to enable the monitoring and evaluation unit in the department of planning, research and statistics carry out effective monitoring of on-going and completed project.

6.0 TUTOR MARKED ASSIGNMENT

1. What are the information to be captured by the project implementation report.

2. What are the steps that involving in the application of payment and recording.

3. what are the basic book of account

7.0. REFERNCES/FURTHER READINGS

Budgeting and Budgeting Control (2004) CMD Participants manual

Budgeting for Efficient Economic Management (2006) CMD participants manual.

Guidelines for Public Expenditure Management (1999), IMF

Understanding and Reforming Public Expenditure Management (2001), Guideline for DFID, version 1.

Understanding the politics of the Budget: What drives changes in the budget process (2007) DFID Briefing.

UNIT 10: BUDGET CONTROL

CONTENTS

1.0 INTRODUCTION

The main purpose of the unit is to give you a monthly expenditure transcripts. The Unit covers monthly expenditure transcripts, monthly accounts reconciliation, extra budgetary funding, supplementary budgeting drat annual accounts, audit of annual accounts, typical problems in budget execution and improving the budget system. Doing the Basics. The other sections are the conclusion and summary.

Self Assessment exercise and tutor marked assignments are also included for your self-development.

1.0. OBJECTIVES

After studying this unit, you should be able to:-

1. Explain extra-budgetary funding.

3.0 MAIN CONTENT

3.1 Monthly Expenditure Transcripts.

Each spending Unit is required to prepare a monthly transcription of expenditure from this books of accounts and submit to the office of Accountant-General and the Budget Office.

For expenditure returns, the spending unit is expected to summarize the expenditure broadly:-

1. Personnel Cost
2. Overhead by line items
3. Capital Projects.

3.2 Extra Budgetary Funding

An extra budgetary find is a dedicated account or fund which is not included in aggregate budget total and typically do not operate through the standard budgetary execution procedures. Such transactions may, for example, be financed through donor assistance or earmarked revenues from capital market bond issue.

The following accounts for fund may be called extra-budgetary funding:-

a. HSDP II (Health System Development Project Funded by World Bank)

b. DRF (Drug Revolving Fund)

c. D and E Scheme (Deferral and Exemption Scheme).

There might be good reasons for establishing extra-budgetary fund but in many cases extra-budgetary funds are often set up for inappropriate reasons, which are not consistent with principles of good governance.

3.3 Supplementary Budgeting.

During budget implementation, there might be need to change the line item in approved budget estimates (appropriation), such revisions might be necessary and desirable. However, excessive switching of budgetary provision between line items but within head called virement and excessive use of supplementary estimates could cause difficulties and usually indicates a lack of budget discipline.

Supplementary budget could be prepared by the government during the fiscal year to propose additional spending.

There are primarily two reasons for supplementary budgeting:-

a. Additional needs to be addressed because of rising revenues over and above budgeted figures.

b. Emergency Occurrences to be paid for by contingency reserve..

Unfortunately, supplementary budget is often used to regularized off-budget spending.

3.4. Draft Annual Accounts

A department in the office of Accountant-General is responsible for consolidating the monthly revenue returns and expenditure transcripts to produce draft annual accounts of the government financial operations:-

Financial Reporting:- The Technical Sub-Committee of the federation Account Allocation committee issued a "Report on Standardization of Federal States and Local Governments Accounts in Nigeria" in 2002. In the Report, the following Financial Statements are specified:-

1. Responsibility for Financial Statement

2. Statement of Opinion of Auditor-General

3. Cash Flow Statement

4. Statement of Assets and Liabilities

5. Statement of Consolidated Revenue Fund

6. Notes to the Financial Statements

The Report concluded that "the cash basis of accounting is preferred in the short and medium run for the preparation of the proposed financial Statements. In the long run, however, government should give serious consideration to the accrual basis of accounting in the preparation of its Financial Statements".

3.4 **Audit of annual Accounts.**

The Accountant-General of the government is required to prepare the Accounts and Financial Statements of the government operations for every fiscal year within six months of the end of the fiscal year and submit to the Auditor-General for examination and opinion.

The office of Auditor-General would conduct interim and continuing audit throughout the fiscal year and when the draft final accounts are submitted, the office would conduct a final audit and render opinion with regards to true and fair view of the financial statements and accounts.

3.4 Typical Problems in Budget Execution.

The following are common problems

a. Circumvention of budget and expenditure controls

b. Difficulties in reconciling bank statements with budget accounts and thus in obtaining reliable and timely data on cash expenditures.

c. The accumulation of payment arrears

d. Difficulty in managing and accounting for aid flows

Self Assessment Exercise 1

What are the accounts to be considered as the extra-budgeting funding?

4.0 CONCLUSION

The discussion in this Unit centered on the budget control. In the course of this discussion, we sere able to point out the monthly expenditure transcripts, monthly accounts reconciliations, extra budgetary funding, supplementary budgeting, draft annual accounts, audit of annual accounts, typical problems in the budget execution and improving the budget system.

