PUBLIC SECTOR ACCOUNTING AND FINANCE (PSAF)

STUDY TEXT

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

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Foreword

Foreword

As the global economy continues its rapid evolution, the role of the accounting professionals, anchored in technical excellence, professional competence, and ethical integrity, has never been more critical. Today's business landscape, shaped by globalisation, technological disruption, and sustainability priorities, is not merely changing, it is redefining the finance function and raising the bar for the capabilities expected of the modern professional accountants.

To remain relevant in a rapidly evolving environment, the Institute's syllabus and training curriculum are designed to equip students with the knowledge and competencies required to thrive in the dynamic fields of accounting and finance. These are continuously reviewed and updated to reflect emerging trends and the evolving needs of users of accounting and related services.

The Institute of Chartered Accountants of Nigeria (ICAN) remains firmly committed to ensuring that its syllabus and training curriculum are current, responsive, and aligned with global best practices. To this end, the Institute undertakes a comprehensive review of these frameworks every three years, complemented by annual updates to reflect emerging trends and developments within both the national and global accountancy profession.

Following a rigorous and consultative process, the Syllabus Review, Professional Examinations, and Students' Affairs Committees developed a revised 3-level, 15-subject syllabus. This was duly approved by Council and implemented with effect from the November 2025 examination diet.

However, in the light of the introduction of the Tax Reform Acts, 2025 by the Federal Government, replacing the previous tax regime, as well as other emerging developments within the profession, it has become necessary to further review and update the syllabus to ensure continued relevance and alignment with current realities.

Accordingly, the updated syllabus which affects the following five subjects, Corporate and Business Law, Public Sector Accounting and Finance, Taxation, Strategic Business Reporting and Advanced Taxation, is scheduled to take effect from the November 2026 examination diet.

The publication of the Study Texts has consistently accompanied syllabus reviews and contributed significant improvements to the performance of professional examination candidates. In furtherance of its commitment to enhancing student success rates, the Council has also approved the update of Study Texts across the five subjects. This sixth edition has been comprehensively updated to incorporate significant and emerging developments, thereby enriching its contents. It also continues to comply with the requirements of the International Panel on Accountancy Education (IPAE).

The Institute engaged renowned writers and reviewers, comprising esteemed scholars and seasoned practitioners with extensive experience in their respective areas of specialisation, to update these Study Texts

The Institute's Study Texts, comprising fifteen (15) subjects, are as follows:

Foundation Level		
1.	Business Environment	A1
2.	Financial Accounting	A2
3.	Management Accounting	A3
4.	Corporate and Business Law (Updated)	A4

Skills Level		
5.	Financial Reporting	B1
6.	Audit, Assurance and Forensics	B2
7.	Taxation (Updated)	B3
8.	Performance Management	B4
9.	Financial Management	B5
10.	Public Sector Accounting and Finance (Updated)	B6

Professional Level		
11.	Strategic Business Reporting (Updated)	C1
12.	Advanced Audit, Assurance and Forensics	C2
13.	Strategic Financial Management	C3
14.	Advanced Taxation (Updated)	C4
15.	Case Study	C5

A rigorous quality control process was implemented, featuring a detailed and comprehensive review of the materials developed by the writers and reviewers by the Study Texts Review Technical Subcommittee.

These Study Texts will be valuable resources, not only for our candidates but also for students of other professional bodies, tertiary institutions, and finance and management practitioners, providing them with valuable resources for their studies and practices.

Chibuzor Noel Anyanechi, (Chief), BSc, MBA, FCA
Chairman, Syllabus Review Committee

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Examination structure

The examination structure is as stated below:

Foundation level

Each paper in foundation level shall consist of two sections A and B

Section A: Shall comprise twenty (20) compulsory multiple-choice questions which shall cover the entire contents of the syllabus. This section shall make up 20% of the total marks.

Section B: Shall comprise six questions (essay, computational or scenario-based) carrying 20 marks each of which candidates will be required to answer any 4

Skills and Professional levels

Examination at these levels will be in three sections.

Section A. A 30-mark compulsory scenario-based question on the core area of the subject.

Section B. 3 questions of 20 marks each and candidates will be required to attempt any two.

Section C. 3 questions of 15 marks each and candidates will be required to attempt any two.

Case study. This will be a scenario-based paper, consisting of pre-seen and unseen parts, which will require candidates to write a report based on two requirements from the case.

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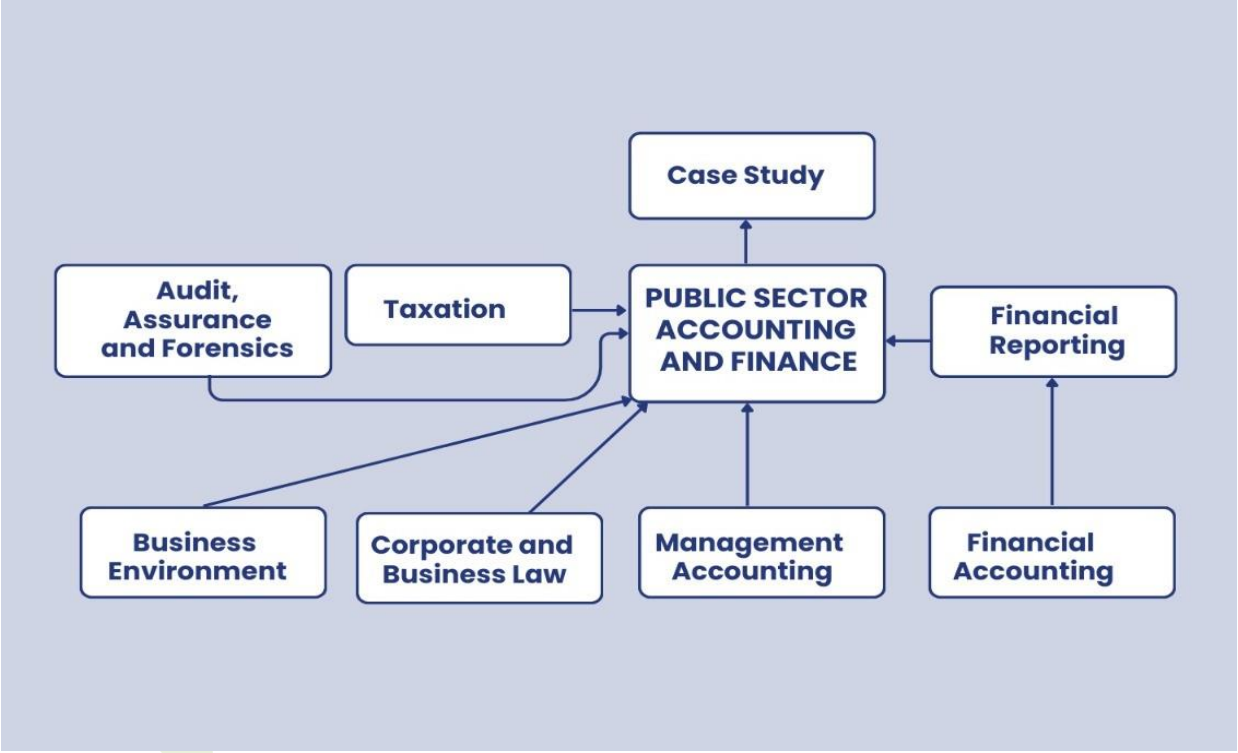
Duration: Each paper will be for three hours with additional fifteen minutes reading time, except Case Study which will be for four hours including reading time.

Pass mark: The pass mark for each ICAN examination subject is 50%.

Aim
To enable candidates have an understanding of the activities and services, legislative and financial frameworks, as well as the accounting practices required to ensure accountability in the public sector with a view to developing skills to optimally utilise government finances to provide public goods.

Linkage with other related subjects

This diagram depicts the relationship between this subject and other related subjects



Main competencies

On successful completion of this paper, candidates will be able to:

a. Identify and analyse the concepts and frameworks of public sector accounting and finance;
b. Discuss the roles, duties and powers of officers and various organs in the public sector;
c. Discuss the role of ethics in public finance management (PFM), and recommend appropriate actions and safeguards to mitigate ethical threats in PFM;

d. Prepare and interpret public sector management reporting information in evaluating public sector performance;
e. Evaluate the roles and limitations of public sector entities in delivering public goods and services;
f. Explain and evaluate factors affecting the selection and implementation of key public sector management decisions, including acquisitions and strategic alliances;
g. Understand and explain the role of audit and assurance in PFM;
h. Assess and evaluate the economic environment and role of the public sector in the economy;
i. Understand the provisions of Fiscal Responsibility Act, 2010 (as amended) and Public Procurement Act, 2007 (as amended);
j. Evaluate the role of International Public Sector Accounting Standards (IPSAS) in ensuring quality financial reports in the public sector;
k. Discuss the role of planning and budgeting in PFM;
l. Assess borrowing policies and public debts management;
m. Discuss the role of the ICAN accountability index (ICAN AI) in PFM in Nigeria;
n. Appraise and evaluate the achievements of the sustainable development goals (SDGs) by the government; and
o. Appraise the current state of IPSASB's proposal for sustainability reporting framework (Reporting sustainability program information – RPDs 1 and 3).

Content and competencies - Overview	
Grid	Weighting %
Regulatory and conceptual frameworks of public sector accounting	20
Planning and budgeting	20
Reports and audit	20
Public finance	20
Public finance management and accountability	10
Sustainability and sustainable development	10
Total	**100**

Main competencies

On successful completion of this paper, candidates will be able to:

p. Identify and analyse the concepts and frameworks of public sector accounting and finance;
q. Discuss the roles, duties and powers of officers and various organs in the public sector;
r. Discuss the role of ethics in public finance management (PFM), and recommend appropriate actions and safeguards to mitigate ethical threats in PFM;
s. Prepare and interpret public sector management reporting information in evaluating public sector performance;
t. Evaluate the roles and limitations of public sector entities in delivering public goods and services;
u. Explain and evaluate factors affecting the selection and implementation of key public sector management decisions, including acquisitions and strategic alliances;
v. Understand and explain the role of audit and assurance in PFM;
w. Assess and evaluate the economic environment and role of the public sector in the economy;
x. Understand the provisions of Fiscal Responsibility Act, 2010 (as amended) and Public Procurement Act, 2007 (as amended);
y. Evaluate the role of International Public Sector Accounting Standards (IPSAS) in ensuring quality financial reports in the public sector;
z. Discuss the role of planning and budgeting in PFM;
aa. Assess borrowing policies and public debts management;
bb. Discuss the role of the ICAN accountability index (ICAN AI) in PFM in Nigeria;
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Content and competencies - Overview	
Grid	Weighting %
Regulatory and conceptual frameworks of public sector accounting	20
Planning and budgeting	20
Reports and audit	20
Public finance	20
Public finance management and accountability	10
Sustainability and sustainable development	10
Total	**100**

Content and competencies				Chapter	Weighting
A	**Regulatory and conceptual frameworks of public sector accounting**				**20%**
	1	**Introduction to public sector accounting and finance**		**1**	
		a)	Explain the objectives of public sector accounting.	1	
		b)	Identify and discuss the users of public sector accounting information.	1	
		c)	Discuss the constitutional and regulatory framework of public sector accounting.	1	
		d)	Discuss the concepts and principles applicable to public sector accounting and finance.	1	
		e)	Explain the bases of public sector accounting.	1	
		f)	Explain funding principles in the public sector.	1	
		g)	Explain and compare public sector accounting and private sector accounting.	1	
	2	**Towards national fiscal responsibility**		**2**	
		a)	Discuss the roles, duties and functions of Fiscal Responsibility Commission.	2	
		b)	Discuss the Medium-term expenditure framework.	2	
		c)	Explain the activities involved in monitoring budget implementation.	2	
		d)	Explain public revenue and expenditure.	2	
		e)	Discuss public sector debt and indebtedness.	2	
		f)	Explain budgetary execution and achievement of targets.	2	
	3	**Ethical issues in public sector account and finance**		**3**	
		a)	Discuss the roles, duties and functions of Economic and Financial Crimes Commission (EFCC).	3	
		b)	Discuss the roles, duties and functions of Independent Corrupt Practices and Other Related Offences Act, 2000 (ICPC).	3	
		c)	Explain code of conduct for public officers.	3	
		d)	Discuss the roles, duties and functions of Code		

			of Conduct Bureau and Tribunal.	3	
		e)	Discuss the roles, duties and functions of Public Accounts Committee of Parliaments.	3	
		f)	Courts	3	
		g)	Nigeria Extractive Industries Transparency Initiative, (NEITI) Act, 2007	3	
	4	**Government construction contracts and procurements**		**4**	
		a)	Explain tenders board procedures on government contracts.	4	
		b)	Discuss the provisions and implementation of the Public Procurement Act, 2007.	4	
		c)	Discuss the objectives, scope, definitions, recognition, measurement, and disclosures of IPSAS 11- Construction Contracts.	4	
		d)	Discuss the objective, scope, definitions, recognition, measurement, and disclosures of IPSAS 12 - Inventories.	4	
	5	**Professional pronouncements on public sector accounting**		**5**	
		a)	Discuss the roles of International Federation of Accountants (IFAC).	5	
		b)	Discuss the roles of International Public Sector Accounting Standards Board (IPSASB).	5	
		c)	Discuss Pan African Federation of Accountants (PAFA); and African Professionalisation Initiatives (API) in the public sector.	5	
		d)	Discuss public sector accounting in countries other than Nigeria.	5	
		e)	Explain observations on public sector accounting system in ‘third world” countries.	5	
	6	**Pensions and gratuity**		**6**	
		Discuss the following in relation to pensions and gratuity:			
		a)	1999 Constitutional provisions;	6	
		b)	Provisions of Pension Reform Act, 2014;	6	
		c)	Deficiencies of Pension Reform Act, 2014;	6	
		d)	Pension Transitional Arrangements Directorate (PTAD);	6	
		e)	Pension provisions for private sector;	6	

		f)	Micro pension plan; and	6	
		g)	Offences, penalties and enforcement.	6	
	7	**Employee benefits and retirement plans**		**7**	
		IPSAS 39 - Employee benefits:		7	
		a)	Discuss the objectives, scope, definitions, recognition, measurement, and disclosures of IPSAS 39 - Employee Benefits.	7	
		b)	Explain accounting documentations and procedures.	7	
			IPSAS 49 – Retirement benefits plans:	8	
		c)	Discuss the objectives, scope, definitions, recognition, measurement, and disclosures of IPSAS 49 - Retirement Benefits Plans.	8	
	8	**Emerging issues in Nigerian public sector**		**8**	
		a)	Discuss the background, objectives and mechanics of Treasury Single Accounting (TSA).	8	
		b)	Explain Automated Accounting Transaction Recording and Reporting System (ATRRS).	8	
		c)	Explain Integrated Personnel and Payroll Information System (IPPIS).	8	
		d)	Discuss Government Integrated Financial Management Information System (GIFMIS) and State Integrated Financial Management Information System (SIFMIS).	8	
		e)	Mandatory Federal Treasury E-Receipt (FTeR) and NRS E-Invoicing	8	
		f)	Open Treasury Portal (OTP)	8	
	9	**Standardisation of Federal, State and Local Government reporting formats in Nigeria**		**9**	
		a)	Explain the structure and segments of the National Chart of Accounts (NCOA) for General Purpose Financial Reporting (GPR) and Budgeting.	9	
		b)	Discuss financial reporting format under cash basis IPSAS.	9	
		c)	Discuss financial reporting format under accrual basis IPSAS.	9	

B	**Planning and budgeting**				**20%**
	1	**Contemporary Budgeting Approach**		**10**	
		a)	Explain the purposes of a budget.	10	
		b)	Discuss budgeting with the National Chart of Accounts (COA).	10	
		c)	Explain methods of preparing budgets by governments in Nigeria.	10	
		d)	Discuss the challenges of budgeting system in the Nigerian public sector.	10	
		e)	Explain budget and budgetary control.	10	
		f)	Discuss requirements of IPSAS 24 - Presentation of Budget Information in Financial Statements: definitions, applications, recognition, measurement and disclosures.	10	
C	**Reports and audit**				**20%**
	1	**Transparency and accountability in the public sector**		**11**	
		a)	Discuss the Concept of public accountability in the public sector.	11	
		b)	Discuss fiscal transparency.	11	
		c)	Explain IMF code of good practices and fiscal transparency.	11	
		d)	Discuss conditions or measures that facilitate the promotion of public accountability.	11	
		e)	Discuss Transparency International (TI) and Open Budget index (OBI).	11	
		f)	Discuss the challenges of effective public accountability in Nigeria.	11	
	2	**Financial responsibilities of public sector officers**		**12**	
		Discuss the following in relation to financial responsibilities of public sector officers:			
		a)	Accountant General of the Federation (AGF);	12	
		b)	The Auditor General for the Federation (AuGF);	12	
		c)	Accounting officers and sub-accounting officers;	12	
		d)	Revenue collectors and imprest holders;	12	

		e)	Officers controlling expenditure; and	12	
		f)	Preparation of vote book.	12	
	3	**Sources of government revenue**		**13**	
		Discuss the following in relation to sources of government revenue:			
		a)	Sources of government revenue in Nigeria;	13	
		b)	Revenue collecting agencies in Nigeria;	13	
		i)	Nigeria Revenue Service (NRS)	13	
		ii)	State Internal Revenue Service (SIRS)	13	
		iii)	Local Government Revenue Authorities (LGRA)	13	
		iv)	Nigerian Upstream Petroleum Regulatory Commission (NUPRC)	13	
		v)	Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA)	13	
		vi)	Nigeria Customs Service (NCS)	13	
		vii)	Nigerian National Petroleum Company Limited (NNPL)	13	
		viii)	Central Bank of Nigeria (CBN)	13	
		c)	Federation Accounts Allocation Committee (FAAC);	13	
		d)	State Joint Local Government Account Allocation Committee – (SJLGAAC); and	13	
		e)	Joint Revenue Board of Nigeria	13	
		f)	Development Funds and Contingency Funds.	13	
		g)	Development levy (Special funds account)	13	
	4	**Authorisation of government expenditure and financial control of public sector revenue**		**14**	
		a)	Explain funding principles in the public sector.	14	
		b)	Explain the process of authorisation of government expenditure.	14	
		c)	Discuss public sector revenue control.	14	
		d)	Discuss public sector expenditure control.	14	
	5	**Preparation of vouchers and their uses**		**15**	
		a)	Explain the types of vouchers and their uses.	15	
		b)	Explain payroll accounting in the public sector.	15	
	6	**Functions of the cash office and subsidiary accounts under cash basis**		**16**	

		a)	Preparation of treasury cash book, imprest cash book and other subsidiary accounts	16	
		b)	Preparation of bank reconciliation statement	16	
	7	**Preparation of monthly transcripts of a self- accounting unit under cash basis IPSAS**		**17**	
		a)	Explain the preparation of monthly transcripts under cash basis IPSAS.	17	
		b)	Explain accounting units – self, sub-self and non-self.	17	
		c)	Understand the procedures for the preparation of transcripts.	17	
	8	**Stores/Inventories accounting and loss of government funds**		**18**	
		a)	Explain stores classification and procedures for reporting loss of stores.	18	
		b)	Discuss the roles of board of survey and board of enquiry.	18	
		c)	Explain accounting treatment of loss of government stores or funds.	18	
		d)	Discuss the roles, duties and functions of the Federal Losses Committee.	18	
	9	**Cash management and borrowing guidelines**		**19**	
		a)	Discuss cash management guidelines.	19	
		b)	Explain external and domestic borrowing guidelines for federal, state governments and their agencies.	19	
	10	**Preparation of statutory financial statements for government in accordance with cash basis IPSAS**		**20**	
		a)	Identify documents required for the preparation of Federal Government accounts.	20	
		b)	Identify and discuss components of financial statements.	20	
	11	**Accounting for local government**		**21**	
		Discuss the following in relation to accounting for local government:			
		a)	Local government organisational set-up;	21	
		b)	Sources of revenue, expenditure and financial control of local government council; and	21	
		c)	The form and contents of local government council final accounts.	21	

	12	**Preparation of general purpose financial statements for government in accordance with accrual basis IPSAS**		**22**	
		Discuss the requirements of the following IPSAS: definitions, applications, recognition, measurement and disclosures:			
		a)	IPSAS 1 – Presentation of Financial Statements;	22	
		b)	IPSAS 2 - Cash Flow Statement;	22	
		c)	IPSAS 3-Accounting Policies, Changes In Accounting Estimates and Errors;	22	
		d)	Notes to the financial statements; and	22	
	13	**IPSAS 33 - First-time adoption of accrual basis**		**23**	
		a)	Discuss the guidelines for first time adoption of accrual basis IPSAS on January1, 2016 issued in May 2015 by FAAC sub-committee on IPSAS implementation.	23	
		b)	Explain the treatment of the opening statement of financial position for public sector entities (PSEs) in Nigeria.	23	
		c)	Discuss the provisions of IPSAS 33 on revenue, expenditure, assets and liabilities.	23	
		d)	Discuss the provisions of IPSAS 33 - on related accounting issues on first time adoption.	23	
		e)	Discuss the contents of Federal Treasury circular reference No. TRV A7 and B7 and OAGF/CAD/026/V.111/188 dated July 3, 2018 on accrual basis IPSAS books of accounts and other records.	23	
	14	**IPSAS 34 – Separate Financial Statements**		**24**	
		a)	Definitions, applications, recognition, measurement and disclosures	24	
		b)	Preparation of separate financial statements	24	
		c)	Transitional provisions	24	
	15	**Accounting for public sector organisations and government business entities (GBEs)**		**25**	
	Discuss the following in relation to accounting for public sector organisations and government business entities			25	

