STUDY MANUAL
PUBLIC SECTOR ACCOUNTING AND FINANCE

ASSOCIATION OF NATIONAL ACCOUNTANTS OF NIGERIA (ANAN)
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FORMATION

VISION STATEMENT
To make ANAN a Premium Brand of Choice in Professional Accounting Practice in Nigeria, and To impact on Accounting Education and Practice in a profound and comprehensive manner.

MISSION STATEMENT
To advance the Science of Accountancy in Nigeria, pioneering a multi-disciplinary emphasis in the production of well rounded, well blended and well-honed professionals, Profound in Knowledge, Skilful in practice and Ethical in conduct.

MOTTO
Self-Reliance

CORE VALUES
Professionalism Accountability Education
Nobility Transparency Decorum

CORE MANDATE OF ANAN
The Association is charged under Association of National Accountants of Nigeria Act, (CAP A26, Laws of the Federation of Nigeria, 2004) to:

• Advance the science of Accountancy in Nigeria;
• Determine the standard of knowledge and skills to be attained by persons seeking to become registered members of the accountancy profession and reviewing those standards from time to time as circumstances may require;
• Promote the highest standard of competence, practice and conduct among the members of the accountancy profession;
• Secure in accordance with the provisions of ANAN Act, the establishment and maintenance of a register of members of the accountancy profession and the publication, from time to time, a list of those persons;
• Do such things as may advance and promote the advancement of the profession of accountancy in both the public and private sectors of the economy; and Perform through the Council of the Association other functions conferred on it by the Act.
MEMBERSHIP STRENGTH
As at 2018, unaudited membership strength stood at over 32,845. The Association has a branch network of 45 Branches in Nigeria’s 36 States and the Federal Capital Territory.

THE GOVERNING BODY
The Association is governed by the Council, presided over by the President, who is also the Chairman of the Governing Council. Within the Council, is an Executive Committee comprising of six members: President, First and Second Vice-Presidents, Immediate Past President, Treasurer and Membership Secretary. The Registrar serves as the Secretary to the Council and the Executive Committee.

ADMINISTRATION
The Administration of the Association is headed by the Registrar/Chief Executive, who also functions as the Secretary of the Council. The Registrar is assisted by three Assistant Registrars: Administration and Establishments, Accounts and Finance, and Corporate Affairs.

NATIONAL SECRETARIAT AND LIAISON OFFICE
The National Secretariat of ANAN is situated at Bank of Agriculture Plaza, 126 Independence Avenue, Central Business District, Abuja. The Liaison Offices are located at No. 250 Herbert Macaulay Way, Alagomeji, Yaba, Lagos and 1st Avenue, Road 14, House 22/24, Gwarimpa Housing Estate, Abuja, FCT.

TRAINING ARM OF THE ASSOCIATION
The Nigerian College of Accountancy (NCA) is a Post-graduate Professional College established under Section 8(1)(d) and Section 20 of ANAN Act. It is the Training Arm of the Association. The College is built on a 382-acres piece of land at Kwall, near Jos, Plateau State. It is dubbed the first Accountancy Village in Africa endowed with modern facilities including Hostels, Auditorium, Ultra-modern Administrative Building, Library, Clinic, Examination Amphitheatre, Police Station and Banking facilities among others. The College has all the features of a modern village. It is the pivot to the realization of the Association’s statutory mandate of Advancing the Science of Accountancy.

The NCA brings together graduates from various accredited Universities and Polytechnics for training as Full-time/Mature Professional and Conversion students, providing a forum for quality interaction and cross fertilization of ideas, besides teaching, learning and examinations. Students are routinely exposed to disciplines ancillary to Accounting, a wide range of Accounting techniques and professional ethical practices. The College seeks to actualize ANAN’s commitment to the triple goals of Competence, Integrity and Discipline.

The Administration of the College is headed by the Director General, who also functions as the Secretary of the Board of Governors of the College.

GOVERNING BOARD OF THE COLLEGE
The Governing Board of the Nigerian College of Accountancy consists of highly qualified expert professionals from industry, public practice, academia and public sector, under the leadership of the President of the Association, who is also Chairman of the Board of Governors. The membership of the Board includes the Executive Committee of ANAN Council, the Registrar/Chief Executive and the Director-General of the College who serves as the Secretary.
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MODULE 1

1.00 INTRODUCTION TO PUBLIC SECTOR ACCOUNTING AND FINANCE

1.01 Learning Outcomes
On successful completion of this Module, Students should be able to:

i. Examine the concept of public sector, private sector, public service and civil service and their interrelationships;

ii. Evaluate the primary objectives and functions of the public sector in any economy;

iii. Analyse the various definitions of the concept of public sector accounting;

iv. Disintegrate the various users of public sector financial information and also the bases of accounting in the public sector;

v. Have a firm grasp of the tenets of accountability especially in public service with particular reference to your role as an accountant.

1.02 Scope of Public Sector
Every economy is divided into two sectors: The Private Sector and the Public Sector. The Private Sector includes all organizations established by individuals and other interest entities and is therefore devoid of any form of government interference. The Public Sector refers to all organizations which are not privately-owned but which are established, run and financed by the government for the purpose of providing essential welfare services to the citizens.

1.03 Nature of Government Entities
The wealth of the private sector is owned by individuals and groups while the wealth of the public sector is collectively owned by all. Private sector organizations comprise sole traders, partnerships, companies and even non-profit oriented organizations while the public sector in Nigeria is made up of the Federal Government and its allied MDAs, the State Governments and their allied MDAs and the 774 LGAs. The public sector is the biggest spender in any economy, controlling about 80% of the nation’s asset base but the private sector is the driver of the economy.

1.04 Functions of the Public Sector
The followings are some of the functions of the public sector:

i. Protection/Security of lives and properties

ii. Communal services; Roads, Bridges etc.

iii. Personal welfare; Education, Housing etc.

iv. Trade and commerce.

v. Provision of services to the citizens without the intention to maximize profit
1.05 Definition of Public Sector Accounting

Public sector can be defined as that sector of the economy, established and operated by the government or, its agencies, distinguishable from the private sector, and organized on behalf of the whole citizens (Anyaf, 2002).

Public sector can equally be defined as the government sector whose affairs or services are made known to the public (people in general) in aggregate and in details, reflecting all transactions involving the *receipts, transfer and disposition* of its funds and properties.

From the foregoing, we can conclude as follows:

i. Public sector organizations are established, owned and operated by the government. This excludes possibility of individual ownership. Hence they are non-proprietary.

ii. Such organizations are distinguishable from the private sector.

iii. They are run on behalf of the general public.

iv. The primary motive of the public sector is to provide services to the citizens while that of the private sector is maximization of profit.

Public sector accounting is defined as a process of recording, analysing, summarizing, reporting/communicating and interpretation of financial information about government in aggregate and in details, reflecting all transactions involving the receipt, transfer and disposition of government funds and properties. It is financial accounting in government.

From the above, it is safe to summarize that government accounting refers to the entire process and activities that lead to receipt, transfer and disposition of government funds and properties that would culminate into rendering, comprehensive stewardship to the public.

1.06 Objectives of Government Accounting

To fulfil legal requirement: The law requires that government accounts are prepared and audited annually.

To perform the stewardship function: The ruling government is the steward of the resources and finances of the Nation. Government has to give account of how these finances are used.

i. To enable Government to plan well the future activities and programmes of the Nation.

ii. To provide a mechanism for controlling the use of the financial and other resources

iii. To provide the basis by which actual performance may be compared with set targets.

iv. To evaluate the economy, efficiency and effectiveness with which governance is carried out.
1.07 Purpose of Public Sector Accounting

i. To give evidence of accountability for the stewardship of government resources
ii. To provide useful information for the good control and efficient management of government operations.
iii. To ensure efficient administration through system of internal control and management information. To monitor the progress of planned revenue and expenditure.
iv. To serve as a basis for planning i.e. to provide historical forecasts, budgets and plan and also as a guide to the formulation of policies.
v. To serve as a basis for decision making.

1.08 Users of Government Accounting Information (Internal)

i. The Labor Unions in the public service which will press for improved conditions of employment and security of tenure for their members.

ii. Members of the Executive Arm of Government such as the President, Ministers and Governors. Their interest areas are to ensure probity and accountability through score keeping and performance control which are achieved through accounting information.

iii. Top Management members such as Permanent Secretaries of various Ministries and General Managers, MD/CEO of Parastatals. They are the conduit of accounting information generation and transmission and serve as liaison officers between Government, employees and the public.

1.09 Users of Government Accounting Information (External)

i. Members of the Legislature

ii. The Members of the Public

iii. Researchers and Financial Journalists.

iv. Financial Institutions, such as the Commercial Banks, World Bank and International Monetary Fund (IMF).

v. Governments, apart from the one reporting.

vi. Suppliers and Contractors

1.10 Bases of Government Accounting

Bases are principles or methods of accounting chosen by an entity and applied consistently by that entity in relation to the preparation and compilation of its financial statement.
Bases of accounting varied and numerous depending on the need. However, there are four methods of recording financial transaction in public sector accounting namely: Cash, Accrual, Commitment and Modified Accrual bases.

i  **Cash basis of Accounting**

This is the basis of accounting under which revenue are recorded only when cash is received, and expenditure recorded only when cash is paid irrespective of the fact that the transactions leading to the receipts or payments of cash now may have occurred in previous accounting period.

This is the basis upon which government financial statement in Nigeria are being prepared. Government has valid reasons for the adoption of cash basis since all bills must be paid with cash (not receivable or other assets) therefore, the required cash must be on hand in the year the payments have to be made.

So also goods and services must be paid for in the year of acquisition not necessarily in the year or years, in which the benefits will be received or in the periods set forth in a borrowing agreement.

In most cases, the public view accounting to be a difficult subject but in government there are many laymen in the field of accounting which are accounting officers, such as, Local Government Chairman, School principal or even a Chief Magistrate who are called to perform some accounting duties or at least bookkeeping work.

**Advantages of the cash basis of accounting**

- i. It is a simple method which can be learnt quickly and performed with confidence.
- ii. It allows a simple and unambiguous comparison between account authorized in the budget and those who usually spent it, therefore, it promotes control.
- iii. It concentrates on the disbursement of money which is very important, that is, no payment can be made until specified procedures are completed.
- iv. It permits easy identification of those who received them. It therefore, promotes accountability.
- v. When government is able to defer payments it need not either debtor or have the cash at hand until disbursements are required hence it does not make provisions for.
- vi. It is strictly factual, no reliance on opinion is necessary either to complete or to check the accounts. They are either right or wrong.
- vii. It saves time; the time and effort spent in accounting are minimized.
Disadvantages of the cash basis of accounting

i. It fails to recognize the assets usage and makes no allowance for depreciation instead it is only the assets paid for during the year that is recognized.

ii. Incompleteness: cash aspect is not the only aspect to transactions. By recording only, the cash aspect to transactions, the cash basis is relatively incomplete as a form of accounting hence it becomes of little useless in making decisions on economic costs.

iii. It does not reveal an accurate picture of the state of financial affairs at the end of the periods since it mixes up cash flow of various periods’ account which could result in misleading report.

iv. Limitation of internal controls: under cash basis, the entire internal control is centered on cash movement, other aspects of the business are ignored, and in fact this is a big flaw.

v. To Adams (1996) it takes unrealistic view of financial transaction since transaction goes through several stages all of which have financial implications for the organization. These stages are divided into five which are as follows:
   a. Management decision to spend money
   b. Issue of order or contract for the supply of goods or services.
   c. Acknowledgement of liability
   d. Settlement of liability
   e. Consumption of value

The cash basis of accounting only record (a) out these stages while the accrual basis records stages (b) and is usually supplemented by the recording of stages (c, d and e).

Instruments of Cash Basis of Accounting

The instrument of cash basis of accounting includes:

a. Receipts vouchers
b. Payment vouchers
c. Adjustment vouchers: these are journals or vehicle by which entries are moved from one account to another
d. Back up document: these are source document such as local purchase order, invoice etc. they are attached to payment vouchers made out separately for cash payment and for each sub-head and service

ii. Accrual Basis of Accounting
Under this basis of accounting, revenue are recorded when earned and expenditure as soon as the result in liabilities is known or when benefits are received notwithstanding that receipt or payment of cash may take place totally or partially in another accounting period accrual basis is commonly found in a private sector and all government parastatals. For instance, Nigeria Post Office (NIPOST), Nigerian Television Authority (NTA), Nigerian Port Authority (NPA) etc. The reason for this is that, they are profit oriented and it is therefore necessary to estimate or make a budget on how much profit has been earned in each period or with a view to investing capital impact and making periodic distributions to shareholders.

**Objectives of the Accrual Basis of Accounting**
The main objective of the basis is to match realized revenues with their related costs, thus, providing the basis for the matching concept.

**Advantages /Disadvantages of Accrual Basis of Accounting**
All the advantages of cash basis are the disadvantages of accrual basis except factuality and vice versa.

In fact, there is a growing support both international and in Nigeria for the wider adoption of accrual accounting in the public sector. In the words of the National Councils (Committee) on Government Accounting, NLGA, (1979) as cited by Johnson” (1997) is that the accrual basis is the superior method of accounting for the economic resources for any organization. The resulting accounting measurement based on the substance of transactions and events rather than merely when cash is received and disbursed, and this enhances their relevance, neutrality, timeliness, completeness and comparability”.

In fact, the council recommended the use of accrual basis for capital projects, special assessments and intra-governmental services funds and that modified accrual basis should be used for general accounting hence the cash is not appropriate.

**iii Commitment Basis of Accounting**
This is the basis of accounting that is adopted by government when a commitment has been made evidenced by a contract or local purchase order (LPO) and formally authorized by management, that is, the expenditure to which management has committed itself.

Since financial transactions are recorded immediately management takes decisions to spend money and when such decisions are taken money will be set aside specifically for that purpose. In short, budgeting is closely related to this basis because it draws the attention of management to how much of the total budget has been committed.
Advantages of the Commitment Basis of Accounting

i. It recognizes transactions at their inception and records them as they pass through other stages to completion, to this extent it is considered realistic and complete.

ii. It recognizes both cash and accrual basis, it is therefore more complete than any other basis.

iii. Since most government projects are executed by contracts, this basis appears appropriate and logical for government entities.

iv. It assists in the reduction of the errors or irregularities and fraud. Since large number of formal procedure must be observed in terms of checks before fund can be disbursed.

v. It gives room for matching concept like the accrual basis of accounting.

Disadvantages of the Commitment Basis of Accounting

i. It lacks control: this is as a result of too much emphasis on the commitment aspects of a contract without establishing control quality relevant to its execution.

ii. Disbursement procedures under the basis are cumbersome i.e. it involves a lot of documentation some of which are dated many years behind or after the period.

iii. It cannot be used in isolation but either with accrual or cash basis.

iv. It may not be able to adequately account for transactions that will take place in the future, for instance, contract variation since it is too futuristic.

v. Modified Accrual/Cash Basis of Accounting

Modified accrual accounting is that method of accounting in which expenditure are recorded at the time when received in cash, except for material or available revenues which should be accrued to reflect properly the taxes levied and the revenues earned.

It does not allow for balance sheet recognition of long-term assets and debts. However, it does permit a wide array of transactions and events to be recognized when they have their substantive economic impact, not merely when they result in cash inflows. It is a hybrid of cash and accrual basis. Cash basis is applied to revenue while the accrual basis is applied to expenditure.

1.11 Differences/Similarities between Public Sector and Private Sector Accounting

The term “Public Sector” refers to all organizations which are created, administered and financed by Government, from the tax payers’ money, on behalf of the members of the public. Such establishments which are referred to as the “three tiers” of Government, Government
Companies, Ministries, Departments, Agencies, Parastatals, extra-ministerial departments and other public agencies created by the Nations Constitution, Acts of Parliament and Bye-Laws. The organizations produce public goods and services which are available to the citizens free of charge or at very minimum charges. Public sector organizations are managed by appointed members of the citizenry.

“Private Sector” is that part of the economy where the factors of production: Land, Labor, Capital and Entrepreneurship are supplied by private individuals who are the business owners. They manage the businesses, bear the risks and earn the profits through the sale and production of goods and services as sole traders, business partners or shareholders in limited liability companies.

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

Public concerns do not distinguish between capital and revenue expenditure, unlike private companies. The latter write off the values of fixed assets over estimated useful lives through depreciation. Public Sector organizations are accountable to the citizens of the Nation through their elected representatives, while private sector concerns are answerable to their owners.

### Differences Between Public and Private Sector Accounting

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<th>Feature</th>
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<td>Accounting structure</td>
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<td>Criterion for production and allocation of goods and services</td>
<td>Political machinery (votes)</td>
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<td>Performance measurement</td>
<td>Compliance with fiscal and other rules and regulations</td>
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<td>Source of capital</td>
<td>Mainly budget-financed</td>
<td>Private capital</td>
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<td>6</td>
<td>Capital expenditure</td>
<td>Wholly charged in the year incurred</td>
<td>Spread over the lifespan of the asset</td>
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<td>7</td>
<td>Asset depreciation</td>
<td>No provision is made</td>
<td>Provision is made</td>
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<td>8</td>
<td>Costs</td>
<td>Not compared with revenue raised but expenditure is compared with funds</td>
<td>Compared with income and costs are matched</td>
</tr>
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<td></td>
<td>Application of GAAP</td>
<td>Some are relevant with modification e.g. money measurement concept; some are not relevant e.g. entity concept</td>
<td>All are relevant</td>
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MODULE 2

2.00 REGULATORY FRAMEWORK FOR GOVERNMENT ACCOUNTING

2.01 Learning Outcomes

On successful completion of this Module, Students should be able to:

i. Discuss the regulatory framework for government accounting in Nigeria;

ii. Deconstruct the legal framework for government accounting and the legal implication of certain government pronouncements with respect to public sector financial management in Nigeria;

iii. Assess the applicability of the various laws and their implications on government financial reporting processes.

2.02 Insight into the Legal and Institutional Frameworks

“Where there is no law, there is no sin”! The public sector can be described as entities or organizations that implement public policy through the provision of services and the redistribution of income and wealth, with both activities supported mainly by compulsory tax or levies on other sectors. That is, it comprises governments and all publicly owned, controlled and or publicly funded agencies, enterprises, and other entities of government that deliver public programs, goods, or services.

Sound public sector accounting rests on an articulate framework which has been defined to reflect best practices in the world. To this end, a conceptual framework for public sector accounting is structured to reflect objectives and scope, recognition and measurement criteria, definition and qualitative characteristics of financial information shown in financial and accounting reports of public sector accounting entities.

It spells out the government accounting principles and forms the basis of the preparation and publication of budgets, maintenance of complete financial records, provision of full disclosures and submission to full audit. In other words, the framework helps monitor incomes, expenses, assets and liabilities and assist assessment of financial consequences of transactions and events. This finally leads to producing user-friendly financial reports on a periodic basis.

Nigeria Legal frameworks includes statutory framework, as the 1999 Constitution, the Finance (Control and Management) Act of 1958 as well as the Audit Act of 1956. The Financial Regulations, Treasury and Financial Circulars and Circular Letters are others. They are envisioned to guide the day-to-day operations of government Departments and to aid the accomplishment of probity and accountability. It also provides, among others, the various types of funds as the Consolidated Revenue Fund for the Federation and for States and the various charges at the federal level and at the state level. The institutional framework comprises the
legal, institutional and the professional standards that regulate the public sector accounting. The International Public Sector Accounting Standards (IPSASs) which is issued by the International Federation of Accountants International Public Sector Accounting Standard Board (IPSASB) is probably the major standard for public sector accounting.

Nigeria is a signatory to IFAC and adopts the relevant IPSASs issued by IPSASB. The International Standards of Supreme Audit Institutions (ISSAIs) is another institutional framework. These bodies are to oversee the management of public sector accounting to reflect transparency and accountability within the wider context of good public governance. For this module, we shall dwell on the Legal Framework.

2.03 The Legal Framework

The Constitution of the Federal Republic of Nigeria

The constitution is a legal document in which the accounting and financial reporting system of government as well as power and control over fund are entrenched. Like its predecessors of 1963, 1979 and 1989 respectively, the 1999 constitution of the Federal Republic of Nigeria makes provisions for the following:

i. Establishment of Consolidated Revenue Fund: This Fund is established to account for all revenue or money raised or received by the federation except where it is for specific purpose. This fund is guided by sections 80 and 120 of the 1999 constitution.

ii. Authorization of expenditure from the fund: This has to do with the preparation of financial year estimate and passing of appropriation bill. It is regulated by sections 81 and 121 of the 1999 constitution.

iii. Authorization of expenditure in default of appropriations: For continuity purpose, if the appropriation Bill in respect of any financial year has not been passed into law by the beginning of the year, the government can make withdrawal from the Consolidate Revenue Fund to meet the expenditure necessary to carry on her services for a period not exceeding six months or until the coming into operation of the Appropriation Act, whichever is the earlier. This is guided by sections 82 and 122 of 1999 constitution.

iv. Establishment and operation of Contingencies Fund: This is the fund set aside to meet an urgent and unforeseen need for expenditure for which another provision exists as stated in sections 83 and 123 respectively.

v. Remuneration of statutory office holders: This involves the remuneration, salaries and allowances of the President, Governors and certain other officers as may be prescribed by the National Assembly or State House of Assembly as the case may be.
However, the amount cannot exceed the amount determined by the Revenue Mobilization Allocation and Fiscal Commission. This is regulated by the sections 84 and 124

vi. Audit of public accounts and investigations: To protect the treasury from being defrauded, let all public money be issued openly in front of the whole city, and let copies of the accounts be deposited in the various wards (Aristotle, 322-384 BC). To this end, audit of public accounts, offices, courts and power to conduct investigations are provided for under sections 85, 88, 89, 125, 128, and 129 respectively.

vii. Appointment and tenure of office of the Auditor-General for a State or Federation. These are regulated by sections 86, 87, 126, and 127.

viii. Preparation of estimate (budget) and its implementation: It is mandatory on the President or Governor to prepare and lay before each House of National or State Assembly at any time in each financial year estimates of the revenue and expenditure of the federation or state for the following financial year to be legislated upon.

This is provided for in sections 81 and 121, however, if the amount appropriated by the Appropriation Act is insufficient or a need arises for expenditure for which no amount has been appropriated by the Act, these sections allowed the preparation and implementation of supplementary budget.

ix. Establishment of Federation Account: This is a special account enacted, into which shall be paid all revenue collected by the government of the federation, except the proceeds from the personal income tax of the personnel of the Armed Forces of the Federation, the Nigeria Police Force, the Ministry or Department charged with responsibility for Foreign Affairs and the residents of the Federal Capital Territory Abuja. The operation of this account is regulated by section 167.

x. Revenue Generation/Revenue Allocation formula: The revenue generation, its lodgment and disbursement of same to different levels of government from relevant account in the proportion that is determined from time to time is guided by sections 162-168 and 313 respectively

Finance (control and management) Act: 1958

This was a law made to provide for the control and management of the public finance of the federation and the matters connected there. Finance (control and Management) Act 1958 constitute the bed-rock upon which government accounting manuals, treasury circulars and all
other laws regulating the finances of the government are based. It is in six (6) parts with seventeen (17) sections and came into existence on April 1, 1958.

It covers the establishment of the followings: First, Second and third schedule respectively. Rules for the operation of the Treasury Fund deemed to be Public funds or Consolidated Revenue Fund, Development Fund, Contingencies Funds in terms of generations, authority to incur expenditure, supervision of expenditure and accounts by accounting officers and retirement of imprest etc.

The parts of the Act as cited by Johnson (1999) and Adebisi (2005) are as follows:

**Part I:** Deals with the general supervision and control of public funds by the Minister of Finance to ensure that full accounts is made to the National Assembly of all matters relating to the financial affairs of the federation which are not by law assigned to any other Minister.

**Part II:** Deals with Consolidated Revenue Funds, the management of which shall be conducted in accordance with the financial provision of the constitution.

**Part III:** This part deals with basic rules guiding the valuation of government investment. It contains the regulation as regards the securities which should be considered as part of the government portfolio. Section 9(1) reads: “Consolidated Revenue Fund and any other public funds of the federation subject to the express provisions of law regulating any such public funds may in any part consist of deposit with bank, either at calls or subject to notice not exceeding six months or of any investment in which a trustee in Nigeria may lawful invest trust funds”.

This section serves as a measure of restricting the risk of management of government fund investment to risk minimization as well as preventing the Accountant-General from pursuing maximization of return on investment.

**Part IV:** Deals with legislative authorization of expenditure. It stipulates that the Minister shall cause to be prepared in each financial year estimates of the revenue and expenditure of the federation for the following financial year, which shall be presented to the President for approval and when approved by him shall be laid before the National Assembly at a meeting commencing before the 1st day of the financial year to which they relate.

**Part V:** deals with other public funds of the federation which are deemed to have been established with effect from the 1st day of April 1958.

**Part VI:** Deals with the Annual Account of all funds, and the transfer from the General Revenue Balance to the Consolidated Revenue Funds on the 1st day of April, 1958, the sum of Four
Million Eight Hundred Thousand Naira being the balance of the General Revenue Balance Account at the close of such on the 31\textsuperscript{st} March, 1958 after deducting there-from.

i. The sum of money appropriated by resolution of the House of Representative on the 14\textsuperscript{th} day of March, 1958 for payment into the Development Fund and.

ii. The sum totaling Five Million Two Hundred Thousand Naira provided for the purpose of the Treasury Funds established by subsection (3) of section 18 of the Finance (Control and Management) Act, 1958.

This Act specifically mandated the cash basis of Accounting for the Consolidated Revenue Fund. The annual financial statements are also required to be prepared on fund basis.

The three schedules to the Act deal with the public funds of the federation; funds established upon or after commencement of the Act: Treasury Funds deemed to be the Public Funds. Second schedule is the rules for the operation of the contingencies Fund.

The Audit Act

This covers all areas of Auditing and Public Accountability and other purpose incidental thereto and connected therewith. It provides for the appointments, tenure, removal, remunerations, powers and duties of the Director of Audit (now referred to as Auditor General in compliance with Decree No 43. of 1988).

The account to be signed and presented by the Accountant-General for the Federation to the National Assembly in consonance with sections 3, 4 and 5 of the Act are:

i. An abstract account of receipt and payments.

ii. A statement of assets and liabilities at the close of the financial year;

iii. A detailed statement of revenue and expenditure according to sub-heads

iv. Such other statements as the National Assembly may, from time to time require.
MODULE 3

3.00 GOVERNMENT ACCOUNTING: THEORY AND PRACTICE

3.01 Learning Outcomes

On successful completion of this module, students should be able to:

i. Examine the various concepts and terminologies used in government accounting;
ii. Appraise the various books of accounts, their uses and their limitations;
iii. Evaluate the basics and techniques of reconciliation of accounts;
iv. Critically discuss the meaning of Fund Theory in public sector accounting;
v. Analyze the concept of Standardization of Financial Accounting and Reporting for Federal, State and Local Governments;
vi. Deconstruct the various accounting officers and their functions;
vii. Elucidate the techniques for preparation of vouchers and final accounts in the public sector.