5.0 SUMMARY

To improve the budget process, the first three sub-process require the attention of the government. The emphasis is on establishing some of the key basic fundamentals requir3ement of a budget system, such as:-

1. Seeking relatively modest improvements in the basic budget preparation process.

2. Re-establishing basic cash and expenditure control within central government functions through improvement and streamlining of existing manual process, developing rules and procedures and associated capacity – building.

3. Seeking to enhance levels of political involvement and guidance in the budget process and greater definition and clarity of affordable policies.

4. Technical and procedural improvements to internal and external audit processes, again through technical design and capacity-building

6.0 TUTOR MARKED ASSIGNMENT

1. What are the problems in the budget execution

2. What are the reasons for supplementary budgeting

7.0. REFERNCES/FURTHER READINGS

Budgeting and Budgeting Control (2004) CMD Participants manual

Budgeting for Efficient Economic Management (2006) CMD participants manual.

Guidelines for Public Expenditure Management (1999), IMF

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UN IT 11: BUDGET MONITORING AND EVALUATION

CONTENTS

1.0 INTRODUCTION

The main purpose of this unit is to give you meaning of budget monitoring and evaluation in details. The unit covers technical (Project) monitoring and evaluation, type of monitoring information available at the government level, summary of current monitoring and evaluation, key weaknesses and limitations in the monitoring and evaluation system.

The other sections are the conclusion and summary.

Self assessment exercise and tutor marked assignment are also included for your self-development.

2.0 OBJECTIVES

After studying this unit, you should be able to :-

1. Define Monitoring in details

2. Define Evaluation in details

3.0 MAIN CONTENT

3.1 Meaning of Budget Monitoring and Evaluation

Monitoring can be defined as: "A continuing function that uses systematic collection of data on specified indicators to provide management and the main stakeholders of an ongoing development intervention with indications of the extent of progress and achievement of objectives and progress in the use of allocated funds". Thus monitoring embodies the regular tracking of inputs, activities, outputs, outcomes and impact of development activities at the project, program, sector and national levels. This includes the monitoring of a country's progress against the millennium development goals (MDGs) or other national measures of development success.

Evaluation can be defined as "the process of determining the worth or significance of a development activity, policy or program to determine the relevance of objectives, the efficacy of design and implementation, the efficiency or resource use, and the sustainability of results. An evaluation should (enable) the incorporation of lessons learnt into the decision-making process of both partner and donor"

Given the above definition of the monitoring and evaluation, the following issues are germane:-

1. Inputs:- These are resources allocated to the processing unit for an expected output level. They comprise of money, staff and equipment meant for services to be delivered to the people.

2. Activities: These are various tasks of government carried out deliver the required services. These are either carried out directly by government officials or contracted out to outside expert within basic government rules and regulations. They are all carried out at the implementing agencies level.

3. Outputs: These are the expected levels of services or goods to be created based on the units of inputs, they consist of targets set to be achieved.

4. Outcomes: These are the expected benefits of the outputs created and delivered using a given unit of input.

5. Impacts: These are the ultimate improvement in living standard of a community form the services provided directly or indirectly.

Within the budget management process inputs, outputs, outputs, outc0mes and impacts can and should be monitored so as to ensure that the desired targets are achieved.

The budgets Monitoring and Evaluation at the government level can be broadly categorized into two main functions:-

1. The first level (Strategic) of budget monitoring and evaluation would deal with inputs and outputs review (Budget Performance Statement).

2. While the second level (technical) of budget monitoring and evaluation would cover inputs, outputs, outcome and impact (public expenditure tracking and survey).

3.2. Technical (Project) Monitoring and Evaluation.

Technical Monitoring and evaluation is essentially the individual project implementation and evaluation to ensure that work in progress is in accordance with design features, including quality, schedule, timing and quantity of activities.

The evaluation will provide value for money assessment leading to the production of the interim (or percentage of completion) certificate.

3.4 Summary of Current Monitoring and Evaluation.

Although a variety of budget performance and project implementation reports are generated by different government agencies, they focus narrowly on reporting resource inputs. The Ministry of Finance and the office of Accountant General are able to compile budget performance data from returns submitted by the spending units. However, there are issues concerning who is responsible for monitoring of the spending units, type of and coverage of monitoring activities, availability of data and information, capacity conditions, funding of the monitoring functions at the line and central ministries and guidelines on the budget performance monitoring and evaluation.

The following are some issues for consideration:-

1. Inadequate Monitoring and evaluation of budget performance:- Late and poor quality expenditure returns by line ministries to Ministry of Finance and Office of Accountant General causes difficulties in reviewing budget implementation on a regular basis. Budget monitoring information cannot therefore be regarded as being useful, and often information differ from that provided to the Accountant General for financial accounting purposes. Thus, there is a fragmented system for reporting budget performance information on a regular basis.

2. Expenditure performance information is not available on timely basis:- Expenditure performance information is not readily available to the outside stakeholders and the general public. Because audited final accounts are published many months after the conclusions of the fiscal year, there is a dearth of publicly available information regarding Government fiscal performance.