	(GBEs):				
	a)	Sources of income and expenditure of parastatals;		25	
	b)	Main objectives of setting up corporations/ parastatals/public enterprises;		25	
	c)	Accounting and auditing in the public enterprises;		25	
	d)	Hospital accounting; and		25	
	e)	Development and property corporation accounting.		25	
	16	**Interpretation of public sector financial accounting using relevant and appropriate techniques**		**26**	
	a)	Straight forward criticism or analysis review		26	
	b)	Performance reports as per IPSAS 24		26	
	c)	Cash flow statements		26	
	(d)	Ratio analysis		26	
	17	**International Public sector accounting Standards (IPSAS) Group A (IPSAS 4, 5, 10, 14, 20 and 22)**		**27**	
		Provisions on the following IPSAS: definitions, applications, recognition, measurement and disclosures:		27	
		a)	IPSAS 4 -The effects of changes in foreign exchange rates	27	
		b)	IPSAS 5 - Borrowing costs	27	
		c)	IPSAS 10 -Financial reporting in hyper inflationary economies	27	
		d)	IPSAS 14 - Events after the reporting date	27	
		e)	PSAS 22 - Disclosure of financial information about the general government sector	27	
	18	**International Public sector accounting Standards (IPSAS) Group B (IPSAS 43, 16, 17, 19, 21, 26, 27 and 31)**		**28**	
		Provisions on the following IPSAS: definitions, applications, recognition, measurement and disclosures		28	
		a)	IPSAS 43 - Leases (replaced IPSAS 13 - effective date January 1, 2025)	28	
		b)	IPSAS 16 -Investment property	28	
		c)	IPSAS 45 - Property, Plant and Equipment (Replaced IPSAS 17 - effective date January 1	28	

			2025)		
		d)	IPSAS 19 – Provisions, contingent liabilities and contingent assets	28	
		e)	IPSAS 21 – Impairment of non-cash-generating assets	28	
		f)	IPSAS 26 - Impairment of cash generating assets	28	
		g)	IPSAS 27 – Agriculture	28	
		h)	IPSAS 31- Intangible asset (IPSAS 31, based on IAS 38)	28	
	19	**International public sector accounting standards (IPSASs) Group C (IPSAS 28, 30, 32, 35 and 41)**		**29**	
		Discuss the provisions of the following IPSASs: definitions, applications, recognition, measurement and disclosures:		29	
		a)	IPSAS 28 - Financial Instruments Presentation;	29	
		b)	IPSAS 30 - Financial Instruments Disclosures	29	
		c)	IPSAS 32: Service Concession Arrangements- Grantor;	29	
		d)	IPSAS 35: Service Concession Arrangements- Grantor;	29	
		e)	IPSAS 41 - Financial Instruments: Recognition and Measurement (replaced IPSAS 29)	29	
	20	**International public sector accounting standards (IPSASs) Group D (IPSASs,18, 36,37,38 and 40)**		**30**	
		Discuss the requirements of the following IPSASs: definitions, applications, recognition, measurement and disclosures:		30	
		a)	IPSAS 18 – Segment Reporting;	30	
		b)	IPSAS 36- Investments in Associates and Joint Ventures;	30	
		c)	IPSAS 37- Joint Arrangements;	30	
		d)	IPSAS 38- Disclosure of Interests in Other Entities; and	30	
		e)	IPSAS 40- Public Sector Combinations.	30	
	21	**International public sector accounting standards (IPSASs) Group E (IPSASs 42, 44,46, 47, and 48)**		**31**	
		Discuss the requirements of the following IPSASs:			

		definitions, applications, recognition, measurement and disclosures:		31	
		a)	IPSAS 42- Social Benefits	31	
		b)	IPSAS 44- Non-current Assets Held for Sale and Discontinued Operations - effective date January 1, 2025	31	
		c)	IPSAS 46 - Measurement (effective date January 1, 2025)	31	
		d)	IPSAS 47 - Revenue (replaced IPSAS 9 and IPSAS 23 - effective date January 1, 2026	31	
		e)	IPSAS 48 - Transfer Expenses - effective date January 1, 2026)	31	
		f)	IPSAS 50- Exploration for and Evaluation of Mineral Resources	31	
	22	**Public sector audit**		**32**	
		a)	Discuss the legal and other requirements for public sector audit.	32	
		b)	Discuss assurance engagement.	32	
		c)	Discuss International Standards on Auditing Framework.	32	
		d)	Discuss International Organisations of Supreme Audit Institutions (INTOSAI) - Code of Ethics and Auditing Standards.	32	
		e)	Discuss codification of offences and sanctions arising from audit queries - Financial Regulations (2009 Edition).	32	
D	**Public finance**				**20%**
	1	**Introduction to public finance**		**33**	
		Discuss the following in relation to public finance:		33	
		a)	Elements of public finance;	33	
		b)	Overview of public sector finance;	33	
		c)	Public goods versus private goods;	33	
		d)	Rationale of public sector in the economy;	33	
		e)	Economic functions of government; and	33	
		f)	Methods of intervention.	33	
	2	**Public revenue**		**34**	
		Discuss the following in relation to public revenue:		34	
		a)	Sources of revenue;	34	
		b)	Challenges of revenue sharing; and	34	

		c)	Principles of revenue sharing.	34	
	3	**Public expenditure**		**35**	
		Discuss the following in relation to public expenditure:		35	
		a)	Reasons for increase in public expenditure;	35	
		b)	Classification of Functions of Government (COFOG);	35	
		c)	Effects of public expenditure;	35	
		d)	Principles of public expenditure; and	35	
		e)	Justifications for public undertaking.	35	
	4	**Public debt**		**36**	
		Discuss the following in relation to public debt:		36	
		a)	Definition of public debt;	36	
		b)	Deficit financing (taxation or borrowing alternatives);	36	
		c)	Types of public debt;	36	
		d)	Composition and ownership of FGN domestic debt;	36	
		e)	State or local governments' borrowing through the capital market;	36	
		f)	Sources of external debt;	36	
		g)	Indicators of external debt burden; and	36	
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Skills Level
Public Sector Accounting and Finance

CHAPTER 1

INTRODUCTION TO PUBLIC SECTOR ACCOUNTING AND FINANCE

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1 Introduction to Public Sector Accounting and Finance

1.0 Learning objective

The objective of this chapter is to enhance readers' understanding of the introductory aspect of public sector accounting; its constitutional and regulatory frameworks; its concepts, principles and bases of accounting.

1.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

a. enumerate the objectives of public sector accounting;
b. identify the various users of public sector accounting information; and
c. demonstrate a good grasp of the constitutional and regulatory frameworks as well as, the concepts, principles and bases of public sector accounting.

1.2 Introduction

The simplest definition of 'Public Sector' is "all organisations which are not privately owned and operated, but which are established, run and financed by government on behalf of the public." This definition conveys the idea that the public sector consists of organisations where control lies in the hand of the public, as opposed to private owners, and whose objectives involve the provision of services, where profit making is not a primary objective. Performance measurement in the public sector is hindered by lack of profit motive, multiple objectives and presence of intangible services, whose benefits are difficult to quantify.

Accounting generally is a scientific study in which records of expenditure and income of a company, individuals or governments are kept, coupled with other useful information for planning, decision-making and control. Government accounting, on the other hand, is composite activities of analysing, recording, summarising, reporting and interpreting the financial transactions of government ministries, departments and agencies. It is clear from this description that the government, like any business organisation, should give account of its activities to the various stakeholders.

Adams (2004) in his book "Public sector accounting and Finance Made Simple" defines public sector accounting as "a process of recording, communicating, summarising, analysing and interpreting government financial statements and statistics in aggregate and details; it is concerned with the receipt, custody, disbursement and rendering of stewardship on public funds entrusted".

The above definition shares some features with the universally accepted definition of financial accounting. Accounting is universal, whether in government, private or public limited liability companies. The essential requirement is to record all historical costs and income, which when processed further, become useful information necessary for current appraisal, future decision-making and performance control.

Basically, public finance is the study of the role of government in the economy. It is the definitive branch of economics, which assesses revenue and expenditure of public authorities and the adjustments of one or the other to achieve desirable effects and avoid undesirable ones.

1.3 Objectives of public sector accounting

1.3.1 Determining the legitimacy of transactions and their compliance with the statutes and accepted norms: Public sector disbursements should accord with the provisions of the Appropriation Act and Financial Regulations. There should be due authorisation for all payments so as to avoid misappropriation.

1.3.2 Providing evidence of stewardship: The act of rendering stewardship is being able to account transparently and diligently for resources entrusted. government and public sector officers are obliged to display due diligence and sense of probity in the collection and disposal of public funds.

1.3.3 Assisting planning and control: The future is full of risks and uncertainties. Therefore, mapping out strategic plans prevents an organisation from drowning in the tides. Plans of actions provide the focus of activities, which are being pursued. The unforeseen circumstance is built into plans so as to prevent or at least reduce corporate failure. Public sector establishments should act in accordance with the 'mandate theory' of governance. Control measures are adjuncts to skillful planning. They assist in avoiding unnecessary deviations from the pursuit of the original objectives set.

1.3.4 Ensuring objective and timely reporting: Users of public sector accounting information are anxious to bridge their knowledge gaps on government activities. They therefore treasure prompt and accurate statistics to evaluate government performance.

1.3.5 Evaluating the costs incurred and the benefits derivable: In public sector organisations, it is difficult to measure costs and benefits in financial terms. The analysis of cost-benefit assesses the economic and social advantages (benefits) and disadvantages or inconveniences (costs) of alternative courses of actions, to ensure that the welfare of the citizens are well provided for.

Other objectives include:

a. enhancing the appraisal of the efficiency of management;
b. highlighting the various sources of revenue receivable and expenditure incurred;
c. identifying the sources of funding for capital projects;
d. evaluating the economy, efficiency and effectiveness with which public sector organisations pursue their goals and objectives;
e. ensuring that costs are matched by at least equivalent benefits accruing therefrom;

f. providing the details of outstanding long-term commitments and financial obligations;
g. providing the means by which actual performance may be compared with the set target;
h. proffering solutions to the various bottlenecks and/or problems identified; and
i. providing the basis for decision-making.

1.4 Users of public sector accounting information

The accounting process provides financial data for a broad range of individuals or organisations whose objectives vary widely. Two primary users of public sector accounting information are internal users and external users. Each group uses accounting information differently and requires the information to be presented differently.

(a) **Internal users:** The underlisted group members are users within the executive arm of public sector entities who use public sector accounting information.

i. The executive, such as the President of the Federal Republic of Nigeria, Governors of States and Chairmen of Local Government Councils.
ii. The federal ministers and state commissioners.
iii. Top administrators of Government departments, for example permanent secretaries and directors.
iv. Chief executives of government business entities/parastatals such as Central Bank of Nigeria (CBN), Securities and Exchange Commission (SEC) and the Nigerian Ports Authority (NPA), etc.
v. Subordinates who oil the wheels of administration
vi. The organised labour unions in the public service.

b) **External users-**The underlisted group members are users or organisations outside the executive arm of a public sector entities who use public sector accounting information. This group comprises:

i. The National Assembly;
ii. Members of the public;
iii. Governments, apart from the one rendering the report;
iv. Foreign countries;
v. Foreign financial institutions such as International Monetary Fund (IMF), World Bank, Department for International Development (DFID), United Nations Children's Fund (UNICEF), etc.;
vi. Creditors, both local and foreign;
vii. Researchers; and
viii. Political parties, trade unions and civil liberty organisations.

1.4.1 Importance of public sector accounting information to users

The internal users require accounting information in order to:

a. ascertain the various levels of regulatory compliance and whether actual expenditure is in accordance with the budget; and

b. ascertain whether or not adequate safeguards are available for the protection of public resources.

On the other hand, the external users require accounting information to ascertain the financial viability of the public sector organisations, efficiency and effectiveness of management.

Both the internal and external users want to know whether the accounting information enhance the quality, consistency and transparency of public sector financial reporting.

1.5 The constitutional and regulatory frameworks of public sector accounting

The underlisted regulatory frameworks govern public sector accounting.

1.5.1 Nigerian Constitution

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

The sections of the Constitution quoted below are authorities on receipts and payments procedures of government, the allocation of revenue, the audit of public accounts and other financial matters. Some specific sections of the1999 Constitution and their provisions are listed below:

Sections	Details
80 and 120	Establishment of the Consolidated Revenue Fund (CRF)
81 and 121	Authorisation of expenditure from the CRF
82 and 122	Authorisation of expenditure in default of appropriations.
83 and 123	Establishment of the Contingencies Fund
84 and 124	Remuneration of statutory officers.
84 (4) and 125 (4)	Comprehensive list of statutory officers.
85 and 125	Audit of public accounts
86 and 126	Appointment of the Auditor General
87 and 127	Tenure of office of the Auditor General
88 and 128	Power to conduct investigation by the legislatures
89 and 129	Power as to matters of evidence
149	Declaration of assets and liabilities, and oaths of office
153	List of statutory commissions.
162	Establishment of the federation accounts
163	Allocation of other revenue
164	Federal grants-in-aid of State revenue.
165	Cost of collection of certain duties
166	Set-off of loans made by the Federation to the State
167	Sums charged on Consolidated Revenue Fund

Sections	Details
168	Provisions with regard to payments

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

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

Section	Details
a.	Legislative control and management of the public finances
b.	Minister's/Commissioner's instructions to be complied with and powers to inspect, etc.
c.	Management of Consolidated Revenue Fund
d.	Authorised issues from the Consolidated Revenue Fund
e.	Erroneous receipts
f.	Losses
g.	Authorisation of investments
h.	Investments- General procedure
i.	Income of investments –general
j.	Fluctuation in value of investments -general
k.	Annual estimates in appropriation bill
l.	Supplementary provisions
m.	Contingencies Fund
n.	Unexpended votes to lapse
o.	Provision if Appropriation Act not in force
p.	Specification of certain public funds allocated by law
q.	Carrying forward of annual balance
r.	Interest and investment fluctuation to accrue to certain funds
s.	Interest and investment fluctuation to accrue to CRF incertain cases
t.	Fluctuation in value of investments
u.	Rules for management of funds
v.	Annual accounts of all funds

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

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

Section	Details
1	Distribution of the Federation Accounts, etc

2 Formula for distribution between the Federal and state governments
3 Formula for distribution between local governments
4 Proportion of revenue to be paid by each state-to-State Joint Local Government Account
5 Allocations under Special Funds
6 Establishment of Federation Account Allocation Committee and functions
7 Establishment of Joint Local Government Account for each State and functions
8 Limit on power of state governments for borrowing money
9 Report by Accountants General of the Federation

1.5.4 The Financial Regulations (2009 edition)

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

These are the accounting manual of government ministries and extra-ministerial departments which deal with financial and accounting matters. They set out the procedures and steps to be followed in treating most of government transactions. According to FR 105, The Minister of Finance shall issue from time-to-time financial regulations, which shall be in accordance with existing laws and policies of government.

The financial regulations so issued, shall generally apply to the federal public service, ministries, extra-ministerial offices and other arms of government.

1.5.5 Finance/treasury circulars

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

1.5.6 Public Procurement Act, 2007

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

1.5.7 Fiscal Responsibility Act, 2007

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

1.5.8 Revised Financial Memoranda for Local Government, 1991

The Financial Memoranda for Local Government is a publication by the Federal Government which contains the administrative guidelines, the existing systems of checks and balances, as well as the roles of all the officers from the chief accounting officer, the chairman, to the officer at the lowest cadre

The objectives of the financial memoranda as follows:

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

The contents of Local Government Financial Memoranda may be summarised, as follows:

a. the format of budget and budgetary control;
b. the financial responsibilities of the chairman and other accounting officers of a local government;
c. the responsibilities of the local government Secretary, Treasurer and Heads of Departments;
d. the powers and functions of the Auditor General for Local Government;
e. the various financial offences and their respective sanctions;
f. the means of revenue collection and control;
g. main books of accounts kept in the local government; and
h. the custody, accounting and control of stores.

Other laws and regulations guiding public sector accounting and finance

Other laws guiding public sector accounting and finance are stated below:

a. Revenue Mobilisation and Fiscal Allocation Commission Act (CAP.R. 7 LFN2004;
b. Pension Reform Act of 2014;
c. The Independent Corrupt Practices and Other Related Offences Commission (ICPC) Act of 2000;
d. Economic and Financial Crimes Commission (Establishment) Act, 2002;
e. Nigeria Extractive Industries Transparency Initiative (NEITI) Act, 2007;

f. Appropriation Acts;
g. Financial Reporting Council Act, 2011;
h. Freedom of Information Act, 2011;
i. International Public Sector Accounting Standards (IPSAS)/ International Financial Reporting Standards (IFRS);
j. Code of Conduct Bureau and Tribunal Act, 1991; and
k. Money Laundering (Prohibition) Act, 1995.

1.6 Concepts and principles applicable to public sector accounting and finance

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

1.7 Bases of public sector accounting

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

(a) cash basis;
(b) accrual basis;
(c) commitment basis;
(d) modified cash basis; and
(e) modified accrual basis.

1.7.1 Cash basis

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

(a) Advantages of cash basis

The advantages of cash basis include the following:

i. it is simple to understand;
ii. it eliminates the existence of debtors and creditors;
iii. it permits easy identification of those who authorise payments and collect revenue;
iv. it allows for comparison between the amount provided in the budget and that actually spent;
v. it saves time and is easy to operate;
vi. it permits the delegation of work in certain circumstances; and
vii. the cost of tangible assets is written off in the year of purchase, resulting in fewer accounting entries.

(b) Disadvantages of the cash basis

It takes unrealistic view of financial transactions, as only the settlement of liabilities is recognised. For example, there are five stages through which a spending decision passes. These are:

i. management decision to spend money;
ii. issue of order or contract for the supply of goods or services;
iii. supply of goods or services - acknowledgment of liability;
iv. settlement of the amount of the good or service received; and
v. consumption of value.

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

i. It does not provide for depreciation since assets are written off in the year of purchase.
ii. It does not convey an accurate picture of the financial affairs at the end of the year.
iii. The cash basis cannot be used for economic decisions as it tends to hide basic information, such as, information relating to tangible assets, debtors and creditors.
iv. It does not accord with the 'matching concept.'

(c) Modified cash basis

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

1.7.2 Accrual basis

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

(a) Advantages of accrual basis

i. It takes a realistic view of financial transactions.
ii. It reveals an accurate picture of the state of financial affairs at the end of the period.
iii. It could be used for both economic and investment decision-making as all parameters for performance appraisal are available.
iv. it aligns with the 'matching concept.

v. it makes allowances for the diminution in the value of assets used to generate the revenue of the enterprise.

(b) Disadvantages of accrual basis

i. It is very difficult to understand, especially by non-accountants.

ii. It does not permit easy delegation of work in certain circumstances.

1.7.3 Modified accrual basis

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

Revenue is recorded when cash is received, except for:

a revenue which is susceptible to accrual; and

b revenue of a material amount, which has not been received at the time it should.

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

(i) disbursements for inventory items, which may be considered as expenditure at the time the items are utilised; and

(ii) interest on long-term debt commonly accounted for in debt service funds, and recorded as expenditure on its due date.

1.7.4 Commitment basis

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

(a) Advantages of commitment basis

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

i. a separate payment tabulation is available when required;

ii. adjustments occurring when actual expenditure has been obtained does not affect the final accounts;

iii. it is an aid to financial control. a commitment is regarded as a charge which has been made on a budget provision;

iv. it takes a realistic view of financial transactions;

v. it reveals an accurate picture of the state of financial affairs at the end of the period;

vi. it is used for both economic and investment decision-making, since all parameters for performance appraisals are available;

vii. it aligns with the 'matching concept; and

viii. it makes allowance for the diminution in the value of assets employed to generate revenue.

(b) Disadvantages of commitment basis

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

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

(ii) there is over-expenditure under commitment basis in the expectation that government may finally release fund to settle the legal obligations;

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

(iv) balances, which ought to have lapsed in the vote book at the end of the year, may be spent by issuing local purchase orders to exhaust the votes.

1.8 Funding principles

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

1.8.1 Classification of funds

Categories of funds.

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

(b) **Proprietary funds:** These are funds used to account for the resources derived from the business activities of government and its agencies such as parastatals. Examples are various recurrent and capital funds released to government business entities to carry out their operations; and

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

1.8.2 Types of funds

(a) **General fund:** It is a fund established for resources, which are devoted to financing the general administration or services of government. It is also called Consolidated Revenue Fund (CRF). Section 5 of the Finance (Control and Management) Act of 1958) Cap 144, 1990 stipulates that the management of the

fund shall be in accordance with the requirements of the Constitution of the Federal Republic of Nigeria.

(b) **Capital project fund:** This is a fund created to accommodate resources meant for the acquisition of capital assets or facilities. It is also known as Capital Development Fund (CDF). It came into existence by virtue of Section 18 of Finance (Control and Management) Act of 1958. CDF sources include but not limited to grants, share of value added tax, transfers from CRF, etc.

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

(d) **Trust fund:** It is a fund whose resources are held by government as a trustee. It is used for the purpose stated in the trust deed, for example Petroleum Technology Development Fund and Research Foundation Fund.

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

(f) **Inter-governmental service fund:** This is established to provide service to other funds, for example, Government Clearance Fund which helps to maintain (transitionally) the balance between the Federal Government and State Governments in respect of transactions.

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

(h) **Self-liquidating fund:** This is a fund into which resources are transferred periodically and out of which any money or amount left has to be transferred to a current fund, for example monies held on behalf of third parties.

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

Basis	Non-profit oriented	Profit oriented
Profit	The main objective is to provide adequate welfare to the people at reasonable costs.	The main objective is to maximise profit
Revenue	Revenue is derived from the public in the form of taxation, fines, fees, etc.	Obtain their income principally from sales of goods and services.
Legal formation	They are created by Acts of the Legislatures that is, National/State Assemblies	Registered with Corporate Affairs Commission
Budget	The public is more interested in the annual budget than the annual report.	The public is more interested in the annual reports than the annual budgets.

Basis	Non-profit oriented	Profit oriented
Budgetary approach	Public entities are rigid on the budgetary approach	Budgets are internal affairs of these organisations.
Accounting	They majorly operate on International public sector accounting standards (IPSAS) cash or accrual. They operate substantially on fund accounting.	They strictly operate on international financial reporting standards (IFRS). The proprietary approach is adopted for their funding.
Annual general meeting	There is no annual general meeting, but government can hold public briefing on specific issues.	There is annual general meeting of the shareholders to discuss the performance of these organisations.
Dissolution	On dissolution, any income raised or asset acquired cannot be distributed; or benefit members or directors, or officers of the organisation because all the proceeds must revert to the state.	Income realised on dissolution can be distributed for the benefit members, directors or officers of the organisation.

1.10 The usefulness of measurement of revenue/income in public sector.

The measurement of revenue/income is useful for more than one purpose and therefore, its objectives may be studied from different points of view:

(a) As a guide to future investment

The current income positively influences the expectations about the future. The prospective investor looks to the income of the business enterprise as a guide to his investment decision in the future. The investors' attempt to maximise their returns on their investments and this decision will be guided by income. So the allocation of investment funds and selections of securities depend upon income levels of an enterprise.