3.02 Books of Accounts in Public Sector

Basically, the expression ‘public sector’, denotes government and all its institutions and agencies that are the collective ownership of the public. Such institutions, set up by the state, engage in the maintenance of law and order and undertake a number of activities and transactions that have economic and financial implications like:

i. Provision of infrastructures and amenities, which require substantial capital outlays beyond the ability of the people using them;
ii. Regulation of the economy through fiscal and monetary measures;
iii. Fair allocation of resources, to remove apparent inequalities among sections and citizens of the country to ensure even development;
iv. Making available services to all citizens regardless of their ability to pay (without price-based discrimination);
v. Collection of revenues in the form of taxes, duties and fees or payments for services from individuals and organizations;
vi. Creation of jobs for the productive section of the populace and transferring benefits to the aged, the young and the unemployed and the unemployable;
   - Provision of a variety of assistance, subsidies and payments to individuals and organizations.

Books of accounts are accounting records in which the government records its financial transactions.
The basic books of accounts of governments correspond with that of the private sector although some of these books in the public sector do not form part of double entry system. The books of accounts in use in the public sector, therefore consists of the following:

- Cash book
- Journals
- Ledgers
- Memorandum Accounts
- Abstract books

**Cash Book**

Cash books are books of original entries where all cash transactions are kept. It is otherwise known as treasury books in the public sector. There are many types of cash books that exist in government among which are:

- a. Main cash book
- b. Revenue collector’s cash books
- c. Petty cash

**Main cash book**

This book is used in recording all receipts and payments of cash whether the receipts are of revenue or payment are in respect of expenditure or below-the-line accounts. It is the major accounting record maintained by accounting unit in the public sector for this reason it is called the recognized cash book or treasury cash book No 153 (TRY 153). The book usually serves as book of original entry as well as ledger account.

Since all cash payment are made by cash office, it is expedient that the various pay offices in the accounting units in the public sector keep one of such cash book. Adebisi (2005) noted that, in some ministries where accounting transaction work-load is heavy a system based on multiple cash book may be introduced. He stressed further that, the main cash book may be recognized and sub-divided in to:

- i. A cash book that records payment of salaries
- ii. A cash book that records settlement of commercial/procurement or contract claims.

Again, where multiple cash books are in use, specific and special arrangements are made for the method of integrating the various transactions and for the reconciliations of the total cash book balance with the balance on the banks statements.
The book has sixteen columns. Eight columns on the receipts side or debit side another eight columns on the payment or credit side with some rulings provides for cash/bank transaction. Below is a format of treasury cash book. Ruling provides for cash book transactions:

**Entries of the Cash Book**

Entries of transactions into the cash book are made on each day, that is the day the transactions occur and balancing must be effected same day.

Receipts used are entered on the left hand side called the Debit with its particulars especially, the serial numbering, from whom cash is received and the classification of the receipts in the appropriate columns as provided on the debit side of the book.

If the amount is received in cash, it should be posted to the cash column and extended to the total column, alternatively, if the amount is received through a bank teller or supported by a bank advice, it should be posted to the bank column and also be extended to the total column as obtainable in the double columns cash book in the private sector.

However, if for any reasons deduction is/are made on a payment voucher, it should be noted that a receipt is to be issued and such receipt should be posted to the debit side of the cash book.

Payments made are recorded on the right hand side called the Credit side. In posting to the credit side of the cash book cognizance must be taken of the voucher number which must be contained along with the payee.

The number of the Cheques issued for payment where applicable the payee’s bank account; the classification of the transacting and finally, the amount to the gross columns and the net amount to the column.

**Types of Journals**

In Nigeria there are three types of Journal used in the public sector namely:

i. Principal Journal voucher
ii. Adjustment voucher
iii. Supplementary Journal voucher

**Principal Journal voucher**: This is a journal voucher designed for the transfer and adjustments after the below the line statement have been extracted or to effect month-end transfer of
accounts from above-the-line accounts to below-the line account as well as correcting misclassification of accounts detected by the main accounts.

**Adjustment Voucher**: This is described as treasury form 23 by Appendix 15 of Financial Regulation (2000).

Adjustment voucher is an amendment by way of transfer from one account to another without actual receipts of cash. It is used for payment of Inter-Ministerial services and adjustments and ultimate allocation of allocated stores etc.

**Supplementary Journal Voucher**
This is designed for all transfer and adjustments that are made before the cash flow statements is extracted.

i. The adjustment of the discrepancy between the transcripts figures of ministries and that contained in the bank statements

ii. The reclassification of accounts before the drawing up of the trial balances.

**Revenue Collectors Cash Book**
This is the book that is used to record all the receipts of revenue collected by the revenue collector. This is the subsidiary of account kept by the revenue collectors, although, it is one sided memorandum book of account.

It is mandating for the revenue collector’s book to include dates and numbers of all official receipts issued and on no account should temporary or unofficial receipts be given.

All the revenue collected must be properly accounted for by making returns to the cashier. At this point, the revenue collector will obtain an official receipt for all moneys paid in by him paste this receipt in his cash book and record it and number on the payment side of his cash book.

It should be noted that, no deduction must be made from any revenue collected or amendment to previous over/under credit. It is also expected of revenue collector to submit his cash book and receipt books for examination to the treasury cash officer/sub-accounting officer to whom he pays his collections at such fixed intervals as the Accountant-General or Accounting Officer may prescribe.
The revenue collector’s receipts book is also known as treasury form 6A (TF6A) or book no 6A as stated by Financial Regulation (2000). It contains fifty (50) sets of original, duplicate and triplicate, that is, one hundred and fifty (150) leaves.

Below is the revenue collector’s cash book format:

<table>
<thead>
<tr>
<th>Date</th>
<th>Revenue Receipts No</th>
<th>Classification</th>
<th>From Whom Received &amp; Particulars</th>
<th>#:K</th>
<th>Date</th>
<th>No Of Treasury Receipt Issued</th>
<th>#:K</th>
</tr>
</thead>
</table>

Head Sub-Head

**Petty Cash Book**

The petty cash book is otherwise called imprest cash book. Imprest is defined by Financial Regulation F1101 (FR1101) of the Federal Republic (2000) revised applicable to all sums advanced to officers of the government to meet expenditure under the current estimates, for which vouchers cannot be presented immediately to the Account-General or a Sub-Accounting officer for payment.

In a nut shell, an imprest means cash advance given to an accounting officer which must be accounted for by that officer in line with instructions issued to him. In view of these, it is expected of or even a must for every imprest holder to keep a cash book and record their-in all receipts and payments

**Authorization of Government Expenditure**

**Authority for issuing of imprest (FR1102):** The authority for issuing imprest is conveyed in the Annual General Imprest Warrant issued by the Minister of finance to the Accountant General.

**Issue and recording of imprest (FR1106):** Authorities for issue of imprest will be given, and payments of interest effected on a departmental imprest Warrant (TF9) and a copy of each Warrant will be sent to the Auditor-General.

All Imprests issued and retirement of Imprests, will be recorded in a special Imprests ledger.
Issues and retirements will be classified to Imprests General Ledger Accounts with the names of designated officers. The number of the Imprests warrant will be recorded on all relevant vouchers.

**Classification of Imprest**

Imprest are of two classes, (FR1104) namely,

i. **Standing Imprest** which may be replenished from time to time during the financial year concerned by submitting paid vouchers the sub-Accounting officer for reimbursement.

ii. **Special Imprests** granted for a particular purpose which must be retired in full within the period allowed or when the service is completed.

**Procedure for payment from Imprest**

FR 1107 provides for the following procedure for payment made from imprest:

i. Every imprest holder will keep cash book and will record therein all receipts and payments. This applies also to imprests for telegrams and postage.

ii. All Imprest payments will be supported by Sub Receipt (Treasury Form 10)

iii. Vouchers will be classified to the Heads and Sub-heads of the approved estimates and the imprest holder will retain a copy of each voucher.

iv. Entries will be made in the cash book on the day they occur and will show particulars of each receipt or payment.

v. The cash book will be regularly balanced and ruled off, and the cash on hand regularly checked by a senior officer, who will certify the cash book accordingly. Accounting Officers will issue instructions concerning the frequency, having due regard to the size of the imprest and the number of payments made.

vi. The cash in bank as shown by the cash book will be regularly reconciled with the bank statement, and the Reconciliation Statements duly certified by a senior officer.

vii. A record will be kept of vouchers which have been submitted for reimbursement, and reimbursement moneys will be brought to account immediately they are received.

viii. Imprest cash will be kept separate from other moneys at all times.

ix. The provision of Regulations 903 or 904 as appropriate will apply with regard to the custody of imprest cash.

x. The duty of maintaining the imprest cash book may not be delegated to an officer on a salary lower than Assistant Executive Officer (Accounts). The delegated officer must also be conversant with the book-keeping procedure for posting and balancing the cash book.
**Reimbursement of accounted Imprests FR1110**

To obtain reimbursement of amounts paid from an imprest, the holder will submit the properly completed and receipted payment vouchers for the amount expended to the Sub-Accounting Officer who issued the imprest.

The vouchers will be classified direct to the expenditure heads concerned and not to “Imprest”. The replenishment must not exceed the amount of the expenditure vouchers submitted. Replenishment of amount paid from imprest will be effected at least once a month.

**Retirement of imprest FR1111**

All standing imprests must be retired on or before the 31st December of the financial year in which they are issued. Special imprests will be retired within the period allowed or immediately the reasons for which they were granted cease to exist whichever is the earlier. Retirement will be effected by the production of vouchers and/or cash for the full amount of the imprest.

i. If imprest is retired at a station other than that in which the warrant is drawn, the officer to whom the imprest was issued must immediately notify his Ministry or Department and the Sub-accounting Officer who issued the imprest, stating the number of the Warrant and date, number and amount of relative Receipt Voucher. It is the responsibility of the Sub-account officer who issued the imprest to verify the Receipt Voucher particulars.

ii. All Self-Accounting Ministry/Extra-Ministry Departments will submit to the Accountant-General of the federation within twenty-one days of the end of the financial year a return showing details of imprests issued and particulars of the vouchers (receipts or adjustments) by which the imprests were retired.

**Imprest accounted for after end of Financial Year. (FR1112)**

Sub-Accounting Officers and Holders are required to see that all imprests are retired in accordance with Regulation 1111 (a).

Suitable arrangements should be made to ensure that all vouchers submitted for reimbursement are passed before the end of the financial year.

However, if in special circumstances completed vouchers cannot be submitted in time, the imprest holder will pay his cash balance to the Sub-Accounting Officer on or before the 31st of December, of the financial year and will forward the voucher when completed to the Accountant-General (or Accounting Officer concerned) who will include them by journal entry in the year’s accounts.
Should repayment not be made in full, any shortage will be charged to an advance account in the name of the imprest holder who will be personally responsible for refunding the shortage.

**Ledgers**

This is that accounts that holds the records for all the transactions relating to that particular ministry (e.g. health), thing (e.g. head/subhead) or activity (e.g. revenue/expenditure).

All operating accounts, statement of assets and liabilities items are maintained in this account. The general ledger consists of control accounts that summarize the balances of the detailed subsidiary accounts operating accounts that are maintained in subsidiary ledgers (head/subhead accounts).

In most cases in practice and where applicable the head account is a total account for the relevant sub-head accounts. Either recurrent or capital estimate’s head or relevant sub-head with the head account operating as a total account are also ledger accounts.

The main ledger records the total transactions as shown on a sub-head account in respect of payments and receipts every month however, the monthly figures in this sub-head accounts are transferred monthly to the annual sub-head cards in the same main ledger (Oshisami, 1993) there are two major types of ledger in the public sector viz-a-viz:

a. General ledger and  
b. Subsidiary ledger

**General ledger** is the net summary of the main ledger; it records the net transactions on a particular head or sub-head of account, month to month. Each of this ledger accounts has an account in the ledger with the exception of control accounts.

The control accounts are the accounts in the ledger operating as controls for the respective subsidiary accounts. The General ledger is known as annual ledger, all the bellow-the-line accounts also has general ledger.

Subsidiary ledgers are ledgers accounts for each subhead/sub programme in respect of which the accounting officer is required to render an appropriation accounts. This ledger is mainly kept for all below-the-line transactions.
Memorandum Accounts

These are books that are used as supplements to the accounting systems of government since government operates mainly on cash basis of recording her transactions and accounts. The memorandum accounts do not constitute part of the double entry system. Examples of such books include:

i. Departmental Vote Expenditure Analysis Book (DVEA Book) or Vote Book.
ii. Loan/Advances register
iii. Bills/invoices/LPO register
iv. Paper money register
v. Plant and which register
vi. AIE register
vii. Unclaimed wages register
viii. Payment voucher register
ix. Deposit register
x. Dishonored Cheques register
xi. Adjustment vouchers register
xii. Cheques summary register etc.

Departmental Vote Expenditure Accounts Book (DVEA)

These are books of accounts used for monitoring government expenditure by ensuring that vote is not over spent (no extra-budgetary spending) and are used for the authorized expenditure. It also shows the progress made towards the attainment of budgets for heads and subheads.

All liabilities must be recorded promptly and efforts should be made to see that the liability columns are cleared as soon as payment is effected.

Liability should be taken for AIEs issued as well as for local purchase orders (LPOs) and any other known commitment changeable to that known Vote Book is kept to:

i. Ensure that funds are available in the appropriate head and sub-head to meet payment of a special voucher.
ii. Show uncommitted balance at a glance
iii. Show government creditors
iv. Identify any fraudulent payment charged against a vote

At the end of each month’s account the voucher schedules received from the final Accounts should be reconciled with the entries in the vote books and necessary adjustment should be raised to correct wrong scheduling and misclassification.
In fact, where vote books are adequately kept, it should be possible to take out the monthly return of expenditure within two working days of the end of the month.

**Loans/Advances Register**
This register is to be maintained centrally in conjunction with the pay roll of the officers concerned. It is to be given thorough examination at regular intervals and checked against the schedules of payments of the advances and the vote book record.

The register shall contain the following:

i. Name of borrower
ii. Date and amount of loan/advances with Treasury
iii. Amount of monthly payment
iv. Name of guarantor/Surety
v. Cumulative total amount of advances made during the financial year by the Accounting officer.

**Bills/Invoices/LPO Register:** This is maintained in order to account for all bills, invoices and LPOs issued and received according to their dates of issues and receipts. This is to be able to determine how many bills and invoices that are outstanding and why they are not paid: what action is being taken to settle outstanding bills and whether LPOs entered in the DVEA books as liabilities are cleared when bills are paid: this will enhance to facilitates the production of the statement of creditors.

**Paper Money Register:** When remittances are received through the post (e.g. bank note, cheque, postal and money orders), they are recorded immediately in paper money register under supervision of a senior officer of the ministry and extra ministerial department. The essence is to control revenue through the post.

**Plant and Vehicle Register:** This book gives detail information on plants and vehicles showing date of acquisition engine/Chassis number location, maintenance or servicing guidelines.

**AIE register:** It is kept for AIEs issued and received. It also shows whether authorized expenditure is within approved estimates and that the AIEs are backed up by cash when it is properly kept. AIE is recorded in the liability column of the book and initiated by the authorized signatory.

**Unclaimed wages register:** This register is kept by the officer directly responsible for the payment of labor to record details of repayment to the sub-Accounting officer and the
subsequent payment to the affected staff. This register will show details of the payment vouchers involved in each case.

**Payment Voucher Register:** This register records all payment vouchers in sequential order. It assists in disclosing outstanding, misplaced or loss of vouchers where the book is properly kept. All sections where payment voucher are prepared are mandated to keep a PV register.

**Deposit Register:** In compliance with (FR 1603) a deposit ledger/register will be maintained by all officers authorized by the Accountant-General to operate deposit accounts and in it will be recorded under the name of the depositor, particulars of all deposits made or withdrawn.

Deposits and withdrawals shall be promptly posted into the Deposit Ledger. It is important that sufficient detail of each deposit be given to ensure recognition of the withdrawal.

Consequent to the above provision in (FR1603) it is also prescribed by (FR1604) that deposit register shall be maintained by the sub-Accounting officer (Sub-Treasurers) and used as a memorandum record.

**Dishonoured cheques register:** All cheques dishonoured are recorded in the register stating the PV and Cheque number, Drawers name, Head and Sub-Head, Amount, Bank and branch e.tc.

**Adjustment voucher register:** This register ensures that all adjustment vouchers raised are properly authorized by the officer controlling Vote and that classifications are charged to the appropriate Heads and sub-heads of expenditure. Where this book is properly kept, correct entries of debit and credits to the DVEA book can be determined by the inspector.

**Cheque summary register:** All cheques issued and credits to the bank are recorded on a daily basis in this book. The book must be balanced daily, total must be reconciled with the cash book balance(s). The book is kept by an officer other than the cashier. It is expected of the Sub-Accounting officer to sign this register.

**Abstract:** These are books expected to be kept for receipt and payments and to classify expenditure according to sub-heads. The books are to be reconciled with the cash book on monthly basis before posting to the relevant ledger or for extraction into transcripts or both.

**Reconciliation of Accounts**
The need for reconciliation arises when two persons or organizations maintain an account simultaneously but at different locations; bank reconciliation is a classic example which is of
general application. Reconciliation is found necessary in Government Accounting in many more areas than the reconciliation of bank balance.

It is used to reconcile cash balance as well as balances on any Below-the-line account which Ministries/department keep on the one hand are also kept by the Treasury on the other hand, these include Advance, (Personal and Non-Personal), Deposits etc. Each type of reconciliation has a format but we shall limit ourselves to Bank Reconciliation for the purpose of this pack.

**Bank Reconciliation Statement:** A bank reconciliation statement is prepared to reconcile the discrepancies between the bank’s columns of the cash book with the bank statement received for the month. The documents required for the preparation of bank reconciliation are the cheque, summary register or cash book, monthly bank statements and the cheque stubs, bank reconciliation for the previous month and bank teller.

In public sector the bank reconciliation starts with the balance in the cash book (not with the balance in bank statement) to which are added un-presented cheque and receipts in banks (not in cash book).

Payment in bank (not in cash book) and receipts in cash book (not in bank) are deducted, that is un-credited cheque are deducted. The resultant balance must agree with the balance in the bank statement. With this format, there is no adjustment to the book before the statement is prepared.

**Reasons for bank reconciliations:** Bank reconciliation is important because of the following:

i. It reveals all cheques debited to the Account by the bank
ii. It reveals any form of unauthorized cheque issued and en-cashed
iii. It reveals authorized transfer
iv. It reveals dishonoured cheque for which receipt have been issued on the cheque or draft
v. It reveals some cash pretended to have been paid in through the presentation of forged stamped teller
vi. It reveals some lodgements not credited by the banks either by omission or commission.

**Making The Bank Statement figure agree with the cash book figure**

<table>
<thead>
<tr>
<th>Balance as per cash book on (.........)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Add:</td>
<td></td>
</tr>
<tr>
<td>a. Un-presented Cheque</td>
<td>+</td>
</tr>
<tr>
<td>b. Direct payments into Bank</td>
<td>+</td>
</tr>
</tbody>
</table>

| Less:                                |   |
| a. Un-credited Cheques               | - |
| b. Bank Charges                      | - |
c. Direct payment by Bank  
Statement of the government: -
Balance as per Bank Statement: xxx xxx

**Overdraft:** When the bank statement shows an overdraft, there is a different approach. Add where you deduct and deduct where you add. This should not present any difficulty to you because an overdraft is simply treated as negative with the minus (-) sign.

An overdraft represents a negative balance in the bank; it is an amount owed to the bank by the customer.

**Bad debt:** Bad debts are not reflected in the bank reconciliation statement.

**Illustration**
On August, 31st 2014, it appeared from the cash book of Taraba State Water Board that she had a balance of N1, 069.99 at her bank. When the cash book was checked with the bank statement, however, it was found that:

i. A dividend of cash N1,000.00 had been paid directly to the bank and was not shown in the cash book;
ii. The last page of the paying-in book showed a deposit of N1,900.50 which had not yet been credited to the account by the bank;
iii. A cheque from Bala for N224, paid into the bank on August, 20th 2014 was shown on the bank statement to been returned dishonored on August, 30th 2014 but no entry had been made in the cash book;
iv. Bank interest and charges of N70.10 had not be recorded in the cash book;
v. Cheques drawn, totaling N793.03 had not been presented at the bank by the end of the month;
vi. The bank had debited N160.00 in error to Taraba State Water Board’s account;
vii. The bank statement showed a credit balance of N508.42.

**Required:**
Prepare the Bank Reconciliation Statement as at 31st August, 2014.

**Taraba State Water Board**
**Bank Reconciliation Statement as at 31st August, 2014**

<table>
<thead>
<tr>
<th>N</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bal. as per Cash Book</td>
<td>1,069.99</td>
</tr>
<tr>
<td>Add: Un-presented Cheques</td>
<td>793.03</td>
</tr>
</tbody>
</table>
Dividend                                                  1000.00                                 1,793.03

Less:           Unaccredited Cheques                         1,900.50
                 Dishonored Cheques                             224.00
                 Bank Interest and Charges                       70.10
                 Bank Error                                               160.00

                                             2,354.0
Balance as per Bank Statement   N508.42

3.03 Standardization of Financial Accounting and Reporting for Federal, State and Local Government

By the provisions of the Finance (Control and Management) Act 1958, the Accountant-General of Federation shall issue from time to time Financial Regulations, Instructions, Memoranda Accounting Code Audit Guide and Manuals to be followed by Accounting officers and other employees of each Ministry on all matters relating to the financial accounting, reporting and accounting affairs of the federation which are not by law assigned to any other Accounting officer.

In pursuance of the above, FR 1302 states that, it is in the interest of the economy and flexibility in the transfer of Accounting staff between Ministries and Extra-Ministerial Department that there is within limits, a degree of standardization in the accounting procedures (i.e. financial accounting and reporting) in use in all Federal Ministries and Self Accounting units which is also applicable to States and Local government.

For this purpose, Federal Ministries/Extra-Ministerial Departments, States and Local Government shall use Financial Regulations, Instructions, Memoranda, respectively. Treasury Accounting Manual and Treasury financial circulars are issued by the office of the Accountant-General of the Federation in accounting for their day-to-day financial transactions.

In order to ensure accountability in the financial management of the economy as a result of this standardization, the FR1303 made a provision that, the Accountant-General of the Federation has the responsibility for providing adequate Accounting system in the Extra-Ministerial Department for the control of the collection and disbursement of public funds and the co-
ordination of these control system between the various Ministries in general between them and the office of the Accountant-General in particular

3.04 Financial Warrants

Warrant is the authority empowering the officer controlling vote to incur expenditure or delegated to accounting officers to commence expenditure of the allocation for the current financial year. In fact, no expenditure must be incurred by any officer or any service, whether or not included in the estimates, until he has received an authority to do so in accordance with the prescribed Financial Regulations.

Any officer controlling a vote, or part of a vote allocated to him who incurs expenditure without such authority does so in his sole responsibility and will consequently be held pecuniarily responsible for his actions. All warrant must be issued and signed by the Minister/Commissioner of Finance.

In Nigeria, financial warrants are classified into two:

i. Recurrent Expenditure Warrant
ii. Capital Expenditure Warrant

Recurrent Expenditure Warrant

Recurrent expenditure is paid from the Consolidate Revenue Fund and no such expenditure may be incurred except on the authority of a Warrant duly signed by the Minister of Finance, and without such warrant the Accountant-General shall not accept in his accounts any charge upon the Consolidated Revenue Fund. The authority of the Minister of Finance shall be conveyed in one of the following forms of warrant:

i. The Annual General Warrant of Recurrent Expenditure
ii. Provisional General Warrant
iii. Supplementary General Warrant of Recurrent Expenditure
iv. Supplementary (Contingencies) Warrant
v. Virement Warrant
vi. Supplementary (Statutory Expenditure) Warrant

Annual General Warrant

The Annual General Warrant authorizes the Accountant-General to issue funds to pay the Personal Emoluments and other services provided in the Annual Estimates, and authorizes the Officers controlling the expenditure votes to incur expenditure on these purposes.
But the Minister/Commissioner for Finance may exclude from the Annual General Warrant any items of expenditure over which it is desired to exercise special control (see Financial Regulations 406).

The original copy of the Annual General Warrant is addressed to the Accountant-General and a signed copy shall be forwarded to the Auditor-General. A notification that the warrant has been signed shall also be published in the Federal/State Official Gazette.

**Provisional General Warrant**

A Provisional General Warrant, which will be issued if the Appropriation Act has not come into operation at the beginning of the Financial year, provides (for a period of three months, or until the Appropriation Act comes into operation, whichever is the shorter) for the continuance of the service of the Government at a level not exceeding the level of those services prevailing in the previous financial year.

Any money so expended shall not exceed the sum specified in the Estimates presented for approval and shall be set off against the respective amounts provided in the Appropriation Act upon its coming into operation. The original copy of a Provisional General Warrant is addressed to the Accountant-General and signed copy shall be forwarded to Auditor-General.

A notification that the warrant has been signed shall also be published in the Federal/State Official Gazette. However, it shall be deemed lawful for the Accountant-General to pay staff salaries in all Federal Ministries and Extra-Ministerial Departments in January or until the General Warrant or the Provisional General Warrant is issued whichever is earlier.

**Supplementary General Warrant**

A supplementary General Warrant authorizes the Accountant-General to issue funds to pay for the additional Personal Emolument and other services which may have been approved in the Supplementary Estimates, and for which additional funds have been appropriated by the National Assembly.

The Minister of Finance may exclude from the Supplementary General Warrant the item of expenditure over which it is desired to exercise some control (see Financial Regulation 406).

The original of a Supplementary General Warrant is addressed to the Accountant-General and a signed copy shall be forwarded to the Auditor-General. A notification that the Warrant has been signed shall also be published in the Federal/State Official Gazette.
Supplementary (Contingencies) Warrant
A Supplementary (Contingencies) Warrant may be issued in very exceptional cases, where virement is not possible and where an application for additional provision reveals such a degree of urgency that the issue of funds cannot without serious injury to the public interest be postponed until a Supplementary Appropriation Act can be passed.

Such authority will be conveyed by the issue of a Contingencies Fund Warrant to the Accountant-General, authorizing him to transfer the necessary funds from the Contingencies Fund to the Consolidated Revenue Fund, and by the issue of a Supplementary (Contingencies) Warrant, authorizing expenditure from the Head and Sub-Heads concerned.

The original copies of both warrants are addressed to the Accountant-General, and signed copies shall be forwarded to the Auditor-General. The Ministry of Finance will also notify the officers controlling the relevant votes of the additional expenditure authorized.

In no circumstances will expenditure incurred under this contingencies Fund procedure be charged, or the relevant vouchers classified, the Contingencies Fund direct. Expenditure authorized under this procedure is subject to the covering approval of the National Assembly at its next meeting and must for this purpose be included in a Supplementary Appropriation Act.

The Supplementary General Warrant will be the authority for the Accountant-General to transfer the sum appropriated to the Contingencies Fund.

Supplementary (Statutory) Expenditure Warrant
A Supplementary (Statutory Expenditure) Warrant authorizes where necessary additional expenditure, over and above that included in the General Warrant or in a Supplementary General Warrant, from votes which are chargeable against the Consolidated Revenue Fund by the virtue of the Constitution of the Federal Republic of Nigeria (e.g. Statutory Appropriation of Revenue to the State Governments) or by Legislation other than the Appropriation Decree (e.g. Statutory Pensions).

The original copy of a Supplementary (Statutory Expenditure) Warrant is addressed to the Accountant-General. The Ministry of Finance will also notify the officers controlling the relevant votes of the additional expenditure authorized.

Virement Warrant
A Virement Warrant may be issued when, as a result of circumstances which could not have been foreseen when the Annual Estimates were framed, additional provision is required under
a particular sub-head (or a new sub-head is required) while, at the same time, equivalent savings can be made under another sub-head of the same Head.

Virement warrants are issued under the statutory authority of the Minister of Finance, to authorize by warrant the issue of funds.