3. Scale, Quality and Value for Money:- At present, the available budget performance monitoring and evaluation reports focus exclusively on inputs, consequently the scale and quality of projects being implemented are not provided in the report, making it almost

impossible for an independent monitor to reliable solely on the data contained in the regular Monitoring and Evaluation Report.

3.4 Key Weaknesses and Limitation in the Current M and E System

Expenditure Warrant (or an authority to incur expenditure) are issued by the budget Department to the MDA's and tiers below, but because of limited capacity condition in spending units, money may not be immediately accessed or reach the intended destinations. These spending units are required to meet stringent requirements before due process certifications are issued to them. Without the due process certifications, the warrants may not be acted upon by the office of the Accountant General.

The current budget monitoring and evaluation by the department of budget is primarily aimed at mapping out resource flow and documenting disbursement by line items and by functions and sub-functions. However, outputs and outcomes created by the resources inputs are not analyzed by the current reports. Reports prepared by spending units on projects executed by them contain limited information that might not qualify as monitoring and evaluation reports.

Accordingly, the current budget monitoring and evaluation system is considered fragmented and uncoordinated and focuses almost exclusively on the resources inputs with little review of the outputs and impact of public expenditures whether MDG or non-MDG.

On a structural level, the present monitoring and evaluation system is characterized by the following drawbacks:-

1. Bottlenecks in resources flow – due to inability to obtain Due Process Certification (CDP) on time.

2. System deficiencies – Project planning and development process is not producing the required results in the spending units.

3. Instructional Weaknesses – Poor framework for collecting and analyzing project performance data.

4. Poor accountability and transparency – On the whole, systemic deficiencies and institutional weaknesses undermine accountability and transparency both in resource utilization and reporting.

Additional issues regarding poor monitoring and evaluation at the government level are the followings:-

1. The lack of adequate consultations with the government levels with respect to project formulation and location.

2. The lack of capacity in the spending units to physically monitor and generate data for evaluation of projects.

3. The difficulty in reconciling expenditures with budget line items and thus in obtaining reliable and timely data on budget performance.

4. The lack of capacity to comply with due process requirements on a timely basis, and

5. The difficulty in preparation of monthly expenditure transcripts on timely basis.

Self Assessment Exercise 1.

1. Define Monitoring

2. Define Evaluation

4.0 CONCLUSION

The discussion in this Unit centered on the budget monitoring and evaluation. In the course of this discussion, we were able to point out the technical (Project) monitoring and evaluation, type of monitoring information available at the government level, summary of current monitoring and evaluation, key weaknesses and limitations in the monitoring and evaluation system.

5.0. SUMMARY

There are a number of issues that require clarifications in order to arrive at a decision about the type of monitoring required.

Type and nature of monitoring possible at government level.

1. Project Implementation Evaluation – Line ministries can undertake projects implementation monitoring and evaluation for both small and medium scale project but for large projects they would need to engage short term expertise as supervising consultant to overseas project implementation. The line Ministry implementing the project would be responsible for collecting data and the monitoring and evaluation unit in the department of planning, research and statistics would collate the data on each project and prepare global report of all the projects in the ministry's portfolios.

2. The strategic budget monitoring and evaluation can be undertaken, with the budget performance data available by the monotirng and evaluation unit of the line ministries. The report of budget performance form the monitoring and evaluation unit in the line minisries will consist of:-

    1. Project implementation report

    2. Monthly expenditure transcripts

The line ministries (monitoring and evaluation unit) would be expected to provide the following information:-

1. Basel.ine data on project implementation

2. Budget performance transcripts

3. Outputs – description of the project and its components, costs, incurred, payment mode.

Uniformity in Monitoring of Budget Performance

The type and nature of data required from the line ministries should be uniform. A standardized data collection template and field survey questionnaire document would need to be agreed by the central and line ministries in an effort to undertake comprehensive periodic budget performance monitoring exercise that would include evaluation of output, outcome (and if possible impact).

Relevant information for M and E to be obtained from MDA's:

1. Title/Description of Project/Program

2. Project location/Description

3. Project Profile

4. Budget Control Code (s)

5. Approved budget Provision

6. Date of award

7. Original Project Cost

8. Revised Project Cost

9. Date of first Disbursement

10. Date of Commencement of Work

11. Date of Expected Completion

12. % of work Completed and Date

13. Date of 2nd Disbursement

14. % of Work Completed and Data

15. Copy of Project Implementation Report.

6.0. TUTOR MARKED ASSIGNMENT

1. Define Monitoring and Evaluation in details.

2. What are the Setback of monitoring and evaluation at structural level.

3. What are the relevant information to be obtained form MDA for monitoring and evaluation

7.0. REFERNCES/FURTHER READINGS

Budgeting and Budgeting Control (2004) CMD Participants manual

Budgeting for Efficient Economic Management (2006) CMD participants manual.

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