(b) As a tax base

Though the Income Tax Act does specify what is taxable and what is deductible in arriving at the taxable income. The tax authorities can conveniently mobilise revenues through taxes, which are one of the main sources of government's income.

(c) As a guide to dividend of democracy policy

The dividend of democracy policy at present is directed to determine the proportion of the current revenue which should be retained and the proportion which should be distributed as dividends of democracy. So long as dividends of

democracy are paid out of current revenue, the rights of creditors are adequately protected since other resources of government would not be used to pay dividends of democracy.

(d) As an indicator of managerial efficiency

The efficiency of management as decision makers and as trustees of resources is judged by the reported revenue of the current year. The auditors, therefore, certify that the financial statements present a true and fair view of operational results. The measurement of government sources of fund therefore, provides a suitable criterion for the efficiency of management.

(e) As a measure of overall efficiency and credit worthiness

Revenue is the lifeblood of any public sector organisation and therefore it provides that basic standard by which the overall efficiency of the government tis assessed. For creditors, a government that increases its revenue base through creation of various sources of funds faces no difficulty in making timely payment of its debts. Banks and other credit institutions too depend upon good revenue base as a guide about a government's ability to repay loan out of future revenue.

(f) As a guide to socio-economic decisions

A number of decisions affecting the society and economy as a whole are taken, keeping in mind the level of business income. For instance, price increases are justified in terms of income levels. Trade unions demand more wages for their members on the basis of reported income while employers plead that increase in wages would have adverse effects on the income. Levels of business income also guide the economic policies of the governments in it constitutes a major source of tax revenues.

(g) Asset valuation

Asset valuation plays a key role in finance and often consists of both subjective and objective measurements. The value of a government's non-current assets is easier to measure, based on their book values and replacement costs. However, there is no value on the financial statements that tells investors exactly how much a government's brand and intellectual property are really worth. This is because the valuation of an intangible asset is subjective, therefore, there is a risk that goodwill can be overvalued in an acquisition.

Asset valuation is the process of determining the fair market or present value of assets, using book values, absolute valuation models like discounted cash flow analysis and option-pricing models. Such assets include investments in marketable securities, such as stocks, bonds and options; tangible assets like buildings and equipment; or intangible assets such as brands, patents and trademarks.

1.11 Chapter review

This chapter discusses the following:

(a) introductory aspect of public sector accounting and finance, with emphasis on the objectives, users of accounting information;

(b) constitutional and regulatory frameworks of public sector accounting;

(c) concepts, principles and bases of accounting; and comparison between non- profit oriented organisations and profit oriented organisations.

1.12 Worked examples

1.12.1 Examination type questions

(1) Government financial reporting helps to satisfy the information needs of variety of users.

Required:
State the principal users of government financial reports and their needs.

(2) Discuss five Constitutional and Regulatory Frameworks of Public sector accounting in Nigeria.

(3) Compare and contrast non- profit and profit oriented organisations.

1.12.2 Suggested solutions

1. The following are five distinct internal and external users of government financial reports and the purposes for which they are required:

(a) Internal users

i. The Executives and their Advisers.
ii. Top Administrators of government departments.
iii. Managers of government units.
iv. Subordinates who are delegated with control tasks.
v. Various ad-hoc and other committees set up by government to examine specified functions.

(b) External users

i. **The legislative houses and governing bodies**
Legislative and governing bodies grant authority to governments and other units to administer public financial affairs and resources and subsequently hold them accountable. They are primary users of government financial reports. They look to financial reports to provide information to help them assess the government's stewardship of resources, compliance with legislation and other regulations, state of finance and performance.

ii. **The general public**

Legislatures and governing bodies of units are accountable to the public who provide the revenue and resources necessary for government operations. Members of the public receive government services and are beneficial owners of the public money and property. Such members of the public are taxpayers and recipients of goods or services provided by the government. Members of the public seek information on how well government had managed then national financial affairs and resources, and the overall economic impact of government activities.

iii. **Investors and creditors**

Investors in government securities and enterprises, and other creditors provide financial resources to governments. Governments are interested in providing investors and creditors with information which are useful in evaluating the efficiency and effectiveness of government agencies. Sometimes, investors and creditors seek specific information in addition to the general purpose of financial reporting.

iv. **Other governments, international agencies and development partners for example, IMF, ADB, AU, ECOWAS.**

Similar to investors and creditors, other governments, international agencies and resource providers are interested in the state of finances of a government or unit. In addition, they are interested in plans and priorities of such units or governments.

v. **Economic and financial analysts**

Economic and financial analysts, including the financial media reviewers analyse and disseminate information to other users such as legislators and the public. They use the information provided to analyse and evaluate financial and economic issues.

vi. **Internal managers, policy makers and administrators**

They use the information provided for control purposes, decision making, assessment, allocation and use of resources.

vii. **Researchers and representatives of the media**

viii. **Sectional groups within the population such as trade unions and political parties**

ix. **Foreign interests, such as foreign friendly countries, foreign investors and creditors**

(c) Purposes for which the reports are required

i. Planning: To serve as a basis for planning

ii. Controlling: To serve as a basis for controlling
iii. Decision making: To serve as a basis for decision-making
iv. To give evidence of financial accountability
v. To ascertain the propriety of transactions and their conformity with the established rules
vi. To serve as a basis for appraisal of the performance of management and staff of government

A critical examination of the information content reveals that it cannot meet the needs of all the users. For instance, some users have the right to extra information while some have need for detailed accounting reports relating to specified parts of government activities. Others may need the information for planning, controlling and decision-making. Therefore, the contents and type of information required differ for each purpose, and from one user to another.

For the first purpose, information is needed to show that the relevant laws have been complied with, that actual expenditure incurred is in accordance with the appropriations and that adequate safeguards exist for the protection of public assets.
As regards the second purpose, information of an economic nature is necessary, supplying the costs, revenue of government and programmes of activity. Most external users need information of economic nature for planning, controlling and decision-making. However, most economic information are lost or not provided under the cash basis of accounting as the costs of tangible assets are written off in the years of purchase. Information on receivables and payables are not available. It is, therefore, difficult to provide information on profitability, liquidity and efficiency positions which are necessary for the effective decision-making process of the users.

2. The Constitutional and Regulatory Frameworks of public sector accounting are:

(a) **Nigerian Constitution:** The 1999 Constitution of the Federal Republic of Nigeria is one of the legal frameworks that regulate the receipts and disbursements of public funds.
The sections of the Constitution quoted below authorise the receipts and payments of government, the allocation of revenue, the audit of public accounts and other financial matters.

(b) **Finance (Control and Management) Act of 1958, CAP. F. 26 Laws of the Federation 2004**
This governs the management and operation of government funds. It regulates the accounting system, the books of accounts to be kept and the procedures to be followed in the preparation of accounts and financial statements.

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

The Act prescribes the basis for distribution of revenue accruing to Federation Account between the Federal, States and Local governments; the formula for distribution amongst the States *interse*; the proportion of the total revenue of each State to be contributed to the State Joint Local Government Account; and for other purposes connected therewith.

(d) **The Financial Regulations (2009 Edition)**

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

These are the accounting manual of Government Ministries' Extra-Ministerial Departments which deals with financial and accounting matters. They set out the procedures and steps to be followed in treating most of government transactions.

(e) **Finance/Treasury Circulars**

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

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

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

(g) **Fiscal Responsibility Act, 2007**

This Act provides for the prudent management of the nation's resources, ensures long-term macro-economic stability of the national economy, secures greater accountability and transparency in fiscal operations within a medium-term fiscal policy framework, and the establishment of the

Fiscal Responsibility Commission to ensure the promotion and enforcement of the nation's economic objectives. The Act emphasises the preparation of medium-term expenditure framework, annual budget, budget execution and achievement targets, collection of public revenue, public expenditure, debt and indebtedness, borrowing, transparency and accountability.

(h) **Revised Financial Memoranda for Local Government, 1991**

The Financial Memoranda for Local Government is a publication by the Federal Government which contains the administrative guidelines, the existing systems of checks and balances as well as the roles of all the officers from the Chief Accounting Officer, the Chairman, to the officer at the lowest cadre.

The objectives of the Financial Memoranda are as follows:

(i) to serve as administrative guidelines which facilitate day-to-day running of local governments;

(ii) to expressly highlight the implications of disbursing government fund and property without proper authority, approval and unjustly;

(iii) to facilitate recording of local government financial transactions in the appropriate accounting method; and

(iv) to serve as a learning tool for officers on first appointment or on transfer to a new section.

The contents of Local Government Financial Memoranda may be summarised, as follows:

- the format of budget and budgetary control;
- the financial responsibilities of the Chairman and other Accounting;
- Officers of a Local Government;
- the responsibilities of the Local Government Secretary, Treasurer
- and Heads of Departments;
- the responsibilities of the Internal Auditor as they relate to audit alarm;
- The powers and functions of the Auditor General for Local government;
- the various financial offences and their respective sanctions;
- the means of revenue collection and control;
- main books of accounts kept in the local government; and
- the custody, accounting and control of stores.

3. Compare and contrast non- profit and profit oriented organisations.

(a) The main objective of non-profit oriented organisation is to provide adequate welfare to the people at reasonable costs while the main objective of profit-oriented organisation is to maximise profit.

(b) Non- profit oriented organisations derive their revenue from the public in the form of taxation, fines, fees, etc. while profit oriented organisations derive their income principally from the sales of goods and services.

(c) Non-profit oriented organisations are created by Acts of the Legislatures i.e. National/State Assemblies while profit-oriented organisations must be registered with Corporate Affairs Commission.

(d) The public is more interested in the budgets of non-profit oriented organisations than their Annual Reports. They are rigid on the budgetary approach. The public is more interested in the Annual Reports of profit-oriented organisations than their annual budgets which are internal documents of the organisations.

(e) Non-profit oriented organisations strictly operate on international public sector accounting standards (IPSAS) on cash or accrual basis. They operate substantially on fund accounting. But, profit- oriented organisations strictly operate on international financial reporting standards (IFRS). The proprietary approach is used for their funding.

(f) There is no Annual General Meeting in non-profit oriented organisations, but government can hold public briefing on specific issues. There is Annual General Meeting of the Shareholders to discuss the performance of the profit-oriented organisation.

(g) Any income realised on dissolution of non-profit oriented organisations cannot be distributed for benefit of members, directors, or officers of the organisation because all the proceeds must revert to the state. On dissolution, any income realised by profit-oriented organisation can be distributed; for the benefit of members, directors, or officers of the organisation.

CHAPTER 2

TOWARDS NATIONAL FISCAL RESPONSIBILITY

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2 Towards National Fiscal Responsibility

2.0 Learning objective

The objective of this chapter is to enhance readers' understanding of the powers and duties of the Fiscal Responsibility Commission, objectives and contents of the Medium-Term Expenditure Framework, preparation and Implementation of the annual budget and conditions for borrowing by any tier of government.

2.1 Learning outcomes

On successful completion of this chapter, readers will be able to discuss the provisions of Fiscal Responsibility Act, 2007 in relation to:

a. the medium-term expenditure framework (MTEF);
b. the annual budget (computational question may be examined);
c. budget execution and achievement of targets (computational question may be examined);
d. savings and assets management;
e. transparency and accountability; and
f. enforcement.

2.2 Introduction

In order to strengthen the Nigerian economy, fast track the tempo of socio-economic development and ensure value for all resources deployed into physical and intrinsic development, the Nigerian Government has been enacting various laws and setting up various legally backed commissions. The Federation Account Allocation Committee, the Economic and Financial Crimes Commission, the Independent Corrupt Practices and Other Related Offences Commission, and the National Commission on Public Procurement are but few of the government agencies established to ensure that its objective of improving the living standard of Nigerians is achieved. The nation has gone a step further by enacting the Fiscal Responsibility Act, 2007. The Act is aimed at providing prudent management of the nation's resources and ensure long-term macro-economic stability of the national economy and secure greater accountability and transparency.

2.3 Fiscal Responsibility Commission

The Fiscal Responsibility Act, 2007 (as amended by Fiscal Responsibility Act, 2010) established the Commission to carry out the following functions, among others:

a. monitoring and enforcing the provisions of the Act, thereby promoting the economic objectives of the nation.
b. disseminating standard national and international practices that will ensure greater efficiency in the allocation and management of public expenditure, revenue collection, debt control and transparency in fiscal matters.
c. undertaking fiscal and financial studies, analysis and diagnosis and disseminating the result to the general public.

d. make rules for carrying out its functions under the Act; and

e. perform any other function consistent with the promotion of the objectives of the Act.

2.3.1 Composition of the Commission

The Commission consists of:

a. a chairman, who will be the chief executive officer and accounting officer of the Commission.

b. one member representing;

   i. organised private sector;

   ii. civil society engaged in causes relating to probity, transparency and good governance; and

   iii. organised labour.

c. a representative of the federal ministry of finance, not below the rank of a director; and

d. one member to represent each of the six geo-political zones.

All the members of the Commission shall be persons of proven integrity and shall be appointed by the President subject to confirmation by the Senate.

2.3.2 Functions of Fiscal Responsibility Commission

a. Monitor and enforce the provisions of this Act and by so doing, promote the economic objectives contained in the constitution.

b. Disseminate such standard practices including international good practice that will result in greater efficiency in the allocation and management of public expenditure, revenue collection, debt control and transparency in fiscal matters.

c. Undertake fiscal and financial studies, analysis and diagnosis and disseminate the result to the general public.

d. Make rules for carrying out its functions under the Act.

e. Perform any other functions consistent with the promotion of the objectives of this Act.

2.3.3 Powers of the Fiscal Responsibility Commission

The Act empowers the commission to, among other matters:

(a) formulate and provide general policy guidelines for the discharge of the commission's functions;

(b) superintend the implementation of such policy guidelines;

(c) appoint employees to ensure proper and efficient performance of its functions;

(d) determine the terms and conditions of service of employees and fix their remuneration, allowances and benefits;

(e) do other things, which in its opinion are necessary to ensure the efficient performance of the functions of the commission; and

(f) regulate its proceeding and make standing orders with respect to the holding of its meetings, notices to be given, the keeping of minutes of its proceedings and such other matters as the commission may, from time to time determine.

2.4 Medium-term expenditure framework (MTEF)

MTEF is a medium-term high level strategic plan of the government, usually three years in Nigeria and which forms the basis of annual budgeting taking into consideration the law requirement that spending should not exceed revenue by more than 3% of GDP. It shifts the psychology of budgeting from "needs" to an "availability of resources".

It is also enshrined in the Part II, Section 11-17 of the Fiscal Responsibility Act (FRA), 2007 which mandates the Federal Government to develop a Fiscal Strategic Paper (FSP) within an MTEF for the next three years.

Section11 of the Fiscal Responsibility Act, 2007 states that the Federal Government in consultation with the states would:

a. prepare and submit to the National Assembly a medium-term expenditure framework for the next three financial years on which the National Assembly will deliberate. This would have to be done not later than six months from the commencement of the Act; and
b. subsequently, not later than four months before the next financial year commences, a medium-term expenditure framework for the next three financial years will be prepared for the National Assembly's consideration.

2.4.1 Objectives of MTEF

The objectives of MTEF are to:

(a) improve macroeconomic balance, including fiscal discipline through good estimates of the available resource envelope, which are then used to make budgets that fit squarely within the envelope;
(b) improve inter-and intra-sectoral resource allocation by effectively prioritising all expenditure (on the basis of the government's socio-economic program) and dedicating resources only to the most important ones;
(c) increase greater budget predictability as a result of commitment to more credible sectoral budget ceilings;
(d) increase greater political accountability for expenditure outcomes through legitimate decision making; and
(e) make public expenditure more efficient and effective, essentially by allowing line ministries greater flexibility in managing their budgets in the context of hard budget constraints and agreed upon policies and programmes.

2.4.2 Contents of the medium-term expenditure framework

The MTEF shall contain the following contents.

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

b. Fiscal strategy document setting out:

i. federal government's medium-term financial objectives;

ii. the policies of the Federal Government for the medium term relating to taxation, recurrent expenditure borrowings, lending and investment and other liabilities;

iii. the strategies, economic, social and developmental priorities of government for the next three financial years;

iv. an explanation of the financial objectives, strategic, economic, social and developmental priorities and fiscal measures;

c. An expenditure and revenue frameworks which set out:

i. estimates of aggregate revenue for the federation for each financial year, based on the pre-determined commodity reference price adopted and tax revenue projections;

ii. aggregate expenditure for each of the next three financial years;

iii. minimum capital expenditure projection for the federation for each of the next three financial years; and

iv. aggregate tax expenditure projection for the federation for each of the next three financial years.

(d) a consolidated debt statement indicating and describing the fiscal significance of the debt liability and measures to reduce the liability; and

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

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

a. based on reliable and consistent data;

b. targeted at achieving the macro-economic projection;

c. consistent with and derive from the underlying assumptions contained in the fiscal strategy document.

2.5 Annual budgets and the medium-term expenditure framework

The medium-term expenditure framework shall be the basis for the preparation of the estimates of revenue and expenditure to be presented to the National Assembly.
The annual budget must be accompanied by:

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

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

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

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

(e) a fiscal target document derived from the underlying medium–term expenditure framework setting out the following targets for the relevant financial year:

i. target inflation rate

ii. target fiscal account balances

iii. any other development targets deemed appropriate.

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

2.6 Preparation of the medium-term expenditure framework

In line with the Part II, Section 11-17 of the Fiscal Responsibility Act (FRA), 2007, the MTEF shall contain the following for the next three financial years:

(a) a macro-economic framework;
(b) a fiscal strategy paper;
(c) an expenditure and revenue framework;
(d) a consolidated debt statement; and
(e) a statement on contingent liabilities.

The Minister will be responsible for preparing the medium-term expenditure framework. In doing this, he may hold public consultations on:

(a) the macro-economic framework;
(b) fiscal strategy document;
(c) the strategic, economic, social and developmental priorities of government; and
(d) such other matters, as he may deem necessary.

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

The Minister shall seek inputs from the following organisations.

(a) National Planning Commission;
(b) Joint Planning Commission;
(c) National Commission on Development Planning;
(d) National Economic Commission;
(e) National Assembly;
(f) Central Bank of Nigeria;
(g) National Bureau of Statistics; and
(h) Revenue Mobilisation Allocation and Fiscal Commission.

The Minister shall before the end of the second quarter of each financial year, present the medium-term expenditure framework to the Federal Executive Council for consideration and endorsement.

The medium-term expenditure framework as endorsed by the Federal Executive Council shall take effect upon approval by the National Assembly.

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

(a) the correction of manifest error; and
(b) changes in the fiscal indicators, which in the opinion of the President a resignificant.

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2.7 Format of Medium - term expenditure framework in Nigeria

Fiscal Item	Approved Budget for the Current Year. (i.e. Year 1)	Actual as at end of the month of submission to NASS in Year 1	Year 2 Forecast	Year 3 Projection	Year 4 Projection
Oil Production Volume ('M barrels per day)	xxxx	xxxx	xxxx	xxxx	xxxx
Average budget price per barrel (in USD)					
Average exchange rate					
Federally collectible revenue:	₦'billion	₦'billion	₦'billion	₦'billion	₦'billion
Gross oil revenue	xxxx	xxxx	xxxx	xxxx	xxxx
Gross non-oil revenue	xxxx	xxxx	xxxx	xxxx	xxxx
Federation account inflows:	xxxx	xxxx	xxxx	xxxx	xxxx
Crude oil sales	xxxx	xxxx	xxxx	xxxx	xxxx
Gas sales	xxxx	xxxx	xxxx	xxxx	xxxx
Petroleum profit	xxxx	xxxx	xxxx	xxxx	xxxx
Gas Income @30% CITA	xxxx	xxxx	xxxx	xxxx	xxxx
Oil royalties	xxxx	xxxx	xxxx	xxxx	xxxx
Gas royalties	xxxx	xxxx	xxxx	xxxx	Xxxx
Net oil and gas revenue less cost, deduction and 13% derivation	xxxx	xxxx	xxxx	xxxx	xxxx
Net solid mineral revenue after derivation	xxxx	xxxx	xxxx	xxxx	xxxx
Total non-oil revenue	xxxx	xxxx	xxxx	xxxx	xxxx
Total FGN's Retained revenue	xxxx	xxxx	xxxx	xxxx	xxxx
Statutory transfer	xxxx	xxxx	xxxx	xxxx	xxxx
Sinking fund to retire maturing loan	xxxx	xxxx	xxxx	xxxx	xxxx
Recurrent Exp.	xxxx	xxxx	xxxx	xxxx	xxxx
Special intervention (conditional cash transfer, Home grown school feeding program, post NYSC entrepreneurial development.	xxxx	xxxx	xxxx	xxxx	xxxx
Capital Exp.	xxxx	xxxx	xxxx	xxxx	xxxx
Total FGN Exp.	xxxx	xxxx	xxxx	xxxx	xxxx
Fiscal Deficit	xxxx	xxxx	xxxx	xxxx	xxxx
GDP	xxxx	xxxx	xxxx	xxxx	xxxx
Share of Capital as % of non-debt exp.	xxxx	xxxx	xxxx	xxxx	xxxx
Share of capital as % of total exp.	xxxx	xxxx	xxxx	xxxx	xxxx

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

2.8 Risks to MTEF

(a) Global Development- Fragile Economic Recovery and the Emergence of New Political Risks.

(b Persistence of Oil Price Decline – Low oil prices expected to remain in the medium term.

(c) Oil Production and Oil Sector Management – Oil production be deviled by crude oil theft and oil pipeline vandalism.

(d) Non- Oil Revenue Risks- Due to low remittance by Government's Owned. Enterprises into Treasury due to lack of Transparency e. g Operating surplus.

2.9 Monitoring of budget implementation

The Minister of Finance, through the Budget Office of the Federation, shall monitor and evaluate the implementation of the Annual Budget, assess the attainment of fiscal targets and report to the Fiscal Responsibility Commission and the Joint Finance Committee of the National Assembly. In implementing their annual budgets, State and Local governments may adopt those provisions.

2.10 Public revenue

a. Estimated revenue of the government, shall be broken down by the executive arm of government into monthly collection targets indicating, measures to combat tax fraud and evasion.

b. The executive arm of government shall at least 30 days before the deadline for the submission of its budget proposals, place at the disposal of the National Assembly, the revenue estimates for the following year.

c. The Federation may set off any fund, due to the Federation from any tier of government in or towards payment or remittance of any sum due to that tier of government from the federation.