Accounting Officers may apply for Virement from the one sub-head to the other under the following conditions:

- The amount to be vired from any sub-head within a financial year under over-head costs does not exceed 10% of the approved estimates for each sub-head under the over-head costs.
- Virement is not used to create a new sub-head or re-introduce items disallowed by the Estimates Committee during the Estimates exercise or by the National Assembly.
- Virement does not apply to queries raised by the Auditor-General in respect of the improper expenditure already incurred by a Ministry/Extra Ministerial Department.

A register is kept of all virements made with the details of the virements authorized which shall be forwarded within the month from the date of approval to the Ministry concerned and copies to the Accountant-General and the Auditor-General.

Applications for virement should be submitted to the Ministry of Finance on General Form 57, with a copy to the Auditor-General. In cases where virement involves a question of establishments, grading or personnel, a copy of General Form 57 must also be forwarded direct to the Office of Establishments and Management Services.

Application for authority under Financial Regulation 410 should be made in the same way if any addition is required to the rates of personal emoluments or allowances, or to the number of posts authorized in the Estimates, or if any change is to be made in the grading of such posts, even though the amount provided under the same sub-head will not thereby be exceeded.

**Capital Expenditure Warrant**

Capital Expenditure is paid from the Development Fund, and no capital expenditure may be incurred except the authority of a warrant duly signed by the Minister/Commissioner of Finance.
Development Fund General Warrant is addressed to the Accountant-General and a signed copy shall be forwarded to the Auditor-General. A notification that the warrant has been signed shall also be published in the Official Gazette.

**Provisional Development Fund General Warrant**

Provisional Development Fund General Warrant, which will be issued if the draft Capital Estimates have not been approved by the National Assembly at the beginning of the financial year, authorizes payment from the Development Fund of such moneys as are necessary for carrying on projects for which any expenditure has been authorized in any previous financial year for a period of 3 months, or until the authority of the National Assembly has been obtained for the draft Capital Estimates for the current financial year whichever is the shorter. The original copy of a Provisional Development Fund General Warrant is addressed to the Accountant-General and a signed copy shall be forwarded to the Auditor-General. A notification that the warrant has been signed shall also be published in the Gazette.

**Development Fund Supplementary General Warrant**

Development Fund Supplementary General Warrant authorizes the Accountant-General to issue funds, and the officers controlling the votes concerned to incur expenditure, on projects as sanctioned by the National Assembly in resolutions approving Supplementary Capital Estimates.

The Minister of Finance may exclude from the Development Fund Supplementary General Warrant any item of expenditure included in Supplementary Capital Estimates over which it is desired to exercise special control.

The original copy of a Development Fund Supplementary General Warrant is addressed to the Accountant-General and signed copy shall be forwarded to the Auditor-General. A notification that the warrant has been signed shall also be published in the Official Gazette.

**Development Fund Supplementary Warrant**

A Development Fund Supplementary Warrant authorizes the Accountant-General to issue funds and the officers controlling the votes concerned to incur expenditure in certain circumstances on capital projects beyond the amounts provided for the year concerned in the Annual or Supplementary Capital Estimates.

Its purpose is to accelerate the provision of funds already formally allocated but not yet voted for a project, by bringing forward an amount from the “Balance to Complete” column of the Estimates.
Provision of funds by such a warrant is strictly limited in so far as the amount of the provision brought forward, when added to the total expenditure authorized for the current year must exceed the estimated total cost of the project as shown in the Annual or Supplementary Estimates.

The original copy of a Development Fund Supplementary Warrant is addressed to the Accountant-General and a signed copy shall be forwarded to the Auditor-General. The Minister of Finance will also notify the officers controlling the relevant votes of the additional expenditure authorized.

**Development Fund (Special) Warrant**
A Development Fund (Special) Warrant may be authorized by the Council of Ministers when an application for Supplementary provision reveals a degree of urgency which makes it essential that funds be immediately made available to meet expenditure which cannot be provided for by virement nor without serious injury to the public interest, be postponed until adequate provision can be made by the National Assembly.

**Virement Procedure**
This is issued where additional provision is required under a particular sub-head and an equivalent amount can be saved under another sub-head of the same head. However, virement warrant should not be used to create a new sub-head or used for items disallowed by the Budget or Estimate Committee.

**Conditions for an Application for Virement to Be Successful**
1. The application must be in writing
2. The application must state that a particular vote head is in deficit
3. The application must state that another vote head is in surplus
4. The application must state that both vote heads are within the same economic head
5. The application must state that after the transfer, the other vote head will not be in deficit
6. The application must state that virement is not sought to create a new vote-head
7. The application must state that vehement is not sought to expend money which the Budget ministry had disapproved,
8. The application must state the exact amount required to be transferred,
9. The application must state the necessity for such transfer.

**3.05 Financial Control Institutions**
There are formal and informal institutions of financial control in Nigeria.
Formal institutions:

a. **President-in-Council** which has the responsibility amongst others, for: reviewing preliminary plans prepared by ministries, departments and agencies, and presenting the proposed budget to the National Assembly.

b. **Ministries and Departments** which have amongst others the responsibilities for:
   i. Determining departmental policies and guidelines,
   ii. Preparing and submitting proposals to the ministry in charge of budget, and
   iii. Revising estimates to conform with the executive’s decisions

c. **Treasury Department** which has amongst others the responsibilities for:
   i. Managing and allocating cash and cash resources,
   ii. Accounting for budgeted aggregate receipts and expenditure,
   iii. Preparing the accounts of the receipts and payments in aggregate and presenting them for audit.

d. **The Auditor-General for the Federation** whose office has the responsibilities for:
   i. Conducting post-audit of the transactions of each government ministry and department,
   ii. Preparing annual reports to the legislature giving full details of the manner in which appropriations have been utilized and stating instances of misuse of funds, excess expenditure, unauthorized expenditure and shortfall in revenue, and
   iii. Giving evidences as may be required by the Public Accounts Committee.

e. **Legislature/Public Accounts Committee** which has the following responsibilities for:
   i. Reviewing the Auditor-General’s report,
   ii. Hearing presentations by accounts officers and the Auditor-General on the management of public funds,
   iii. Reporting its findings and making recommendations thereon to the National Assembly.

f. **Informal institutions**
   i. Mass Media
   ii. Organised Civil Society
4.01 Learning Outcomes
On successful completion of this Module, Students should be able to:
   i. Discuss the concept of budgeting and budgetary control in Nigeria’s Public Sector;
   ii. Analyze the various methods of budget preparation;
   iii. Deconstruct the basics of preparing a cash budget in the Public Sector;
   iv. Evaluate the Budgeting Process in Nigeria;
   v. Identify the importance of the Medium Term Expenditure Framework (MTEF) and Medium Term Sector Strategy (MTSS) in Nigeria;
   vi. X-ray the role of The National Assembly in Financial Control in Nigeria.

4.02 Meaning of a Budgeting and Definition of Budgeting
A budget is an authorized financial plan of the anticipated revenue and expenditure of the government. Before the document is approved and hence authorized for implementation, it is referred to as estimates. It is a document that is developed for the financial operations of the Nation.

The Chartered Institute of Cost and Management Accountants (CIMA 1981: 45) defines a budget as a financial and/or quantitative statement prepared and approved prior to a defined period of the policy to be pursued during that period for the purpose of attaining given objectives.

Budgeting is the process of putting together the financial information that will enable an organization or the Nation plan to grow and develop the organization or Nation. It is the process of putting together the financial demands of government institutions to be met through various financial sources.

4.03 Objectives of Budgeting
   i. To provide a mechanism for the control of the nation’s revenue and expenditure.
   ii. It is to give authority to future spending; it is an expenditure authorization means.
   iii. It is to assist policy makers of a Nation to develop policies that will lead the Nation to achieve its main objectives.
   iv. It aims at setting standards to enable performance to be monitored and evaluated.
   v. It serves as a motivating device for both government employees and the departmental managers.
vi. The process is aimed at estimating the total income of the government to support its expenditure plans and developments.

vii. It serves to bring together the separate subsystems of the Nation to enable them work together towards the achievement of the objectives of the Nation.

4.04 Budget Preparation
Generally, six types of budget can be identified:

i. **Master budget:** Master Budget is the main budget prepared by the business which includes several budgets that relate to each head for which the budget is prepared. This budget is prepared by incorporating all the departmental summaries. The master budget is usually divided into two sections as follows:

ii. **Capital Budget:** This budget is meant to take care of capital project. Capital expenditure budget summarizes future plans for acquisition of planned facilities and equipment. Capital budgeting is a long-term planning for proposed capital outlays and their financing.

iii. **Recurrent Budget:** This budget on the other hand is meant to cover estimates on a yearly basis. Recurrent budget is made up of recurrent revenue and recurrent expenditure.

iv. **Functional budget:** This type of budget is a subsidiary to the master budget. It is the sum total of the component functional budget that make up the master budget. This type of budget relates directly to the functional areas of the organization.

v. **Static/Fixed/Periodic Budget:** Periodic budgeting concerned the operation of a fixed budget, over certain period of time usually a year. When it is adapted the budget would be allowed till the end of the budget period. This is a budget that is designed to remain unchanged irrespective of the volume of output or level of activity attained. This is a budget that is fixed for the entire period of the budget.

vi. **Flexible budget:** This is a budget that recognizes the difference between fixed and variable costs and gives room for result determination and devaluation under varying levels of activity.

vii. **Rolling or Continuous Budget:** This is the continuous updating of short term budget by adding say, a further month or quarter month, and deducting the earliest month or quarter month so that the budget can reflect current conditions.
viii. The supplementary budget: This is a budget that becomes necessary when unforeseen events occur that require expenditure beyond the approved budget.

Conditions for Preparing Supplementary Estimate:

i. The voting of the additional money is manifestly in public interest.

ii. The need is so urgent that provision cannot be delayed until the next annual estimates are approved

iii. The money required cannot be found by VIREMENT.

4.05 Government Budgetary Processes

The budgetary process is a cycle of events which occur sequentially every year and which result in the approved budget. In the public sector for instance, the budget process is a formal routine involving the legislative and executive arms of government.

The budget estimates are based on call circulars issued by the budget committee. The budget committee is normally made up of all departmental heads or their representatives under the chairmanship of the Chief Executive or his representative with a senior member of the finance staff acting as the budget officer or Director of Budget.

The call circular is the notice calling on all ministries, departments and their agencies asking them to submit advance proposals.

When the advanced proposals have been received and the Budget Committee has recommended necessary adjustments where needed, an administrative hearing is normally organized to reconcile the various Ministries or Departments’ advance requests and the adjustments that may have been suggested.

The Treasury Department, Establishment Department, Department of National Planning (now a Ministry) and Ministry of Work usually come together to conduct the administrative hearing on behalf of the budget committee before the final conclusion will be forwarded to the executive for presentation to the legislative arm of government.

Federal Government of Nigeria Budgetary Process

The President shall, in accordance with section 79 of the Constitution of the Federal Republic of Nigeria 1989, cause to be prepared and laid before each House of the National Assembly not later than 60 days before the expiration of each financial year estimates of the revenues and expenditures of the Federation for the following year.

The budgetary process of the Federal government follows the steps below:
1 Presidential Budgetary Policy Directives
After taking into consideration the macro-economic environment, the President articulates the broad budget strategy for next fiscal year on the basis of the policies of his administration and issues a directive through the Minister of Finance to the Budget Office on the action plan for implementing the strategy.

2 Ministerial Call Circular
The Budget Office/Bureau of the Ministry of Budget and Planning interprets and further amplifies the President’s budget policy guidelines in a Call Circular to the Federal Ministries, Extra-ministerial Departments and Parastatals requesting them to forward before a stipulated date their Advance Proposals of forthcoming fiscal year’s budget.

3 Advance Proposal and Ministerial Budget Hearing
In response to the call circular, the Ministries, extra- Ministerial Departments and Parastatals turn in their Advance Proposals to the Budget Office which examines them and where necessary invites the respondents to ministerial budget hearing towards effecting desirable adjustments and corrections.

4 Draft Estimate Consolidation
The budget Office aggregates the Advance Proposals into a Consolidated Draft Estimate of Revenue and Expenditure and routes it through the Minister to the President.

5 Federal Executive Council Review of Draft Estimate
The President presents the consolidated Draft Estimate before the Federal Executive Council made up of the Ministers (and Service Chiefs under the military regime) for deliberation.

6 Federal Executive Council Approval of Draft Estimate
The Executive Council examines the draft estimate, makes its input on it and approves it for the President’s presentation to the National Assembly.

7 Presidential Presentation of Draft Estimate for National Assembly Legislative Examination
In compliance with the appropriate section of the constitution, the President causes to be prepared and laid before each House of the National Assembly not later than 60 days before the expiration of each financial year, estimates of the revenue and expenditure of the Federation for the following year. The Draft Estimate is included in a bill, known as Appropriation Bill.

8 Draft Estimate Legislative Ministerial Defence
The National Assembly examines and debates the budget and when necessary relies on the relevant section of the constitution to invite any minister of the government of the Federation to attend either House of the National Assembly to explain to the House, the conduct of his Ministry and in particular to defend and justify the Ministry’s budget proposals.
9 Approved Estimate with Passed Appropriate Bill
After the National Assembly has worked on the draft estimate to its satisfaction, the Appropriation Bill is passed subject to necessary amendments, thus transforming the draft estimate into an Approved Estimate. It is thereafter passed to the President to sign the Bill into law.

10 Presidential Assent to Appropriation Bill as Appropriation Act
When the President assents to the Appropriation Bill passed by the National Assembly by signing it into law, it becomes an Appropriation Act and gives a legal force to the Approved Estimate. The approved estimate is transmitted to the Minister of Finance to issue warrants as appropriate.

11 Approved Estimate Implementation through Finance Minister Warrants
The Minister of Finance issues warrants as desirable to the Ministries, Extra-ministerial departments and Parastatals towards the implementation of the approved budget.

State Government Budgetary Process
The Governor shall, in accordance with section 199 of 1989 Constitution, cause to be prepared and laid before the House of Assembly not later than 60 days before the expiration of each financial year estimates of the revenue and expenditure of the state for the following financial year.

In preparing the State Government budget, the following steps are involved sequentially:

i. Governor’s Budgetary Policy Directives
ii. Call circular
iii. Advance proposals and budget hearing
iv. Draft Estimate Consolidation
v. State executive review of draft estimate
vi. State executive approval of draft estimate
vii. Governor’s presentation of draft estimate to State House of Assembly
viii. Defence of draft estimate by commissioners at the invitation of the state house of assembly
ix. Approval of estimate as passed appropriation Bill
x. Governor’s Assent to the Appropriation Bill as Appropriation Law
xi. Approved estimate implementation through warrants

Evidently, all the activities embodied in the budgetary process of the Federal Government apply to the State Government.
4.06 Organs of Budget Preparation, Execution and Control

Oshisami (1992:57) identifies the following bodies as playing significant but different roles in budget preparation, execution and control in Nigeria:

The President-in-Council which has the responsibility amongst others, for:
   i. Reviewing preliminary plans prepared by ministries, departments and agencies, and;
   ii. Presenting the proposed budget to the National Assembly.

The Ministry in charge of Budgeting and National Planning advises the President and liaises between the President and the various ministries and departments. It has the responsibilities among others, of:
   i. developing economic assumptions and forecasts,
   ii. issuing budget guidelines to ministries and departments,
   iii. compiling total revenue and expenditure estimates,
   iv. recommending fiscal policy to the President and
   v. Preparing the budget as well as drafting the President’s budget speech.

The Ministries and Departments which have among others the responsibility for:
   i. determining departmental policies and guidelines,
   ii. preparing and submitting proposals to the ministry in charge of budget, and
   iii. revising estimates to conform with the executive’s decisions

The Treasury Department which has among others the responsibility for:
   i. managing and allocating cash and cash resources,
   ii. accounting for budgeted aggregate receipts and expenditure,
   iii. Preparing the accounts of the receipts and payments in aggregate and presenting for audit.

The Auditor-General for the Federation whose office has the responsibility for:
   i. conducting post-audit of the transactions of each government ministry and department,
   ii. preparing annual reports to the legislature giving full details of the manner in which appropriations have been utilized and stating instances of misuse of funds, excess expenditure, unauthorized expenditure and shortfall in revenue, and
   iii. Giving evidences as may be required by the Public Accounts Committee.

The Public Accounts Committee which has the following responsibility for:
   i. reviewing the Auditor-General’s report,
ii. hearing presentations by accounts officers and the Auditor-General on the management of public funds,

iii. reporting its findings and making recommendations thereon to the National Assembly.

4.08 Types of Budgeting System/Methods of Budget Preparation

A budgeting system is the method adopted in preparing the budget such that the organization can reap maximum result from its resources.

The most popular methods of preparing budget estimates are as follows:

i. Line item budgeting method

ii. The traditional or incremental budgeting method

iii. Zero based budgeting system

iv. Programme planning budgeting system

v. Performance budgeting

Line Item Budgeting System

Under this system, budgets are prepared based on the items government intends to spend money on, e.g.

<table>
<thead>
<tr>
<th>Sub-Head</th>
<th>Expenditure</th>
<th>Amount ('000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Personnel Emolument</td>
<td>100,000</td>
</tr>
<tr>
<td>2</td>
<td>Consultancy Service</td>
<td>15,000</td>
</tr>
<tr>
<td>3</td>
<td>Stationery</td>
<td>25,000</td>
</tr>
<tr>
<td>4</td>
<td>Maintenance</td>
<td>60,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>200,000</td>
</tr>
</tbody>
</table>

This method of budget preparation only tells us about the item on which money is to be spent but nothing about what government intends to achieve by spending the money.

Traditional or Incremental Budgeting

The traditional budgeting also known as incremental budgeting system is a system whereby budget for the in-coming period are prepared and approved based on the previous year budget. Certain percentages are then added to the previous and incoming year’s budget. The percentage added is based essentially on three things namely:

i. Inflation

ii. Expected increase in resource to be used

iii. Changes in the previous year results.
This is the typical budgeting system operated by government. The proposed year’s budget will be calculated as the base year’s budget multiplied by inflation factor plus the cost of new activities.

\[ b_1 = (b_0 \times i) + (c_1 \times i) \]

Where:

- \( b_1 \) = Proposed budget
- \( b_0 \) = Base year budget
- \( i \) = Inflation rate (factor)
- \( c_1 \) = Cost of new facilities

**Illustration:**

From the following information below, compute the proposed budgeted amount for Sub-head 7: Maintenance of motor vehicle for the year 2008.

- **a.** In the 2007 budget, N750,000 was approved for the maintenance of 10 Motor-Vehicles.
- **b.** Additional 5 motor vehicles will be required to beef up the activities of the Organization.
- **c.** The inflation rate is fixed at 30%.

**Solution:**

Base year’s budget - N750,000
Inflation rate - 30%
New Activities - Cost of maintaining additional 5 motor vehicles = ((75,000* 5 Motor vehicles) = N375,000

\[ b_1 = (b_0 \times i) + (c_1 \times i) \]

Where:

- \( b_1 \) = Proposed budget
- \( b_0 \) = Base year budget
- \( i \) = Inflation rate (factor)
- \( c_1 \) = Cost of new facilities

\[ (750,000 \times 1.30) + (375,000 \times 1.30) \]

\[ = 975,000 + 487,500 = N1,462,500 \]

**Zero-Base Budgeting (ZBB)**

Zero Base Budgeting implies starting a budget from a zero situation rather than merely adding to or subtracting from historical budget or actual on a differential basis. It is an approach to cost planning which rejects the customary view of budgeting as an incremental process which simply adds to figure of the previous budgets.
Under Zero-base budgeting, it is assumed that every activity or function of the budget starts from zero, and remains so until the manager can justify the continued existence of the activity for which he is responsible for and the way in which the activity is carried out.

**Performance Budgeting**
Performance Budgeting can be defined as that budgeting system in which the input of resources is related to the output of services/product.

It represents the objectives and purposes for which funds are requested. It describes what government does rather than what it buys. It was first adopted in Nigeria in 1981 but later discontinued.

**Planning, Programme and Budgeting System (PPBS)**
This budgeting approach is programme oriented. It is a new comprehensive system of budgeting; used in the USA and UK. This is an analytical tool used to assist management in the analysis of alternatives as a basis for rational decision making.

It is a system for an organisation as a whole. It provides regular procedures for reviewing goals and objectives, for selecting and planning programmes over a period of years in terms of output and resources. Its major characteristic is that objectives and programme costs are formulated over a period of years within the context of a medium-term plan, thus permitting a longer financial perspective than the traditional budgeting system would allow.

**PPBS Features:**
1. Identification of goals and objectives in each major area of government activities.
2. Analysis of the output of a given programme in terms of its objectives.
3. Measurement of total programme cost not for just one but for at least several years ahead.
4. Formulation of objectives and programmes extending beyond the single year of the annual budget.
5. Analysis of alternatives to find the most effective means of reaching basic programme objectives.

**4.08 Factors Affecting Government Budget**

1. **Human Element**
   Human element affects the budget. The popularity of the personality that is evolved matters. The popularity, strategy and reputation of the government affect the budget.
i. **Capacity of the Nation**
   Capacity of the nation affects the budget. Does the nation have capacity to carry out the project? Do we have skilled manpower? Are we efficient with the nation's resources?

ii. **Type of Project**
   How successful the budget is, depends on the type of project it consists. Some projects are popular while some are not. Unpopular projects may face stiff implementation problem.

iii. **Inflation**
   If there is a reduction in the value of money, that is if there is an increase in inflation rate, the nation's purchasing power will be reduced. The implementation of the budget will run into problems. The revenue we have will not be able to cover the expenditure.

### 4.09 Personnel Cost Budgeting

This is the budgeting for salaries and allowances of staff. They are budgeted for according to departments and sections in the ministry. Two methods can be used to prepare the personnel cost budget:

**On Estimate Cost:** Under this method, the personnel cost budget is prepared based on selected policy of the organisation e.g. organisation A may choose step 3 of each grade level to prepare its budget while organisation B may choose step 5 depending on the number of staff on certain step.

\[(x-1) \text{ incremental rate} + \text{Basic Salary})n\]

Where \( x = \) new step
\( n = \) no. Of staff on that level

**On Actual Cost:** The personnel cost is prepared based on the actual amount to be paid out in the next financial year. Individual steps will be used to calculate the personnel costs taking into consideration the following points:

i. Annual increment (step)

ii. Officers due for promotion

iii. Officers retiring from service

iv. New appointments
Illustration

Personnel Cost Budget (On Estimate Cost)

The Personnel division of the Women’s Affairs Ministry is about preparing its year 2006 personnel budget. As the newly posted Accountant to that division, you have been called upon to prepare the budget. Going through the records you ascertained the following:

<table>
<thead>
<tr>
<th>Job Title</th>
<th>No. in Post</th>
<th>Grade Level</th>
<th>Salary (N)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Director of Women’s Affairs</td>
<td>-</td>
<td>16</td>
<td>220,000 + 10,000</td>
</tr>
<tr>
<td>Deputy Director</td>
<td>1</td>
<td>15</td>
<td>180,000 + 6,000</td>
</tr>
<tr>
<td>Assistant Director</td>
<td>2</td>
<td>14</td>
<td>170,000 + 5,500</td>
</tr>
<tr>
<td>Assistant Chief Accountant</td>
<td>2</td>
<td>13</td>
<td>140,000 + 5,400</td>
</tr>
<tr>
<td>Principal Accountant</td>
<td>4</td>
<td>12</td>
<td>120,000 + 5,200</td>
</tr>
<tr>
<td>Senior Women’s Affairs Officer</td>
<td>8</td>
<td>10</td>
<td>100,000 + 4,000</td>
</tr>
<tr>
<td>Women’s Affairs Officer I</td>
<td>6</td>
<td>09</td>
<td>85,000 + 3,600</td>
</tr>
<tr>
<td>Women’s Affairs Officer II</td>
<td>8</td>
<td>08</td>
<td>75,000 + 3,000</td>
</tr>
<tr>
<td>Principal Women’s Affairs Assistants</td>
<td>12</td>
<td>10</td>
<td>100,000 + 4,000</td>
</tr>
<tr>
<td>Senior Women’s Affairs Assistant</td>
<td>10</td>
<td>09</td>
<td>85,000 + 3,600</td>
</tr>
<tr>
<td>H.E.O (Accounts)</td>
<td>12</td>
<td>08</td>
<td>75,000 + 3,000</td>
</tr>
<tr>
<td>E.O (Women’s Affairs)</td>
<td>15</td>
<td>07</td>
<td>70,000 + 2,700</td>
</tr>
<tr>
<td>Field Women’s Affairs Officer I</td>
<td>21</td>
<td>06</td>
<td>62,000 + 2,500</td>
</tr>
<tr>
<td>Senior Clerical Officer</td>
<td>18</td>
<td>05</td>
<td>50,000 + 2,000</td>
</tr>
<tr>
<td>Clerical Officer</td>
<td>25</td>
<td>04</td>
<td>42,000 + 1,800</td>
</tr>
<tr>
<td>Assistant Clerical Officer</td>
<td>20</td>
<td>03</td>
<td>40,000 + 1,500</td>
</tr>
<tr>
<td>Office Assistant</td>
<td>5</td>
<td>03</td>
<td>40,000 + 1,500</td>
</tr>
<tr>
<td>Drivers</td>
<td>10</td>
<td>03</td>
<td>40,000 + 1,500</td>
</tr>
<tr>
<td>Cleaners</td>
<td>15</td>
<td>02</td>
<td>30,000 + 1,200</td>
</tr>
</tbody>
</table>

Additional relevant information includes:

(i) All the salary shown above is step 1 of each grade and it is the management policy to forward personnel cost based on step 4 of the grade level.

(ii) The Deputy Director and one of the Assistant Directors are due for promotion during the budget year. Two Principal Women Affairs Assistants are to retire at the end of the current year.

(iii) During the year 2006, four Senior Women Affairs Officers will be employed to strengthen the Women Affairs department.

(iv) Staff allowances constitutes 30% of staff salaries
Required:
Prepare the Personnel Cost Budget for the year 2006 based on the above information.

Solution:

\[ ([x-1] \text{ incremental rate} + \text{ Basic Salary}) \times n \]

Add Staff Allowance

Where \( x = \) new step
\( n = \) Number of staff on that level

<table>
<thead>
<tr>
<th>JOB TITLE</th>
<th>NO. IN POST</th>
<th>GRADE LEVEL</th>
<th>ESTIMATED SALARY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Director of Social Affairs</td>
<td>1</td>
<td>16</td>
<td>250,000</td>
</tr>
<tr>
<td>Deputy Director</td>
<td>1</td>
<td>15</td>
<td>198,000</td>
</tr>
<tr>
<td>Assistant Director</td>
<td>1</td>
<td>14</td>
<td>186,500</td>
</tr>
<tr>
<td>Assistant Chief Accountant</td>
<td>2</td>
<td>13</td>
<td>312,400</td>
</tr>
<tr>
<td>Principal Accountant</td>
<td>4</td>
<td>12</td>
<td>542,400</td>
</tr>
<tr>
<td>Senior Women’s Affairs Officer</td>
<td>12</td>
<td>10</td>
<td>1,344,000</td>
</tr>
<tr>
<td>Women Affairs officers I</td>
<td>6</td>
<td>09</td>
<td>574,800</td>
</tr>
<tr>
<td>Women’s Affairs Officers II</td>
<td>8</td>
<td>08</td>
<td>672,000</td>
</tr>
<tr>
<td>Principal Women’s Affairs Asst.</td>
<td>10</td>
<td>10</td>
<td>1,120,000</td>
</tr>
<tr>
<td>Senior Women’s Affair Assistant</td>
<td>10</td>
<td>09</td>
<td>958,000</td>
</tr>
<tr>
<td>H.E.O (Accounts)</td>
<td>12</td>
<td>08</td>
<td>1,008,000</td>
</tr>
<tr>
<td>E.O. Women’s Affairs</td>
<td>15</td>
<td>07</td>
<td>1,171,500</td>
</tr>
<tr>
<td>Fields Women’s Affairs Officer I</td>
<td>21</td>
<td>06</td>
<td>1,459,500</td>
</tr>
<tr>
<td>Senior Clerical officer</td>
<td>18</td>
<td>05</td>
<td>1,008,000</td>
</tr>
<tr>
<td>Clerical Officer</td>
<td>25</td>
<td>04</td>
<td>1,185,000</td>
</tr>
<tr>
<td>Asst. Clerical Officer</td>
<td>20</td>
<td>03</td>
<td>890,000</td>
</tr>
<tr>
<td>Office Assistant</td>
<td>05</td>
<td>03</td>
<td>222,500</td>
</tr>
<tr>
<td>Driver</td>
<td>10</td>
<td>03</td>
<td>445,000</td>
</tr>
<tr>
<td>Cleaner</td>
<td>15</td>
<td>02</td>
<td>504,000</td>
</tr>
</tbody>
</table>

14,051,600

STAFF ALLOWANCE (30%)

4,215,480

18,267,080

Personal cost brought (On Actual Cost)

Illustration 1

The Budget and Planning Department of Lagos State has issued a call circular to the Ministry of Labour and Productivity to submit its personnel budget proposal for 2007.
The present position of the Ministry is as follows:

<table>
<thead>
<tr>
<th>Position</th>
<th>No.</th>
<th>Grade</th>
<th>Salaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permanent Secretary</td>
<td>1</td>
<td>17</td>
<td>20,000x2, 400</td>
</tr>
<tr>
<td>Directors</td>
<td>3</td>
<td>16</td>
<td>18,000x2, 100</td>
</tr>
<tr>
<td>Chief Engineers</td>
<td>3</td>
<td>15</td>
<td>17,000x2, 000</td>
</tr>
<tr>
<td>Deputy Chief Engineers</td>
<td>7</td>
<td>14</td>
<td>15,000x2, 000</td>
</tr>
<tr>
<td>Chief Accountant</td>
<td>1</td>
<td>15</td>
<td>17,000x2, 000</td>
</tr>
<tr>
<td>Deputy Chief Accountant</td>
<td>2</td>
<td>14</td>
<td>15,000x2, 000</td>
</tr>
<tr>
<td>Assistant Chief Accountant</td>
<td>5</td>
<td>13</td>
<td>13,500x600</td>
</tr>
<tr>
<td>Senior Engineers</td>
<td>14</td>
<td>10</td>
<td>10,500x550</td>
</tr>
<tr>
<td>Senior Accountants</td>
<td>6</td>
<td>10</td>
<td>10,500x550</td>
</tr>
<tr>
<td>Engineers</td>
<td>25</td>
<td>9</td>
<td>9,000x500</td>
</tr>
<tr>
<td>Accountants</td>
<td>1</td>
<td>12</td>
<td>12,000x500</td>
</tr>
<tr>
<td>Higher Executive Officers</td>
<td>40</td>
<td>8</td>
<td>8,000x500</td>
</tr>
<tr>
<td>Executives Officers</td>
<td>85</td>
<td>7</td>
<td>8,000x400</td>
</tr>
<tr>
<td>Assistant Executive Officers</td>
<td>120</td>
<td>6</td>
<td>5,000x400</td>
</tr>
<tr>
<td>Chief Clerical Officers</td>
<td>150</td>
<td>5</td>
<td>4,000x350</td>
</tr>
<tr>
<td>Clerical officers</td>
<td>180</td>
<td>4</td>
<td>3,600x300</td>
</tr>
<tr>
<td>Cleaners</td>
<td>10</td>
<td>2</td>
<td>1,800x200</td>
</tr>
<tr>
<td>Gateman</td>
<td>10</td>
<td>1</td>
<td>1,500x150</td>
</tr>
</tbody>
</table>

Budgetary information from the Ministry of Budget and Planning are as follows:

i. For the purpose of the budget all senior staff on Grade level 10 and above are assumed to be on step 3 of their respective grades and other staff below them are on step 2 at present.

ii. The state government is to construct additional buildings in its residential housing estate in 2007 and as a result 7 additional engineers are to be employed on Grade level 9 step 2 and clerical officers and below are to increase by 10%. New entrants of these junior staff are to enter on step 2 in the respective grades.

iii. 5 of the present Engineers whose performance were considered very outstanding should be promoted to Senior Engineers on grade level 10 step 3.

iv. 3 of the Assistant Chief Accountants are to be promoted to Deputy Chief Accountants on grade level 14 step 3.

v. In view of the incessant attacks on the Ministry by robbers, it was decided to employ 7 Night Guards on Grade level 4 step.

vi. Allowances of all staff are 45% of their basic salaries.

**Required:**
Prepare personnel Budget for the Ministry for the year ending 31st December 2007.
Solution:
\((x-1)\text{ incremental rate} + \text{Basic Salary})^n

Add staff Allowance

Where \(x = \text{new step}\)
\(n = \text{no. of staff on that level}\)

**Note that Personnel must get Increment automatically.**

<table>
<thead>
<tr>
<th>Position</th>
<th>Grade</th>
<th>No. Of Staff</th>
<th>Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permanent Secretary</td>
<td>17</td>
<td>1</td>
<td>27,200</td>
</tr>
<tr>
<td>Directors</td>
<td>16</td>
<td>3</td>
<td>72,900</td>
</tr>
<tr>
<td>Chief Engineers</td>
<td>15</td>
<td>3</td>
<td>69,000</td>
</tr>
<tr>
<td>Deputy Chief Engineer</td>
<td>14</td>
<td>7</td>
<td>147,000</td>
</tr>
<tr>
<td>Chief Accountant</td>
<td>15</td>
<td>1</td>
<td>23,000</td>
</tr>
<tr>
<td>Deputy Chief Accountant</td>
<td>14</td>
<td>5</td>
<td>99,000</td>
</tr>
<tr>
<td>Assistant Chief Accountant</td>
<td>13</td>
<td>2</td>
<td>30,600</td>
</tr>
<tr>
<td>Senior Engineer</td>
<td>10</td>
<td>19</td>
<td>228,100</td>
</tr>
<tr>
<td>Engineers</td>
<td>9</td>
<td>27</td>
<td>266,500</td>
</tr>
<tr>
<td>Accountants</td>
<td>12</td>
<td>1</td>
<td>13,500</td>
</tr>
<tr>
<td>H.E.O</td>
<td>8</td>
<td>40</td>
<td>360,000</td>
</tr>
<tr>
<td>Executive Officer</td>
<td>7</td>
<td>85</td>
<td>748,000</td>
</tr>
<tr>
<td>A.E.O</td>
<td>6</td>
<td>120</td>
<td>696,000</td>
</tr>
<tr>
<td>Chief Clerical Officer</td>
<td>5</td>
<td>150</td>
<td>705,000</td>
</tr>
<tr>
<td>Clerical Officer</td>
<td>4</td>
<td>198</td>
<td>826,200</td>
</tr>
<tr>
<td>Night Guard</td>
<td>4</td>
<td>7</td>
<td>29,400</td>
</tr>
<tr>
<td>Cleaners</td>
<td>2</td>
<td>11</td>
<td>24,000</td>
</tr>
<tr>
<td>Gatemen</td>
<td>1</td>
<td>11</td>
<td>19,650</td>
</tr>
</tbody>
</table>

STAFF ALLOWANCE (45%)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2,006,077.50</td>
</tr>
<tr>
<td></td>
<td><strong>6,464,027.50</strong></td>
</tr>
</tbody>
</table>

4.10 Cash Budget

Cash budget is a means of forecasting or is prepared to show the expected receipt of cash and payments of cash during the budget period. Cash budget is usually divided into smaller time
periods such as one month to three months. Cash budget is grouped into two parts; Receipt and Payment.

Receipts: Cash receipts could be from cash sales, payments by debtors, sales of fixed assets, the receipt of interest and dividend from investment.
Payments: Cash payment may be for the purchase of stocks, payment of salaries and wages, payment for other expenses.

Illustration:
Nuko State Government has been undertaking fish farming. The State Governor is however apprehensive about the viability of the project and its ability to finance itself in view of the increasing production cost. The expected Cash-in Hand as at January, 1st 2007 is #375,000.
The Following information concerns the budgeted sales and purchases of the farm.

<table>
<thead>
<tr>
<th>Sale Budget</th>
<th>Purchases Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N</td>
</tr>
<tr>
<td>November 2006</td>
<td>1,000,000</td>
</tr>
<tr>
<td>December 2006</td>
<td>1,125,000</td>
</tr>
<tr>
<td>January 2007</td>
<td>937,500</td>
</tr>
<tr>
<td>February 2007</td>
<td>937,500</td>
</tr>
<tr>
<td>March 2007</td>
<td>1,000,000</td>
</tr>
</tbody>
</table>

Analysis of records shows that debtors settle according to the following pattern:

70% within the month of sale
30% in the following month

All purchases are on credit. Past experience shows that 90% of the purchase costs are settled in the month of transaction and the balance in the subsequent month. Overhead costs of N375,000 per month will have to be paid monthly.

You are required to:
Prepare the state Government cash budget for January, February and March, 2007
**Nuko State Government**  
**Cash Budget (January – March, 2007)**

<table>
<thead>
<tr>
<th></th>
<th>JANUARY</th>
<th>FEBRUARY</th>
<th>MARCH</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RECEIPTS</strong></td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Balance b/fwd</td>
<td>375,000</td>
<td>302,000</td>
<td>290,000</td>
</tr>
<tr>
<td>Cash from Debtors</td>
<td>337,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>70%</td>
<td>656,250</td>
<td>656,250</td>
<td>700,000</td>
</tr>
<tr>
<td>30%</td>
<td>-</td>
<td>281,250</td>
<td>281,250</td>
</tr>
<tr>
<td></td>
<td>1,368,750</td>
<td>1,239,750</td>
<td>1,271,250</td>
</tr>
</tbody>
</table>

**Payments:**

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments to Creditors</td>
<td>75,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>90%</td>
<td>616,500</td>
<td>506,250</td>
<td>618,750</td>
</tr>
<tr>
<td>10%</td>
<td>-</td>
<td>68,500</td>
<td>56,250</td>
</tr>
<tr>
<td>Overhead Costs</td>
<td>375,000</td>
<td>375,000</td>
<td>375,000</td>
</tr>
<tr>
<td></td>
<td>1,066,500</td>
<td>949,750</td>
<td>1,050,000</td>
</tr>
<tr>
<td></td>
<td>302,250</td>
<td>290,000</td>
<td>221,250</td>
</tr>
</tbody>
</table>

**Note:**

- **30th** of December 2006, sales will be received in January 2007  
  100  
  i.e 30% of N1,125,000 = N337,500.

- **10th** of December 2006, purchases will be paid in January 2007  
  100  
  i.e. 10% N750,000 = N75,000
5.01 Learning Outcomes
On successful completion of this Module, Students should be able to:

i. Examine the nature, meaning and the need for Auditing as well as explore the history of Auditing;
ii. Have a firm grasp of the core Objectives of Auditing especially in the public sector;
iii. Examine the various classifications of Government Audits;
iv. Analyze the concept of Internal Audit and Internal Checks;
v. Evaluate the responsibilities of the Public Accounts Committee, The Office of the Auditor-General for the Federation and the Audit Alarm Committee;
vi. Examine the concepts of Value for Money Audit, Audit Queries and Assurance Engagements.

5.02 Definitions of Audit
Audit is defined by the International Audit Practice Committee as an independent examination of the financial statement of an enterprise by an appointed Auditor in accordance with the terms of his engagement and in compliance with relevant statutory and professional requirements in other for him to draw his own opinion on the truth and fairness of the records examined.

Financial audits are characterized by attest functions (Granof and Khumanwala, 2011). To them, attest means “to affirm to be correct true or genuine; corroborate”. The attest function adds credibility to the assertion of others in the case of an independent financial audit to an entity’s financial data as presented by Management.

In the public sector, auditing extends beyond the attest function. Auditors not only attest to the data reported in financial statements, they also make and report upon, their own independent evaluations as to whether auditees have complied with appropriate statutes and professional pronouncement.

They also access whether the auditees have achieved their objectives and carried out their missions economically, efficiently and effectively.

5.03 Objectives of Auditing
Millichamp (1990) classified the objectives of auditing into two: viz primary and secondary objectives.

The primary objective of an audit is to enable the auditor report as to whether the financial statements of an organization present a true and fair view of the state of the financial affairs so that any person reading and using them can believe and rely on the financial statements.

The secondary objectives of auditing are:

i. Detection of error and fraud
ii. Prevention of errors and fraud by the deterrent and moral effect of the audit.
iii. Spin-off effect

To achieve the above objectives, it is paramount that the auditors must:

i. Be independent in terms of his programme, area of investigation and freedom in reporting activities.
ii. The scope of his right must be adequate
iii. Must be adequately qualified in terms of his exercise and professionalism of his staff.

The resources at his disposal must be adequate.

5.04 Auditing in the Public Sector

Government Organisations must be managed in such a way that their objectives are achieved, hence the need for performance evaluation. Auditing is one of the ways of carrying out performance evaluation.

Auditing is a discipline in its own right and therefore comprehensive coverage of it is well beyond the scope of this pack. However, some unique features of auditing in the public sector will be discussed.

5.05 Types of Audit in Government

Government auditing standards characterized government audits into three categories as cited by Granof and Khumawala (2011) to include financial audit performance and audit attestation engagement which are explained by them in the following ways:

i. Financial Audit

This determines whether an entity’s financial statements are presented fairly in accordance with Generally Accepted Accounting Principles. They may also have related objectives, such as ensuring that the entity has complied with laws and regulations that may have a material effect on the financial statements, providing special reports on selected accounts or items of a
financial statement, issuing letters for underwriters or other parties, and reviewing interim financial data.

ii. Attestation Engagements

This covers a broader scope of engagements than financial audits. They involve examining, reviewing, or performing agreed-upon procedures as to various types of management assertions. For example, subject of attestation engagements might include:

1. An entity’s internal accounting or administrative controls
2. Compliance with rules, regulations, or terms of contracts
3. Prospective or pro forma financial statements
4. Costs of contracts

iii. Performance Audits

Often referred to as operational audits, may be intended to achieve a variety of different objectives. These include:

1. Measuring the extent to which a programme is achieving its goals and objectives
2. Providing guidance as to how the organization can improve in the future; that is, providing information on “best practice,” analysing alternatives to existing programmes, and assessing budgeting proposals.

5.06 Classification of Government Audit

Auditing in government are classified into two viz: Internal and External Audit

Internal Auditing

Millichamp (1990) define internal audit as “an independent appraisal function within an organization for the review of systems of control and quality of performance as a basis for service to management, objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper economic efficient and effective use of resources.

The policy thrust of government on internal auditing is in line with Financial Regulation year 2000 as revised by section 2001, which states that, the Accounting Officer of a Ministry or Extra-Ministerial Department shall ensure that an Internal Audit Unit is established to provide a complete and continuous audit of the accounts and records of revenue and expenditure, plants, allocated stores and unallocated stores where applicable.

The Internal Audit function shall also include Management Audit encompassing other areas of activities and functions of a Ministry/Extra-Ministerial Department. The existence of an Internal Audit Unit will not divest any members of the Ministry or Extra-Ministerial Department of the
individual responsibilities placed upon him, neither will it obviate the necessity for normal departmental checks.

**Appointment of Internal auditor**

FR provides that Accounting Officer of the Ministry shall ensure that the Internal Audit function of the Ministry/Extra-Ministerial Department or Unit is placed directly under the control of a competent Accounts Officer trained in Treasury duties by the office of the Accountant-General. In line with this, Accounting Officer concerned is responsible for the appointment of Internal Auditor.

**Duties of Internal auditors**

Subject to the provision of FR 2003 the Internal Auditor In-charge of a ministry will be directly responsible to the Accounting Officer for a comprehensive audit of all the operations and activities of the Ministry/Extra-Ministerial Department.

For this purpose, he shall carryout not only financial audits but also Management Audit of other areas of the ministry’s functions with a view to monitoring their efficiency and effectiveness.

Further duties of the Internal Auditors include:

i. To review the data and various management information made available to management for decision making.

ii. A continuous appraisal of the system of internal control within the Ministry/Extra Ministerial Department for adequacy, make a report and recommend to the management any required amendment.

iii. Carrying out on a continuous basis a review of the transactions of the Ministry/Extra-Ministerial Department for compliance with the established procedure.

iv. Carrying out special investigation on the specific aspects of the Ministry/Extra-Ministerial Department as may be directed by the management or Auditor-General.

v. Liaise with the external auditor in order to ensure the efficiency and effectiveness of the examination and which may also result in some cost saving.

vi. Providing technical support and know how to Management for the establishment, implementation and improvement in the systems of internal control.

**Attributes of the internal auditor:**

i. He/she should be a qualified Accountant, adequately supported by staff of the right number, grade and experience.

ii. The team should be appropriately trained in their assigned duties

iii. There should be a constructive working relationship between the Internal Auditor, the rest of the management team and the External Auditor

iv. He should be able to approach his work with the same level of care and skill as expected from an External Auditor
v. He should be able to plan his work systematically such that all aspects of the Ministry/Extra-Ministerial Department are covered

vi. He should be able, in the course of his work to collect evidence which are sufficient, relevant and reliable for his report

vii. His report should be timely, accurate and comprehensive in order that Management may have a perfect understanding of the affairs of the organization and to be able to make informed decisions.

**Relationship between external and internal auditors**

i. **Common Interest:**
   a. An effective system of internal control
   b. Continuous operation of such system and to report cases of failure
   c. Adequate management information flow
   d. Assets safeguarding
   e. Adequate accounting system
   f. Ensuring compliance with statutory and regulatory requirements

ii. **Differences**
   1. **Appointment:** the Internal Auditor is appointed by the Management, while the External Auditor is appointed by the recommendation of the Auditor-General.

   2. **Qualification:** there are no specific qualifications required of the Internal Auditor while the Companies and Allied Matter Act prescribes the minimum qualification required of External Auditor (membership of a body of Accountants in Nigeria established from time by an Act or Decree).

   3. **Function:** the functions of the Internal Auditor are defined by the Management who appointed him while the duties and responsibilities of the External Auditor are outlined by the law e.g. Financial Regulation.

   4. **Scope:** the extent of the work of the Internal Auditor is determined by the Management, while the scope of the work of the External Auditor is laid down by statute and may not be limited by Management.

   5. **Approach:** the Internal Auditor approaches his work with a view to ascertaining the efficiency or otherwise of the system of the internal control and the management information system. The External Auditor approaches his work primarily with a view to ascertaining the truth and fairness of the financial statements.
6. **Report:** the Internal Auditor addresses his report to management while, the External Auditor’s report is addressed to the Auditor-General.

7. **Remuneration:** Internal Auditor’s remuneration is fixed internally by Management which is salary based. While that of the External Auditor is fixed by the Auditor-General.

**Areas of Work Overlap:**

i. Examination of the system of internal control  
ii. Examination of the accounting records and supporting documents  
iii. Verification of assets and liabilities  
iv. Observation, enquiry and the making of statistical and accounting ratio measurement.

5.07 **Audit Programme**

Audit programme is simply a list of work or detailed statement or time table an auditor does at the inception of his audit, giving full instructions and guideline to audit assistant/officer as to how they should carry out the audit work and make it more dependable. At one time an audit programme would contain entries like “vouch three months wages”.

Audit programme is usually in columnar form containing the name of the assistant/officer doing the work, the type of audit work, the date of commencement, the date of completion, the signature and the remarks columns. Each assistant/officer acknowledges the activities carried out by him through signatories and initials so that responsibilities can rest upon him for the work he has done.

FR 2004 provides that the Internal Auditor-in-charge shall ensure that the programme of audit is extended to cover all the records of the Ministry, Department or Unit in order to satisfy himself that:

a. The safeguards introduced for the prevention or the prompt detection of fraud and loss of cash are adequate. Normal safeguards include the observance of Government and Department regulations and instructions, and for existence of internal checks.

b. The system for the control of the collection of revenue is adequate, and that all monies received have been promptly brought to account, to the correct head and sub-head.

c. The system for the control of expenditure is adequate and that all payments made are properly authorized and correct, that they are paid to the right person from the correct head and sub-head, and made for the purpose for which they were authorized.
d. A system for the control of the issue and consumption of stories is adequate, that all issues are properly authorized and correct, that issues are made to the right person, and are used for the purpose for which they are authorized.

e. There are adequate means for the verification by him of all cash, stores, plant held.

f. The accounting records are accurate.

The Internal Auditor shall submit a detailed audit programme to his Accounting Officer and send copies to the Accountant-General and Auditor-General.

**Specimen of audit Programme**

<table>
<thead>
<tr>
<th>Audit programme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
</tr>
<tr>
<td>------</td>
</tr>
</tbody>
</table>

**Advantages of audit programme:**
- It provides a clear set of instructions on the work to be carried out. A clear perspective of the work involved is made available.
- They provide a clear record of the work carried out and by whom. In event of any subsequent enquiry, the actual audit staff engaged on the work may be ascertained
- Work will not be duplicated
- Work can be reviewed by supervisors and managers
- The chance of important work being over looked is obviated
- Evidence of work done is available for use in defending actions for negligence
- A performance record of the work is constantly available
- There is allocation of the work between clerks
- The resumption of work by those taking up the audit after its commencement
- Programmes may easily be kept up-to-up by variation as required

**Disadvantages of audit Programme**
- Work may tend to become mechanical, variation in the working system of the organization being overlooked
ii. If work is performed to a predetermined plan, the Ministry staff may become aware of the fact and fraud is facilitated.

iii. Work may be hurried in order to complete a required schedule, whereas there will be greater concentration on one aspect, even if this involve omission of another which might be of advantage(s) on occasion.

iv. Parts may be executed without regards to the whole scheme.

v. Initiative may be stifled.

vi. Programmes are rigidly adhered to.

vii. There is audit theory that when an auditor’s suspicions are aroused (the usual term is put upon enquiry) he should probe the matter to the bottom). A fixed audit programme and limited time tend to inhibit such probing.

5.08 Progress Register

Audit progress register is a register maintained to record the progress of the audit as contained in the audit programme. FR 2008 provides that the Internal Auditor-in-charge will maintain under his control a register to record the progress of the audit.

The register will normally be in columnar form of not less than thirteen columns to record in the first column the specific task to be undertaken in the course of the internal audit and the officer-in-charge of each task should initial in the appropriate extension column against each task for each month. The inspection of headquarters accounts or treasury cash offices should normally be on a continuous basis throughout the year whist inspection of separate units might be on a periodical basis.

**SPECIMEN**

**MINISTRY OF COMMERCE AND INDUSTRY INTERNAL AUDIT DEPARTMENT**

**PROGRESS REGISTER (JAN 2014)**

<table>
<thead>
<tr>
<th>Units</th>
<th>Nature of Task</th>
<th>Check by when</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Headquarters Accounts</td>
<td></td>
<td>In Progress</td>
</tr>
<tr>
<td>2</td>
<td>Self-Accounting Cash Book</td>
<td></td>
<td>Completed</td>
</tr>
<tr>
<td>3</td>
<td>Revenue Collectors Cash Book</td>
<td></td>
<td>Completed</td>
</tr>
<tr>
<td>4</td>
<td>Bank Reconciliation</td>
<td></td>
<td>In progress</td>
</tr>
<tr>
<td>5</td>
<td>Inland Revenue Returns</td>
<td></td>
<td>Completed</td>
</tr>
<tr>
<td>6</td>
<td>Deposit</td>
<td></td>
<td>In progress</td>
</tr>
</tbody>
</table>
5.09 Audit Guide

The Internal Auditor-in-charge will draw up detailed internal audit guides for the use of the staff, setting out concisely the nature and extent of the checks to be applied to each account or record. The guide will be comprehensive and will be in amplification of the Audit Programme, and it will explain the general nature of the account, the relationship to the function of the Ministry, Department or Unit, and contain references to the basis in law, any relevant accounting instruction issued by the Accountant-General or other instruction issued by the Government.

Below is an example of Audit Guide

Ministry of Commerce and Industry Internal Audit Department
Audit Guide
Theme: Requisition and Issue of Stores
a. **Requisitions for stores**- the examination should cover the following areas:
   i. Ensure that the requisition is checked by a responsible officer
   ii. Ensure that it is signed by the authorized requisitioning officer
   iii. Ensure that the correct rate of charge is quoted
   iv. Ensure that the quantity required is not excessive and the voucher is otherwise correct.
   v. Ensure that the Head of Ministry/Departments furnish specimen signatures of authorized requisitioning Officers to the stores issuing department.

b. **Stores issues**; the following areas should be covered;
   i. Ensure that issue of stores is supported by Store Issue Voucher in the prescribed form.
   ii. Ensure that the issuing Officer sign each Voucher
   iii. Ensure that the requisitioning Officer acknowledges the receipt of stores by signing and returning the original voucher to the issuing officer for filing.

5.10 Internal Control System

Internal control is defined by the International Audit Practice Committee in Millichamp (1996), “as the whole system of controls, financial or otherwise established by the Management of an enterprise in order to carry on the business of the enterprise in 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”.

**Characteristics of Internal Control**

These are the types or features of internal control and are stated below using the mnemonic “PAPAMOSSAB”.

66
i. **Physical:** This is concerned mainly with custody of the assets and involves procedures and security measures designed to ensure that access is limited to authorized personnel. It is a control which ensures that assets must be kept physically secured.

ii. **Authorization and Approval:** This is a type of control that ensures that all transaction should be authorized or approved by a person carrying the appropriate responsibility. The authorization limits should be specified. For example:
   - a. All capital expenditure beyond ₦5,000,000.00 must be approved by the Board.
   - b. All procurement is approved by the procurement control Department.

iii. **Personnel:** There should be procedures to ensure that personnel have capacities to commensurate with their responsibilities. Staff allocated to duties is capable and sufficiently motivated to integrity. I.e. Round pegs should be put in round holes”; personnel that are not capable for a job should not be employed for the job using sentiments. It is only the staff that is capable of doing particular types of jobs that should be employed by the management.

iv. **Arithmetic and Accounting:** these are controls within the recording function which check the transactions to be recorded and that they are correctly recorded and ensure accurate processing. It includes checking the arithmetic accuracy of records through the checking of totals, reconciliation, control accounts and trial balances.

v. **Management Controls:** These are the controls exercised by the management outside the daily routine of the system. Budget and preparation of periodic management accounts are examples of management control.

vi. **Organisation:** There should be an organizational plan which shows clearly the level of responsibility and authority of each employee and relationship with staff in terms of authority example, each employee should know the power delegated to him and to whom he should report meaning that, every employee’s level of authority should be clearly identifiable.

vii. **Segregation of Duties:** It is closely related to internal check. It is to ensure that no employee does more than one aspect of transaction example employee is responsible for all aspect of transaction right from inception to conclusion. This reduces the risk of accidental error or deliberate fraud.

viii. **Supervisory:** It should include the supervision by responsible official of day to day transaction and the recording management on their subordinate.

ix. **Acknowledgement of Performance:** Every employee of the organization should acknowledge activities carried out by them through signatories and initials. If performances of activities are acknowledged by the person that does it, blames or praises can be easily ascribed to the employee, also it boosts the ego of the person and makes the person to consider himself important in the business.
x. **Budgeting:** This is a predetermined line of action to be taken by an enterprise usually expressed in a quantitative manner and which has been authorized by the Management with the budgets in place. The actual performances can easily be compared with the budgeted and the differences analysed. This leads to giving corrective action on the difference and prevent similar occurrence in the future.