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2.11 Public expenditure

Public sector resources management requires that government annual expenditure be kept below its revenue level or, at worst, at par with the annual revenue formal sources so as to avoid the need to get involved in deficit financing. Sometimes, however, the need to provide higher level and high-quality socio-economic services to the people may demand increased expenditure. Under this Act, conditions by which this can occur are given hereunder.

2.11.1 Conditions for increasing government expenditure.

(a) Any action of government, which results in an increase in expenditure, should be backed up by:
   i. an estimate of the budgetary or financial impact in the year it becomes effective and in the two subsequent years;
   ii. a statement by the person requesting for the expenditure, stating that the increase is consistent with the Appropriations Act and the Medium- Term Expenditure Framework.
   iii. prior budgetary allocation should have been done before granting any advantage or increase of remuneration, creation of posts or allocation of career structures and admission of personnel;

(b) All contracts in relation to annual budget execution should comply with the rules and guidelines on:
   i. procurement and award of contracts; and
   ii. due process and certification of contract.

2.12 Debt and indebtedness

a. All tiers of government shall borrow only for capital expenditure and human development. Such borrowing should also be on concessional terms with low interest rate and reasonable long amortisation period subject to the approval of appropriate legislative body;
b. The public debt as a proportion of natural income shall be held at a sustainable level as prescribed by the National Assembly; and
c. Government may borrow from the capital market.

2.12.1 Interpretation of borrowing

Borrowing means any financial obligation arising from:

(a) loans including principal, interest and fees on such loans;
(b) deferred payment for property, goods or services;
(c) bonds, debentures, notes or similar instruments;
(d) letters of credit and reimbursement obligations;
(e) guarantees;
(f) trade or banker's acceptances;
(g) capitalised amount of obligations under leases;

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(h) agreements providing for swap, ceiling rates, ceiling and floor rates contingent participation or other hedging mechanism with respect to the payment of interest or the convertibility of currency; and
(i) conditional sale agreements, capital leases or other retention agreement.

2.13 Budgetary execution and achievement of targets

Attention should be focused on the underlisted matters.

(a) **Annual cash plan:** The Accountant General of the Federation shall draw up an Annual Cash Plan in each financial year, setting out projected monthly cash flows. This shall be revised periodically to reflect actual cash flows;
(b) **Disbursement schedule:** The Minister shall, within 30 days of the enactment of the Appropriation Act, prepare and publish a disbursement schedule from the Annual Appropriation Act;
(c) **Appropriation Act:** Amounts appropriated for specific purposes shall be used solely for those purposes specified in the Appropriation Act; and
(d) **Virement approval:** The Ministry may, in exceptional circumstances and in the overall public interest, recommend to the National Assembly for its approval, virement from one sub-head account to another within the same Head and without exceeding the amount appropriated to such head of account.

2.14 Aggregate expenditure ceiling

The estimates of aggregate expenditure and the aggregate amount appropriated by the National Assembly for each financial year shall not be more than the estimated aggregate revenue plus a deficit which must not be more than 3% (three percent) of the Estimated Gross Domestic Product or any sustainable percentage as may be determined by the National Assembly for each financial year.

Aggregate expenditure for a financial year may exceed the ceiling indicated above if in the opinion of the President there is clear and present threat to national security or sovereignty of the Federal Republic of Nigeria.

2.15 Savings and asset management

(a) The saving of each Government in the Federation shall be deposited in a separate account, which shall form part of the respective Governments Consolidated Revenue Fund to be maintained at the Central bank of Nigeria by each Government.
(b) The Central Bank of Nigeria shall, in consultation with the Minister of Finance, the State Commissioners of Finance, and Local Government Treasurers, invest for and on behalf of the Governments in the Federation, the saving of each government and such investment can be undertaken in a consolidated manner, provided that, the shares of each government and income due to them from the investment are clearly identified.
(c) No government in the federation shall have access to the savings made, unless the reference commodity price falls below the predetermined level for aperiod of

three consecutive months. The augmentation shall be limited to such sums that will bring the revenue of government to the level contained in its budget estimates.

(d) Notwithstanding the provisions of (iv) above and subject to agreement by Federal and State Governments in the Federation, a proportion of the savings may be appropriated in the following year for the capital projects and programmes.

(e) The Central Bank of Nigeria in the discharge of its obligation for the investments observe the limits and conditions imposed by safety and prudential considerations which are to be agreed upon with the Minister of Finance, State Commissioners of Finance and Local Government Treasurers.

2.16 Enforcement

(a) Any person who under-declares revenue generated or collected by any of the establishments listed in the schedule, shall be guilty of an offence and liable on conviction to imprisonment for a term of 5 years or a fine of 10 percent of the total amount under declaration.

(b) Any person who authorised the spending of any money collected or generated pursuant to section 3 of this Act without appropriation by the National Assembly shall be guilty of an offence and liable on conviction to imprisonment for a term of 5 years or a fine of 10 percent of the total amount expended.

2.17 Miscellaneous provisions

(a) Government securities, provided that, they are duly listed on the Stock Exchange, may be offered as collateral to guarantee loans or other financial transactions under the law for their economic values as defined by the Ministry.

(b) The process derived from the sale or transfer of public properties and rights over public assets shall not be used to finance recurrent and debt expenditure, provided that, such proceeds may be used to liquidate existing liabilities directly charged against such properties or asset.

(c) The Federal government may provide technical and financial assistance to States and local government that adopt similar fiscal responsibility legislation along the same line in this Act for the modernization of their respective tax, financial and asset administration.

2.18 Chapter review

This chapter dealt with government's commendable move to ensure fiscal responsibility at all levels of public administration and in consonance with the earnings of the people. It discussed such fiscal issues like the powers and duties of the Fiscal Responsibility Commission, Medium Term Expenditure Framework, Preparation and Implementation of the Annual Budget and acceptable conditions for borrowing by any tier of government.

2.19 Worked examples

2.19.1 Examination type questions

1. Fiscal Responsibility Commission was established by the Fiscal Responsibility Act; 2007 (as amended).

Required:

a. Explain the composition of the Commission.
b. Explain the functions of the Commission as contained in the Act.
c. Explain the powers of Fiscal Responsibility Commission as stated in the Act.

2. Discuss the contents of the Medium-Term Expenditure Framework.

3. (a) Explain the relationship between Annual Budget and the Medium-Term Expenditure Framework.

(b) Explain the matters that should be given attention in budgetary execution to achieve intended target.

4. (a) Explain Fiscal Transparency.

(b) Enumerate four (4) IMF Code of Good Practices on Fiscal Transparency.

5. (a) Explain **five** (5) conditions that facilitate the promotion of Public Accountability.

(b) Explain **six** (6) of the measures put in place by the Federal Government of Nigeria to enhance Public Accountability.

2.19.2 Suggested solutions

1.(a). Composition of the Commission

(i) A Chairman, who shall be the Chief Executive and Accounting Officer of the Commission.
(ii) One member from and representing
(iii) The organised private sector
(iv) Civil society – engaged in cases relating to probity, transparency and good governance.
(v) The organised labour.
(vi) Federal Ministry of Finance – of a level not below the rank of a director.
(vii) Each geo-political zones of the country namely: North-Central, North-East, North-West, South-East, South-South and South-West.

(b) The following are the functions of the Fiscal Responsibility Commission as contained in the Act:

(i) monitoring and enforcing the provisions of the Act, thereby promoting the economic objectives of the nation;

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

(iii) undertaking fiscal and financial studies, analysis and diagnosis and disseminating the result to the general public;

(iv) making rules for carrying out its functions under Fiscal Responsibility Act; and

(v) perform any other functions consistent with the promotion of the objectives of Fiscal Responsibility Act.

(c) The powers of the Fiscal Responsibility Commission will include the following:

i. power to provide general policy guidelines for the implementation of the functions of the commission;

ii. power to supervise the implementation of the policies of the commission;

iii. power to appoint employee required for the commission.

iv. power to determine and approve the terms and conditions of service including the disciplinary measures for the employees of the commission;

v. power to fix the remuneration, allowances and benefits of the employees of the commission;

vi. power to regulate its proceedings in respect of meetings, notices and keeping of minutes as may be determined by the commission; and

vii. power to perform any other functions as may be deemed to ensure efficient performance of the commission.

2. The medium-term is expenditure framework has the following contents:

a) A micro-economic frame work setting out the three financial years, the underlying assumption and an evaluation and analysis of the macro-economic projection for the preceding three financial years;

b) Fiscal Strategy document setting

i. Federal government's medium-term financial objectives;

ii. The policies of the federal government for the medium term relating to taxation recurrent expenditure, borrowings, lending and investment and other liabilities;

iii. The strategies, economic, social and developmental priorities of government for the next three financial years; and

iv. An explanation of the finance objectives, strategic, economic, social and developmental priorities and fiscal measures.

c) An expenditure and revenue framework setting out:

- Estimates of aggregate revenue for the federation for each financial year;
- Minimum capital expenditure projection for the Federation for each of the next three financial years;
- Aggregate tax expenditure project for the federation for each of the next three;

d) A consolidate debt statement indicating and describing the fiscal significance of the debt liability and measures to reduce the liabilities and

quasi-fiscal activities and measures to offset the crystallisation of such liabilities.

3. (a). The Medium-Term Expenditure framework constitutes the basis for the preparation of the annual estimates of revenue and expenditure to be presented to the National Assembly.

(b) To achieve set targets in budgetary execution, the attention should be focused on:

(i) Annual Cash Plan – prepared by the Accountant General of the Federation

(ii) Disbursement Schedule – the Minister shall within 30 days of the enactment of the appropriation Act, prepare and publish disbursement schedule;

(iii) Appropriation Act–which states that sums appropriated should be used solely for those purposes specified in the appropriation acts;

(iv) Virement Approval – The ministry may recommend virement from one sub-head account to another within the same head;

(v) An expenditure and revenue framework setting out:

- Estimate aggregate revenue for the federation for each financial year;
- Minimum capital expenditure projection for the federation for each of the next three financial years;
- Aggregate tax expenditure projection for the federation for each of the next three financial years;

(vi) A consolidate Debt statement indicating and describing the fiscal significance of the debt liability and measures to reduce the liability;

(vii) A statement on the nature and fiscal significance of contingent liabilities and quasi-fiscal activities and measures to offset the crystallisation of such liabilities;

4 (a) Fiscal transparency

This is the aspect of accountability, which requires government to carry out all aspects of budgeting responsibilities with openness, trust, basic values and ethical standards. So that it will have nothing to hide from public. Where a government has something to hide, public reporting is more likely to be infrequent, unreliable and less comprehensive in order to hide material facts.

(b) IMF Code of good practices and fiscal transparency

(i) Clarity of roles and responsibilities

(ii) Open budget process;

(iii) Public availability of information;

(iv) Assurances of integrity.

5(a) Conditions that facilitate the promotion of public accountability

i. Availability of democratic institutions that allow for changes in leadership through free and fair elections.
ii. The existence of leadership that genuinely believes and committed to the notion of public accountability and will therefore ensure that the laws to safeguard public fund are enforced irrespective of the might of the public officer concerned.
iii. Public accountability needs the presence of active investigative media that will help to keep the leadership on their toes.
iv. Public accountability will be enhanced if the generality of the populace do not believe that embezzlement of public funds is part of the "political manifesto" which the political leaders must achieve while in office at the detriment of the original manifesto.
v. Addressing the issue of poverty through poverty reduction targeted government expenditure.

(b) Measures put in place to enhance public accountability

(i) The Fiscal Responsibility Act 2007.
(ii) The Public Procurement Act 2007.
(iii) The Freedom of Information Act 2011. This was signed into law on May 28th, 2011.It is expected to enhance transparency and accountability in the country.
(iv) Nigeria Code of Conduct Bureau.
(v) Independent Corrupt Practices and Other Related Offences Commission (ICPC).
(vi) Economic and Financial Crime Commission (EFCC).
(vii) Public Accounts Committee of the two Houses of the National Assembly.
(viii) Office of Auditor-General for the Federation and Office of Auditors-General in the States and Local Governments.
(ix) Nigeria Extractive Industries Transparency Initiative (NEITI) Act2007;
(x) Revenue and Inspectorate Departments of the Office of Accountant General of the Federation
(xi) ICAN Accountability Index.
(xii) Office of Special Adviser on Project Monitoring in the Presidency.

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CHAPTER 3

ETHICAL ISSUES IN PUBLIC SECTOR ACCOUNTING AND FINANCE

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3. Ethical Issues in Public Sector Accounting and Finance

3.0 Learning objective

The objective of this chapter is to enhance readers' understanding of the agencies of government that are put in place by the government to eradicate or at least reduce corruption, cases of fraud and greed within the society.

3.1 Learning outcomes

On success completion of this chapter, readers should be able to:

a. identify and discuss the major institutions charged with the responsibilities of ensuring compliance to ethical standards in the public sector; and
b. itemise ethical offences and discuss the appropriate stipulated sanctions.

3.2 Introduction

In order to stamp out the rising cases of corruption, fraud, greed and avarice which are pervasive in the society and in view of the need to overhaul the image of the country before 'accountability organs' such as Transparency International, the Federal Government of Nigeria introduced various regulatory laws and measures.

3.3 Economic and Financial Crimes Commission (EFCC)

The Commission is empowered to prevent, investigate, prosecute and sanction economic and financial crimes and is charged with the responsibility of enforcing the provisions of other laws and regulations relating to economic and financial crimes. These crimes include the Money Laundering Act, 1995, the Advance Fee Fraud and Other Related Offences Act, 1995, the Failed Banks (Financial Malpractices in Banks) Act 1994;the Banks and Other Financial Institutions Act, 1991(now replaced with the Banks and Other Financial Institutions Act, 2020), and Miscellaneous Offences Act.

3.3.1 Duties of the Commission

According to Part II of the Act, the Commission is responsible for:

a. the enforcement and the due administration of the provisions of the Act;
b. the investigation of all financial crimes which include advance fee fraud, money laundering, counterfeiting, illegal charge transfers, futures market fraud, fraudulent encashment of negotiable instruments, computer credit card fraud, contract scam, etc;
c. the co-ordination and enforcement of all economic and financial crime laws and enforcement functions conferred on any other person or authority;
d. the adoption of measures to eradicate the commission of economic and financial crimes;
e. the adoption of measures to identify, trace, freeze, confiscate or seize proceeds derived from terrorist activities, economic and financial crime related offences or the properties, the value of which corresponds to such proceeds;

f. the adoption of measures, which include coordinated preventive and regulatory actions, introduction and maintenance of investigative and control techniques on the prevention of economic and financial related crimes;
g. the facilitation of rapid exchange of scientific and technical information and the conduct of joint operations geared towards the eradication of economic and financial crimes;
h. the examination and investigation of all reported cases of economic and financial crimes with a view to identifying individuals, corporate bodies or groups involved;
i. the determination of the extent of financial loss and such other losses by government, private individuals or organisations;
j. collaboration with government bodies both within and outside nigeria, carrying on functions wholly or in part analogous with those of the commission concerning;
    i. the identification, determination of the whereabouts and activities of persons suspected of being involved in economic and financial crimes;
    ii. the movement of proceeds or properties derived from the commission of economic and financial and other related crimes;
    iii. the exchange of personnel or other experts;
    iv. the establishment and maintenance of a system for monitoring international economic and financial crimes in order to identify suspicious transactions and persons involved;
    v. maintaining data, statistics, records and reports on persons, organisations, proceeds, properties, documents or other items or assets involved in economic and financial crimes;
    vi. undertaking research and similar works with a view to determining the manifestation, extent, magnitude and effects of economic and financial crimes and advising government on appropriate intervention measures for combating same;
    vii. taking charge of, supervising, controlling, coordinating all the responsibilities, functions, activities relating to the current investigation and prosecution of all offences connected with or relating to economic and financial crimes, in consultation with the attorney-general of the federation; and
    viii. carrying out such other activities as are necessary or expedient for the full discharge of all or any of the functions conferred on the Commission under the Act.

3.3.2 Powers of the Commission

Under paragraph 6 of the Act, the Commission has power to:

(a) cause investigations to be conducted as to whether any person has committed an offence under the Act;
(b) cause investigations to be conducted into the properties of any person, if it appears to the Commission that the person's lifestyle and extent of his properties are not justified by his source of income;
(c) enforce the provisions of:
    i. the Money Laundering Act 1995;

ii. the Advance Fee Fraud and Other Related Offences Act 1995;
iii. the Failed Banks (Recovery of Debts) Financial Malpractices in Banks, Act 1994 (as amended);
iv. the Banks and Other Financial Institutions Act 1991 (as amended).
v. miscellaneous Offences Act; and
vi. any other law or regulations relating to economic and financial crimes.

3.3.3 Offences and convictions

A summary of the various offences committed and the penalties stipulated under part IV, of the Act.

(a) Offences which relate to financial malpractices attract 5 years imprisonment or a fine of fifty thousand naira (N50,000) or both imprisonment and fine;
(b) Offences associated with terrorism attract imprisonment for life;
(c) Offences committed by public officers attract between 15 and 25 years imprisonment;
(d) Retaining the proceeds of a criminal conduct attract not less than 5 years imprisonment or to a fine equivalent to 5 times the value of the proceeds of the criminal conduct or to both fine and imprisonment;
(e) Offences in relation to economic and financial crime attract imprisonment for a term not less than 15 years and not exceeding 25 years.

Paragraph 20 of the Act says 'for the avoidance of doubt and without any further assurance than this Act, all the properties of a person convicted of an offence under this Act and shows to be derived or acquired from such illegal act and already the subject of an interim order shall be forfeited to the Federal Government.'

3.4 The Independent Corrupt Practices and Other Related Offences Act, 2000

The Corrupt Practices and Other Related Offences Act, 2000, gave birth to the Independent Corrupt Practices and other Related Offences Commission. The Commission is a body corporate, endowed with perpetual succession. It has a common seal and is juristic (that is, may sue and be sued in its corporate name).

3.4.1 Duties of the Commission

(a) Where reasonable ground exists for suspecting that any person has conspired to commit or has attempted to commit or has committed an offence under the Act or any other law prohibiting corruption, to receive and investigate any report of the conspiracy to commit, attempt to commit or the commission of such offence and, in appropriate cases the offenders;
(b) To examine the practices, systems and procedures of public bodies and where, in the opinion of the Commission, such practices, systems or procedures aid or facilitate fraud or corruption, to direct and supervise are view of them;
(c) To instruct, advise, and assist any officer, agency or parastatals on ways by which fraud or corruption may be eliminated or minimised by such officer, agency or parastatals;

(d) To advise Heads of Public Bodies of changes in practices, systems or procedures compatible with the effective discharge of the duties of the public bodies as the Commission thinks fit to reduce the likelihood or incidence of bribery, corruption and related offences;
(e) To enlist and foster public support in combating corruption.

3.4.2 Offences and penalties

(a) **Offence of accepting gratification:** Any person who corruptly asks for, receives or obtains any property or benefit of any kind for himself for any other person or agrees or attempts to receive or obtain any property or benefit of any kind for himself or for any other person, is liable to imprisonment for seven (7) years;
(b) **Offence of giving or accepting gratification through agent:** On conviction, shall be liable to imprisonment for seven (7) years;
(c) **Accept or giver of gratification** to be guilty, notwithstanding that, the purpose was not carried out or matter not in relation to principal's affairs or business; on conviction shall be liable to imprisonment for (seven) 7 years;
(d) **Fraudulent acquisition of property:** Any person found guilty, shall on conviction, be liable to imprisonment for seven (7) years;
(e) **Fraudulent receipt of property:** Any person who receives anything which has been obtained by means of act constituting a felony or mis-demeanour insideor outside Nigeria, which if it had been done in Nigeria would have constituted a felony or misdemeanour and which is an offence under the laws in force in the place where it was done, knowing the same to have been so obtained, is guilty of a felony and the offender shall, on conviction be liable to imprisonment for seven (7) years;
(f) **Penalty for offences committed through postal system:** If the offence by means of which the thing was obtained is a felony, the offender shall on conviction be liable to imprisonment for three (3) years, except the thing so obtained was a postal matter, or any chattel, money or valuable security contained therein, in which case the offender shall on conviction be liable to imprisonment for seven (7) years;
(g) **Deliberate frustration of investigation being conducted by the Commission:** Any person who, with intent to defraud or conceal a crime or frustrate the Commission in its investigation of any suspected crime of corruption under the Act or any other law destroys, alters, etc. any document shall on conviction be liable to seven (7) years imprisonment;
(h) **Making false statements or returns:** Any person who knowingly furnishes any false statement or return in respect of any money or property received by him or entrusted to his care, or of any balance of money or property in his possession or under his control, is guilty of an offence and shall on conviction be liable to seven (7) years imprisonment;
(i) **Gratification by and through agents:** Any person who corruptly accepts, obtains, gives or agrees to give or knowingly gives to any agent, any gift or

consideration as an inducement or reward for doing, fore bearing to do any act or thing, shall on conviction be liable to five (5) years imprisonment;

(j) **Bribery of public officer:** Any person who offers to any public officer, or being a public officer solicits, counsels or accepts any gratification as an inducement or a reward, in the course of official duties shall on conviction be liable to five (5) years imprisonment with hard labour;

(k) **Using office or position for gratification:** Any public officer who uses his office or position to gratify or confer any corrupt or unfair advantage upon himself or any relation or associate shall be guilty of an offence and shall on conviction be liable to imprisonment for five (5) years without option of fine;

(l) **Any public officer who in the course of official duties, inflates the price of any good or service above prevailing market price or professional standards** shall be guilty of an offence under this Act and liable on conviction for a term of seven (7) years and a fine of one million naira (₦1,000,000.00).

3.5 Code of conduct for public officers

The Fifth schedule, Part 1, of the 1999 Constitution states that "a public officer shall not put himself in a position where his personal interest conflicts with his duties and responsibilities.''

3.5.1 Restrictions on specified officers

A public officer shall not receive or be paid the emoluments of any public office just as he receives or is paid the emolument, except where he is not on full time basis, or does not engage in the running of any private business. However, no public officer shall be prevented from engaging in farming.