**Evaluation of Internal Controls**
Public Sector Auditing Standard (1997) provides that for the assessment of the quality of internal controls, the auditor should obtain:
- Sufficient understanding of internal controls both financial and otherwise which have been established in the audited entity; determine the scope of audit and the nature, timing and extent of tests to be performed.
- An understanding of management controls that are relevant to the audit; and
- Sufficient evidence to support the judgment about those controls which are significant to audit objectives.

The study and evaluation of internal controls should be carried out according to the type of audit undertaken. For example:

a. **In the case of financial audit,** study and evaluation are made mainly on controls that:
   - Assist in safeguarding assets and resources
   - Assure the accuracy and completeness of accounting records:
   - Assist Management in complying with laws and regulations.

b. **In the case of performance audits,** study and evaluation of internal controls are made on controls that assist in conducting the business of the audited entity in an economic, efficient and effective manner. Ensuring adherence to management policies and producing timely and reliable financial and management information.

**Internal Audit Reports**
By the nature of their appointment, Internal Auditors are directly responsible to the Accounting Officer for a comprehensive audit of all the operations and activities of the Ministry/Extra-Ministerial Department. In view of these FR 2007 made the following provisions concerning his report.

The Internal Auditor-in-charge will render a half-yearly report to his Accounting Officer, with copies to the Auditor-General and the Accountant-General, to certify to what degree he is satisfied with the safeguards against fraud, with the control of the receipts and payment, with the controls on the issues and consumption of stores with the verification of cash and stores held, and with the accuracy of the accounting records.
The report will also include his observations on the economy of operation, efficiency, and effectiveness of other areas of activities and functions of the Ministry/Extra-Ministerial Department. In line with these reporting functions, the Internal Auditor assists towards ensuring that operational policies and procedures are adhered to.

Internal Auditors in their capacity are expected to provide two categories of report as described by Fasua (2014). They are:

i. Special or ad-hoc report; and
ii. Routine reports.

**Special Internal Audit Reports**
As gathered from the name, these are reports prepared and presented at the end of special audits or investigation exercises. They normally follow from assignments commissioned towards addressing certain identified problems. Such reports are prepared where for instance, some discrepancies are discovered or a fraudulent practice has come to light.

Reports of this nature are therefore likely to vary depending on the reason(s) for commissioning the special audits or investigations. From a general perspective, Internal Auditors are usually required to present their special reports in very good and clear formats. In particular, such reports should be able to cover adequately the following items clearly with no element of ambiguity.

a. **Purpose:** State precisely the reasons or the special audit and the objective being pursued
b. **Scope:** Indicate the scope in terms of time period covered, the records examined and the various techniques involved towards drawing conclusion.
c. **Results:** State the outcome from the audit or investigation by the way of actual findings.
d. **Recommendations:** Provide from a technical point of view, suitable recommendations aimed at providing immediate remedies and strategies towards guarding against future occurrence. Note that Auditors in such circumstances are only to report and suggest their recommendations while responsibility for implementation rests with management.

**Routine Internal Audit Reports**
As part of their schedules, Internal Auditors are duty bound to provide routine reports so as to guide management on any relevant issues identified and the manner to ensure compliance with organizational policies.

Also, as heads of units, Internal Auditors should be able to articulate on regular basis, routine reports for presentation to management. The reports in this case can take any suitable formats
depending on the experience and background of the Auditor concerned. However, as a matter of general principle, routine internal reports should on the average highlight the following, among others:

i. Policy compliance
ii. State of accounting records and documentation
iii. Internal control systems and their effectiveness
iv. Recommendations

A further point to note in this context is that while all major items are covered in their main reports, the Internal Auditors may come across some minor problems in which case they have to draw the attention of appropriate supervisors for necessary corrections. This is because it is not always normal and easy for all items to be reported to highest authorities as observed. Granof and Khumawala (2011).

“The auditor who shows a desire to help and advice will probably gain greater co-operation and be more effective than one who feel bound to reveal every minor irregularity at the highest level”.

By way of final note, it must be appreciated that internal auditor’s reports must necessarily be also need to be of high quality if Managements are to take them into confidence. Similarly, on most occasions, external auditors would like to make use of information emanating from Internal Auditors so long as such information is qualitative. This again calls for good information to be provided by internal auditors through their reports.

Contents of Reports
The content of all audit opinions and reports are founded on the following general guidelines as provided by Public Sector Auditing Standards (1997)

a. **Title:** The opinion or report should be preceded by a suitable title or heading enabling the reader to distinguish it from statement and information issued by others.

b. **Signature and Date:** The opinion or report should be properly signed. The inclusion of a date informs the reader that consideration has been given to the effect of events or transactions about which the auditor became aware up to that date (which in the case of financial audit may be beyond the period of the financial statements).

c. **Objectives and Scope:** The opinion or report should include reference to the objectives and scope of the audit. This information establishes the purpose and boundaries of the audit.

d. **Completeness:**
i. **Financial Audit**

The Auditor’s opinions should be appended to and published with financial statements to which they relate. The opinions and reports should be presented as prepared by the auditor. The auditor should exercise his full independence. In exercising this independence, the auditor should include whatever he considers fit. He should be free to acquire information from time to time which in the national interest cannot be readily disclosed. Where the auditor is in possession of a very sensitive information which when disclosed will compromise national interest, he has the responsibility to present a separate report under confidential cover to the relevant authority.

ii. **Performance Audit**

The Auditor’s reports usually stand alone. The range from reports of two or three pages to those that run into one or two volumes of hundreds of pages. For completeness they contain comprehensive review of all service, stating the findings, lapses and making recommendations that should improve economy, effectiveness and efficiency. Management of the audited organization presents in some cases, action plan for correcting lapses found in the course of the audit.

e. **Addressee:** The opinion or reports should identify those to whom it is addressed as required by the circumstances of the audit engagement and relevant regulations or practice. This may be necessary where formal procedures exist for its delivery.

f. **Identification of Subject Matter:** The opinions or reports should identify the financial statements (in the case of financial audit) or the area (in the case of performance audit) to which it relates. This includes information such as the name of the audited entity. The date and period covered by the financial statements or the subject matter that has been audited.

g. **Legal Basis:** Audit opinions or report should identify the legislation or other authority providing for the audit.

h. **Compliance with Standards:** Audit opinions or reports should indicate that the Public Sector Auditing Standards have been complied with.

i. **Timeless:** The audit opinions or reports should be available promptly to be of greatest use to reader and users particularly those who have to take necessary action.
5.11. **External Auditor**

“To protect the treasury from being defrauded, let all public money be issued openly in front of the whole city, and let copies of the account be deposited in the various wards” (Aristotle, 322-384BC).

Public Funds/Accounts therefore are to be subjected to external auditing to give credibility to their contents and to enable users of financial information at large have confidence in them. External Auditor in this context is the Auditor-General of the Federation, State and Local Government respectively.

**Appointment/Removal Auditor-General**

Subject to section 86 of the Federal Republic Constitution of Nigeria 1999, the Auditor-General for the federation shall be appointed by the President on the recommendation of the Federal Civil Service Commission subject to confirmation by the Senate. In short, the power to appoint persons to act in the office of the Auditor-General shall vest in the President/and except with the sanction of resolution of the Senate, no person shall act in the office of the Auditor-General for a period exceeding six months.

A person holding the office of the Auditor-General for the Federation shall be removed from the office by the President acting on an address supported by two-thirds majority of the Senate praying that he be so removed for inability to discharge the functions of his office whether arising from infirmity of mind or body or any other cause or for misconduct. He shall not be removed from office before such retiring age as may be prescribe by law.

**Powers and Duties/Responsibilities of Auditor-General**

The power conferred on this officer under section 85 of the Federal Republic Constitution, 1999 (promulgation decree) is stated below:

i. The public accounts of the Federation and of all offices and courts of the Federation shall be audited and reported on by the Auditor-General who shall submit his report to the National Assembly; and that purpose, the Auditor-General or any person authorized by him in that behalf shall have access to all the books, records, returns and other documents relating to those accounts.

ii. Nothing in subsection (2) of this section shall be construed as authorizing the Auditor-General to audit the accounts of or appoint auditors for government statutory corporations, commissions, authorities, agencies, including all persons and bodies established by an Act of the National Assembly, be the Auditor-General shall provide such bodies with:
- A list of Auditors qualified to be appointed by them as External Auditors from which such bodies shall appoint their External Auditor.
- Provide such bodies guidelines on the level of fees to be paid to External Auditors and;
- Comment on their annual accounts and auditor’s report thereon.

iii. He shall have power to conduct periodic checks of all government statutory corporations, commissions, authorities, agencies, including all persons and bodies established by an Act of the National Assembly.

iv. He shall within ninety days of receipt of the Accountant-General’s financial statement submit his report under this section to each House of the National Assembly and each House shall cause the reports to be considered by a committee of the House of the National Assembly responsible for public accounts (Public Accounts Committee).

Other Duties Include:
- a. Ensure that public monies have been expended for the purpose for which they were meant and the expenditure have been made as authorized.
- b. Ensure that essential records and proper systems of accounts as prescribed by the Ministry of Finance are maintained and rules and procedures applied are sufficient to safeguard and control public property and funds.
- c. The Auditor-General does not neither formally disallow expenditure, nor by himself give judgments or rulings on questions of legality.
- d. He does not examine questions of misadministration by Departments affecting individual members of the public.
- e. He does not report other than to National Assembly (except on audits of the international organisations, where he reports to governing bodies)

5.12 Audit Alarm Committee

This is a Committee that is set up to serve, as a watch-dog on possible abuses of the auditing and its procedures in government accounts.

Composition of the committee
- a. Auditor-General as the Chairman;
- b. Representative of the President/Governor and;
- c. Representative of the Accountant-General
Functions of the Committee:
   a. To ensure that irregular or illegal (fraudulent) payments are not made especially where they have been put upon enquiry.
   b. Ensure that no audit query related to payment may be made without the approval of the committee.
   c. To sit and deliberate on any audit alarm brought to their notice
   d. Have access to the President/Governor through their representative on the Audit Alarm Committee.

5.13 Control of Finance by National Assembly

The National Assembly control public funds by debating and approving government budget, through the Public Account Committee and oversight functions.

The Public Accounts Committee

The Public Accounts Committee is a committee of the National Assembly, or State (as the case may be) responsible for Public Account in accordance with the constitution. It was created to promote accountability and transparency in public governance. The PAC is set up via Public Accounts Decree No. 8 of 1987 3rd April, 1987.

Composition of the Public Accounts Committee

The committee comprises members of all the political parties in the House. The Auditor-General, Accountant-General, representative of the Ministry of Finance and Budget Officer are usually in attendance during the deliberations of the Public Accounts Committee. Section 85 (2) of the Federal Republic of Nigeria’s Constitution of 1999, enjoins the Auditor-General of the Federation to submit his annual report to the House which in turn will pass it to the Committee. The Committee examines the Public Accounts on the basis of the observations raised in the Auditor-General’s Report.

Procedure of the Public Accounts Committee
   a. After the submission of the Auditor-General’s Report to the Committee, it has absolute discretion in planning and directing its programme of work and manner of summoning witnesses to appear before it;
   b. The Accounting Officers are summoned to appear to give explanation on matters affecting their Departments or ministries;
   c. The Auditor-General attends the public sessions of the Committee in the capacity as adviser to the Committee;
      He is required to provide justification for each matter raised in his Annual Report;
d. The findings of the Committee are subsequently submitted to the whole House after which the House will direct the Minister of Finance to take necessary action on the points raised by the Committee;

e. The report of the public proceedings of the Committee is usually compiled and distributed by the clerk of the National Assembly for all members of the legislature, the Auditor-General’s Officer, Accountant-General’s Officer and all Accounting Officers in Ministries, Extra-Ministerial Departments and Parastatals;

**Functions of the Public Accounts Committee**
The following are the statutory functions of the PAC:

a. To deliberate on the Auditor-General’s Annual report as submitted to the National Assembly;

b. To summon the appropriate Accounting Officers to appear before the Committee to give explanation on the observations raised by the Auditor-General for the Federation.

c. To examine any officer on oath if need be;

d. To recommend to the President any action to be taken on the erring officer;

e. To deliberate on other matters relating to the management of public funds;

f. To issue a report at the end of all deliberations, mentioning areas of Financial Management Control that have been observed; and

g. To carry out any duty as required by the National or State Assembly.

**Public Accounts Implementation Tribunal**

However, because of the PAC’s lack of power to implement its decisions adversely affects the seriousness which public servants attach to control and public accountability.

Consequently, the Public Accounts Implementation Tribunal Decree No. 34 of 1990 was promulgated with the following provisions:

i. To initiate steps to recover from any officer, contractor or corporate body any misappropriation of public fund;

ii. To consider the recommendations of the PAC, and make any such order which the Tribunal consider appropriate in the circumstances;

iii. To apply any appropriate sanctions against any erring public servants;

iv. To refer to the Federal High Court any case, criminal or civil, involving loss of government funds or property for speedy trial and determination;

v. Where the Tribunal decides to alter or vary the decision of the PAC, and where such variation may affect the proprietary interest of any company or person who has been found liable by the PAC, then, and in such case, the company concerned shall be given a fair hearing by the Tribunal.
It may be observed that the last paragraph of the provisions of the Decree would appear to have given room for the manipulation of decisions of the PAC by giving the Tribunal power to alter or vary the decision of the House.

Although some analysts have said that members of the Public Accounts Committee are not jurists and cannot make decisions that a court of competent jurisdiction can make.

5.14 The International Organisation of Supreme Audit Institutions (INTOSAI)

The International Organisation of Supreme Audit Institutions (INTOSAI) comprises the supreme audit institutions of 191 states, the European Court of Auditors and five associate members. The organization was founded by representatives of 34 supreme audit institutions at the first conference held in Cuba in 1953.

INTOSAI is an independent, non-political and non-governmental organisation which was established as a permanent institution to exchange ideas and experiences in the field of foreign audits between the world’s supreme audit institutions. The organisation has consultative status with the Economic and Social Council of the UN. The motto of INTOSAI is Experientia mutua omnibus prodest (mutual experience benefits all) and its headquarters is located in Vienna, where the General Secretariat of the organisation operates on the basis of the Austrian Court of Audit (Rechnungshof). Its official working languages are Arabic, English, French, German and Spanish.

Structure of INTOSAI

The highest organ of INTOSAI is the Congress of members, which assembles once every three years. The work of the commissions and working groups in the time between Congresses is organised by the Governing Board. The General Secretariat assists the Governing Board and committees in the performance of their functions and arranges the organisation’s practical activities. The General Secretariat is managed by the President of the Austrian Court of Audit as the Secretary General of INTOSAI. The standing Finance and Administration Committee and the Director of Strategic Planning of INTOSAI are also based in Vienna.

The organisation has the following regional working groups:

i. OLACEFS (Organisation of Latin American and Caribbean Supreme Audit Institutions, established in 1965);

ii. AFROSAI (African Organisation of Supreme Audit Institutions, established in 1976);

iii. ARABOSAI (Arab Organisation of Supreme Audit Institutions, established in 1976);

iv. ASOSAI (Asian Organisation of Supreme Audit Institutions, established in 1978);

v. PASAI (Pacific Association of Supreme Audit Institutions, established in 1987)
vi. CAROSAI (Caribbean Organisation of Supreme Audit Institutions, established in 1988); and

vii. EUROSAI (European Organisation of Supreme Audit Institutions, established in 1990).

INTOSAI’s committees and working groups are established by the Congress to discuss specific problems and the performance of specific functions.

According to INTOSAI’s strategic plan, the following standing committees have been established:

i. Professional Standards Committee (PCS);

ii. Capacity Building Committee (CBC);

iii. Committee on Knowledge Sharing and Knowledge Services; and

iv. Finance and Administration Committee.

The Professional Standards Committee of INTOSAI has created the International Standards of Supreme Audit Institutions (ISSAI), which are constantly being developed further. The committees coordinate the work of many subcommittees, working groups and task forces in the achievement of the goals established by the Congress. The area of activity of the committees includes the INTOSAI Development Initiative (IDI) and the International Journal of Government Auditing magazine.

The National Audit Office has been a member of INTOSAI since 1992. The National Audit Office is a member of the INTOSAI Professional Standards Committee and an expert on its Financial Audit Subcommittee, as well as a member of the Capacity Building Committee and its subcommittee. The Capacity Building Committee deals with the organisation of peer reviews to help promote best practice and guarantee quality.

The National Audit Office managed the INTOSAI Working Group on Environmental Auditing (WGEA) and its steering committee from 2008-2013. The INSOSAI WGEA comprises more than 70 supreme audit institutions from all over the world. From 2014-2016 the National Audit Office is a member of the INTOSAI WGEA steering committee and participates in two projects of the working group: managing the preparation of the overview of market-based environmental organisation measures; and organising the Global Training Facility of the INTOSAI WGEA in cooperation with India.
MODULE 6

6.00 FINANCIAL MANAGEMENT AND PROJECT APPRAISAL IN THE PUBLIC SECTOR

6.01 Learning Outcomes:
On successful completion of this Module, Students should be able:

i. Discuss the meaning and fundamentals of Investment Decisions;
ii. Critically analyse the nature of Investment Decisions;
iii. Examine the Importance and relevance of Investment Decisions;
iv. X-ray the Factors to consider in Investment Decisions;
v. Analyse the Classification of Investment Projects;
vi. Appreciate the Steps in Investment Decisions;
vii. Evaluate the Meaning of Capital Investment Appraisal;
viii. Apply the various Investment Evaluation Techniques.

Investment decisions are long run decisions where consumption and investment alternatives are balanced over time in the hope that investment now will generate extra returns in the future. Investment appraisal therefore involves the need to consider the future costs and related revenue, the time value of money and allied risks as well as the choice between alternatives. Government Ministries and Extra-Ministerial Department also engage in investment decision making. Investment appraisal is a top management exercise because of the scale and long-term nature of the consequences of decision involved.

There are many methods of appraising investments that is, budgeting on capital expenditure. These include:

a) Accounting Rate of Return (ARR)
b) Pay Back Period (PBP)
c) Discounted Cash Flow Technique (DCF)
d) Discounted Pay Back Period
e) Net Present Value (NPV)
f) Internal Rate of Returns (IRR)

6.02 Accounting Rate of Return

Accounting Rate of Return may be called Return on Capital Employed (ROCE). It makes use of accounting profits, that is, it is the ratio of annual profits after depreciation but before tax to the capital invested.
i.e. \[ ARR = \text{Average Annual Profit after Depreciation before taxation} \]
\[ \text{Initial (or Average Initial) Investment} \]

Example (1): A project has the following cash flows

<table>
<thead>
<tr>
<th>Year</th>
<th>Initial Capital</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>(400,000)</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td></td>
<td>120,000</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td>120,000</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td>120,000</td>
</tr>
<tr>
<td>4</td>
<td></td>
<td>80,000</td>
</tr>
<tr>
<td>5</td>
<td></td>
<td>40,000</td>
</tr>
</tbody>
</table>

You are required to compute the ARR

**Solution:**

Total Profits = N80,000

Average Annual Profit = \[ \frac{480,000}{5} \] = N96,000

Initial Investment = N400,000

Average Initial Investment = \[ \frac{N400,000}{2} \] = 200,000

ARR based on Initial Investment

\[ \frac{N96,000}{400,000} = 24\% \]

ARR based on average Investment

\[ \frac{N96,000}{200,000} = 48\% \]

If the project has a scrap value of say N50,000, the average investment would be:

\[ \frac{450,000}{2} = 225,000 \]

ARR would be \[ \frac{N96,000}{225,000} = 43\% \]

**Decision Method:** When using ARR technique, the rule is to invest in all projects whose ARR exceed the company’s minimum required ARR.

When considering mutually exclusive project, the rule is to accept the project with the higher ARR provided the same project has the ARR higher than the company’s required ARR.
When considering mutually exclusive project the rule is to accept the project with the higher ARR provided the same project has the ARR.

**Advantages of ARR**
- **a.** It is simple to calculate and understand
- **b.** It focuses on all the years of the project life
- **c.** It is consistent with the Return on investment approach to which most Management are familiar

**Disadvantages of ARR**
- **a.** It ignores the time value of money
- **b.** It is an average therefore, it ignores the timing of money flows
- **c.** It makes use of depreciation rather than capital allowance. This can lead to wrong decision as depreciation relates to accounting profit and not cash flow.

### 6.03 Pay Back Period

This method evaluates a project on the basis of the period it takes for a project to recover the initial capital invested from the cash flow. The methods make use of the cash flow but only to the Pay Back Period. Payback period also has Pay Back Period Reciprocal.

The payback period reciprocal is the inverse of the payback period but given in percentages.

It is defined as:

\[
\text{Pay Back Reciprocal} = \text{Pay Back Period} \times \frac{1}{100}
\]

**Decision Rule**

The decision rule based on this method is to accept the project with the highest Pay Back Reciprocal for mutually exclusive project.

The decision rule for payback period is to accept all projects that has shorter payback period than the company’s required Pay Back Period.

For mutually exclusive projects, the rule is to invest in the project with the shortest payback period provided it is shorter than the company’s required Pay Back Period.

**Examples:**

Super state government is considering the purchase of new machine for one of its parastatals and has two alternatives. The expected cash flow profile is given below:
You are required to calculate the payback period for the two machines.

Solution:

<table>
<thead>
<tr>
<th>Year</th>
<th>Machine A</th>
<th>Machine B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>Cost</td>
<td>0</td>
<td>(1,000,000)</td>
</tr>
<tr>
<td>Cash Inflow</td>
<td>1</td>
<td>100,000</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>200,000</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>600,000</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>700,000</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>800,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2,400,000</td>
</tr>
</tbody>
</table>

Machine B paid at the end of 2 years while machine A paid after back the years 3rd i.e. 3.143 years or 1.7 months. On the basis of payback period therefore machine B is to be preferred. However, the overall profitability of machine B is half of that machine A.

Advantages of Payback period

a. It minimizes the effect of risk and problem of liquidity

b. It is widely used with sophisticated members

c. It is easy to calculate and understand

d. Highly pessimistic managers prefer cash inflow now or in the earlier years than the later years

e. It is least affected by uncertainty
Disadvantages of Payback period
a. It ignores the time value of money
b. It ignores the risk associated with cash flow or the project itself
c. It does not concern itself with cash flows in years after payback period

6.04 Discounted Cash Flow Technique
This is a concept time value of money. It is the present value of future cash flow. It highlights the N1 now is greater than N1 in a year time due to interest rate. The following formula can thus be derived; \( S = P(1 + r)^n \)

Where: 
- S represents ‘Total sum of money
- R represents rate of interest, and
- N represents number of years the money is invested

It is a method of capital investment appraisal which considers the overall profitability of the project and timing of its returns. It therefore combines the advantage of both ARR and Pay Back Period. Cash flow is concerned with cash receipt and payment made (or forgone) as a result of an action. Relevant cost is therefore very important in DFC. Also timing of cash flows is taken into account by means of discounting.

Relevant Cost
The cash flow to be considered are those which arise as a consequence of investment decision under evaluation. Therefore, such costs like:

a. Cost incurred in the past

b. Committed cost which will be incurred whether or not an investment is undertaken; are not relevant to the cash flows because they have occurred or will occur whether the investment is accepted or not.

Other costs like
i. Notional cost (depreciation)

ii. Cost relating to values of stocks (like FIFO LIFO etc.);

iii. Costs relating to allocation, apportionment of overheads; are not relevant to investment decisions because they do not properly relate to cash flows.

Discounting Method
If say ₦2,000 is invested at 10% P.A. It will bring ₦2,662 at the end of years 3. This is calculated as follows:
S = P(1 + r)^n = 2000 (1 + 0.1)^3 = 2,662

The opposite is the case for finding the present value of an amount receivable in future. E.g. what is the present value of 2,662 receivable in 3 years’ time. This is calculated as follows:

It can be deduced from simple calculation that money has time productivity. It is therefore preferable to receive a given sum earlier rather than later because the sum received earlier can be put to use by earning interest or some productive investment within the business.

In discounted Pay Back Period, the Cash Flows including scrap values are discounted using the given cost of capital or discount rate. We then determine the payback period using revised cash Flow. In the example of Super State Government, the discounted Cash Flows at 10% discount rate will show the following:

<table>
<thead>
<tr>
<th>Year</th>
<th>Discount Factor</th>
<th>Machine A Cash Flow</th>
<th>PV</th>
<th>Machine B Cash Flow</th>
<th>PV</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.9091</td>
<td>100,000</td>
<td>90,190</td>
<td>500,000</td>
<td>454,550</td>
</tr>
<tr>
<td>2</td>
<td>0.8264</td>
<td>200,000</td>
<td>165,280</td>
<td>500,000</td>
<td>413,200</td>
</tr>
<tr>
<td>3</td>
<td>0.7513</td>
<td>600,000</td>
<td>450,780</td>
<td>100,000</td>
<td>75,130</td>
</tr>
<tr>
<td>4</td>
<td>0.6830</td>
<td>700,000</td>
<td>478,100</td>
<td>50,000</td>
<td>34,150</td>
</tr>
<tr>
<td>5</td>
<td>0.6209</td>
<td>800,000</td>
<td>496,720</td>
<td>50,000</td>
<td>31,045</td>
</tr>
</tbody>
</table>

\[\text{Machine A Cash Flow} = 1,200,000 + 1,008,075 = 2,208,075\]

\[\text{Machine B Cash Flow} = -22,970\]

\[\text{Yr. 1-3 (discounted cash flow)} = 706,970\]

\[\text{Yr. 1-4} = 977,030\]

\[\text{Balance} = 293,030\]

\[\text{Yr. 4 (Discount Cash Flow)} = 478,100\]

\[\text{Yr. 5 (Discounted cash flow)} = 31,045\]

\[\text{Discounted cash flow} = 2,970\]

\[\text{Discounted cash flow} = 31,045\]

\[\text{Discounted cash flow} = 0.740\text{ years}\]
Machine A paid back in 3.613 years or 3 years 7 months while Machine B paid back in 4.740 years or 4 years 9 months approximate.

6.05 Net Present Value (NPV)
The Net Present Value method involves calculating the present values of expected cash flows and outflows (i.e. the process of discounting) and establishing whether in total the present value of cash inflows is greater than the present value of cash outflows.

Illustration:
Mr. Adeola has N200,000 which he decides to invest if he can secure an assurance that the investment will earn at least 10% p.a. He is therefore considering three projects:

Project I: Will earn N218,000 at the end of 1\textsuperscript{st} year.
Project II: Will earn N250,000 at the end of 2\textsuperscript{nd} year; and
Project III: Will earn N140,000 at the end of 1\textsuperscript{st} year and another N100,000 at the end of 2\textsuperscript{nd} year.

If none of the project is undertaken Mr. Adeola will invest his N200,000 in something else which will 10% p.a you are required to advise Mr. Adeola appropriately.

Solution:

<table>
<thead>
<tr>
<th>Year</th>
<th>D/F</th>
<th>Project I Cash Flow</th>
<th>Project I PV</th>
<th>Project II Cash Flow</th>
<th>Project II PV</th>
<th>Project III Cash Flow</th>
<th>Project III PV</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td></td>
<td>(200,000)</td>
<td>(200,000)</td>
<td>(200,000)</td>
<td>(200,000)</td>
<td>(200,000)</td>
<td>(200,000)</td>
</tr>
<tr>
<td>1</td>
<td>0.9091</td>
<td>218,000</td>
<td>198.184</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>0.8264</td>
<td>-</td>
<td>-</td>
<td>250,000</td>
<td>206,600</td>
<td>100,000</td>
<td>82,640</td>
</tr>
<tr>
<td>NPV</td>
<td></td>
<td>(1,816)</td>
<td>6,600</td>
<td>9,914</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Project I: The Negative NPV indicates that the project would fail to make the expected return of 10%

Project II: The positive NPV indicates that the project will earn at more than the required rate of return of 10%.

Conclusion: Project II has an NPV of N6,600 while project II has NPV of N9,914 all positive. All things being equal, Project III should be undertaken in preference to project III.
Although the total returns form project II (N250,000) is greater than the total returns from project III (N240,000), the timing of the returns i.e the N140,000 earned in year one by project III should influence the decision in favor of project III.

**Decision Rule:** The decision rule in NPV method of investment appraisal is to invest in all projects that give NPV greater than zero.

In a mutually exclusive project the rule is to invest in the project with highest NPV.

**Advantages of NPV**
- It recognizes the time value of money
- It gives an absolute guide to how much an investor’s wealth has increased by accepting the project
- It is useful in ranking projects in a capital rationing situation

**Disadvantages of NPV**
- It relies heavily on current estimates of the cost of capital;
- It is not a percentage return and therefore it is not easy for a manager in a divisionalized organization to admire;
- It is not take the risk involved in each project into consideration

**6.06 Internal Rates of Return (IRR)**

The IRR method of discounted cash flow is to determine the rate of interest (i.e. internal rate of return) at which the NPV is zero. This is usually calculated through “trial and error” by interpolating from tables. Two values known to be respectively too high and too low and then to interpolate between them. When the IRR of a project exceeds the company’s target rate of return from investment, the project is considered acceptable.

**Illustration:**

Find the IRR of a project given below and state whether the project should be accepted. The investor requires a minimum of 24%.

<table>
<thead>
<tr>
<th>Yr</th>
<th>Cash Flows</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>(40,000)</td>
</tr>
<tr>
<td>1</td>
<td>14,000</td>
</tr>
<tr>
<td>2</td>
<td>15,000</td>
</tr>
<tr>
<td>3</td>
<td>17,000</td>
</tr>
<tr>
<td>4</td>
<td>19,000</td>
</tr>
</tbody>
</table>
Solution:

<table>
<thead>
<tr>
<th>Yr.</th>
<th>D/F</th>
<th>C/F</th>
<th>PV</th>
<th>D/F</th>
<th>PV</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>1%</td>
<td>N</td>
<td>N</td>
<td>25%</td>
<td>N</td>
</tr>
<tr>
<td>1</td>
<td>0.8264</td>
<td>14,000</td>
<td>11.567</td>
<td>0.8000</td>
<td>11.200</td>
</tr>
<tr>
<td>2</td>
<td>0.6830</td>
<td>15,000</td>
<td>10.245</td>
<td>0.6400</td>
<td>9,600</td>
</tr>
<tr>
<td>3</td>
<td>0.5645</td>
<td>17,000</td>
<td>9.597</td>
<td>0.5120</td>
<td>8,704</td>
</tr>
<tr>
<td>4</td>
<td>0.4665</td>
<td>19,000</td>
<td>9.864</td>
<td>0.4096</td>
<td>7,714</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>273</td>
<td></td>
<td>(2,714)</td>
</tr>
</tbody>
</table>

Let x represent positive NPV
Let y represent negative NPV
Let a represent smaller discount factor
Let b represent higher discount factor

\[ \text{IRR} = a + \frac{x(b-a)}{X+Y} \]

(Note: Ignore negative sign for z when adding x and y)

By interpolation \( \text{IRR} = 21\% + \frac{273(25 - 21)}{273 + 2714} \)

\[ = 21\% + 0.37 \]
\[ \text{IRR} = 21.32\% \]

The IRR 21.37% is less than the required rate of return of 24% hence the project is not acceptable.

Note: 21% discount rate was first used which resulted in positive NPV of 273.
The next step is to choose another higher discount rate that can throw NPV. Here 25% can be chosen as well.

**Advantages of IRR**

a. Like ARR it is a percentage return and very useful in divisionalised organization as most managers are conversant with returns
b. It takes into consideration the tie value or money
c. It gives an idea of the margin of error in the cost of capital estimates e.g. where the cost of capital is 10% and IRR is 15% the margins of error is therefore 5% that is the sensitivity or a project to error is determined.

Disadvantages of IRR
a. IRR does not take risk into account
b. It is not useful in capital rationing situation
c. Where we have mutually exclusive project the IRR may give a misleading result and may conflict with NPV technique techniques
d. Where cash flow is unconventional, we may get more than one IRR

6.07 Capital Rationing
Capital Rationing is a term used in describing a situation in which finance is limited for investment in relation to the requirement of all acceptable projects with positive NPV.

Limitation of finance may be artificial or real. It is artificial if it is imposed by the establishment itself but real if the limitation is imposed by the providers of finance i.e they could not provide the required finance. Capital Rationing is therefore a technique of ranking project in the order of acceptability until the organization has many projects with positive NPV’s but combined initial outlay exceeds the available fund to the company.

Objectives of Capital Rationing
The Objective of Capital Rationing is to maximize returns i.e. to maximize the wealth of investors. Therefore, accepted projects must provide highest returns within the available funds in order to achieve this objective.

Single Period Capital Rationing (Assumptions)
The following assumptions are made under single period capital rationing:

i. That once a project is rejected in the period of capital rationing such project loses the opportunity for ever.

ii. That there is complete certainty about the outcome of each project i.e. the choice between projects is not affected by risk element.

iii. That projects are divisible so that it is possible to undertake half of project ‘A’ and effect make a gain of half of NPV of project ‘A’

Steps to be Taken
The following steps are taken in Capital Rationing:

i. Identify the years of capital restriction
ii. Computer the NPV where it is not given
iii. Rank the project in line with profitability index concept.

**Profitability Index (PI)** is a contribution per limiting factor method in which the initial outlay is the limiting factor and the NPV is the contribution. It may be described as “Naira per expenditure” approach or the “Benefit Cost Ratio” it is a ratio of the initial outlay required during the year of restriction.

(i) \[
\text{PI} = \frac{\text{NPV of the Project}}{\text{Initial outlay required in the year of restriction}}
\]

(ii) \[
\text{PI} = \frac{\text{GPV of the Project}}{\text{Initial outlay required in the year of restriction}}
\]

Where: GPV = NPV + initial outlay

(iii) Allocate the available funds to the projects in the declining order of their PI.

(iv) If a project does not require finance during the year of restriction the denominator becomes zero i.e initial outlay (1.0) = 0 which means that GPV/NPV is divisible by zero given an infinite amount. This implies that such project must be accepted first.

(v) Ranking of projects must be done using PI instead of the NPV whenever there is limitation on finance. This is because when PI method is used the total NPVs of the projects accepted would be higher than the total NPVs of the projects accepted using the NPV to rank the projects.

**Illustration:**
Mekunu Local Government Council is considering 4 projects namely
i. Market Stalls (S)
ii. Recreation Centre (R)
iii. Motor Park (P) and
iv. Transport Service (T)

<table>
<thead>
<tr>
<th>PROJECT</th>
<th>Yr.0</th>
<th>Yr.1</th>
<th>Yr.2</th>
</tr>
</thead>
<tbody>
<tr>
<td>S</td>
<td>(150,000)</td>
<td>90,000</td>
<td>105,000</td>
</tr>
<tr>
<td>R</td>
<td>(300,000)</td>
<td>210,000</td>
<td>150,000</td>
</tr>
<tr>
<td>P</td>
<td>(450,000)</td>
<td>150,000</td>
<td>420.00</td>
</tr>
</tbody>
</table>
The cost of capital is 10%, assuming there is restriction to the amount of finance available so that only N900,000 is available in year 0. You are required to determine the project(s) in which the Local Government Council would maximize the NPV generated per naira spent in year 0.

**Solution:**

<table>
<thead>
<tr>
<th>Year</th>
<th>D/F</th>
<th>S</th>
<th>PV</th>
<th>R</th>
<th>PV</th>
<th>P</th>
<th>PV</th>
<th>T</th>
<th>PV</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td></td>
<td>1</td>
<td>(150,000)</td>
<td>(150,000)</td>
<td>(300,000)</td>
<td>(300,000)</td>
<td>(450,000)</td>
<td>(450,000)</td>
<td>(600,000)</td>
</tr>
<tr>
<td>1</td>
<td>0.9091</td>
<td>90,000</td>
<td>210,000</td>
<td>219,000</td>
<td>190.911</td>
<td>150,000</td>
<td>136,365</td>
<td>450,000</td>
<td>409,095</td>
</tr>
<tr>
<td>2</td>
<td>0.8264</td>
<td>105,000</td>
<td>150,000</td>
<td>150,000</td>
<td>123,911</td>
<td>420,000</td>
<td>347,088</td>
<td>300,000</td>
<td>247,920</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>PV</th>
<th>NPV</th>
<th>Per Naira Spent (P)</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0.124</td>
<td>18,591</td>
<td>1st</td>
<td>4th</td>
</tr>
<tr>
<td>1</td>
<td>0.049</td>
<td>14,871</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>0.074</td>
<td>33,453</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.095</td>
<td>57,015</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Allocation of Funds to Projects**

<table>
<thead>
<tr>
<th>N</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accept Projects S</td>
<td>900,000</td>
</tr>
<tr>
<td></td>
<td>(150,000)</td>
</tr>
<tr>
<td></td>
<td>18,591</td>
</tr>
<tr>
<td></td>
<td>750,000</td>
</tr>
<tr>
<td>Accept project T</td>
<td>(600,000)</td>
</tr>
<tr>
<td></td>
<td>150,000</td>
</tr>
<tr>
<td></td>
<td>57,015</td>
</tr>
<tr>
<td>Accept 1/3 of Project P</td>
<td>150,000</td>
</tr>
<tr>
<td></td>
<td>11,151</td>
</tr>
<tr>
<td></td>
<td>86,767</td>
</tr>
</tbody>
</table>

**Note:** If NPV method had been used for the ranking the result would have been

<table>
<thead>
<tr>
<th>Allocation of Funds to Projects</th>
<th>NPV</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Available Funds</td>
<td>900,000</td>
</tr>
<tr>
<td>Accept project T</td>
<td>(600,000)</td>
</tr>
</tbody>
</table>
Thus, using the NPV to rank produce a loss of NPV by N7,440 (86,757 – N79,317)

**Indivisible projects:** Where projects are not divisible, it must be stated by the examiner and thus no part of a project can be accepted.

It means that the company can only invest in projects whose initial outlay can be fully absorbed by the available funds. Where the remaining funds is less than the initial outlay of the next project we cannot undertake that project and therefore the possibility is to invest the balance fund in short-term investment deposit in bank or executive the next best project that can absorb the whole surplus fund.

**Repeateable Projects:** Where projects are repeatable the practices is to undertake the project with highest PL as many times as possible subject to the divisibility of that project. Where the project is not divisible, the balance funds not enough to repeat the project should be transferred to the project that can absorb the balance fund otherwise such fund should be invested in bank deposit.

**Mutually exclusive projects:** Where two or more projects are mutually exclusive i.e. only one can be chosen between them it is better to rank the two projects separately in different groups. In otherwise, the two projects should not be included in the same group.

**Mutually dependent projects:** when two or more projects are dependent on each other, the practice is to group the projects together. When this is the case, the PI of the projects concerned is reconstructed to get combine PI for them.

<table>
<thead>
<tr>
<th>Project</th>
<th>PI</th>
<th>Initial outlay</th>
</tr>
</thead>
<tbody>
<tr>
<td>X</td>
<td>1.4</td>
<td>200,000</td>
</tr>
<tr>
<td>Y</td>
<td>1.2</td>
<td>300,000</td>
</tr>
</tbody>
</table>

To get a combined PL

Project X = \[
\frac{200,000 \times 1.4}{500,000} = 0.56
\]

Project Y = \[
\frac{300,000 \times 1.2}{500,000} = 0.72
\]
Combined PI  =  1.28

Therefore, when ranking the projects, projects X & Y would be grouped together using combined PI 1.28

6.08 Cost-Benefit Analysis (CBA)

Definition
Cost-Benefit Analysis is a project appraisal method designed to evaluate and compare costs and benefits identifiable with a project a view to assessing the viability or the rational basis for its adoption/selection. The Cost-Benefit Analysis is often applied to public project appraisal like road construction, irrigation projects, dam construction, sitting of airports etc.

Main Features of Cost-benefit Analysis
The main striking features of the cost-benefit analysis (CBA) are:

• It is a methodology of rational choice involving public programme decisions.
• Cost Benefit Analysis is an analytical tool in decision-making requiring a systematic identification and comparison of the possible benefits and costs associated with a project.
• It is a monetary valuation exercise requiring the estimation in money terms the cost of undertaking a project and the value and benefits that could arise from the operation of such projects.
• Discounting is an integral aspect of cost-benefit analysis. Introduced to take care of time value of money of the streams of costs and benefits of project.

Uses of Cost-Benefit Analysis

• Cost –Benefit analysis is used to ascertain whether or not a specific project should be undertaken or perhaps more frequently. It is used to ascertain which project(s) should be selected from a possible array of projects.
• Cost-benefit analysis is particularly widely employed in the appraisal of public projects or public programme decisions.
• It is a technique designed to facilitate optimal allocation of scare resources in such public sector services as education health and environmental management.
• It can use as a guideline to study whether a particular programme should be initiated. Expectedly all possible options should be examined to ensure that the cost-benefit Analysis points to the best option.
• Cost-benefit analysis provides information to help evaluate the pros and cons of a programme, but it is only a guide towards making what is ultimately decision.
• It can be undertaken to evaluate the effectiveness of potential government programme in the light of overall development policy objectives.

Problems of Cost-Benefit Analysis
The following under-listed are the striking problems associated with the use of cost-benefit analysis.

a. **Data constraint**: The methodology of CBN requires full or complete enumeration of cost and benefit identifiable with a project. This could be very tasking and in most cases constrained by lack of relevant data for such analysis.

b. **Valuation of costs**: The Valuation of costs is expected to be all embracing, comprising both direct/explicit and indirect (implicit) costs. Computation of indirect costs is particularly more problematic and conceptual. Being subject to valuators perception the whole exercise becomes highly subjective and therefore arbitrary.

c. **Valuation of intangible Benefits**: In the same manner, valuation of projects benefit is bedeviled with the issue of what benefits to include and those to exclude. Both tangible and intangible benefits are expected to be included. The problem is that of obtaining an objective valuation of these diverse benefits, some of which do not have market values e.g. what value should be attached human lives that would be saved as a result of improved road conditions.

d. **Choosing the Appropriate Discount Rate**: The choice of appropriate discount rate is also a critical issue in the sense that the rate significantly influences the viability or otherwise of a project. In principle, the adopted discount rate should inflect time-value of money from the view point of decision-makers. Such in practice is a matter for political consideration and therefore subject to some maneuvering.

e. **Handling of Non-Economic Issues**: The methodology of CBN favor to a considerable extent, economic efficiency criterion. For public projects, there are other non-economic considerations that are of paramount importance. Incorporation of such (e.g. equity regional imbalance social integration) is always problematic. A tool proof and scientific way of handling socio-political issues in public project appraisal is yet to evolve.

Terms Used in Cost-Benefit Analysis

1. **Shadow price**: Some goods or services have no readily identifiable market price simply because they are not trade in the market. Shadow priced is the name given to the imputed value for such transactions. It may be regarded as the opportunity cost of producing or consuming a good or services bought in the market place.

2. **Social opportunity cost of capital**: This is the name given to the rate of return on the project forgone that allows the project whose cost benefit analysis is being evaluated to go on.
3. **Social time preference rate**: This is another rate suggested to be used as appropriate discount rate in cost-benefit analysis. It represents the discount rate at which people equate future consumption with consumption now.

4. **Cut off points**: this is where costs and benefit cease to be significant in the context of the project.

5. **Primary/Direct benefit**: These are the values of goods and services resulting from project conditions. They are those goods and services resulting from project conditions. They are those benefits that related closely or principally to the main project objective. For instance, an irrigation project has its immediate objective, the promotion of farm output/yields. Therefore, additional corps due to irrigated land is direct or primary benefit.

6. **Secondary/Indirect Benefit**: - These are benefits either arise from or are induced by the project but are not directly resulting from the projects. For instance, benefit derived of an irrigation project such as reduced soil erosion.

7. **Primary/Direct costs**: This are costs that relate closely and principally to the main project objectives. For instance, in irrigation project direct costs are the expenses on the purchase of pipes, construction of dams, and other irrigation equipment.

8. **Secondary/Indirect costs**: These are costs associated/identifiable with the by-product of a project. For instance, on irrigation project, indirect cost is the diversion of water with attendant externalities such as dislocation of settlements.

9. **Tangible benefits**: These are the benefits that can be valued or ascertained readily in the market. For instance, increased output is a tangible benefit in an irrigation project.

10. **Tangible costs**: These are costs that can be ascertained readily in the market, for instance, cost of pipes dams equipment etc. are tangible costs in irrigation projects.

11. **Intangible benefits**: These are other relevant benefits that cannot easily be valued in the market. For instance, the beautifications of the irrigation and possible increase in farming population, etc. are intangible benefits.

12. **Intangible costs**: These are other relevant or associated costs that cannot easily be ascertained in the market. For instance, cost of natural, relocation/displacement of some communities in the irrigation area, are intangible costs.
MODULE 7

7.00 FINANCIAL REPORTING IN GOVERNMENT

7.01 Learning Outcomes
On successful completion this Module, Students should be able to:

i. Appraise the concept of monthly transcripts;

ii. Critically discuss the financial reporting process in the public sector;

iii. Examine the various methods of financial statement preparation;

iv. Analyse the basics of preparation of accounts for corporations and parastatals.

7.02 The Transcript
A Transcript is a financial statement prepared by a ministry or department detailing out a
periodic (usually monthly) summary of receipts and payments of the ministry or departments
classified into above – the- line and below-the-line Account. Transcript is the summary of total
receipt and payment as posted in the cash book in a month. It is usually prepared by a Sub/Self
Accounting Officer of a Sub/Self Accounting Unit. It is the final account of ministries sent to
office of the Accountant General. A transcript represents the final account of the self-
accounting and sub accounting unit.

Steps in Preparing Transcript
1. Obtain cash book / receipt and payment vouchers
   a. All vouchers must be cross-checked with the cash book to ensure correct
      posting/entries in the cashbook
   b. Coding of receipts and payment – correct classification coding must be checked
      against cash book to ensure data are correctly processed for a computerized system.
2. The vouchers must be classified and arranged according to heads/sub-heads for
   purpose of pre-listing so that totals for each classification are obtained through casting.
3. These totals are then posted into an analysis book and balanced on daily or weekly basis.
   The total balance should then be compared with the cash book which must agree,
   otherwise error must have been committed.
4. The transcript is then prepared from the analysis book. The closing balance must
   agree with the cash book closing balance.
7.03 Government Annual Financial Statements

The Final Account unit of the treasury is directly saddled with the responsibility of the preparation, production and publication of monthly and annual statement of accounts.

The statements are as follows:

i. Statement of National Debts = Statement No.1

ii. Statement of Assets and Liabilities = Statement No.2

iii. Statement of Consolidated Revenue Fund = Statement No. 3

iv. Statement of Revenue = Statement No. 3.1

v. Statement of Recurrent Expenditure = Statement No. 3.2

vi. Statement of Development Fund = Statement No. 4

STATEMENT NO.1 = Statement of National Debts

This is the statement of national debts, divided into Internal and External debts. External debts comprise purchase bills in form of letters of credits certified by the Federal Government, and this constitute the bulk of the debts owed to London and Paris Clubs.

It also includes money borrowed from the IMF, World Bank, ADB and other foreign friendly countries. Internal debts on the other hand comprise Treasury Bills, Treasury Certificate and loan stock raised and retired within the country.

Statement No. 2 = Statement of Assets and Liabilities
This is the balance sheet of the Federal Government. It shows the various funds account on the liability side while investments and cash held against such funds appear on the asset side with comparative figure for the previous year.

A typical hypothetical example of balance sheet under the cash basis is shown below:

<table>
<thead>
<tr>
<th>Public Funds</th>
<th>N’000</th>
<th>Assets Employed</th>
<th>N’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>CRF</td>
<td>xxx</td>
<td>Cash</td>
<td>xxx</td>
</tr>
<tr>
<td>Development Fund</td>
<td>xxx</td>
<td>Fixed Deposits</td>
<td>xxx</td>
</tr>
<tr>
<td>Contingencies Fund</td>
<td>xxx</td>
<td>Investments</td>
<td>xxx</td>
</tr>
<tr>
<td>Others</td>
<td>xxx</td>
<td>Advances</td>
<td>xxx</td>
</tr>
<tr>
<td>Deposits</td>
<td>xxx</td>
<td></td>
<td>xxx</td>
</tr>
<tr>
<td></td>
<td>xxx</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Statement No.3 = Statement of CRF**

This shows movement in the fund, from commencement of a financial year to date, reflecting receipt and payments. As well as the actual balance of the fund, which represents the part of the internal reserve of the nation with comparative figures for the previous year.

**Statement No. 3.1 = Statement of Revenue Returns**

This shows the actual cumulative figures of revenue collected to date, with comparative figures for the previous year.

**Statement No.3.2 = Statement of Recurrent Expenditure**

This shows the actual cumulative figures of recurrent expenditure incurred to date, with comparative figures for the previous year.

**Statement No.4 = Statement of Development Fund**

This shows movement in the funds from the commencement of a financial year to date reflecting receipt and payment as well as the actual balance of the fund, which also represent part of the internal reserve of the Nation. Although the main statutory financial statements are eleven with eight supporting sub-statements, the most important ones among them are the six items on which comprehensive notes have been given above.

**7.04   Accounting for Government Parastatals, Corporations and Institutions**

Many organizations exist primarily to engage in philanthropic or welfare activities for the benefit of their members or general public. They are set up **not** to make profit. They can be classified as follows:
• Government: e.g. Ministry, extra-ministerial department
• Education: Government established nursery, primary, secondary, and tertiary institution etc.
• Health and Welfare: Government established hospital, clinics and Charitable Organisations: e.g. Clubs and Societies. Religious Organizations: e.g. Christian and Muslim Organizations.
• Foundations: e.g. fund established for charitable, education or research purposes.

The final accounts prepared by the above organizations are:
- Receipts and Payments Account
- Income and Expenditure Account, and
- Statement of Asset and Liabilities or Balance Sheet.

Receipts and payments account is more or less a summary of the cash book. This is because entries in the cash book be it capital or recurrent are incorporated into the receipts and payment account. On the other hand, income and expenditure account is prepared in place of trading profit and loss account found in private commercial organization. The income and expenditure account takes record of all the revenue and expenditure items of the organization for a given period irrespective of whether cash has been received or paid in respect of them.

The term Parastatals means government organizations which are separate and distinct from ministries and departments. Organizations like Water Boards, PHCN, Public Hospitals, Tertiary Institutions etc. fall into this category. For the purpose of accountability, the same set of final accounts prepared by the non-profit making organizations is prepared by parastatals i.e. Receipt & Payment Accounts, Income & Expenditure Account and the Balance Sheet.

**Illustration:**
The Federal University of Agriculture, Makundo, launched an appeal fund for the construction of a standard stadium for the hosting of NUGA games on 15th January, 2006 and the following transactions took place:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donations from Federal Government</td>
<td>10,000,000</td>
</tr>
<tr>
<td>Donation from States and Local Government</td>
<td>4,000,000</td>
</tr>
<tr>
<td>Donations from Individuals and Companies</td>
<td>4,000,000</td>
</tr>
<tr>
<td>Launching Expenses</td>
<td>200,000</td>
</tr>
<tr>
<td>Advertisement Expenses</td>
<td>80,000</td>
</tr>
</tbody>
</table>

From 16th January, 2006 to 31st December, 2006 before the event took place, the following transactions were recorded:
Construction of Sports Building 4,000,000
Construction of Arena and Spectators’ Stand 3,500,000
Purchase of Sports Equipment 5,000,000
Purchase of Sports Bus 2,000,000

It was agreed that the sport equipment and sport bus be depreciated at the rate of 20%.

You are required to prepare the following for submission to the Vice-Chancellor and the Audit Department of the University:

a. Receipt and Payment Account,
b. Income and Expenditure Account

**Solution:**

a.

Federal University of Makundo
Receipt and Payment Account for 31st December, 2006

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Receipts</strong></td>
<td></td>
</tr>
<tr>
<td>Donation from Federal Govt.</td>
<td>10,000,000</td>
</tr>
<tr>
<td>Donation from States and Local Govt.</td>
<td>4,000,000</td>
</tr>
<tr>
<td>Donation from Individuals and Companies</td>
<td><strong>4,000,000</strong></td>
</tr>
<tr>
<td><strong>Total Receipts</strong></td>
<td><strong>18,000,000</strong></td>
</tr>
<tr>
<td><strong>Payments</strong></td>
<td></td>
</tr>
<tr>
<td>Launching Expenses</td>
<td>200,000</td>
</tr>
<tr>
<td>Advertisement Expenses</td>
<td>80,000</td>
</tr>
<tr>
<td>Construction of Sports Building</td>
<td>4,000,000</td>
</tr>
<tr>
<td>Construction of Arena and Stand</td>
<td>3,500,000</td>
</tr>
<tr>
<td>Purchase of Sports Equipment</td>
<td>5,000,000</td>
</tr>
<tr>
<td>Purchase of Sports Bus</td>
<td><strong>2,000,000</strong></td>
</tr>
<tr>
<td><strong>Total Payments</strong></td>
<td><strong>14,780,000</strong></td>
</tr>
<tr>
<td>Bal. c/d (to Balance Sheet as Cash)</td>
<td><strong>3,220,000</strong></td>
</tr>
</tbody>
</table>

b.

Federal University of Makundo
Income and Expenditure Account for year ended 31st December, 2006

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td></td>
</tr>
<tr>
<td>Donation from Federal Govt.</td>
<td>10,000,000</td>
</tr>
<tr>
<td>Donation from States and Local Govt.</td>
<td>4,000,000</td>
</tr>
<tr>
<td>Donation from Individuals and Companies</td>
<td><strong>4,000,000</strong></td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td><strong>18,000,000</strong></td>
</tr>
</tbody>
</table>
### Expenditure

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Launching Expenses</td>
<td>200,000</td>
</tr>
<tr>
<td>Advertisement Expenses</td>
<td>80,000</td>
</tr>
<tr>
<td>Depreciation</td>
<td>1,400,000</td>
</tr>
<tr>
<td>Net Surplus (carried to Balance Sheet)</td>
<td>16,320,000</td>
</tr>
</tbody>
</table>

### Federal University of Makundo

#### Statement of Assets as at 31st December, 2006

<table>
<thead>
<tr>
<th>Assets Employed</th>
<th>#</th>
<th>#</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings</td>
<td>4,000,000</td>
<td></td>
</tr>
<tr>
<td>Arena and Stand</td>
<td>3,500,000</td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>5,000,000</td>
<td>4,000,000</td>
</tr>
<tr>
<td>Less Depreciation</td>
<td>1,000,000</td>
<td></td>
</tr>
<tr>
<td>Bus</td>
<td>2,000,000</td>
<td></td>
</tr>
<tr>
<td>Less Depreciation</td>
<td>400,000</td>
<td>1,600,000</td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>3,220,000</td>
<td>16,320,000</td>
</tr>
</tbody>
</table>

Financed by:

| Surplus          | 16,320,000 |
8.01 Learning Outcomes
On successful completion of this Module, Students should be able to:

i. Discuss the meaning and concept of Fund and Fund Accounting in government accounting;

ii. Disintegrate the various classifications and types of Funds and their implications for accounting purposes;

iii. Identify the various uses and applications of Funds;

iv. Examine the various sources of government revenue and the revenue application formula in force.