3.5.2 Prohibition of foreign accounts

The President, Vice-President, Governors, Deputy Governors, Ministers of the Government of the Federation, State Commissioners, members of the National Assembly and of the Houses of Assembly of the States and such other public officers or persons as the National Assembly may by law prescribe shall not maintain or operate a bank account in any country outside Nigeria.

3.5.3 Retired public officers/certain retired public officers

No public officer shall, after retirement from public service and while taking pension from public funds, accept more than one remunerative position as Chairman, Director or Staff of a company controlled by the government or any public authority. A retired public servant shall not receive any other remuneration from public funds additionally to his pension and the emolument of such one remunerative position. The holders of the offices of President, Vice-President, Chief Justice of Nigeria, Governor and Deputy Governor of a State are prohibited from service or employment in foreign companies or foreign enterprises.

3.5.4 Gifts or benefits in kind

A public officer shall not ask for or accept any gift or benefit for himself or any other person, in the discharge of his duties. However, he may accept personal gifts or benefits from relatives or friends as recognised by custom only.

3.5.5 Bribery of public officers

A public officer should not receive any property, gift or benefit of any kind as a bribe for granting a favour in the performance of his duties.

3.5.6 Abuse of powers

A public officer shall not do or cause to be done, in abuse of his position, any arbitrary thing, which prejudices the rights of others.

3.5.7 Membership of societies

A public officer shall not belong to a society, the membership of which runs incompatible with the dignity of his office.

3.5.8 Paragraph 11 of the Fifth Schedule, Part 1,

states that every public officer shall within three months after the coming into force of this Code of Conduct or immediately after taking office and thereafter:

(a) at the end of every four years, and

(b) at the end of his term of office,

i. submit to the Code of Conduct Bureau a written declaration of all his properties, assets and liabilities and those of his unmarried children under the age of eighteen years;

ii. any statement in such declaration that is found to be false by any authority or person authorised in that behalf to verify it shall be deemed to be a breach of this Code; and

iii. any property or assets acquired by a public officer after any declaration required under this Constitution and which is not fairly attributable to income, gift or loan approved by this Code shall be deemed to have been acquired in breach of this Code unless the contrary is proved.

3.6 Code of Conduct Bureau

Part I of the Third Schedule of the 1999 Constitution established the Code of Conduct Bureau.

3.6.1 Powers of the Code of Conduct Bureau

The Code of Conduct Bureau was set up to:

(a) receive declarations by the public officers made under paragraph 12 of Part 1 of the Fifth Schedule of the 1999 Constitution;

(b) examine the declarations in accordance with the requirements of the Code of Conduct or any law;

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(c) retain custody of such declarations and make them available for inspection by any citizen of Nigeria on such terms and conditions as the National Assembly may prescribe;
(d) ensure compliance with and, where appropriate, enforce the provisions of the Code of Conduct or any law relating thereto;
(e) receive complaints about non-compliance with or breach of the provisions of the Code of Conduct or any law in relation thereto, investigate the complaint and, where appropriate, refer such matters to the Code of Conduct Tribunal; and
(f) carry out any other functions as may be conferred upon it by the National Assembly.

3.7 Code of Conduct Tribunal

It is made up of a chairman and two other persons.

3.7.1 Punishments imposed by the Tribunal

The following are the punishments, which the Code of Conduct Tribunal shall impose if it finds a public officer guilty of contravention of any of the provisions of the Code of Conduct for Public Officers, viz:

(a) vacation of office or seat in any legislative house;
(b) disqualification from membership of a legislative house and from holding any public office for a period not exceeding ten years;
(c) seizure and forfeiture to the state any property acquired in abuse or corruption of office;
(d) penalties that may be imposed by any law where the conduct is also a criminal offence;
(e) prosecution of the public officer punished in a court of law.

3.7.2 General rule

(a) Any officer found guilty of contravention of any of the provisions of the Code of Conduct shall appeal to the Court of Appeal; and
(b) Prerogative of mercy shall not apply to any punishment imposed by the Tribunal

3.8 Public Accounts Committee (PAC)

3.8.1 Definition of Public Accounts Committee

The Committee is a body established by law to study and exam in the reports submitted by the Auditor General, especially in the areas of fraud or misappropriation of public funds. The body is to also make appropriate recommendations to the National/ State Assembly.

3.8.2 Roles of Public Accounts Committee (PAC)

The National or State Assembly approves the disbursement of funds through the Appropriation Act, it is then important to note that it could have been extremely impossible for the Federal/State Assembly to effectively control huge volume of public expenditure without the need for an oversight committee on Public Accounts i.e. Public

Accounts Committee. This Committee plays an important role within the overall financial control mechanism of the Government.

The roles of PAC are as follows:

(a) to examine the accounts showing the appropriation of the sum granted by the National assembly or State House of Assembly to meet the public expenditure; together with the Auditor-General's report there on;

(b) the committee not only ensures that ministries spend money in accordance with National assembly or State House of Assembly approval, it also brings to the notice of the Assembly instances of extravagance, loss, infructuous expenditure and lack of financial integrity in public services;

(c) the Committee shall, for the purposes of discharging that duty, have power to send for any person, papers and records and to report from time to time to the National assembly or State House of Assembly and to sit notwithstanding the adjournment of the Assembly;

(d) to examine any accounts or report of statutory Corporations and Boards after they have been presented to the National assembly or State House of Assembly and to report thereon from time to time to the Assembly;

(e) to enquire into the report of the Auditor General for the Federation/ State with respect to any pre-payment audit query which had been overruled by the Chief Executive of the Ministries, Extra-Ministerial Departments, Agencies or Court of the Federal/State Government and to report same to the State House of Assembly;

(f) the committee has extended its scope of work in recent years to cover the examination of policy issues and accounts that are not part of the appropriation accounts; and

(g) the PAC has no executive power, but it has gained a high reputation in recent years through its active role in interviewing and questioning officials, obtaining and examining records, collecting and screening evidence from witnesses and reporting findings to the State House of Assembly.

3.8.2 Weaknesses of PAC

(a) The heavy turnover of PAC membership.

(b) The general lack of interest among members of the legislative in accountability issues.

(c) The difficulty of distinguishing between issues of "policy" and of administration".

(d) The unclear status of public servants before PAC and in the accountability system more generally.

(e) Many of its members do not seem to value, much less covet, the assignment; nor do they necessarily have appropriate backgrounds or experience to investigate issues of government administration. Discussions of the Committee that fail to note these issues risk overestimating its abilities and members' enthusiasm for their role.

(f) Lack of rules surrounding the testimony of public servants before PAC. While public servants appear regularly before the PAC and other committees, the

expectations and understandings surrounding their appearances can be very unclear.

(g) The PAC relies heavily on the Office of the Auditor General (OAuG) for its agenda and the Auditor's investigative resources, to the extent that it has little capacity and perhaps little desire to conduct its own independent investigations.

3.9 Judiciary and Courts

Modern nation-states operate through a framework of institutions, including the legislature, judiciary, and executive bodies such as the bureaucracy and police. Additionally, the formal arrangements between national and subnational governments, along with the electoral system, form part of the institutional structure shaped by the principles of constitutionalism. Within this framework, the judiciary comprises judges and courts.

3.9.1 Characteristics of the Judiciary

(a) Impartiality: The Judiciary should be impartial.

(b) Political neutrality: Judiciary should be politically neutral. The judges should not engage in partisan politics.

(c) Permanence: The Judiciary is the permanent institution inherited by successive governments.

(d) Independence: The Judiciary is independent of the executive and legislature.

(e) Professionalism: The Judiciary is made up of judges who are legal experts.

(f) Stable tenure of office: Judges hold office until they retire, if they are not found guilty of any corrupt practices.

(g) Others: The judges have judicial immunity, they follow due process and are guided by the Code of Conduct.

3.9.2 Functions

The Judiciary, generally described as the defender and promoter of human rights, performs many functions in keeping Nigeria's presidential democracy moving in the right direction.

Functions of the Judiciary

(a) The primary function of the judiciary is to interpret the laws and the constitution of the country. It ensures that the Constitution is supreme, and the judiciary should take all the decisions according to it. It helps in resolving major political disputes.

(b) The Judiciary adjudicates cases between the executive and the legislature, and also settles disputes between political parties, individuals and organisations. The Judiciary comprises legal experts.

(c) Protects rights and liberties of citizens: Judiciary protects citizens' rights and liberties. Judiciary can order for the release of person or persons detained unjustly.

(d) The Judiciary advices the Executive on some sensitive issues, such as exercise of pre-rogative of mercy. The Judiciary can also advise the legislature on some sensitive issues, such as constitutional preparations and amendments.

(e) Punishes those who refuse to obey the law.
(f) Nigerian Judiciary hears and determines election petitions. The Judiciary also ascertains true winners of elections.

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

3.10.1 Objectives of the NEITI are to

a. ensure due process and transparency in the payments made by all extractive industry companies to the Federal Government and statutory recipients;
b. monitor and ensure accountability in the revenue receipts of the Federal Government from extractive industry companies;
c. eliminate all forms of corrupt practices in the determination, payments, receipts and posting of revenue accruing to the Federal Government from extractive industry companies;
d. ensure transparency and accountability by government in the application of resources from payment received from extractive industry companies; and
e. ensure conformity with the principles of Extractive Industries Transparency Initiative.

3.10.2 Functions of NEITI:

a. develop a framework for transparency and accountability in the reporting and disclosure by all extractive industry companies of revenue due to nor paid to the Federal government;
b. evaluate without prejudice to any relevant contractual obligations and sovereign obligations the practices of all extractive industry companies and government respectively regarding acquisition of acreages, budgeting, contracting materials procurement and production cost profile in order to ensure due process, transparency and accountability;
c. ensure transparency and accountability in the management of the investment of the Federal Government in all extractive industry companies;
d. obtain, as may be deemed necessary, from any extractive industry company, an accurate record of the cost of production and volume of sale of oil, gas or other minerals extracted by the company at my period, provided that such information shall not be used in any manner prejudicial to the contractual obligation or proprietary interests of the extractive industry companies;
e. request from any company in the extractive industry, or from any relevant organ of the federal State or Local government, an accurate account of money paid by and received from the company at any period, as revenue accruing to the Federal government from such company for that period; provided that such information shall not be used in a manner prejudicial to contractual obligations or proprietary interest of the extractive industry company or sovereign obligations of Government;
f. monitor and ensure that all payments due to the Federal Government from all extractive industry companies, including taxes, royalties, dividends, bonuses, penalties, levels and such like are duly made;

g. identify lapses and undertake measures that shall enhance the capacity of any relevant organ of the Federal State or Local Government having statutory responsibility to monitor revenue payments by all extractive industry companies to the Federal Government;

h. disseminate by way of publication of records, report or other wise any information concerning the revenues received by the Federal government from all extractive industry companies as it may consider necessary;

i. promote or undertake any other activity related to its functions and which in its opinion, is calculated to help achieve its overall objectives as enumerated in section 2 of the Act;

j. ensure that all fiscal allocations and statutory disbursements due from the Federal government to statutory recipients are duly made.

3.10.3 Appointment of external auditors for the extractive industry companies

According to Section 4. (1) of NEITI Act 2007, NEITI shall, in each financial year appoint independent auditors to audit the total revenue which accrued to the Federal government for that year from extractive industry companies, in order to determine the accuracy of payments and receipts. The independent auditors appointed under subsection (1) of this section shall undertake a physical process and financial audit on such terms and conditions as may be approved by the National Stakeholders Working Group (NSWG). Upon the completion of an audit, the independent auditors shall submit the reports together with comments on the Extractive Industries Company to NEITI, which shall cause same to be disseminated to the National Assembly and the Auditor General for the Federation and also ensure their publication. NEITI shall submit a bi-annual report of its activities to the President and National Assembly.

The Auditor General for the Federation shall not later than 3 months after the submission of the audit report to the National Assembly publish any comment made or action taken by the Government on the audit reports.

3.10.4 National Stakeholders Working Group (NSWG)

The governing body of the NEITI shall be the National Stakeholders Working Group (in this Act referred to as “the NSWG”)

Functions of NSWG

(a) Be responsible for the formulation of policies, programmes and strategies for the effective implementation of the objectives and the discharges of the functions of the NEITI; and

(b) Have power store commend the annual budget and work-plan of the NEITI and ensure the periodic review of programmes performance by the NEITI

3.10.5 Penalties for offences committed by extractive industry companies

(a) An extractive industry company which gives false information or report to the Federal government or its agency regarding its volume or production, sales and income; or renders false statement of account or fails to render a statement of

account required under this Act to the Federal Government or its agencies, resulting in the underpayment or non-payment of revenue accruable to the Federal government or statutory recipients commits an offence and is liable on conviction to a fine not less than N30,000,000;

(b) Where the extractive industry has been convicted of an offence under (a) above, the court shall, in addition to the penalty prescribed there under, order the company to pay the actual amount of revenue due to the Federal Government;

(c) An extractive industry company which delays or refuses to give information or report under this Act, or willfully or negligently fails to perform its obligations under this Act, commits an offence and is liable on conviction to a fine not less than N30,000,000;

(d) The President may on the recommendation of the NSWG suspend or revoke the operational license of any extractive industry company which fails to perform its obligations under this Act;

(e) If any extractive industry company commits an offense against the Act, every director or other persons concerned in the management of the company commits the offence and is liable on conviction to not less than 2 years imprisonment or a fine not less than ₦5,000,000 unless that person proves that:
   i. the offence was committed without his consent or connivance, and
   ii. the person exercised all such diligence to prevent the commission of the offence as ought to have been exercised by that person, having regard to the nature of his functions in that company and to all the circumstance.

(f) A government official who renders false statement of account or fails to render a statement of account required under the Act to the Federal Government or its agencies, resulting in the underpayment or non-payment of revenue accruable to the Federal Government or statutory recipients, commits an offence and is liable on conviction to not less than 2 years imprisonment or a fine not less than N5,000,000, unless that person proves that:
   i. the offence was committed without his consent or connivance, and
   ii. the person exercised all such diligence to prevent the commission of the offence as ought to have been exercised by that person, having regard to the nature of his functions in that company and to all the circumstance.

3.11 Chapter review

The Nigerian Government is striving to eradicate or at least reduce corruption, cases of fraud and greed within the society. The government has therefore put in place agencies to propagate the virtues of morality and in the long run, punish offenders as deterrents to others in the society.

3.12 Worked examples

3.12.1 Examination type questions

1. Part 1 of the Third Schedule of the 1999 Constitution established the Code of Conduct Bureau.
   Required:

(a) Explain **SIX** powers of the Code of Conduct Bureau.
(b) Outline the punishment, which can be imposed by the Code of Conduct Tribunal, where a public officer is found guilty of contravening any of the provisions of the Code of Conduct.

2. The Economic and Financial Crimes Commission was established by Act No 5, of 2002 to combat economic and financial crimes in Nigeria.

Required:
(a) Enumerate **EIGHT** functions of the Commission.
(b) In line with paragraph 6 of the Act, **explain THREE** powers of the Commission.

3. The Corrupt Practices and Other Related Offences Act, 2000, established the Independent Corrupt Practices and Other Related Offences Commission (ICPC).
Required:
(a) Explain **EIGHT** functions of the Commission.
(b) Explain **SIX** offences and penalties
(c) Compare and contrast the EFCC and ICPC

3.12.2 Suggested solutions

1a. **Powers of Code of Conduct Bureau**

The Code of Conduct Bureau was set up to:

(i) receive declarations by public officers made under paragraph 12 of Part I of the 5th schedule of the 1999 Constitution;
(ii) examine the declarations in accordance with the requirement of the code of conduct or any law;
(iii) retain custody of such declaration and make them available for inspection by any citizen of Nigeria on such items and conditions as the National Assembly may prescribe;
(iv) ensure compliance with and where appropriate enforce the provisions of the code of conduct or any law relating thereto;
(v) receive complains about non-compliance with or breach of the provisions of the code of conduct or any law in relation thereto;
(vI) investigate the complaint above and where appropriate refer such matters to the Code of Conduct Tribunal; and
(vii) carry out any other function as may be conferred upon it by the National Assembly.

(b) Punishment by the Code of Conduct Tribunal on any Public Officer guilty of any of the provisions of the Code of Conduct Bureau;

i. vacation of office seat in any legislative house;
ii. prosecution of the public officer in a court of law;
iii. disqualification frown membership of a Legislative House and from holding any public office for a period not exceeding ten years;
iv. serve penalties imposed by any law where the conduct is a criminal offence; and
v. seizure and forfeiture to the state any property acquired through the abuse or corruption of office.

2. (a) **Functions of EFCC**

(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;

(v) adoption of measures to eradicate and prevent the commission of economic and financial crimes with a view to identifying individuals, corporate bodies or groups involved;

(vI) determination of the extent of financial loss and such other losses by government, private individuals' and organisations;

(vii) collaboration with government bodies within and outside Nigeria in carrying out the functions of the Act;

(viii) dealing with matters connected with extradition, deportation and mutual, legal or other assistance between Nigeria and any other country involving economic and financial crimes;

(ix) the collection, analysis and dissemination of all reports relating to suspicious financial transactions to all relevant government bodies; and

(x) carrying out and sustaining public enlightenment campaign against economic and financial crimes within and outside Nigeria.

(b) **Powers of the Commission**

Under paragraph 6 of the Act, the Commission has power to:

i. conduct investigation or cause investigation to be conducted as to whether any person has committed an offence under the Act;

ii. cause investigation to be conducted into the properties of any person if it appears to the Commission that the person lifestyle and extent of his properties are not justified by his source of income;

iii. Power to enforce the provisions of:

- the bank and other financial institution act, 1991 (now replaced with bank and other financial institution act, 2020);
- the failed banks (recovery of debts) and financial malpractices in banks act, 1994 (as amended);
- the advance fee fraud and other related offence act,1994;
- the money laundry act1995; and
- the miscellaneous offence act.

3. (a) Functions of ICPC are to:

i. receive and investigate any report of the conspiracy by any person or group of persons who have committed or attempt to commit an offence under the Act;
ii. prosecute those who are found to have committed any offence under the Act after the investigation;
iii. 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
v. advise, educate and help any officer, Agent, board or parastatals on the set of programmes that can be embarked upon to eliminate or reduce to the nearest minimum, the incidence of fraud and corruption;
vi. intimate the Accounting Officers in the public bodies of any changes effected in the procedures and systems of administration as it concerns their ministries, parastatals or departments;
vii. educate the public bodies on the methods of detecting preventing and arresting fraud, bribery, corruption and related offence in their ministries, parastatals or department;
viii. educate the public against offences likely bribery, corruption, forgery, impersonation, advance fee fraud and other related offences;
ix. instruct the executives on how to detect, prevent and reduce to acceptable, level, incidence of corruption and related offences;
x. involve the general public in waging war against corruption

(b) Offences and penalties

(i) Offence of accepting gratification: Any person who corruptly asks for, receives or obtains any property or benefit of any kind for himself or for any other person or agrees or attempts to receive or obtain any property or benefit of any kind for himself or for any other person, is liable to imprisonment for seven (7) years.
(ii) Offence of giving or accepting gratification through agent: conviction, shall be liable to imprisonment for seven (7) years.
(iii) Acceptor or giver of gratification to be guilty, notwithstanding that, the purpose was not carried out or matter not in relation to principal's affairs or business: On conviction shall be liable to imprisonment for (seven) 7 years.
(iv) Fraudulent acquisition of property: Any person found guilty, shall on conviction, be liable to imprisonment for seven (7) years.
(v) Fraudulent receipt of property: Any person who receives anything which has been obtained by means of act constituting a felony or misdemeanour inside or outside Nigeria, which if it had been done in Nigeria would have constituted a felony or misdemeanour and which is an offence under the laws in force in the place where it was done, knowing the same to have been so obtained, is guilty of a felony and the offender shall, on conviction be liable to imprisonment for seven (7) years.

(vi) Penalty for offences committed through postal system: If the offence by means of which the thing was obtained is a felony, the offender shall on conviction be liable to imprisonment for three (3) years, except the thing so obtained was postal matter, or any chattel, money or valuable security contained therein, in which case the offender shall on conviction be liable to imprisonment for seven (7) years;

(vii) Deliberate frustration of investigation being conducted by the Commission: Any person who, with intent to defraud or conceal a crime or frustrate the Commission in its investigation of any suspected crime of corruption under the Act or any other law destroys, alters, etc. any document shall on conviction be liable to seven (7) years imprisonment;

(viii) Making false statements or returns: Any person who knowingly furnishes any false statement or return in respect of any money or property received by him or entrusted to his care, or of any balance of money or property in his possession or under his control, is guilty of an offence and shall on conviction be liable to seven (7) years imprisonment;

(ix) Gratification by and through agents: Any person who corruptly accepts, obtains, gives or agrees to give or knowingly gives to any agent, any gift or consideration as an inducement or reward for doing, forebearing to do any act or thing, shall on conviction be liable to five (5) years imprisonment;

(x) Bribery of public officer: Any person who offers to any public officer, or being a public officer solicits, counsels or accepts any gratification as an inducement or a reward, in the course of official duties shall on conviction be liable to five (5) years imprisonment with hard labour;

(xi) Using office or position for gratification: Any public officer who uses his office or position to gratify or confer any corrupt or unfair advantage upon himself or any relation or associate shall be guilty of an offence and shall on conviction be liable to imprisonment for five (5) years without option of fine;

(xi) Any public officer who in the course of official duties, inflates the price of any good or service above prevailing market price or professional standards shall be guilty of an offence under this Act and liable on conviction for a term of seven (7) years and a fine of one million naira (₦1,000,000.00).

(c) Differences between EFCC and ICPC

(i) EFCC is primarily charged with the responsibility of enforcing laws relating to banking, money laundering, Advance Fee Fraud (419). Miscellaneous offences and other related offences while ICPC is to enforce laws relating to fraud, corruption and embezzlement of funds in relation to public services;

(ii) EFCC does not have any time limitation as to when a crime was committed while the ICPC is limited in time to those offences committed from year 2000;

(iii) EFCC has power to prosecute directly without recourse to the Attorney General's Office while the ICPC can only prosecute through the Office of the Attorney General.

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CHAPTER 4

GOVERNMENT CONSTRUCTION CONTRACTS AND PROCUREMENTS

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4 Government Construction Contracts and Procurements

4.0 Learning objective

The objective of this chapter is to enhance readers' understanding of the due process of the award of contracts in accordance with the provisions of the Public Procurement Act, 2007 and International Public Accounting Standards (IPSAS) on Construction Contracts (IPASAS 11) and Inventories (IPSAS 12), respectively.