8.02 The Concept of Fund
Fund is described by Smullen and Nicholas (2005) as a separate pool of monetary and other resources used to support designated activities.

To Granof and Khumaliala (2011) fund is a fiscal and accounting entity with self-balancing of accounts from which financial statements can be prepared.

Oshisami and Dean (1984) as cited by Fasua (2014) described fund as a separate fiscal and accounting entity in which resources are held, governed by special regulations, segregated from other funds and established for special purposes on which resources of the fund may be expanded.

The analysis of these definitions to them shows that funds is having the following characteristics:

i. It has dual technical meaning i.e. fiscal and accounting entity

ii. It is governed by special regulations

iii. It is separated from other fund

iv. It is established for specific purpose

v. It is a pool of resources.

8.03 The Origin of Funds
The origin of fund in Nigeria can be traced to section 154 A of the Nigeria (constitution) order in council 1954 which established the Consolidated Revenue Fund of the federation.

Thus, the management of the Consolidated Revenue Fund was conducted in accordance with the provision of the constitution order as well as the provisions of Financial (Control and Management) Act 1958 No 33. Since that period to date, the number of the Nigeria government funds and the amount has grown tremendously.
<table>
<thead>
<tr>
<th>Public Funds</th>
<th>Treasury Clearance Funds</th>
<th>Public Trustee Funds</th>
<th>Local Government Funds</th>
<th>Miscellaneous Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Special Funds</strong></td>
<td></td>
<td><strong>Local Government Funds</strong></td>
<td></td>
<td>6. Sir Alfred Jones Bequest</td>
</tr>
<tr>
<td>1. Ademola Thomas Scholarship Fund</td>
<td></td>
<td>1. Local Government Fund</td>
<td></td>
<td>7. Stock Transfer Stamp Duty</td>
</tr>
<tr>
<td>2. African Staff Housing Scheme Fund</td>
<td></td>
<td>2. Renewals Fund</td>
<td></td>
<td>8. Veitch Memorial Fund</td>
</tr>
<tr>
<td>Fund</td>
<td></td>
<td>4. Special Rate Reserve Fund</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Cocoa Research Institute of Nigeria fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Federal Institute of Industrial Research Fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Fire Service Reward Fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Government Servants Provident Fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Motor Vehicles Advances Fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. National Provident Fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. National Provident-Reserve Fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. Nigerian Ex-servicemen’s Welfare Fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Police Reward Fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Children’s</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. Petroleum Technology Development Fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Award</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13. Post Office Savings Bank fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14. Prison Warders’ Rewards Fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15. Revolving Loans Fund for Industry</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16. Revolving Loans Fund-Tin Buffer Stock</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17. Treasury 8 ¾ % Loan Fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Source:</strong> Anyafo (2002)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
8.04 Reasons for Government Fund Accounting

The reason for fund accounting is the establishment and maintenance of two types of financial entities in the government:

i. **As a fiscal entity**: Since it is a pool of resources, it receives public money into it and disbursement is also made from it for purposes allowed under the statutes governing it. In essence, money meant for a fund cannot go elsewhere, any expenditure chargeable to a fund cannot be charged elsewhere and each fund is made separate from other entities.

ii. **As an accounting entity**: For each fund a separate sets of books and accounts are maintained, since separate financial operation and position to be reported on periodically are based on books and accounts kept for the fund.

8.05 Classifications of Funds

Fund can in principle be classified into three broad categories as follows:

i. **Government Fund**: These are funds used for accounting for resources derived from the general taxing and revenue powers of government e.g. Consolidate Revenue Funds; Special/Contingency Fund and Development Fund

ii. **Proprietary Fund**: This is referred to as Treasury Fund in Nigeria. They are funds which are used to account for resources used and (if applicable) accretions thereto from business like operation of the government i.e. fund used for parastatals.

iii. **Fiduciary Fund**: These are funds used to account for resources held and managed by the government in the capacity or custodians of trustees’ e.g. Trust Funds, Deposit Funds and Agency Funds.

**Types Of Fund**

1. **General Fund (Consolidated Revenue Fund)**. This is a fund established under section 80 and 120 of the Federal Republic Constitution 1999 to account for resources devoted to financing the general administration or services of the government.

In this account, all relevant receipts are credited and all recurrent expenditure debited. The incoming revenue are classified and credited to various heads of revenue accounts in line with their corresponding budget classification.

The balances on the summary accounts are then transferred monthly to the surplus and deficit account. At the end of the year, the total balances in this account are then transferred to the Consolidated Fund to represent the excess of receipts over expenditure for the relevant years, plus the balance brought forward from the previous year. In fact, it becomes necessary at times
to transfer or allocate a percentage of the balance in the Consolidated Revenue Fund and crediting such to the Development fund.

The items of expenditure in the statement of Consolidated Revenue Fund are:

a. Personnel
b. Pension and Gratuity
c. Consolidated Revenue Fund Charges
d. Overhead Cost
e. Public Debit Charges
f. Grants and Subvention
g. Miscellaneous Expenses, and others

Features of the format of CRF
The new format contains the following features:
i. Actual of previous year
ii. Description of the key item
iii. Budget current year
iv. Actual current year
v. Variances in percentage
vi. Opening and closing balance
vii. Notes to the statement

2. Development Fund (Capital Project Fund)
The receipts and disbursement of all fund used for the acquisition of capital assets are accounted for by capital project fund. All the funds for financing capital projects are usually from the contributions of Consolidated Revenue Fund and sometimes Contingency Funds which are credited to the Capital Project Fund (Development funds).

Other services of revenue credited to the Development fund are internal and external loans, proceeds from VAT for development purpose, and miscellaneous.

Expenditure (debit entries) in the Development Fund are segregated into sectors which include:

a. Economic Sector
b. Social services sector
c. Regional development sector
d. Administrative sector

Types of expenditure in each sector are as follows:
A. Economic sector
   i. Agriculture (Live stocks; Forestry; Fisheries etc.)
   ii. Manufacture
   iii. Power
   iv. Commerce and finance

B. Social services sector
   i. Education
   ii. Health
   iii. Housing
   iv. Others

C. Regional services sector
   i. Niger Delta Development Commission
   ii. River Basin Authority

D. Development Fund Format
   Statement No..........................................

**Statement of Development Fund Account for year ended 20xx**

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance b/f</td>
<td></td>
<td>xx</td>
</tr>
<tr>
<td>Transfer from Consolidated Revenue Fund</td>
<td></td>
<td>xx</td>
</tr>
<tr>
<td>Add Capital Receipts:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>External loans</td>
<td></td>
<td>xx</td>
</tr>
<tr>
<td>Internal loans</td>
<td></td>
<td>xx</td>
</tr>
<tr>
<td>External grants</td>
<td>xx</td>
<td>xx</td>
</tr>
<tr>
<td>Total Capital Receipts</td>
<td></td>
<td>xxx</td>
</tr>
<tr>
<td>Less Capital Expenditures:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans on-lent</td>
<td></td>
<td>xx</td>
</tr>
<tr>
<td>Ministry of Agric</td>
<td></td>
<td>xx</td>
</tr>
<tr>
<td>Ministry of Information</td>
<td></td>
<td>xx</td>
</tr>
<tr>
<td>Army Min.</td>
<td></td>
<td>xx</td>
</tr>
<tr>
<td>Parastatals</td>
<td>xx</td>
<td>xxx</td>
</tr>
<tr>
<td>Balances as at 31/12/20xx</td>
<td></td>
<td>xxx</td>
</tr>
</tbody>
</table>
3. **Contingency Fund**

The fund was first established by the constitutional Amendment order 1958, section (1) with an initial fund of 1 Million pound to be transferred from the Consolidated Revenue Fund for its creation although this amount has since been increased.

The operation of the fund is prescribed by schedules 3 of the Finance (Control and Management) Act 1958; sections 83 and 123 of the Federal Republic constitution of 1999 and FR 407 (2000). The fund is operated on the imprest system.

After a transfer of money from the fund, an equivalent sum is later transferred from the Consolidated Revenue Fund to replenish the contingency fund to the previous balance, usually standing at a fix level. Any imprest occurring on the balance in that fund is finally transferred to the Consolidated Revenue Fund.

A warrant must be issued by the Minister of Finance or Commissioner to the Accountant-General of the Federation or State authorising him to transfer a sum to the Contingency Fund from the Consolidated Revenue Fund. No money is expected to accrue to the fund from any other source other than money appropriated by an Act/Law.

Any part of the contingencies fund which may be invested shall form part of Investment General referred to in section 10 of the Finance (Control and management) Act, 1958 No 33.

On no account should charges be made from contingency fund except where virement is not possible and where on application provision reveals such a high degree of urgency that the issue of funds cannot be delayed without causing serious injury to public interests. It cannot be postponed until supplementary appropriation act can be passed. However, authority will be conveyed for issuance fund warrant to the AGF.

**Rules Governing Contingency Fund**

The following rules govern the contingency fund as stated by Fasua (2014):

i. There must have been problem of natural disaster

ii. The Contingency Fund warrant must be released to transfer amount required from the Contingency Fund into Consolidated Revenue Fund. This is because money cannot be expended directly from the Contingency Fund except through Consolidated Revenue Fund.

iii. All withdrawal from the Contingency Fund must be reported to the National Assembly for subsequent re-imbursement

iv. No money shall accrue directly to the Contingency Fund.
8.06 Sources of Government Revenue

In order to sustain itself and perform its duties to the nation, the government must earn some money through some fiscal measures. The money required by the government to perform its duties must be obtained from a source and utilized on Recurrent and Capital Expenditure.

There are two main sources of Nigerian government revenue namely: **Oil Revenue** and **Non-Oil Revenue**.

The revenue derived from various sources is classified into various Heads and Sub-heads. The Federal Government has the following revenue classification:

i. Federation Accounts Revenue Head

ii. Federal Government Account Revenue Head

These were modified in 1994 fiscal year as follows:

i. Federation Accounts Revenue head.

ii. Value added Tax (VAT)

iii. Federal Government Account Revenue

**a. Federation Accounts**

Federation Account was established by the Constitution of the Federal Republic of Nigeria, 1999, the Finance (Control & Management) Act of 1958, and the Audit Ordinance of 1956. It was also strengthened by the Civil Service and Local Government Reforms Decree 43 of 1988.
**Federation Accounts** is a special account into which shall be paid all revenue collected by the government of the Federation, except the proceeds from the PAYE of Armed Forces Personnel, Police Personnel, Foreign Service Officers and Residents of the Federal Capital Territory, Abuja and other Federally Independent Revenue.

Federation Account is a distributable pool account being rationed among the Federal, State and Local Government on such terms and in manners prescribed by the law. Currently it is distributed using the Revenue Allocation Formulae below:

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Federal</td>
<td>-</td>
<td>52.68%</td>
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<td>Local Govt.</td>
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<tr>
<td>Derivation</td>
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<td>13%</td>
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</tbody>
</table>

13% Derivation is not part of the percentage for sharing amongst the three tiers of government. The derivation is the percentage amount for the oil producing states before the sharing of the balance.

**Federation Accounts Revenue Heads**

**Head 1 - Direct Taxes**
These are taxes on individuals and companies e.g. companies’ income tax, petroleum profit tax, capital gain tax, capital transfer tax, etc.

**Head 2 - Indirect Taxes**
These are taxes raised from goods and commodities in the form of customs and excise duties e.g. Import duties, export duties, excise duties, tariffs, forfeiture, penalties, VAT etc.

**Head 3 - Mining**
These are oil pipeline licence fees, rent of mining rights, mining fees and royalties on minerals, NNPC earnings from direct sales of crude oil for domestic consumption, sales of crude oil for export, penalties for gas flaring, rent of oil well, rent of oil ground, royalty for extraction of oil etc.

The revenue is shared by the Federation Account Allocation Committee on monthly basis along with the Federation Account Revenues.
i. **Federation Account Allocation Committee**

This Committee was set up to ensure that the provisions of the Act are strictly adhered to and the committee is mandated to carry out the following functions:

a. To ensure that allocation made to the States from the Federation Account are promptly and fully paid into the Treasury of each State on such basis and term prescribed by Act or Decree.

b. To submit annual report of its performance/activities to the National Assembly.

**Composition:**

i. The Federal Minister of Finance (Chairman)

ii. Accountant-General of the Federation

iii. All State Commissioners for Finance

iv. All State Accountants-General

v. A representative of Custom & Excise Department

vi. A representative of NNPC

vii. Representative of Federal Inland Revenue Service

viii. Representative of National Planning Commission

ix. Representative of Central Bank of Nigeria.

b. **State Joint Local Government Account Allocation Committee**

This Committee was set up to ensure that the statutory allocations to Local Governments from the Federation Account and from the States’ own revenues are duly paid to the various Local Government Areas.

**Composition:**

i. The Permanent Secretary for Local Government Affairs

ii. All the Chairmen of Local Government in the State

iii. A Representative of the Accountant-General of the State

iv. The Federal Pay Officer in the State
MODULE 9

9.00 CONTEMPORARY ISSUES IN PUBLIC SECTOR ACCOUNTING AND PUBLIC FINANCIAL MANAGEMENT

14.01 Learning Outcomes
On successful completion of this module, students should be able to:
   i. Discuss the meaning of professional pronouncements;
   ii. Assess the roles of the various anti-graft agencies in Nigeria in relation to public accountability and protection of public interest;
   iii. Clarify the concept of professional ethics and its application in the public sector;

9.02 Professional Pronouncements
This consists of pronouncements that serve as standards and guidelines for public sector accounting practice. International bodies issue these pronouncements for implementation by national governments and organizations that are members of the bodies. Until recently government accounting does not enjoy due attention in developing countries like Nigeria. The interest now being expressed could be attributed to a number of reasons such as the following:
   i. Government’s control and ownership over a large resource base makes public sector activities to continue to influence developments in private sector accounting processes.
   ii. Being the biggest sector, governmental activities usually have a multiplier effect on other sectors of the economy including commercial accounting.
   iii. Government is responsible for creating a conducive atmosphere where commercial activities prosper through enacting enabling legislation and the maintenance of law and order.
   iv. As the weakest link determines the strength of a chain, so also the slow pace of progress in the public sector hinders the advancement of private sector accounting; hence the need for correction and reform.
   v. They are requirements of good governance and fiscal responsibility by international finance institutions, donors and multilateral agencies. This demands that government accounting provides financial reports in line with the informational needs of users beyond the traditional requirement of national governments.

Another reason why public sector accounting is getting attention is linked to the work of international and national professional bodies through standard setting. To improve the quality of government accounting information and enhance reporting standards, certain
statements are issued periodically by those bodies and associations. Such statements or pronouncements are regarded as standards for government accounting. The motivation behind the pronouncements comes, in part, from the observations of deficiencies and inadequacies made against governmental activities by certain international bodies and associations. The United Nations, for example has made the following observations:

i. Relatively little attention is paid to social government accounting and budgetary control system.
ii. Greater emphasis on routine bookkeeping procedures for legal/administrative compliance.
iii. Delay in rendering financial reports.
iv. Inaccurate accounting

Objectives of Pronouncements

1. To develop and harmonize financial reporting, accounting and auditing practices in government.
2. To provide the same accounting standards for comparability.
3. To serve as guidelines to practitioners for high performance standards.
4. To provide professionals with basic principles for achieving common objectives.
5. To enhance transparency and strengthen financial reporting by governments.

Source of Pronouncements

The pronouncements emanate from a number of national and international bodies. Seven prominent national accounting bodies are involved in the standard setting work. These bodies, in Australia, New Zealand, Canada, France, Germany, Japan, United Kingdom and United States, have been working together, with the support of international associations like IASB and IFAC, to ensure a convergence of accounting standards globally.

It is anticipated that the influence of IFAC, national accounting bodies, multilateral lending agencies and user communities will assist in the adoption of the standards by governments. Among the institutions involved in setting the standards are:

i. Association of Commonwealth Auditors General
ii. International Organization of Supreme Audit Institutions (INTOSAI)
iii. African Organization of Supreme Audit Institutions (AFROSAI)
iv. International Accounting Standards Board (IASB)
v. Financial Accounting Standards Board (FASB)
vi. National Council on Governmental Accounting (NCGA)
vii. Governmental Accounting Standards Board (GASB)
viii. Chartered Institute of Public Finance and Accountancy (CIPFA)
ix. International Federation of Accountants (IFAC).
IFAC is an international association, made of members comprising national professional accountancy bodies. Its members work in different sectors: private, public and specialized institutions. Through its Public Sector Committee (PSC), IFAC addresses the needs of those involved in public sector financial reporting, accounting and auditing. Formed in 1986, the PSC issues International Public Sector Accounting Standards (IPSAS) which serve as “benchmark guidance (for) financial reporting and accounting in the public sector”. Guidelines, studies and occasional papers reinforce the standards.

9.03 Ethical Issues in Public Sector Accounting and Finance

The etymology of the word, ‘ethics’, comes from the Greek ethos, which means ‘character’, so that an ethical person is one who has character. However, what constitutes ‘character’ is likely to be interpreted broadly. That the meaning of ethics has been subject to considerable debate and contestation is not at all surprising.

Drawing upon the work of early Greek philosophers, Plato and Aristotle, Freakley and Burgh (2000) state that ethics can be understood as ‘what we ought to do’. Thus it requires judgment and reasoning in decision making that raise questions regarding what is right, wrong, good or bad conduct, fair or just. Yet another way of viewing ethics is to see it as a ‘set of rules, principles or ways of thinking that guide, or claim authority to guide, the actions of a particular group’ (Singer 1994, p. 4). ‘Guide’ is the operative word here as there is no universal recipe for resolving ethical dilemmas.

The Concept of Ethical Dilemmas

Ethical dilemmas are likely to confront public sector managers as they endeavor to choose options amongst competing sets of principles, values and beliefs. Badaracco (1992) refers to these competing sets of principles as ‘spheres of responsibility’ that have the potential to ‘pull [managers] in different directions’ (p. 66) and thus create ethical dilemmas for them. An ethical dilemma then can be described as a decision that requires a choice among competing sets of principles, often in complex and value laden contexts.

Ethical Dilemmas Faced by Public Servants

i. Administrative discretion

Public officials are not merely executors of public policy. They make decisions pertaining to the lives of people, for example, about taxes, survival and the dismissal of people. In doing so, they exercise discretion. The question is then how decisions are to be made to avoid ethical dilemmas. In other words, the promotion of general welfare depends to a large extent on the use or abuse of administrative discretion. It is true that within the rules and regulations laid
down by legislation and within the prescribed procedures, there is ample opportunity for the public official to use his discretion. When faced with alternatives the choice of the public official poses an ethical problem: the choice may be acceptable to only a small section of society. The problem is that the selection of one path of action from among several alternatives is often made on the basis of personal preference, political or other affiliations, or even personal aggrandizement, thereby disregarding known facts and thus the possibility of rational decision making. It could well be that all the prescribed rules, regulations and procedures are adhered to but that the discretionary choice may be viewed as unethical or even corrupt.

ii. **Corruption**

The majority of officials uphold the high standards required by public office and are devoted to promoting the general welfare. The ethical standards of public officials are, however, directly related to society as a whole. If the public accepts that in order to secure an expeditious response from a public official some pecuniary or other incentive is necessary, and the official accepts the incentive, then the standards of ethical conduct of officials and the public are in fact in harmony from the point of view of the public. The corruption of public officials by private interests is usually very subtle, for example, favors by the public to the official under obligation and he gradually substitutes his public loyalties to those doing him favors. The ethical dilemma that faces the public servant with regard to corrupt practices as result of private interests primarily concerns his reaction to the situation. If a corrupt practice or an attempt to corruption is discovered, it is quite possible that the official’s personal loyalties or party political affiliations may be in conflict with his official duties. Should he sacrifice the public interest or try to end the corrupt practice by direct personal confrontation, or should he blow the whistle on the practitioner of corrupt practice?

iii. **Nepotism**

The practice of nepotism (the appointment of relations and/ or friends to public positions, thereby ignoring the merit principle), may lead to the downgrading of the quality of the public service. This disrupts the esprit de corps and trust and resulting in corrupt administration, owing to the ability of a select few to impair control measures on account of their personal relationship with the policy-maker, and by reason of their not being easily dismissed or replaced by others. In other words, those who are appointed with the view that they will conform to the standards and views of their appointing authority could prove to be problematic. The preferential treatment of one individual over another, without taking into account the relative merit of the respective individuals, represents nothing but victimization of an individual or individuals.

iv. **Administrative secrecy**
An area which lends itself to the creation of situations and actions which could prove to become major ethical dilemmas is the secret conduct of public business. This is especially so because secrecy can provide an opportunity to cover up unethical conduct. Secrecy is an ally of corruption and corruption is always practiced in secrecy. It is generally accepted that in a democracy the people have a right to know what the government intends to do and it would be in the interest of the public for the administration of public affairs to be conducted openly.

v. Information leaks

Official information is often of such a sensitive nature (for example, pending tax increases, rezoning land, retrenchment of staff) that disclosure of the information can lead to chaos, corrupt practices or, for some individuals, improper monetary gains. Leaking official information at a date prior to the public announcement thereof is a violation of procedural prescriptions and can be an ethical dilemma.

vi. Public accountability

Since public officials are the implementers of public policies, they ought to be accountable for their official actions to their superiors, the courts and the public. It is nevertheless, possible for them to hide behind prescribed procedures, the cloak of professionalism and even political office-bearers.

vii. Policy dilemmas

Policy makers are often confronted by conflicting responsibilities. They have specific loyalties to their superiors, but also to society. They have freedom to act on behalf and in the interest of others, but they must also answer to others - their superiors and society – for their actions. The official’s obligation to respect the political process may conflict with his view on how the objects of policy making are treated. In other words, the dilemma of the public official is the clash between his view of the public interest and the requirements of law.

9.04 The Electronic (E-Payment) System in Nigeria

E-payment is a subset of e-governance which is the application of electronic means in the interaction between Government and Citizens and Government and Businesses. It is a form of direct payments and banking without physical appearance at the MDAs or Bank through the means of electronic, interactive communication channels and other Technological infrastructures.

E-payment can be described as the method of effecting payments from one end to another end through the medium of the computer without manual intervention beyond inputting the payment data. Two options are identified:
**End-to-end processing:** Here, all the processes from approvals to the receipt of value by the beneficiary are done electronically.

**Manual e-payment or use of mandate:** It is the mixture of manual and electronic process where the available infrastructures cannot support the end-to-end processing.

**9.05 The Government Integrated Financial Management Information System (GIFMIS)**

GIFMIS is a sub component of the ERGP which will support the public resource management and targeted anti-corruption initiatives area through modernizing fiscal processes using better methods, techniques and information technology. GIFMIS is aimed at improving the acquisition, allocation, utilization and conservation of public financial resources using automated and integrated, effective, efficient and economic information systems. It will aid strategic management of public financial resources for enhanced accountability, transparency, cost effective public delivery, and economic growth and poverty reduction efforts.

The Government Integrated Financial Management Information System (GIFMIS) is an IT based system for budget management and accounting that is being implemented by the Federal Government of Nigeria to improve Public Expenditure Management processes, enhance greater accountability and transparency across Ministries and Agencies. GIFMIS is designed to make use of modern information and communication technologies to help the Government of Nigeria to plan and use its financial resources more efficiently and effectively.

**Objectives of the GIFMIS**

The overall objective is to implement a computerized financial management information system for the FGN, which is efficient, effective, and user friendly and which:

i. Increases the ability of FGN to undertake central control and monitoring of expenditure and receipts in the MDAs.

ii. Increases the ability to access information on financial and operational performance.

iii. Increases internal controls to prevent and detect potential and actual fraud.

iv. Increases the ability to access information on Government’s cash position and economic performance.

v. Improves medium term planning through a Medium Term Expenditure Framework (MTEF)

vi. Provides the ability to understand the costs of groups of activities and tasks.
vii. Increases the ability to demonstrate accountability and transparency to the public and cooperating partners

Scope of GIFMIS

GIFMIS will cover the entire financial management cycle including:

i. Budget preparation and execution

ii. Treasury management and reporting

iii. General ledger and financial reporting

iv. Procurement, including Commitments, purchase orders, Maintenance of a central supplier register and Support for e-procurement

v. Receipting, Accounts Receivable and Revenue Management

vi. Payments and Accounts Payable

vii. Inventory and Stock Control

viii. Fixed Asset Management

ix. Project accounting

9.06 The Integrated Personnel Payroll Information System

IPPIS is one of the Transformation agenda of the Federal Government of Nigeria with the aim of creating a centralized database system for Nigerian Public Service with single, accurate source of Employee information that provides integration with other business applications.

The manual, file based personnel system operated by the federal public service meant that government did not have accurate and reliable information about the size and nature of its workforce. The incidence of ghost workers was prevalent, with fraudulent public servants claiming and collecting the salaries of non-existent workers. Other fraudulent activities included some public servants collecting salaries from multiple establishments, some officers conniving with others to get paid higher salaries than were due to them, and records of loans obtained from government routinely disappearing from files. Personnel records contained in files, such as birth certificates, declarations of age and even certificates of indigeneship, were often substituted to obtain undue advantage. The federal government and the World Bank estimated that the government was losing about ₦1 billion to ghost workers alone annually.

The then Nigerian minister of finance in February, 2011 revealed that the pilot implementation of the integrated personnel and payroll information system (IPPIS) in sixteen Ministries,
Departments and Agencies (MDAs) saved the nation over N12 billion between 2007 and 2010. This pilot implementation was necessitated considering the fact that government wage bill had constituted a huge chunk of recurrent expenditure at 58 percent of the annual budget.

**IPPIS Objectives**

1. Provide a **centralized database** to aid Governments manpower planning and decision making
2. Facilitate automation & storage of **personnel records** to support monitoring of staff emolument payments against budget.
3. Prevent wastage and leakages by ensuring staff remuneration are based on **factually correct information**.

Ensure prompt **payment of salaries** directly to Employees Account with appropriate deductions and remittances of 3rd party payments (e.g. Tax, Pension, Cooperatives, Union Dues and Bank Loans)

**9.07 The Treasury Single Account (TSA)**

The TSA is a process and tool for effective management of government’s finances, banking and cash position. In accordance with the name, it pools and unifies all government accounts through a single treasury account.

In a nutshell, a Treasury Single Account is a public accounting system under which all government revenue, receipts and income are collected into one single account, usually maintained by the country’s Central Bank and all payments done through this account as well.

The role of TSA consists of concentrating all Government funds on one account for its proper management. In other words, it is an instrument put in place in order to control Government finance resources and expenditures. It ensures complete, real time information on government cash resources and improves operational and appropriations control.

For TSA to work effectively there must be daily clearing of and consolidation of cash balances into the central account even where the MDA's accounts are already held at the CBN such as the FIRS. Some may argue that it is necessary to separate the cash transactions of each MDA for control and reporting purposes; however this objective can be achieved through proper accounting rather than by holding cash in separate bank accounts. In any case, the various bank accounts held by MDAs in commercial banks do not necessarily have to be closed, but they must be operated as Zero-Balance Accounts where any closing balance must be swept to TSA at the Central Bank of Nigeria (CBN) on a daily basis to give government a consolidated cash position.

TSA can therefore cover all funds including earmark and extra-budgetary accounts or even funds held in trust by government. To make this work, accounting systems must be robust and capable of accurately distinguishing trust assets in the TSA. This is not different from what a
private company operating in many states or even internationally will do to consolidate its funds rather than fragment them by divisions or sub-entities. Hence, a company will only borrow externally if and only if its overall cash position is negative rather than when a division has a deficit even though others may have surpluses. I should quickly point out that TSA is not a new concept; it has been adopted for decades in many countries both in the developed world such as the United States, UK, France and developing economies like India and Indonesia.

9.08 THE EFCC and ICPC

THE EFCC is the body that is established with the responsibility of investigating and the enforcement of all laws against economic and financial crimes in all its ramifications. Some of the functions of the Commission include:

i. Enforcement and due administration of the provisions of the Act.

ii. Investigation of reported cases of financial crimes such as Advance Fee Fraud {419}, money laundering, counterfeiting, illegal charge transfer, contract scam, forgery of financial instrument, issuance of dud cheques etc.

iii. Adoption of measures to identify, trace, freeze confiscate or seize proceeds derived from terrorist activities.

iv. Adoption of measures to identify, trace, freeze and seize proceeds derived from financial crime related offences.

THE ICPC was established by the Corrupt Practices and Other Related Offences Act, 2000. This Commission is a body corporate endowed with perpetual succession. It has a common seal and is juristic i.e. may sue and be sued in its corporate name. Some of the duties of the Commission include:

i. To receive and investigate any report of the conspiracy by any person or group of person who have committed or attempt to commit an offence under the Act.

ii. To prosecute those who are found to have committed any offence under the Act after the investigation.

iii. To examine the systems, practice and procedures of public bodies such as Ministries, state, local government or any parastatals.

iv. To give supervisory advice to public bodies whose practice systems and procedures are likely to be susceptible to fraud or corruption.
10.00 INTERNATIONAL PUBLIC SECTOR ACCOUNTING (IPSAS)

10.01 Learning Outcomes
On successful completion of this Module, Students should be able to:

i. Understand the meaning and significance of accounting standards in financial reporting;

ii. Explain the concept of International Public Sector Accounting Standards and their application in the financial reporting process;

iii. Examine the composition and functions of the IPSAS Board;

iv. Effectively discuss the various relevant IPSAS in force;

v. Analyze the basic components of general purpose financial statements in the public sector;

vi. Design and prepare IPSAS-compliant financial statements.

10.02 General Overview:
The absence of a common set of accounting and financial reporting standards makes it difficult to compare financial information prepared by entities located in different parts of the world. As a result of increasing volume of cross border capital flows and the growing number of foreign direct investments in the globalization era, the need for the harmonization of different practices in accounting and the acceptance of worldwide standards has arisen.

Globalization of financial transactions requires a unified global accounting, reporting and disclosure of uniform standards. This has led to the adoption of the International Public Sector Accounting Standards (IPSAS) in countries across the globe with Nigeria adopting IPSAS, effective from 2013. The recent adoption of International Financial Reporting Standards (IFRS) is expected to address Government Business Enterprises (GBEs). There has not been any better time than now for us to contribute to the need and practicality of adopting the IPSAS as a financial reporting framework in the public sector reporting entities. This is to the effect that Public Sector Entities (PSEs) would prepare financial Statements in accordance with the IPSAS.

The transition from what it used to be in various countries to the adoption of accounting standards that requires qualitative, transparent and comparable information is a step in the right direction and a welcome development by investors, creditors, financial analysts, and users of financial statements.
Thus, with the ongoing waves in digital and information revolution, it is not a fallacy to assert that “Becoming IPSAS and technology compliant is a sure way for Accountants to secure their careers in the information age.

10.03 Meaning of IPSAS

IPSAS are high quality global accounting standard developed by International Public Sector Accounting Standard Board (IPSASB), a body of International Federation of Accountants (IFAC)-a mother umbrella body for all professional accounting associations in the world for- all categories of government both at National, regional and Local government to aid in the preparation of their financial statements. So far, IPSASB has issued 32 IPSASs for global adoption. IPSASs are standards of high quality which serve as catalyst for providing sound and transparent financial statements, thereby improving operational performance, accountability and fair allocation of resource. Many experts opine that with IPSAS in place in public sector, financial irregularities can hardly be swept under the carpet no matter how minute they may be in size because IPSAS has more inherent or inbuilt system of internal control operatives on a very sound footing. In addition, the of adoption of IPSASs in Nigeria is expected to curb leakages, enhance financial management system, restore financial discipline, accountability, prudence, probity and transparency and enhance the overall performance of government at all levels. IPSAS, therefore, aims to improve the quality of general purpose financial reporting by public sector entities, leading to better informed assessments of the resource allocation decisions made by governments, thereby increasing transparency and accountability

IPSASs set out:

a. Recognition
b. Measurement
c. Presentation and disclosure requirements

IPSASs deals with transactions and events in general purpose financial statements. The standards are designed to apply to general purpose financial statement for all public entities. Several IPSASs on the accrual basis are based on IFRSs but adapted to the public sectors context where appropriate.

IPSASs follow a standardized structure as stipulated below:

i. Introduction
ii. Objective (of the Specific IPSAS)
iii. Scope
iv. Definitions
v. Accounting policies (main part of IPSASs)
vi. Transitional provisions
The IPSAB comprises 15 members, 13 of whom are nominated by the member bodies of IFAC, while the other 2 are public member who in turn are nominated by any individual or organization. The objectives of the IPSASB are:

i. To serve the public interest by developing high quality public sector financial reporting standards

ii. Facilitate the convergence of International and National standards

iii. Enhance the quality and uniformity of financial reporting throughout the world.

The IPSASB achieves its objectives by:

i. Issuing International Public Sector Accounting Standards (IPSASs);

ii. Promoting their acceptance and the International convergence to these standards; and

iii. Publishing other documents which provide guidance on issues and experiences in financial reporting in the public sector.

The IPSASB issues other non-authoritative publications including studies, research reports, and occasional papers that deal with particular public sector financial reporting issues. The IPSASB recognizes the right of governments and National standard setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The IPSASB encourages the adoption of IPSASs and the harmonization of National requirements with IPSASs.

### 10.05 IPSASs Published to Date

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### 10.06 Impact of IPSAS Adoption

Some of the impacts of IPSASs adoption are:

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<tr>
<td>IPSAS 22</td>
<td>Disclosure of Financial Information about the General Government Sector</td>
<td>-</td>
<td>01.01.2008</td>
</tr>
<tr>
<td>IPSAS 23</td>
<td>Revenue from Non-Exchange Transaction (Taxes and Transfers)</td>
<td>-</td>
<td>30.06.2008</td>
</tr>
<tr>
<td>IPSAS 24</td>
<td>Presentation of Budget information in the Financial Statement</td>
<td>-</td>
<td>01.01.2009</td>
</tr>
<tr>
<td>IPSAS 25</td>
<td>Employee Benefit</td>
<td>IAS 19</td>
<td>01.01.2011</td>
</tr>
<tr>
<td>IPSAS 26</td>
<td>Impairment of Cash-Generating Assets</td>
<td>IAS 36</td>
<td>01.04.2009</td>
</tr>
<tr>
<td>IPSAS 27</td>
<td>Agriculture</td>
<td>IAS 41</td>
<td>01.01.2011</td>
</tr>
<tr>
<td>IPSAS 28</td>
<td>Financial Instruments: Presentation</td>
<td>IAS 32/IFRIC 2</td>
<td>01.01.2013</td>
</tr>
<tr>
<td>IPSAS 29</td>
<td>Financial Instruments: Recognition and Measurement</td>
<td>IAS 39/IFRIC 9 &amp; 16</td>
<td>01.01.2013</td>
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<tr>
<td>IPSAS 30</td>
<td>Financial Instrument: Disclosures</td>
<td>IFRS 7</td>
<td>01.01.2013</td>
</tr>
<tr>
<td>IPSAS 31</td>
<td>Intangible Assets</td>
<td>IAS 38/SIC 32</td>
<td>01.04.2011</td>
</tr>
<tr>
<td>IPSAS 32</td>
<td>Service Concession Arrangements</td>
<td>-</td>
<td>01.01.2014</td>
</tr>
<tr>
<td>IPSAS 33</td>
<td>First Time Adoption of Accrual Basis IPSAS</td>
<td>-</td>
<td>01.01.2014</td>
</tr>
<tr>
<td>IPSAS 34</td>
<td>Separate Financial Statements</td>
<td>-</td>
<td>01.01.2014</td>
</tr>
<tr>
<td>IPSAS 35</td>
<td>Consolidated Financial Statements</td>
<td>-</td>
<td>01.01.2014</td>
</tr>
<tr>
<td>IPSAS 36</td>
<td>Investments in Associates and Joint Ventures</td>
<td>-</td>
<td>01.01.2014</td>
</tr>
<tr>
<td>IPSAS 37</td>
<td>Joint Arrangements</td>
<td>-</td>
<td>01.01.2014</td>
</tr>
<tr>
<td>IPSAS 38</td>
<td>Disclosure In interest in Other Entities</td>
<td>-</td>
<td>01.01.2014</td>
</tr>
<tr>
<td>IPSAS 39</td>
<td>Employee Benefits</td>
<td>-</td>
<td>01.01.2014</td>
</tr>
<tr>
<td>IPSAS 40</td>
<td>Public Sector Combinations</td>
<td>-</td>
<td>01.01.2014</td>
</tr>
</tbody>
</table>
i. Recognition and valuation of a government’s assets and liabilities
ii. Financial reporting dimension in public sector accounting is strengthened.
iii. Assures uniformity in public Sector Accounting
iv. Global/international development
v. Long – Term Impact
vi. Influence on behavior of politicians, public officials citizen, media, and taxpayers.

Roadmap
Roadmap to the adoption of IPSAS in Nigeria is phased as follows:
   a. Full adoption of Cash IPSAS 20013 to 2014
   b. Adoption of Accrual IPSAS effective from 2016

General Purpose Financial Statement (GPFS) & Reports
General Purpose Financial Statements are financial Statements issued for users that are unable to demand financial information to meet their specific information needs. Users of these statements are:
   a. Citizens, Voters and their representatives
   b. Other members of the public

Accrual Based GPFS
The main financial statements to be prepared by the reporting entities are:
   a. Statement of financial position
   b. Statement of financial performance
   c. Cash flow statement
   d. Statement of changes in net assets/equity
   e. A comparison of budget and actual amounts (when the entity makes publicly available its approved budget).
   f. Notes.

10.07 Detailed Overview of Some Relevant IPSAS
IPSAS 1: Presentation of Financial Statements
This standard is developed to prescribe the manner in which general purpose financial statement should be presented in order to ensure comparability both with the entity’s own financial statements of previous periods and with the financial statement of other entities. This standard should be applied in the presentation of all general purpose financial statements prepared and presented under the accrual basis of accounting in accordance with international Public Sector Accounting Standards
This standard applies to all public sector entities other than Government Business Enterprises. Some basic terms and their meaning:

**Accounting policies** are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statement.

**Borrowing costs** are interest and other expenses incurred by an entity in connection with the borrowing of funds.

**Cash** comprises cash on hand and demand deposits.

**Cash equivalents** are short-term, highly liquid investment that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**Cash flows** are inflows and outflows of cash and cash equivalents

**Composition of Financial Statements**

A complete set of financial statement includes the following:

a. Statement of financial position  
b. Statement of financial performance  
c. Statement of changes in net assets / equity  
d. cash flow statement and  
e. Accounting policies and notes to the financial statements

**Identification of Financial Statements**

Information to be presented on the face of the Statement of Financial Position includes:

a. Property, plant and equipment  
b. Intangible assets  
c. Financial assets  
d. Investment accounted for using the equity method  
e. Inventories  
f. Recoverable from non-exchange transactions  
g. Including taxes and transfers  
h. Receivables from exchange transactions  
i. Cash and cash equivalents  
j. Taxes and transfers payable  
k. Payables under exchange transactions
l. Provisions
m. Non-current liabilities
n. Minority interest and Net assets/equity

Information to be presented on the face of the Statement of Financial Performance includes:

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

Information to be presented on the Face of the Statement of Changes in Net Assets/Equity includes:

a. The net surplus or deficit for the period
b. Each Item or revenue and expense, which, as required by other standards, is recognized, directly in net assets/equity, and the total of these items
c. and the cumulative effect of changes in accounting policy and the correction of fundamental errors dealt with under the benchmark treatment in IPSAS 3.

In addition, an entity should present, either within this statement or in the notes:

a. Contributions by owners and distributions to owners, in their capacity as owners
b. The balance of accumulated surpluses or deficits at the beginning of the period and at the reporting date, and the movements for the period, and
c. To the extent that components of net assets/equity are separately disclosed reconciliation between the carrying amount of each component of net assets/equity at the beginning and the end of the period, separately disclosing each movement.

The accounting policies section of the notes to the financial statements should describe the following:

a. The measurement basis (or bases) used in preparing the financial statement:
b. The extent to which the entity has applied any transitional provisions in any international public sector accounting standard: and
c. Each specific accounting policy that is necessary for a proper understanding of the financial statements.

In addition to the specific accounting policies used in the financial statements, it is important for users to be aware of the measurement basis (bases) used (historical cost, current cost, realizable value, fair value of present value) because they form the basis on which the whole of the financial statements are prepared.

When more than one measurement basis is used in the financial statements, for example when certain items are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.

In deciding whether a specific accounting policy should be disclosed, management considers whether disclosure would assist users in understanding the way in which transactions and events are reflected in the reported performance and financial position. The accounting policies that an entity might consider presenting include, but are not restricted to the following:

a. Revenue recognition
b. Consolidation principles, including controlled entities
c. Investments
d. Recognition and depreciation / amortization of tangible and intangible assets
e. Capitalization of borrowing costs and other expenditure: Inventories held for sale and other qualifying assets
f. Construction contracts
g. Investment properties
h. Financial Instrument and investment
i. Leases
j. Research and development costs
k. Inventories: Held for resale and for consumption
l. Provisions
m. Employee Benefit costs
n. Foreign currency translation and hedging
o. Definition of segments and the basis for allocation of costs between segments
p. Inflation accounting
q. Government grants

An entity should disclose the following if not disclosed elsewhere in information published with the financial statements:
a. The domicile and legal form of the entity, and jurisdiction with which it operates:
b. A reference to the relevant legislation governing the entity’s operations; and
c. The name of the controlling entity and the ultimate controlling entity of the economic entity (where applicable).

**Formats:**

Entity XYZ – Statement of financial position as of 31 December 2010

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N’000</td>
<td>N’000</td>
<td>N’000</td>
<td>N’000</td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepayments</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Investments</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

**Liabilities:**

**Current liabilities**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2010</th>
<th>2009</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payables</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current portion of borrowings</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provisions</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee benefits</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Superannuation</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

**Net assets**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2010</th>
<th>2009</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>
### Net Assets/Equity

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital contributed by other</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Government entities</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Reserves</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Accumulated surpluses / (deficits)</td>
<td>X</td>
<td></td>
</tr>
</tbody>
</table>

### Entity XYZ – Statement of financial performance for the year Ended 31 December 2010

(Illustrating the classification of Expenses by function)

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenue</td>
<td>N’000</td>
<td>N’000</td>
</tr>
<tr>
<td>Taxes</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Fees, fines, penalties and licenses</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Revenue from other government entities</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Transfers from other government entities</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Other Operating revenue</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Total Operating revenue</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

### Operating expenses

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>General public services</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Defense</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Public order and safety</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Education</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Health</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Social protection</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Housing and community amenities</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Recreational, cultural and religion</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Economic Affairs</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Environmental protection</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

### Surplus / (deficit) from ordinary activities

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus / (deficit) from ordinary activities</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Minority interest share of surplus / (deficit)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Net surplus / (deficit) before extraordinary items</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Extraordinary items</td>
<td>(X)</td>
<td>(X)</td>
</tr>
</tbody>
</table>
### Entity XYZ Statement of Changes in Net Assets/Equity for the year Ended 31 December 2010

<table>
<thead>
<tr>
<th>Surpluses/ (Deficits)</th>
<th>N,000</th>
<th>N’000</th>
<th>N’000</th>
<th>N’000</th>
<th>N’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 31 December 2008</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Changes in accounting policy</td>
<td>(X)</td>
<td>X</td>
<td>X</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Restated balance</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Surplus on revaluation of Property</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deficit on revaluation of Investment</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currency translation differences</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

Net gains and losses not recognized in the statement of financial performance
- Net surplus for the period
- Balance at 31 December 2009 X
- Deficit on revaluation of Property
- Surplus on revaluation of investments
- Currency translation Differences

Net gains and losses not recognized in The statement of financial performance
- (X) (X)

Net surplus / (deficit) deficit for the period
- Balance at 31 December 2010 X X (X) X X

### Cash Flow Statements

**IPAS 2:**
The cash flow statement identifies the sources of cash inflows, the items on which cash was expended during the reporting period. And the cash balance as at the reporting date. This standard requires the provision of information about the historical changes in cash and cash
equivalents of an entity by means of cash flow statement which classifies cash flows during the period from operating, investing and financing activities.

An entity which prepares and presents financial statement under the accrual basis of accounting should prepare a cash flow statement in accordance with the requirement of this standard and should present it as an integral part of its financial statement for each period for which financial statement are presented.

This Standard applies to all public sector entities other than Government Business Enterprises.

Information about the cash flow of an entity is useful in assisting users to predict the future cash requirements of the entity, its ability to generate cash flows in the future and to fund changes in the scope and nature of its activities.

A cash flow statement, when used in conjunction with other financial statements, provides information that enables users to evaluate the changes in net assets/equity of an entity, its financial structure (including its liquidity and solvency) and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities. Historical cash flow information is often used as an indicator of the amount, timing and certainly of future cash flow. It is also useful in checking the accuracy of past assessments of future cash flows.

Meaning of Some Basic Terms:

- **Cash** comprises cash on hand and demand deposits
- **Cash equivalents** are short-term, highly liquid investment that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value
- **Cash flows** are inflows and outflows of cash and cash equivalents
- **Cost method** is a method of accounting whereby the investment is recorded at cost. The statement of financial performance reflects revenue from the investment only to the extent that the investor receives distributions from accumulated net surpluses of the investee arising subsequent to the date of acquisition.
- **Cash equivalents** are held for the purposes of meeting short-term commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value.

Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are:
Operating activities are the amount of net cash flows arising from operating activities which is a key indicator of the extent to which the operations of the entity are funded:

i. By way of taxes (directly and indirectly); or
ii. From the recipients of goods and services provided by the entity

Investing activities show the extent to which cash outflows have been made for resources which are intended to contribute to the entity’s future service delivery. Examples of cash flows arising from investing activities are: cash payments to acquire property, plant and equipment, intangibles and other long-term assets.

These payments include those relating to capitalized development costs and self-constructed property, plant and equipment, cash receipts from sales of property, plant and equipment, intangibles and other long-term assets.

Cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes). Cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes).

Financing activities show cash flows arising from future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are: Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowing. Cash repayments of amounts borrowed and Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

An entity should report cash flows from operating activities using either:

i. The direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed: or
ii. The indirect method, whereby net surplus or deficit is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of revenue or expense associated with investing or financing cash flows.

An entity should disclose, together with a commentary by management in the notes to the financial statements, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the economic entity.
Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a description in the notes to the financial statements, is encouraged and may include:

i. The amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restriction on the use of these facilities;

ii. The aggregate amounts of the cash flows from each of operating, investing and financing activities related to interests in joint ventures reported using proportionate consolidation and

iii. The amount and nature of restricted cash balances.

**Format**

**Direct Method – Cash Flow Statement**

**Entity XYZ – Consolidated Cash Flow Statement for Year Ended 31 December 2011**

<table>
<thead>
<tr>
<th></th>
<th>2011 '000</th>
<th>2010 '000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Flow from Operating Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Receipts</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxation</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Sales of goods and services</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Grants</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Interest received</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Other receipts</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Payments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee costs</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Superannuation</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Suppliers</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Other payments</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Net cash flows from operating activities</strong></td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

**Cash Flows from Investing Activities**

<table>
<thead>
<tr>
<th></th>
<th>2011 '000</th>
<th>2010 '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of plant and equipment</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Proceeds from sale of plant and equipment</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Proceeds from sale of investment</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>
Proceeds of foreign currency securities (X) (X)

**Net cash flows from investing activities**

(X) (X)

Cash flows from financing activities

Proceeds from borrowings X X

Repayment of borrowings (X) (X)

Distribution/dividend to government (X) (X)

Net cash flows from financing activities X X

Net increase/(decrease) in cash and cash equivalents X X

Cash and cash equivalents at beginning of period X X

Cash and cash equivalents at end of period X X

Notes to the Cash Flow Statement

### a. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and balance with bank and investments in money market instrument. Cash and cash equivalents included in the cash flow statement comprise the following statement of financial position amounts:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N’000</td>
<td>N’000</td>
</tr>
<tr>
<td>Cash on hand and balance with banks</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

### b. Reconciliation of Net Cash Flows from Operating Activities to Net Surplus/(Deficit) from Ordinary Activities (in thousands of Naira)

Reconciliation of net Cash Flows From Operating Activities to Net Surplus/(Deficit) form Ordinary Activities

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N’000</td>
<td>N’000</td>
</tr>
<tr>
<td><strong>Surplus/(deficit) from ordinary activities</strong></td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

**Non-cash movements**

Depreciation X X

Amortization X X

Increase in provision for doubtful debts X X

Increase in payables X X

Increase in borrowings X X
Increase in provisions relating to employee costs X X
(Gains)/Losses on sale of property, plant and equipment (X) (X)
(Gains)/Losses on sale of investments (X) (X)
Increase in other current assets (X) (X)
Increase in investment due to revaluation (X) (X)
Increase in receivables (X) (X)
Extraordinary item (X) (X)
Net cash flows from operating activities (X) (X)

Indirect method – Cash Flow Statement
ENTITY xyz Consolidated Cash Flow State for Year Ended 31 December 2001

<table>
<thead>
<tr>
<th>Surplus/(deficit) from ordinary activities</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N’000</td>
<td>N’000</td>
</tr>
<tr>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

Non-cash movements
Depreciation X X
Amortization X X
Increase in provision for doubtful debts X X
Increase in payables X X
Increase in borrowings X X
Increase in provisions relating to employee costs X X
(Gains)/Losses on sale of property, plant and equipment (X) (X)
(Gains)/Losses on sale of investments (X) (X)
Increase in other current assets (X) (X)
Increase in investment due to revaluation (X) (X)
Increase in receivables (X) (X)
Extraordinary item (X) (X)
Net cash flows from operating activities X X

Cash Flow from Investing Activities
Purchase of plant and equipment (X) (X)
Proceeds from sale of plant and equipment X X
Proceeds from sale of investments X X
Purchase of foreign currency securities (X) (X)
Net cash flows from investing activities (X) (X)

Cash Flows from Financing Activities
Proceeds from borrowings X X
Repayment of borrowings (X) (X)
Distribution/dividend to government (X) (X)

Notes to the Cash Flow Statement
Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and balance with banks and investments in money market instruments. Cash and cash equivalents include in the cash flow statement comprise the following statement of financial position amounts:

<table>
<thead>
<tr>
<th></th>
<th>2011 N,000</th>
<th>2010 N,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on hand and balances with banks</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

15.08 Adoption of IPSAS in Nigeria and Its Benefits

The preparation and presentation of financial statements at each level of government in Nigeria, namely Federal, State and Local Governments is necessary for the evaluation of the performance of government and achievement of its overall goal of improving the lives of the citizenry. In addition, relevant, reliable, comparable, objective, timely and comprehensive financial statements are necessary for maximally achieving the objectives of public financial accounting and reporting, which include:

i. supporting management planning and decisions,
ii. promoting efficiency,
iii. enhancing budget and budgetary control,
iv. determining the results of government operations,
v. reducing wastages and frauds,
vi. enhancing financial administration and treasury management,
vii. Aiding performance evaluation and ensuring regular flow of adequate, complete and reliable information.

However, achievement of these objectives has not been possible under the present cash basis accounting in the Nigeria.

Sequel to this, the Federal Executive Council (FEC) at its meeting of 28th July, 2010 approved that the Country should adopt the provisions of the International Financial Reporting Standards (IFRSs) and International Public Sector Accounting Standards (IPSASs) for Private and Public
Sectors respectively. Subsequently, decision was taken to transit from the cash based IPSASs which Nigeria adopted in 2014 to accrual based IPSAS come January 2016. The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world.

In order to enhance effective adoption and implementation of IPSAS in Nigeria, the Sub-Committee of FAAC has developed the following for all government establishments in Nigeria:

i. Uniform National Chart of Account and User manual for the chat
ii. Uniform accounting policies
iii. Uniform budget templates that align with IPSAS
iv. Format of general purpose financial statements for both cash accrual basis of IPSAS.

Benefits of IPSASs Adoption in Nigeria

a. Serve as foundation for the preparation of quality financial statements and adequate reporting system in Nigeria Public Sector.

b. Provide the basis for the establishment of a harmonized budgetary system for the three tiers of government.

c. Enhance the country’s eligibility to access economic benefits from donor agencies, private sector, Financial Institutions and Worldwide Financial Institutions such as the World Bank.

d. The preparation of the country’s financial statement using IPSAS which is an international standard would definitely encourage investors into the country.

e. Expose the in-house corrupt practices of some of the public officers thereby deterring them from such act.

f. Enhance better service delivery in the public sector, support efficient internal control and bring into focus the performances of the agencies.

g. Enhance creditability of government financial information and help build confidence of Nigerian citizens and Nigeria development partners both within and abroad.

h. Enhance access of information to the public thereby promoting the aims of freedom of information Act 2011 and facilitating the expression of individuals’ opinion on government activities.

i. Would enhance comparability of Nigeria Financial Statement with that of other countries of the world

Challenges to IPSASs Adoption and their Remedies

Some of the challenges to IPSASs adoption in Nigeria are as follows:

i. Lack of proper skills and capabilities of preparers of government financial statement to implement IPSASs
ii. Low level of public awareness by relevant government agencies and other stakeholders on IPSAS adoption

iii. Inadequate legal backing and effect of existing law on the smooth transition to IPSAS

iv. Dissimilarities in the structure of public sector accounting among the tiers of government

v. High level of reluctance and resistance in accepting change by the public servants

vi. Cost of training personnel, writing of new accounting manuals, installation of adequate Information and communication technology software for the programme

vii. Porous economy permeated by corruption

viii. Apparent complexities in IPSASs

The remedies to these challenges include

i. Training and retraining of accountants in the civil service to enhance their capacity

ii. Greater public awareness by Financial Reporting Council of Nigeria [FRCN] on IPSASs adoption and its benefits


iv. Ensuring uniformity in charts of accounts, accounting policies, budget and preparation of financial statement

v. Corruption needs to be Effective and strategically addressed

vi. Implementation should be in phases to enable government cope with the costs on adoption.


ix. There is the need for thorough GAAP analysis by the FRCN to enhance comprehension by public sector accounts

x. Accounting manual need to be written to be able to incorporate IPSAS terminologies and other
**Recommended Further Readings**