4.1 Learning outcomes

On successful completion of this chapter, the reader should be able to:

a. 'explain construction contract.'
b. describe the procedures for awarding contracts;
c. justify the role of tender boards in the award of contracts and procurements;
d. explain the accounting procedure for construction contracts and procurements;
e. discuss the powers and duties of the National Council on Public Procurements and the Bureau of Public Procurement;
f. discuss the provisions of the International Public Sector Accounting Standards No. 11 (IPSAS 11) on construction contract; and
g. discuss the provisions of IPSAS 12 on Inventories

4.2 Introduction

The chapter discusses the procedures for awarding contracts and making procurements in the public sector. It highlights the requirements of the Public Procurement Act, 2007 and the implementation of the electronic payment system.

According to the International Public Sector Accounting Standards No. 11 (IPSAS 11), Construction Contract refers to the execution of a building and civil engineering projects, mechanical and electrical engineering installations and other fabrications normally evidenced by agreements between two or more parties.

In government, a construction contract is a capital project, which is normally financed by appropriations from the Capital Development Fund.

4.3 The Tenders' Board on contracts

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

Government policy on procurement and award of contracts in all Ministries and Extra-Ministerial Departments was introduced in the year 2001, on the strength of Federal Ministry of Finance's circular no. F15775 of June 27, 2001.

4.3.1 Types of Tenders' Boards

The Departmental Tenders Board and the Federal Tenders Board have been abrogated. The Permanent Secretaries and Ministerial Tenders Board now assume the functions, respectively. Contracts of goods, works, non-consultancy and consultancy services of amounts stated in paragraph 4.3.1.4 below can be approved by the Permanent Secretary/Chief Executive without open competitive tendering. However, at least three relevant written quotations should be obtained from suitably qualified contractors/suppliers. All expenditure incurred under this policy should be documented and reported to the Honourable Minister on quarterly basis for information.

a. Ministerial Tenders Board

The set-up may be discussed under the following.

i. Composition

The chairman is the Permanent Secretary/Chief Executive of the ministry or extra-ministerial department, respectively. Other members are all Directors/ Heads of Departments in the Ministry or Establishment;

ii. Limit of expenditure

The ministerial tenders board is empowered to award any contract which its value exceeds ₦20, 000, 000.00 (Twenty million naira) but not more than ₦100, 000,000.00 (One hundred million naira).

iii. Approval

The Honourable Minister shall confirm the decision of the Ministerial Tenders Board (MTB).

b. Armed Forces/Ministry of Defence Tenders Board composition

i. The composition of the Board is:

- the Chairman of the Armed Forces/Ministry of Defence Tenders Board shall be the Permanent Secretary, Ministry of Defence; and
- other members are representatives of the Army, Navy, Air Force and the Director of Finance and Accounts of the Ministry of Defence.

ii. Approval

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

c. Nigeria Police Tenders and Purchasing Board (Ministerial)

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

i. The composition of the Board is:

- The Chairman shall be the Permanent Secretary, Police Affairs.
- the Deputy Inspector-General of Police (Finance and Administration);
- all the Heads of Departments; and
- the Head of Finance and Accounts Department.

ii. Approval:

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

Revised guidelines and thresholds on public procurements

According to circular Ref. No. 59780/S.2/B/532 27th May 2025, issued by the Secretary to the Government of the Federation, the Federal Government has approved a review of the existing guidelines and thresholds on public procurements of goods, works and services as follows:

Approved prior review thresholds for service-wide application

Approving Authority/"No objection"	**Goods**	**Works**	**Non-consultant/ Consultancy Services**
BPP Certificate of "No objection" **for** FEC/NASS Tenders Board/NJC Tenders Board Approval to award/ contract award	₦5 billion and above	₦10 billion and above	₦5 billion and above
BPP Certificate of "No objection" **for** Ministerial Tenders Board (MTB)/NASS Parastatal's Tenders Board/Judicial Bodies Tenders Board approval to contract award	₦1 billion and above but less than ₦5 billion	₦5 billion and above but less than ₦10 billion	₦1 billion and above but less than ₦5 billion
Ministerial Tenders Board (MTB)/NASS Parastatals Tenders Board/ Judicial Bodies Tenders Board approval	₦50 million and above but less than ₦1billion	₦75 million and above but less than ₦5 billion	₦50 million and above but less than ₦1 billion
Parastatals Tenders Board (PTB) for MDAs, NASS Parastatals Tenders Board and Court Bodies Tenders Board.	₦25 million and above but less than ₦500 million	₦50million and above but less than ₦1 billion	₦25 million and above but less than ₦500 million
Accounting Officer: Permanent Secretary/Head of Ministerial Bodies	Less than ₦50 million	Less than ₦75 million	Less than ₦50 million
Accounting Officer: Director General/CEO	Less than ₦25 million	Less than ₦50 million	Less than ₦25 million

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Procurement method and thresholds for service- wide application

Procurement/Selection method and prequalification	Goods	Works	Non-consultant services	Consultant services
International/National Competitive Bidding	₦1bllion and above	₦5billion and above	₦1billion and above	Not Applicable
National Competitive Bidding	₦30 million and above but less than 1 billion	₦30 million and above but less than ₦5 billion	₦30 million and above but less than ₦1 biillion	Not Applicable
Request for quotation	Less than ₦ 30 million	Less than ₦50 million	Less than ₦30 million	Not Applicable
Single Source/Direct Contracting (for minor value procurements)	Less than ₦5 million	Less than ₦5 million	Less than ₦5 million	As indicated in PPA 2007
Prequalification	₦500 million and above	₦1 billion and above	₦500 million and above	Not Applicable
Quality and Cost Based	Not Applicable	Not Applicable	Not Applicable	Less than ₦100 million
Consultant Qualifications	Not Applicable	Not Applicable	Not Applicable	Less than ₦100 million
Least Cost	Not Applicable	Not Applicable	Not Applicable	Less than ₦100 million

Revised special financial limits and thresholds, procurement methods and thresholds of application and for expenditure related to the Nigerian National Petroleum Corporation Limited, which is in US Dollars and is self-adjusting to reflect the prevailing Naira equivalent values

Circular Ref. No. PROC/OSGF/BPP/709/85 of 19th January 2022, issued by the Secretary to the Government of the Federation	
Approving Authority/"No objection" to award	**Special works**
BPP issues "No objection" and FEC approves	US$20m and above
Ministerial Tenders Board (NNPCL Tenders Board)	US$10m and above but less than US$20m
Group Headquarters/Tenders Board	US$4m and above but less than

Circular Ref. No. PROC/OSGF/BPP/709/85 of 19th January 2022, issued by the Secretary to the Government of the Federation	
Approving Authority/"No objection" to award	**Special works**
	US$10m for GEC NNPCL
Parastatal Tenders Board (Refinery and Petrochemicals/Exploration and Production/Corporate Supply Chain Tenders Boards)	US$2m and above but less than US$4m for Supply Chain Tenders Boards) SBU B/GED/ (DEXCOM)
Parastatal Tenders Board (Minor Refinery and Petrochemicals/Exploration and Production/Corporate Supply Chain Tenders Boards)	US$0.5 m and above but less than US$2m for Supply Chain Tenders Boards) SBU MD/MT/(MEXCOM)
Parastatal Tenders Board (Business Unit Refinery and Petrochemicals/Exploration and Production/Corporate Supply Chain Tenders Boards)	US$0.10 M and above but less than (US$0.5m) for Supply Chain Tenders Boards) SBU ED/MT/(DIVCOM
Accounting Officer: Permanent Secretary/ Group Managing Director at CHQ Level	Less than USD 0.3 m
Accounting Officer: Director General/CEO (Managing Directors at SBU Level)	Less than USD 0.10m

Procurement processing timeline

Ministries/Extra Ministerial bodies, parastatals, agencies and and government-owned companies are to ensure strict adherence to the procurement processing timeliness stated below:

Standard procurement processing time for goods and works (national competitive bidding)

Procurement activity	Timeline (working days)
Advertise and issue pre-qualification documents	14 days
Evaluation of pre-qualification documents and preparation of a shortlist and approval of the same	14 days
Issuance and submission of tender documents	21 days
Evaluation of tenders, obtaining necessary approvals and publication of the outcome of evaluation	21 days
Standstill period	14 days
Award of contract	7 days
Total timeline	**91 days**

Standard procurement processing time for goods and works (international competitive bidding)

Procurement activity	Timeline (working days)
Advertise and issue pre-qualification documents	21 days
Evaluation of pre-qualification documents and preparation of a shortlist and approval of the same	14 days
Issuance and submission of tender documents	30 days
Evaluation of tenders, obtaining necessary approvals and publication of the outcome of evaluation	21 days
Standstill period	14 days
Award of contract	7 days
Total timeline	**107 days**

Standard procurement processing time for consultancy services

Procurement activity	Timeline (working days)
Inviting expression of interest up to submission of same by consultants	At least 14 days
Evaluation of expression of interest and preparing shortlist and approval by the tender's board	14 days
Preparation and submission of proposals by consultants	At least 30 days
Evaluation of technical proposals and evaluation report	At least 30 days
Notification of technically qualified firms of date for financial proposal public opening and debriefing of unqualified firms	5 days
Opening of financial proposals, evaluation of the proposals, approval of evaluation report and notification of negotiations to the firm with the highest combined score	21 days
Negotiation and approval of negotiated documents	7 days
Signing of contract	7 days
Total timeline	**128 days**

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Federal Executive Council

By the current approved revised threshold for Service-Wide application, the approval limit for the BPP and Federal Executive Council is:

(a) Goods ₦ 5 billion and above
(b) Works ₦ 10 billion and above
(c) Non-consultancy ₦ 5 billion and above
(d) Consultancy ₦ 5 billion and above

4.4 Tender splitting

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

4.5 Registration of contractors/suppliers

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

4.6 Audit inspection

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

a. certified true copies of all contract agreements;
b. the minutes of Tenders Board meetings; and
c. full records of all tendering processes, which shall be made available for the inspection of Auditor General for the Federation and the Accountant General, at short or no notice. The records shall be kept for verification for a period of seven (7) years, from the date of completion and takeover of the project.

4.7 Operation of tender boards

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

4.8 Notice of invitation

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

used in displaying the advertisement. A specific date is always given as closing date for the submission of tenders.

4.9 Deposit for tender

Where deposit is required before a tender form is submitted, it may be required that a Treasury receipt for the required amount is attached to it before the form is considered at all. Sometimes, the treasury receipt or the amount paid by the deposit or is confirmed before the tender form is issued.

4.10 Tender procedure

Tenders are usually submitted in sealed envelopes to the Secretariat of the Tenders Board. At the close of the notice of invitation to tender, the Secretary under the close supervision of the Chairman or a member deputising for him will open the Tenders. They will be numbered serially and authenticated by the initials of the Secretary, with the dates indicated. The tenders will thus be listed, in duplicate, and kept in safe custody. A meeting of the Board will then be summoned to, among other things, discuss the tenders and make necessary selections for onward transmission to the approving authority. The Board usually selects the best of the tenders. Consideration will include the past records of the contractors, the quality of service being offered, experience as can be deduced from the tender price (rate). It is necessary to emphasise that the lowest tender does not necessarily have to be the best, as many other things are considered.

If all the tenders are rejected, fresh applications shall be called for. However, if one of the tenders is recommended, all the bids shall be forwarded with a duplicate list to the approving authority with comments or remarks on why each tender is recommended or not.

4.11 Award of the contract

The approving authority will communicate his position to the Tenders Board. The Secretary will subsequently write a letter of award to the successful tenderer and or invite him for the signing of the contract. Where necessary, a bond will have to be signed and/or sureties provided. In principle, the award of the contract has to be published in the newspapers and gazette and unsuccessful tenderers informed as such. As earlier stated, certified true copies of the contracts are to be forwarded to the Auditor General as well as the Accountant General. It should be emphasised that government contracts are not to be 'sublet', "assigned", except the terms of the agreement require or permit this. Tender may make the sale of government property, in the same way as award of contract.

4.12 Post contract award activities

This is briefly discussed as follows:

(a) Tender Board information on voucher

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

(i) certified true copy of all the minutes of the meetings of the tenders' board in relation to the award of the contract;
(ii) certified true copy of the contract agreement;
(iii) copy of the approving authority; and
(iv) copy of each voucher in respect of payments already made on the contract.

(b) Tenders board information availability

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

4.13 Terms on contract

a. Contingencies clause

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

b. Retention fee

It is a clause in a contract agreement, which states that after the completion of the project, government shall withhold about 5% of the contract sum, for six (6) months.

The amount withheld will be paid to the contractor thereafter if the project is properly executed and constructional error is not noticed. If the job is not properly executed, for example if there is a crack on the wall and is due to an error, which arose from construction, then the amount withheld will be used to correct the anomaly. If the amount withheld is not enough, government will ask the contractor to pay in the difference. If the contractor fails to pay it in, he may be blacklisted.

4.14 Contract payment vouchers

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

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

4.14.1 Payments for contracts and procurements

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

4.14.2 Implementation of the E-payment procedure

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

a. all forms of payments from all government funds are to be made through the banks, either commercial banks or Central Bank of Nigeria;
b. all organs of government, ministries, departments and agencies are to stop using cheques to make payments to contractors;
c. all bank accounts in respect of all government funds shall cease to be cheque accounts;
d. government contractors must indicate their current accounts particulars with commercial banks on the invoices submitted for payment under their corporate seals;
e. mandates containing details of payments shall be issued to banks authorising them to pay into the contractors' designated bank accounts, the proceeds of executed contracts and supplies;
f. in addition to the existing monthly financial returns, every organisation of government, ministry, department or agency must forward copies of mandates issued to Banks to the Office of Accountant General of the Federation;
g. henceforth, all employees of the Federal Government of Nigeria must open accounts with the commercial banks into which all payments due to them as individuals would made; and
h. on no account should Central Pay Officers (CPO) collect cash from the bank for the purpose of disbursement to any government official.

4.14.3 Attachments to contract payment vouchers

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

(a) a copy of the minutes of the tenders' board awarding the contract; it should be ascertained that the amount of the contract is within the board's power;
(b) a completion certificate of work done, signed by a competent authority in the field, such as an engineer, a surveyor or an architect;
(c) a copy each of the letter of award and contract agreement;
(d) in the case of supplies, original copies of delivery notes and store receipt vouchers issued; and

(e) a bill or invoice submitted by the firm requesting for payment.

4.14.4 Contract registers

Copies of all contract agreements must be forwarded to the Accounts Division of relevant ministry or extra-ministerial department. They should be entered in a contract register maintained.

The register will contain the following information:

(a) name and address of contractor;
(b) contract number;
(c) contract sum;
(d) contingency and variation (if any);
(e) payment terms;
(f) completion period of contract work;
(g) file number;
(h) particulars of payment and balance outstanding; and
(i) signature of officer controlling expenditure.

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

4.15 Operation of the Public Procurement Act, 2007

The Public Procurement Act, 2007, established the National Council on Public Procurement.

4.15.1 Membership of National Council on Public Procurement (NCPP)

(a) Minister of Finance, as Chairman.
(b) Attorney-General and Minister of Justice of the Federation.
(c) Secretary to the Government of the Federation.
(d) Head of Service of the Federation.
(e) Economic Adviser to the President.
(f) Six part-time members representing:
    i. Nigerian Institute of Purchasing and Supply Management;
    ii. Nigerian Bar Association;
    iii. Nigerian Association of Chambers of Commerce, Industry, Mines and Agriculture;
    iv. Nigerian Society of Engineers;
    v. Civil Society;
    vi. The media; and
    vii. Director- General of the Bureau who shall serve as the Secretary to the Council.

4.15.2 Objectives of Bureau of Public Procurement (BPP)

The Public Procurement Act, 2007, established the Bureau. Its objectives include:

(a) harmonisation of existing government policies and practices on public procurement and ensuring probity, accountability and transparency in the procurement process;
(b) establishment of pricing standards and bench marks;
(c) ensuring the application of fair, competitive, transparent, value for money standards and practices for the procurement and disposal of public assets and services;
(d) attainment of transparency, competitiveness, cost effectiveness and professionalism in the public sector procurement system.

4.15.3 Functions of Bureau

The Bureau's functions as stated by the Act include:

(a) formulating the general policies and guidelines relating to public sector procurement for the approval of NCPP;
(b) publicising and explaining the provisions of the Act;
(c) certifying Federal Government procurement prior to the award of the contract;
(d) supervising the implementation of established procurement policies;
(e) monitoring the prices of tendered items and keeping a national database of standard prices;
(f) publishing the details of major contracts in the procurement journal;
(g) publishing paper and electronic editions of the journal and maintaining an archival system for the procurement journal;
(h) maintaining a national database of the particulars and classification and categorisation of Federal contracts and service providers;
(i) collating and maintaining in an archival system, all federal procurement plans and information;
(j) undertaking procurement research and surveys;
(k) organising training and development programmes for procurement professionals;
(l) periodically reviewing the socio-economic effect of the policies on procurement and advise NCPP accordingly;
(m) preparing and updating standard bidding and contract documents;
(n) preventing fraudulent and unfair procurement and where necessary to apply administrative sanctions;
(o) reviewing the procurement and award of contract procedures of every entity to which the Act applies;
(p) performing procurement audits and submits report to the National Assembly bi-annually;
(q) introducing, developing, updating and maintaining related database and technology;
(r) establishing a single internet portal that shall serve as a primary and definitive source of all information on government procurement containing and displaying all public sector procurement information at all times; and
(s) coordinating relevant training programmes to build institutional capacity.

4.16 The role of accounting officers

The accounting officer of every procuring entity shall have overall responsibility for the planning of, organisation of tenders, evaluation of tenders and execution of all procurements and in particular shall be responsible for:

(a) ensuring compliance with the provisions of this Act by his entity and liable in person for the breach or contravention of this Act or any regulation made here under whether or not the actor omission was carried out by him personally or any of his subordinates and it shall not be material that he had delegated any function duty or power to any person or group of persons;
(b) constituting the procurement committee and its decisions;
(c) ensuring that adequate appropriation is provided specifically for the procurement in the Federal budget;
(d) integrating his entity's procurement expenditure into its yearly budget;
(e) ensuring that no reduction of values or splitting of procurements is carried out such as to evade the use of the appropriate procurement method;
(f) constituting the evaluation committee; and
h. liaising with the Bureau to ensure the implementation of its regulations.

4.17 Fundamental principles of public procurement

All public procurements must be conducted:

(a) subject to prior review of thresholds set by the bureau.
(b) based only on procurement plans supported by prior budgetary provisions/ appropriations and a "Certificate of `No Objection' to Contract Award" from the BPP;
(c) by open competitive bidding;
(d) in a transparent, timely and equitable manner which will ensure accountability and conformity with the Act;
(e) with the aim of achieving value-for-money and fitness for purpose;
(f) in a manner which promotes competition, economy and efficiency; and
(g) in accordance with the procedures laid down in this Act and as may be specified by the Bureau from time to time.

4.18 Procurement methods (Goods and services)

All procurements of goods and works by all procuring entities should be by open competitive bidding. Open competitive bidding is a process by which a procuring entity effects public procurements by offering to every interested bidder, equal and simultaneous information and opportunity to offer the goods and works needed.

4.18.1 Invitation to bids

Invitations to bid may be either by way of National Competitive Bidding or International Competitive Bidding and the Bureau shall from time to time set the monetary thresholds for which procurements shall fall under either system. In addition, the following procedures and practices should be adopted:

National competitive bidding

The invitation for bids must be advertised on the notice board of the procuring entity, on any official websites of the procuring entity, in at least two national newspapers and in the procurement journal not less than six weeks before the deadline for submission of the bids

International competitive bidding

The invitation for bids must be advertised in at least two national newspapers, and one relevant internationally recognised publication, any official websites of the procuring entity and the Bureau of Public Procurement as well as the procurement journal not less than six weeks before the deadline for the submission of the bids.

4.18.2 Bid opening

The procuring entity shall:

(a) permit attendees to examine the envelopes in which the bids have been submitted to ascertain that the bids have not been tampered with;
(b) cause all the bids to be opened in public, in the presence of the bidders or their representatives and any interested member of the public;
(c) ensure that the bid opening takes place immediately following the deadline stipulated for the submission of bids or any extension thereof;
(d) ensure that a register is taken of the names and addresses of all those present at the bid opening and the organisations they represent which is recorded by the Secretary of the tenders' board; and
(e) call-over to the hearing of all present, the name and address of each bidder, the total amount of each bid, the bid currency and shall ensure that these details are recorded by the Secretary of the Tenders Board or his delegate in the minutes of the bid opening.

4.18.3 Examination of bids

(a) The bids shall be examined to determine whether they:
    (i) meet the minimum eligibility requirements stipulated in the bidding documents;
    (ii) have been duly signed;
    (iii) are substantially responsive to the bidding documents; and
    (iv) are generally in order.
(b) A procuring entity may ask a supplier or a contractor for clarification of its bid submission in order to assist in the examination, evaluation and comparison of bids without allowing for changes in prices; changes of substance in a bid; and changes to make an unresponsive bid responsive.
(c) The procuring entity may correct purely arithmetical errors that are discovered during the examination of tenders but must notify the supplier or contractor that submitted the tender about the correction.

The following are major deviations, which may result in a rejection of bids and returned to such bidder where:

a. the bidder is ineligible or not pre-qualified or uninvited;
b. the bid documents are not signed;
c. the bid is received after the date and time for submission stipulated in the solicitation document or submitted at the wrong location.
d. clauses in an offer were not adhered to for example the issue of unacceptable sub-contracting, or alternative design or price adjustment, etc;

In the cases minor deviations (inform of use of codes, difference in standards and materials, omission in minor items any other condition hath as little impact on the bid) a written clarification may be obtained from the supplier or contractor and, where applicable, an offer made for the correction of the minor deviation. Where a supplier or contractor does not accept the correction of a minor deviation, his bid shall be rejected.

4.18.4 Evaluation of bids

The objective of bid evaluation is to determine and select the lowest evaluated responsive bid from bidders that have responded to the bid solicitation.

(a) There should be a committee made up of professionals for the evaluation of the bids. The Secretary of the Tenders Board should be Secretary of the Committee. Members of the Evaluation Committee, Tenders Boards, and approval authorities should be obliged to declare any conflict of interest and exclude themselves from bid evaluation and approval processes.
(b) The tenders' board shall, check for deviations, omissions with quantification of same application of discounts, as applicable, clarification with bidders of questionable minor deviations, quantification in monetary terms of such questionable deviations, calculation and tabulation of bid amount with domestic preference where applicable, etc.
(c) All relevant factors calculated in monetary terms, in addition to price, that will be considered for the purposes of bid evaluation and the manner in which such factors will be applied shall be stipulated in the solicitation documents.
(d) When bid prices are expressed in two or more currencies, the prices of all bids shall be converted to Nigerian currency, according to the rate and date of rate specified in the solicitation documents.
(e) If suppliers were pre-qualified, verification of the information provided in the submission or prequalification shall be confirmed at the time of award of contract and award may be denied to a bidder who no longer has the capability or resources to successfully perform the contract.
(f) After opening of bids, information relating to the examination, clarification and evaluation of bids and recommendations concerning award shall not be disclosed to bidder sort or persons not officially concerned with the evaluation process until the successful bidder is notified of the award.

4.18.5 Services of international agents

The services of International Procurement Agents of the highest repute may be obtained, to assist in medium and large scale contracting where necessary.

4.18.6 Bid security

Subject to the monetary and prior review thresholds as may from time to time beset by the Bureau all procurements valued in excess of the sums prescribed by the Bureau shall require a bid security in an amount not more than 2% of the bid price by way ofa bank guarantee issued by a reputable bank acceptable to the procuring entity.

4.18.7 Performance bond guarantee

Performance Bond Guarantee in an amount not less than 10% of contract value or an amount equivalent to the mobilisation fee requested by the supplier or contractor whichever is higher should be obtained for all contracts.

4.18.8 Acceptance of bids

The successful bid shall be that submitted by the lowest cost bidder from the bidders responsive as to the bid solicitation. The selected bidder needs not be the lowest cost bidder provided the procuring entity can show good grounds derived from the provisions of this Act to that effect. Notice of the acceptance of the bid shall immediately be given to the successful bidder.

4.18.9 Domestic preferences

A procuring entity may grant a margin of preference in the evaluation of tenders, when comparing tenders from domestic bidders with those from foreign bidders or when comparing tenders from domestic suppliers offering goods manufactured locally with those offering goods manufactured abroad. Where a procuring entity intends to allow domestic preferences, the bidding documents shall clearly indicate any preference to be granted to domestic suppliers and contractors and the information required to establish the eligibility of a bid for such preference.

Margins of preference shall apply only to tenders under international competitive bidding. The Bureau shall by regulation from time to time set the limits and the formulae for the computation of margins of preference and determine the contents of goods manufactured locally.

4.18.10 Mobilisation fee

Mobilisation fee, where necessary and appropriate, shall not exceed 30% of the contract sum. However, payment of such mobilisation fee shall be effected up on written application and an unconditional bank guarantee for equivalent amount valid until the goods are supplied or until the mobilisation fee has been repaid, in the case of works contracts. Only unconditional bank guarantees issued by reputable banks should be accepted.

4.18.11 Interest on delayed payment

There shall be a provision of interest payment to contractors for delayed payments by ministries/extra ministerial departments. Such payment should be made:

(a) at the interest rate specified in the contract agreement; and

(b) if there is delay in the settlement of the claim of more than 60 days, from

the date of submission of the contractor's invoice/valuation certificate and the confirmation/authentication by the relevant Ministry.

4.18.12 Record of procurement proceedings

Every procuring entity shall maintain a record of the comprehensive procurement proceedings, which shall be made available to the following on request:

a. any person, supplier, contractor or consultant that submitted tenders, proposals, etc. has been accepted or after procurement proceedings have been terminated without resulting in a procurement contract;
b. by a court, provided that when ordered to do so, the procurement entity shall not disclose such information, if its disclosure would be contrary to law or impede law enforcement; or prejudice legitimate commercial interests of the parties;
c. the Bureau of public procurement, an investigator appointed by the Bureau;
d. the Auditor-General; and
e. donor agencies, where donor funds have been used for the procurement.

4.19 Due process guidelines on government contracts

The doctrine of Due Process is an assurance that there is compliance with the budgetary, procuring and payment guidelines by all parties to government contracts.

The process ensures that:

(a) competitive bidding has been conducted in line with the procurement and
(b) contract award procedures;
(c) The best-evaluated bid is selected among the pre-qualified bidders;
(d) The cost is in conformity with comparable best value.

4.20 Procurement plan

A procuring entity shall plan its procurement by:

(a) Preparing the needs assessment and evaluation;
(b) Identifying the goods, works or services required;
(c) Carrying appropriate market and statistical surveys and on that basis prepare an analysis of the cost implications of the proposed procurement;
(d) Aggregating its requirements whenever possible, both within the procuring entity and between procuring entities, to obtain economy of scale and reduce procurement cost;
(e) Integrating its procurement expenditure into its yearly budget;
(f) Prescribing any method for effecting the procurement subject to the necessary approval under this Act; and
(g) Ensuring that the procurement entity functions stipulated in this Section shall be carried out by the Procurement Planning Committee.

4.21 Procurement implementation

A procuring entity shall, in implementing its procurement plans:

a. advertise and solicit forbids in adherence to this Act and guidelines as may be issued by the Bureau from time to time;

b. to invite two credible persons as observers in every procurement process, one person each representing a recognised;
c. private sector professional organisation whose expertise is relevant to the particular goods or service being procured, and
d. non-governmental organisation working in transparency, accountability and anti-corruption areas, and the observers shall not intervene in the procurement process but shall have right to submit their observation report to any relevant agency or body including their own organisations or associations
e. receive, evaluate and make a selection of the bids received in adherence to this Act and guidelines as may be issued by the Bureau from time to time;
f. obtain approval of the approving authority before making an award;
g. debrief the bid losers on request;
h. resolve complaints and disputes if any;
i. obtain and confirm the validity of any performance guarantee;
j. obtain a "Certificate of 'No Objection' to Contract Award" from the Bureau within the prior review threshold as stipulated;
k. execute all contract agreements; and
l. announce and publicise the award in the format stipulated by this Act and guidelines as may be issued by the Bureau from time to time.

4.22 Special and restricted methods of procurement

4.22.1 Two stage tendering

An entity shall engage in procurement by two-stage tendering on the following conditions:

(a) where it is not feasible for the procuring entity to formulate detailed specifications for the goods or works or, in the case of services, to identify their characteristics and where it seeks tenders, proposals or offers on various means of meeting its needs in order to obtain the most satisfactory solution to its procurement needs;
(b) where the character of the goods or works are subject to rapid technological advances;
(c) where the procuring entity seeks to enter into a contract for research, experiment, study or development, except where the contract includes the production of goods insufficient quantities to establish their commercial viability or to recover research and development costs;
(d) where the procuring entity applies this Act to procurement concerned with national security and determines that the selected method is the most appropriate method of procurement;
(e) where the tender proceedings have been utilised but were not successful or the tenders were rejected by the procuring entity under an open competitive bid procedure and the procuring entity considers that engaging in new tendering proceedings will not result in a procurement contract.

The invitation documents under open competitive bidding:

(a) shall call upon suppliers or contractors to submit, in the first stage of two-stage tendering proceedings, initial tenders which contain their proposals without a tender price;
(b) may solicit proposals that relate to technical, quality or other characteristics of the goods, works or services as well as contractual terms and conditions of supply and may stipulate the professional competence and technical qualifications of the suppliers or contractors; and
(c) may, in the first stage, engage in negotiations with any supplier or contractor whose tender has not been rejected under an open competitive bidding procedure with respect to any aspect of its tender.

In the second stage of the two tender proceedings the procuring entity:

(a) shall invite suppliers or contractors whose tenders have not been rejected to submit final tenders with prices on a single set of specifications;
(b) may, in formulating the specifications, delete or modify any aspect of the technical or quality characteristics of the goods, works or services to be procured together with any criterion originally set out in these documents, evaluate and compare tenders and ascertain the successful tender;
(c) may add new characteristics or criteria that conform with this Act;
(d) shall communicate to suppliers or contractors in the invitation to submit firm tenders, any deletion, modification or addition; and
(e) may permit a supplier or contractor who does not wish to submit a final tender to withdraw from the tendering proceedings.

4.22.2 Restricted tendering

Subject to the approval by the Bureau, a procuring entity may for reasons of economy and efficiency engage in procurement by means of restricted tendering on the following conditions:

(a) goods, works or services are available only from a limited number of suppliers or contractors;
(b) time and cost required to examine and evaluate a large number of tenders is disproportionate to the value of the goods, works or services to be procured;
(c) procedure is used as an exception rather than norm; and
(d) procuring entity shall cause a notice of the selected tendering proceedings to be published in the procurement journal.

4.22.3 Direct procurement

An entity may carry out any direct procurement where:

(a) goods, works or services are only available from a particular supplier or contractor, or if a particular supplier or contractor has exclusive rights in respect of the goods, works or services, and no reasonable alternative or substitute exits;
(b) there is an urgent need for the goods, works or services and engaging in tender proceedings or any other method of procurement is impractical due to

unforeseeable circumstances giving rise to the urgency which is not the result of dilatory conduct on the part of the procuring entity;

(c) owing to a catastrophic event, there is an urgent need for the goods, works or services, making it impractical to use other methods of procurement because of the time involved in using those methods;

(d) an entity which has procured goods, equipment, technology or services from a supplier or contractor, determines that:

(i) additional supplies need to be procured from that supplier or contractor because of standardisation;

(ii) there is a need for compatibility with existing goods, equipment, technology or services, taking into account the effectiveness of the original procurement in meeting the needs of the procurement entity;

(iii) the limited size of the proposed procurement in relation to the original procurement provides justification; and

(iv) the reasonableness of the price and the unsuitability of alternatives to the goods or services in question merit the decision.

(e) the procuring entity seeks to enter into a contract with the supplier or contractor for research, experiment, study or development, except where the contract includes the production of goods in quantities to establish commercial viability or recover research and development costs; and

(f) the procuring entity applies this Act for procurement that concerns national security, and determines that single-source procurement is the most appropriate method of procurement.

The entity may procure the goods, works or services by inviting a proposal or price quotation from a single supplier or contractor. Also, the entity shall include in the record of procurement proceedings a statement of the grounds for its decision and the circumstances in justification of single source procurement.

4.22.4 Emergency procurement

An entity may, carry out an emergency procurement on the following conditions:

(a) where the country is either seriously threatened by or actually confronted with a disaster, catastrophe, war, insurrection or Act of God;

(b) where the condition or quality of goods, equipment, building or publicly owned capital goods may seriously deteriorate unless action is urgently and necessarily taken to maintain them in their actual value or usefulness;

(c) where a public project may be seriously delayed for want of an item of a minor value.

(d) in an emergency situation, a procuring entity may engage in direct contracting of goods, works and services;

(e) all procurements made under emergencies shall be handled with expedition but along principles of accountability, due consideration being given to the gravity of each emergency; and

(f) immediately after the cessation of the situation warranting any emergency procurement, the procuring entity shall file a detailed report thereof with the

Bureau which shall verify same and if appropriate issue a Certificate of 'No Objection'.

4.23 Disposal of public property

During the disposal of public property, the entity should comply with the following steps:

(a) the open competitive bidding shall be the primary source of receiving offers for the purchase of any public property offered for sale;

(b) the Bureau shall, with the approval of the Council:

i. determine the applicable policies and practices in relation to the disposal of all public property;

ii. issue guidelines detailing operational principles and organisational modalities to be adopted by all procuring entities engaged in the disposal of public property; and

iii. issue standardized document, monitor implementation, enforce compliance and set reporting standards that shall be used by all procuring entities involved in the disposal of public property.

4.23.1 Definition of public property

Public property is defined as resources in the form of tangible and non-tangible assets (ranging from serviceable to the unserviceable):

(a) created through public expenditure;
(b) acquired as a gift or through deeds;
(c) acquired in respect of intellectual or proprietary rights;
(d) acquired on financial instruments (including shares, stocks, bonds, etc.); and
(e) acquired by good will and any other gifts of the Federal government.

The means of the disposal of public assets shall include:

(a) sale and rental;
(b) lease and hire purchase;
(c) licenses and tenancies;
(d) franchise and auction;
(e) transfers from one government department to another with or without financial adjustments; and
(f) offer to the public at an authorized variation.

4.24 Offences

a. Any natural person not being a public officer who contravenes any provision of this Act commits an offence and is liable on conviction to a term of imprisonment not less than 5 calendar years but not exceeding 10 calendar years without an option of fine.

b. The Federal High Court shall try any offence in contravention of this Act.

c. Prosecution of offences under this Act shall be instituted in the name of the Federal Republic of Nigeria by the Attorney-General of the Federation or such other officer of the Federal Ministry of Justice as he may authorise so to do, and in addition, without prejudice to the Constitution of the Federal Republic of Nigeria 1999, he may:

i. after consultation with the Attorney-General of any state of the federation, authorise the Attorney-General or any other officer of the Ministry of Justice of that state; or
ii. if the relevant authority so requests, authorise any legal practitioner in Nigeria to undertake such prosecution directly or assist therein.

The following shall also constitute offences under this Act.

(a) Entering or attempting to enter into a collusive agreement, whether enforceable or not, with a supplier, contractor or consultant where the prices quoted in their respective tenders, proposals or quotations are or would be higher than would have been the case has there not been collusion between the persons concerned;
(b) Conducting or attempting to conduct procurement fraud by means of fraudulent and corrupt acts, unlawful influence, undue interest, favour, agreement, bribery or corruption;
(c) Directly, indirectly or attempting to influence in any manner the procurement process to obtain an unfair advantage in the award of a procurement contract;
(d) Splitting of tenders to enable the evasion of monetary thresholds set;
(e) Bid-rigging means an agreement between persons whereby:
    i. offers submitted have been pre-arranged between them; or
    ii. their conduct has had the effect of directly or indirectly restricting free and open competition, distorting the competitiveness soft he procurement process and leading to an escalation or increase in costs or loss of value to the national treasury.
(f) Altering any procurement document with intent to influence the outcome of a tender proceeding;
(g) Altering or using fake documents or encouraging their use; and
(h) Wilful refusal to allow the Bureau or its officers to have access to any procurement record.

4.25 IPSAS 11 – Accounting for construction contract

4.25.1 Introduction

The objective of this standard is to prescribe the accounting treatment of costs and revenue associated with construction contract.

4.25.2 Definition

(a) **Construction contract:** is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use. Examples of construction contracts include, but not limited to the contracts for construction of refineries; airports; dams; railway tracks; roads; bridges, pipelines; tunnels; ships; reticulated water supply systems; and power plants.
(b) **Contractor:** is an entity that performs construction work pursuant to a construction contract;

(c) **Cost plus or cost-based contract:** is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially based contract, an additional percentage of these costs or a fixed fee, if any;

(d) **Fixed price contract:** is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses;

(e) **Unit price contracts:** They are based on anticipated quantities of items which are counted in the project in addition to their unit prices. The final price of the project depends upon the quantities required to carry out the work. Generally, these types of contracts are suitable only for construction and supplier projects which involve accurate identification of different types of items, but not their numbers, in the contract documents. These types of contracts are often times used on excavation projects;

(f) **Time and material contracts:** They are usually preferred if the project scope is not clear, or has not been defined. The owner and the contractor must establish an agreed hourly or daily rate, including additional expenses that could arise in the construction process. The costs must be classified as direct, indirect, mark-up, and overhead. Sometimes, the owner might want to establish a cap or specific project duration to the contract or that must be met, in order to have the owner's risk minimised;

(g) **Retentions:** They are amounts of progress billings that are not paid until the satisfaction of conditions specified in the contract for the payment of such amounts, or until defects have been rectified;

(h) **Progress billings (Valuation certificate):** They are amounts of contract revenue billed for work performed on a contract, whether or not they have been paid by the customer. It is a series of invoices prepared at different stages in the process of a major project, in order to seek payment for the percentage of work that has been completed so far. Progress billing will show the original contract amount, any changes to that amount, how much has been paid to date, what percentage of the job has been completed to date, what payment is currently due and the total amount remaining to be paid by the project's completion. Progress billing is common in the construction industry;

(i) **Trade receivables:** They are calculated by finding the difference between amount billed to the customer as progress billings and the amount of progress payments received from the customer

(j) **Amount due from customer (Account receivable):** It is the net amount of:
   (i) cost incurred plus recognised surplus; less
   (ii) the sum of recognised deficits and progress billings for all contracts in progress for which costs incurred plus recognised surpluses to be recovered by way of contract revenue (less recognised deficits) exceed progress billings.

4.25.3 Contract revenue: According to the standard, contract revenue should comprise:

(a) the initial amount of revenue agreed in the contract; and
(b) variations in contract work, claims incentive payments to the extent that:
    (i) it is probable that they will result in revenue; and
    (ii) they are capable of being reliably measured.

4.25.4 Contract costs: Contract costs should comprise:
(a) costs that relate directly to the specific contract;
(b) costs that are attributable to contract activity in general and can be allocated to the contract on a systematic and rational basis; and
(c) such other costs as are specifically chargeable to the customer under the terms of the contract.

Costs that cannot be attributed to contract activity or cannot be allocated to a contract are excluded from the costs of a construction contract such as:
(a) general administration costs for which reimbursement is not specified in the contract;
(b) selling costs;
(c) research and Development for which reimbursement is not specified in the contract; and
(d) depreciation of idle plant and equipment that is not used on a particular contract.

4.25.5 Recognition of contract revenue and expenses
When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should recognise as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date.

In the case of a fixed price contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:
(a) total contract revenue, if any, can be measured reliably;
(b) it is probable that the economic benefits or service potential associated with the contract will flow to the entity;
(c) both the contract costs to complete the contract and the stage of contract completion at the reporting date can be measured reliably; and
(d) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

In the case of a cost plus or cost-based contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:
(a) it is possible that the economic benefits or service potential associated with the contract will flow to the entity; and
(b) the contract cost attributable to the contract, whether or not specifically reimbursed, can be clearly identified and measured reliably.

In the case of the percentage of completion method, contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting

of revenue, expenses and surplus/deficit that can be attributed to the proportion of work completed.

When the outcome of a construction contract cannot be estimated reliably:

(a) revenue should be recognized only to the extent of the contract costs incurred that it is probable will be recoverable; and
(b) contract costs should be recognised as expenses in the period in which they are incurred.

4.25.6 Recognition of expected deficits:

According to the standard, construction contracts in which it is intended at inception of the contract that contract costs are to be fully recovered from the parties to the construction contract, when it is probable that total contract costs exceed total contract revenue, the expected deficit should be recognised as an expense immediately.

4.25.7 Advance received from customers in respect of contract work that is yet to be performed must be recognised as a liability until the work in respect of which the advance was given has been performed.

4.25.8 Disclosure

The standard stipulates that an entity should disclose:

(a) the amount of contract revenue recognised as revenue in the period;
(b) the methods used to determine the contract revenue recognised in the period; and
(c) the methods used to determine the stage of completion of contracts in progress.

An entity should disclose each of the following for contracts in progress at the reporting date:

(a) the aggregate amount of costs incurred and recognised surpluses (less recognised deficits) to date;
(b) the amount of advances received; and
(c) the amount of retentions.

The standard further states that an entity should present:

(a) the gross amount due from customers for contract work as an asset; and
(b) the gross amount due to customers for contract work as a liability.

4.25.9 Accounting treatment

S/N	Details	Remarks
A	To recognise revenue accruable	

i.	DR- Account receivable CR- Contract revenue	To recognise the revenue accrued to the entity to date (Using stage of completion which could be: (a) the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs; (b) Surveys of work performed; or (c) Completion of a physical proportion of the contract work.)
	DR- Cash/Bank CR- Account receivable	On receipt of the revenue
B	**To recognise cost of the contract**	
ii.	DR- Contract expenses CR- Accounts payable	To recognise the expenses incurred by the entity to date
	DR- Account payable CR- Cash/ Bank	Upon payments of contract expenses
C	**Recognition of advance received**	
iii.	DR-Cash/Bank CR- Accounts payable	To recognise advance received in respect of construction contract
	DR- Accounts payable CR- Contract revenue	To recognise utilisation of the advance payment received

Illustration 4 - 1

The Consultancy unit of Federal Ministry of Housing has been engaged by Ogogo Construction to build 100-units of two-bed room houses at the cost of N10 million per unit. The duration for the completion of the contract is 2 years with no variation clause. At the end of year one, the valuation certificate submitted by the Ministry of Works indicates that over 70% of the contract has been executed. The amount spent so far by the Ministry was estimated at N 600 million. At the end of the year, records show that the Ministry has received a total sum of N500 million from Ogogo Construction.

Required:

Show the necessary journal entries in the books of the Consultancy Unit of Federal Ministry of Housing.

Solution 4-1

Details	Dr. (₦'million)	Cr. (₦'million)	Remarks
Account receivable	700		To recognise revenue based on valuation certificate submitted
Contract revenue		700	

Bank	500		Upon receipt of cash from Ogogo Construction
Account receivable		500	
Contact expenses	600		To recognise contract expenses to date
Accounts payable		600	
Accounts payable	600		Upon payment of cash to suppliers
Bank		600	

4.26 IPSAS12: Inventories

4.26.1 Introduction

This standard deals with the valuation and presentation of inventories in the financial statements in the context of historical cost system. It is the most widely adopted method for presenting financial statements.

The standard does not deal with inventories accumulated under long-term construction contracts. It provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realisable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. The IFRS on which the IPSAS is based is IAS 2 on Inventories:

4.26.2 Contents of the standard

In accordance with IPSAS 12.9, inventories are assets:

(a) held for sale in the ordinary course of business;
(b) in the process of production for such sale or distribution;
(c) to be consumed in the production of goods or services for sale;
(d) in the form of materials or supplies to be consumed or distributed in the rendering of service;
(e) held for sale or distribution in the ordinary course of operations.

Inventories also include goods purchased for resale, such as merchandise purchased by a retailer and held for resale or land and other properties held for sale. Inventories also encompass finished goods produced or work-in-progress being produced and include materials and supplies awaiting use in the production process.

Specifically, in the public sector, inventories also comprise goods purchased or produced by the entity that are distributed to third parties for no charge or for a nominal charge. An example would be children's books produced by Ministry of Children Affairs for donation to schools. Other examples of inventories in the public sector given in IPSAS 12.12 include: "ammunitions, maintenances materials, spare-parts, strategic stockpiles (for example energy reserves or medicine in government hospitals and clinics) stocks of unissued currency, stamps, work-in-progress and property held for sale."

4.26.3 Exceptions from the provisions of IPSAS12

IPSAS 12 applies for all inventories except for:

(a) work-in-progress arising under construction contract including directly related contracts;
(b) financial instruments;
(c) biological assets related agricultural activity and agricultural produce at the point of harvest;
(d) work-in-progress of services to be provided for no or nominal consideration directly in return from the recipients.

IPSAS 12 does not apply for the measurement of the following inventories:

(a) inventories of agricultural or forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at net realisable value in line with well-established practices in certain industries. When such inventories are measured at net realizable value, changes in that value are recognised in surplus or deficit in the period of change. and
(b) inventories of commodity broker-traders who measure their inventories at fair value less costs to sell. When such inventories are measured at fair value, less cost to sell, changes in that value are recognised in surplus or deficit in the period of change.

4.26.4 Measurement of inventories

Inventories should be measured at the lower of cost and net realisable value, except where IPSAS 12 paragraph 17 applies. Which states that "Inventories should be measured at the lower of cost and current replacement cost where they are held for:

(a) distribution at no charge or nominal charge; and
(b) consumption in the production process of goods to be distributed at no charge or for a nominal charge.

4.26.5 Cost of inventories

The cost of inventories comprises:

(a) all costs of purchase;
(b) costs of conversion; and
(c) other costs incurred in bringing the inventories to their present location and state.

The costs of purchase of inventories comprise:

(a) the purchase price;
(b) import duties and other taxes;
(c) transport, handling and other costs directly attributable to the acquisition of finished goods, materials and supplies.
(d) trade discounts, rebates and other similar items are deducted in determining the costs of purchase;
(e) the costs of conversion of inventories in accordance with IPSAS12. 20 include full production-related costs.

The formula for arriving at the costs of conversion of inventories is as follows: Direct costs + fixed production overheads + variable production overheads + other costs = costs of conversion.

4.26.6 Costs of conversion

The costs of conversion of inventories include costs directly related to the units of production, such as direct labour, a systematic allocation of fixed and variable production overheads that are incurred in converting materials to finished goods.

Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production: Examples of such costs are depreciation and maintenance of factory buildings and equipment, and the cost of factory management and administration.

Variable production overheads are those indirect costs of production that vary directly, or nearly directly with the volume of production, such as indirect materials and indirect labour.

Other costs included in the costs of inventories only to the extent that they are incurred in bringing inventories to their present location and condition.

4.26.7 Cost to be excluded from the costs of inventories

The following costs are excluded from the cost of inventories and recognised as expenses in the period in which they are incurred:

(a) abnormal amounts of wasted materials, labour, or other production costs;
(b) storage costs, unless those costs are necessary in the production process prior to a further production stage;
(c) administrative overheads that do not contribute to bringing inventories to their present location and conditions;
(d) selling costs.

4.26.8 Cost of inventories of a service provider

The cost of inventories of a service provider consists primarily of the labour and other costs of personnel directly engaged in providing the service, including supervisory personnel and attributable overheads. The cost of labour not engaged in providing the service are not included. Labour and other costs relating to sales and general administrative personnel are not included but are recognised as expenses in the period in which they are incurred.

4.26.9 Cost formula

The cost of inventories, other than those that are not ordinarily interchangeable, should be assigned by using the first-in, first-out (FIFO) or weighted average cost formulas.
The FIFO formula assumes that the items of inventory are sold on first-come, first-serve basis. Consequently, the items remaining in inventory at the end of the period are those most recently purchased or produced.

The weighted-average cost

Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period, and the cost of similar items purchased or produced during the period. The average may be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances of the entity.

4.26.10 Net realisable value

This is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated cost necessary to make the sale, exchange or distribution.

4.26.11 Recognition of inventories as an expense

(a) When inventories are sold, exchanged or distributed the carrying amount of those inventories should be recognised as an expense in the period in which the related revenue is recognised;
(b) If there is no related revenue, the expense is recognised when the goods are distributed or related service is rendered;
(c) The amount of any write-down of inventories and all losses of inventories should be recognised as an expense in the period the write-down or loss occurs;
(d) The amount of any reversal of any write-down of inventories should be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

4.26.12 Disclosure

The standard stipulates that the financial statements should disclose:

(a) the accounting policies adopted in measuring inventories, including the cost formula used;
(b) the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;
(c) the carrying amount of inventories carried at fair value less cost to sell;
(d) the amount of any reversal of any write-down that is recognised in the statement of financial performance in the period;
(e) the circumstances or events that led to the reversal of a write- down of inventories;
(f) the carrying amount of inventories pledged as security for liabilities; and
(g) the cost of inventories recognised as an expense during the period or the operating costs applicable to revenues, recognized as an expense during the period, classified by their nature.

4.26.13 Accounting treatment

S/N	Details	Remarks
A	**Inventories bought-in**	

S/N	Details	Remarks
	DR. - Inventory CR - Accounts payable account	On purchase of inventory
	DR. – Accounts payable account CR. – Cash/ Bank account	When payment is made
	DR. - Relevant expenses account CR. – Inventory	Upon issuance
B	**Inventories created internally**	
	DR. - Inventory CR - Assets depleted	On creation of inventory from other assets
	DR. - Work- in – progress account CR. – Inventory	Upon Issuance of materials for conversion.
	DR. - Finished goods services account CR. – Work – in progress account	On full conversion of the created inventory
	DR. - Relevant expenses account CR. – Inventory	Upon Issuance or consumption.

Illustration 4 - 2

Federal Ministry of Education had the following transactions for the year ended December 30, 2024:

(a) The Ministry issued purchase order to OKO Ltd to supply 250,000 units of duplicating papers worth ₦500,000. The consignment was supplied accordingly on the 15 June 2024. The supplier was paid 75% of the money as at the end of the financial year;

(b) In addition, a consignment of 1000,000 units was received from another supplier (EMU Ltd) valued at ₦1,500,000. The supplier was fully paid. As at the end ofthe year, only 130,000 units were issued from store to the user departments. The entity adopts FIFO method of valuing stock

(c) During the physical verification of inventory in custody, it was discovered that 5,000 units of stationery bought-in were damaged by water. The value of the items was estimated at ₦50,000; and

(d) The Ministry transferred duplicating papers valued at ₦250,000 to its zonal offices during the year.

Required:

Show the relevant entries to record the above transactions in the books of Federal Ministry of Education for the year ended December 31, 2024.

Solution 4-2

S/N	Details	Dr. (₦)	Cr. (₦)	Remarks
a. i.	Inventory account	500,000		Being recognition of

S/N	Details	Dr. (₦)	Cr. (₦)	Remarks
	Accounts payable account		500'000	the transaction in the books
ii.	Accounts payable account	375,000		Being payment of 75% of the liability
	Bank account		375,000	
b i.	Inventory account	1,500,000		Being recognition of the transaction in the books
	Accounts payable account		1,500,000	
ii.	Accounts payable account	1,500,000		Being full payment of 75% of the liability
	Bank account		1,500,000	
iii.	Stationery expense account	260,000		Being consumption of stationeries using FIFO method.
	Inventory account		260,000	
c	Loss of inventory account	50,000		Being value of damaged Inventory
	Inventory account		50,000	
d	Stationary transfer account	250,000		Being transfer of stationary items to zonal offices
	Inventory account		250,000	
	Inventory account	250,000		Being receipt of stationary items from the headquarters
	Stationary transfer account		250,000	

Note that on consolidation the two stationary transfers accounts in headquarters and zonal offices will net off

Illustration 4 – 3

Federal Printing Press had the following transactions for the year ended December 30, 2024:

(i) Federal Printing Press purchased printing materials worth ₦2,500,000 to be used in printing of files for the government made a bank transfer;
(ii) A total of ₦1,000,000 worth of printing materials was issued from stores;
(iii) ₦150,000 was paid as direct labour;
(iv) ₦55,000 was incurred æsoverhead cost in printing of the files; and
(v) A total of 50,000 units of files were printed.

Required:

Show the relevant entries to record the above transactions in the books of Federal Printing Press for the year ended December 31, 2024.

Solution 4 – 3

S/N	Details	Dr. (₦)	Cr. (₦)	Remarks
i.	Inventory account (materials)	2,500,000		Being purchase of materials
	Accounts payable account		2,500,000	
ii.	Accounts payable account	2,500,000		Being payment for materials purchased
	Bank account		2,500,000	
iii.	Work- in progress account	1,000,000		Being issuance of materials from the store
	Inventory account (materials)		1,000,000	
iv.	Work- in progress account	205,000		Being attributable conversion cost
	Bank account (direct labour)		150,000	
	Bank account (overhead)		55,000	
v.	Inventory account (finished goods)	1,205,000		Being cost of printing 50,000 units of files
	Work- in progress account		1,205,000	

4.27 Chapter review

In government, contracts are awarded after the bids have been reviewed by one of the tender boards. The contract execution and payments should follow due process of tendering and subsequent awards of contract. Public Procurement Act, 2007 also gives detailed guidelines on the awards of government contracts including the provisions of IPSAS 11 on Construction Contacts and provision of IPSAS 12 on Inventories.

4.28 Worked examples

4.28.1 Examination type questions

1. The Public Procurement Act 2007, established the National Council on Public Procurement.

   Required:

   (a) (i) Explain the composition of the Council.

   (ii) List **SIX** functions of the Council.

   (b) (i) Explain the objectives of the Bureau of Public Procurement.

   (ii) Explain **EIGHT** of the powers and functions of the Bureau of Public Procurement.

2 Treasury circulars Ref. Nos. TYR/A8 and B8/2008 convey the guidelines for the implementation of the e-payment.

Required:

Explain the procedures to be followed for the implementation of e-payment.

3 A tender is a proposal for the supply of some services or goods.
Required:

(a) Explain the compositions, limit of expenditure and approval of the Ministerial Tenders Board.

(b) Explain the powers of boards of Corporations and parastatals over tender.

4. The Ministerial Tenders' Board must adopt the open competitive tendering procedures.

Required:
Explain the additional procedures and practices that should be adopted on ministerial tenders.

4.28.2 Suggested solutions

1(a) (i) Composition of the National Council on Public Procurement

- The Minister of Finance as Chairman
- The Attorney-General and Minister of Justice of the Federation
- The Secretary to the Government of the Federation
- The Head of Service of the Federation
- The Economic Adviser to the President
- Six-part-time members to represent:
- Nigerian Institute of Purchase and Supply Management
- Nigerian Bar Association
- Nigerian Association of Chambers of Commerce, Industry, Mines and Agriculture
- Nigerian Society of Engineers
- Civil Society
- The Media
- The Director-General of the Bureau shall be the Secretary of the Council.

(ii) Functions of the National Council on Public Procurement are to:

- consider, approve and amend the monetary issues relating to the Act;
- consider and approve policies on public procurement;
- approve the appointment of the Director of the Bureau;
- receive, review, consider and approve the audited accounts of the Bureau of Public Procurement;
- approve changes in the procurement process to adapt to improvements in modern technology;
- perform such other functions as may be deemed necessary to achieve the objectives of the Act.

(b) (i) Objectives of the Bureau of Public Procurement

- harmonisation of existing government policies and practices on public procurement;

- establishment of pricing standards and benchmarks;
- Ensuring the application of fair, competitive, transparent and standard practices for the procurement and disposal of public assets and services;
- attainment of transparency, competitiveness and professionalism in the public section procurement system

(ii) Functions of the Bureau of Public Procurement are to:

- formulate the general policies and guidelines relating to public sector procurement;
- supervise the implementation of established procurement policies;
- monitor the prices of tendered items and keep a national database of standard process;
- publish the details of major contracts in the procurement journal;
- publish papers and electronic editions of the procurement journal;
- maintain a national database of the particulars and classification and categorisation of federal contractors and service providers;
- collate and maintain in a database for all federal procurement plans and information;
- undertake procurement research and survey.
- organise training and development programmes for procurement professionals;
- prepare and update standard biding and contract document.
- prevent fraudulent and unfair procurement and where necessary apply administrative sanctions; and
- review the procurement and award of contract procedures of every entity to which the Act applies.

Powers of the Bureau of Public Procurement

The bureau shall have the power to:

(i) review and or inspect any procurement transaction to ensure compliance with the provisions of the Act;
(ii) review and determine whether any procuring entity has violated any provision of this Act;
(iii) stop and blacklist any supplier, contractor or service provider that contravene any provision of this Act;
(iv) maintain a national database of federal contractors and service providers;
(v) maintain list of firms and persons that have been debarred from participating in public procurement activity and publish them in the procurement journals;
(vi) investigate any aspect of any procurement proceeding where a breach, default, mismanagement and or collusion has been

alleged, reported or proved against a procuring entity or service provider;

(vii) recommend to the Council where there are persistent breaches of this Act or regulations for suspension, replacement, discipline and temporary transfer of any officer of any procuring entity or of the Council;

(viii) act upon complaints in accordance with the procedures set out in this Act;

(ix) nullify the whole or any part of any procurement proceeding or award which in contravention of this Act; and

(x) enter into contract or partnership with any company, firm or person which in its opinion will facilitate the discharge of its functions;

2. The following are the procedures to be followed for the implementation of e-payment:
   a. all forms of payments from all government funds are to be made through the banks;
   b. all organs of government, ministries, departments and agencies (MDA) are to stop using cheques to make payment to contractors;
   c. all bank accounts in respect of all government funds shall cease to be cheque accounts;
   d. government contractors must indicate their current accounts details with commercial banks on the invoices submitted for payments under their corporate seal;
   e. mandates containing details of payments shall be issued to the bank authorising them to pay into the contractors' designated bank accounts, the proceeds of executed contracts and supplies;
   f. in addition, to the existing monthly financial returns, every organisation of government, ministry, department or agency must forward copies of mandates issued to banks to the office of Accountant General of the Federation;
   g. henceforth, all employees of the federal government of Nigeria must open accounts with the commercial banks into which all payments due to them as individuals would made; and
   h. on no account should Central Pay Officer (CPOs) collect cash from the bank for the purpose of disbursement to any government official.

3 (a) (i) **Composition of Ministerial Tender Board**

The chairman is the Permanent Secretary/Chief Executive of the ministry or extra-ministerial department respectively. Other members are all Directors/Heads of Departments in the Ministry of Establishments.

(ii) Limit of expenditure

The Ministerial Tender Board is empowered to award any contract whose value exceeds (₦5,000,000) one million naira, but not exceeding one hundred million naira (₦100,000,000).

(iii) Approval: The decision of the Ministerial Tender Board (MTB) shall be confirmed by the Honourable Minister,

(b) The following are the powers of Board of Corporations and parastatals over tenders:

(i) The chief-executive of a parastatal is empowered to make purchase or award a contract, the value of which does not exceed (₦2,500,000) two million five hundred thousand naira only, without open-competitive tendering. However, at least three relevant written quotations should be obtained from suitably qualified contractors or suppliers.

(ii) Any contract exceeding two million five hundred thousand naira (₦2,500,000) but not more than fifty million (₦50,000,000) shall be referred to the Parastatals tenders boards;

(iii) Any contract whose value exceeds fifty million naira (₦50,000,000) but not more than one hundred million (₦100,000,000) shall be referred to the Ministerial Tender Board (MTB) of the relevant supervising ministry.

4. The following are the additional procedures and practices to be adopted on ministerial tenders:

(a) Opening of tenders must be done in the 'Open' at the designated date and time. Opening should immediately follow the closing of the bidding period, to minimise the risk of tampering with the bids. The following people should be present at tender bid opening:

(i) The bidders or their representatives;

(ii) Members of the civil society;

(iii) Members of the press (if they wish to attend).

(b) All contracts above ten million (₦10,000,000) should be advertised in at least two national dailies and/or government gazette. The advertisement should be placed at least six (6) weeks before the deadline for submitting bids for goods and works and at least one (1) month for consultancy services. Notices of all other tenders must be pasted at the notice-board of the procuring agencies;

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

(d) There should be a Committee, Tenders Boards and approval authorities should be obliged to declare any conflict of interest and exclude themselves from bid evaluation and approval processes;

(e) The award of any major contract twenty million (₦20,000,000) and above should be published in two (2) national dailies stating:

(i) Description of the contract;

(ii) Name of the contractor;

(iii) Contract price.

(f) Contract awards should be properly handled so as to avoid minimum variations. Contract variations should not be allowed except when absolutely necessary, subject to Tender Board (MTB). The method for determining incorporated into the contract. Such price variations shall be for contracts extended for more than eighteen (18) months.

ICAN 2026

Skills Level
Public Sector Accounting and Finance

CHAPTER 5

PROFESSIONAL PRONOUNCEMENTS ON GOVERNMENT ACCOUNTING BY THE UNITED NATIONS

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5 Professional Pronouncements on Government Accounting by the United Nations

5.0 Learning objective

The objective of this chapter is to enhance readers' understanding of the professional pronouncements of international organisations on public sector accounting and the benefits to be derived from such pronouncements.

5.1 Learning outcomes

On successful completion of this chapter, the reader should be able to:

(a) discuss the characteristics of government accounting;
(b) explain the objectives and details of professional pronouncements on government accounting;
(c) identify the alternative classifications for 'government accounting';
(d) appraise government accounting in other countries of the world; and
(e) review the observations on government accounting in 'third world' countries made by the United Nations

5.2 Introduction

Efforts at the International convergence on accounting standards is as far back as 1950s in response to post World War II economic integration, and related increases in cross-border capital flows. The initial efforts focused on harmonisation i.e. reducing differences in accounting principles used by major countries of the world. By 1990s, the focus shifted from harmonization to the concept of convergence with greater interest on the development of a single set of high-quality, international accounting standards that would be used in countries of the world.

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

5..3 International Federation of Accountants (IFAC):

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

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

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

(a) contributing to the development, adoption and implementation of high-quality international standards and guidance;
(b) contributing to the development of strong professional accountants;
(c) promoting the value of professional accountants world-wide;
(d) speaking out on accounting public interest issues.

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

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

(b) In the United States of America, the National Committee on Government Accounting issued a manual titled "Government Accounting, Auditing and Financial Reporting (GAAFR)." The manual is generally referred to as "The Blue Book." The Blue Book and other pronouncements of the committee set forth the basic accounting and reporting principles covering the following areas, viz:
    (i) basis of accounting;
    (ii) legality;
    (iii) funds and fund accounting;
    (iv) budgetary, planning and control;
    (v) tangible assets and depreciation;
    (vi) terminologies and accounting/classifications; and
    (vii) financial reporting.

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

Other pronouncements.

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

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

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

(d) The International Organisation of Supreme Audit Institutions (INTOSAI), which is the association of all Auditors-General in the world, meets annually and draws up

resolutions on accounting and audit practices and procedures to be followed by member countries.

5.4 International Public sector accounting Standards Board

The IPSASB (formerly Public Sector Committee (PSC)) is a Board of IFAC formed to develop and issue under its own authority International Public sector accounting Standards (IPSASs). IPSASs are high quality global financial reporting standards for application by public sector entities other than Government Business Enterprises (GBEs).

5.4.1 Objectives of the IPSASB

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

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

(a) Membership of the IPSASB

The members of IPSASB are appointed by IFAC Board to serve on the IPSASB. The IPSASB comprises 18 members, member bodies of IFAC nominate 15 of whom and three of who are public members. Any individual or organisation may nominate public members. In the public sector, financial reporting accountants are appointed to IPSASB. These observers have the privilege of the floor but are not entitled to vote.

(b) Due process

IPSASB adopts a due process for the development of IPSASs that are provided the opportunity for comments by interested parties including IFAC member bodies. Auditors, preparers (including finance ministries), standards setters and individual are priorities. IPSASB's due process for projects normally, but not necessarily takes the following stages:

(i) study of national accounting requirements and practice and exchange of views about the issues with national standard-setters;

(ii) consideration of pronouncement issued by:
- the International Account Standard Board (IASB);
- national standard setters, regulatory authority and other authoritative bodies;
- professional accounting bodies; and
- other organisations interested in financing reporting in the public.

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

(iv) publication of an exposure draft for public comment usually for at least four (4) months. This provides an opportunity for those affected by IPSASB's

pronouncements and are finalised and approved by IPSAS. The exposure draft, will include a basis for conclusion;

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

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

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

5.5 Pan African Federation of Accountants (PAFA)

The Pan African Federation of Accountants (PAFA) is a regional organisation that brings together professional accountancy organisations from across Africa. The Pan African Federation of Accountants (PAFA) comprises 34 member countries, including Nigeria.

5.5.1 Strategic objectives of PAFA

(a) **Promote professionalism:** Enhance the professionalism and competence of accountants in Africa.

(b) **Harmonise accounting standards:** Promote the adoption and implementation of international financial reporting standards (IFRS) and international Public Sector Accounting Standards (IPSAS) across Africa.

(c) **Capacity building:** Provide training and capacity-building programmes for accountants and auditors in Africa.

(d) **Advocacy and representation:** Represent the interests of accountants in Africa and promote the importance of the accountancy profession in economic development.

(e) To create long-term value and contributes to the realisation of the African Union agenda and the United Nations' Sustainable Development Goals (SDGs).

(f) To provide and support good governance, transparency and accountability in the public sector.

5.5.2 Specific objectives of PAFA

(a) **Improve financial reporting:** Enhance the quality and transparency of financial reporting in Africa.

(b) **Strengthen audit and assurance:** Promote high-quality audit and assurance practices in Africa.

(c) **Develop professional ethics:** Promote and enforce professional ethics and standards among accountants in Africa.
(d) **Foster collaboration and networking:** Encourage collaboration and networking amongst accountants in Africa and other stakeholders.

5.5.3 Societal benefits of PAFA

(a) **Economic growth and development:** By promoting sound financial management and reporting practices, PAFA contributes to economic growth and development in Africa.
(b) **Financial transparency and accountability:** PAFA's efforts to promote transparency and accountability in financial reporting help to combat corruption and promote good governance.
(c) **Investor confidence:** The adoption of international accounting standards and best practices promotes investor confidence in African markets.
(d) **Job creation and skills development:** PAFA's capacity-building programmes and professional development initiatives contribute to job creation and skills development in the accountancy profession.

5.5.4 Additional benefits of PAFA

(a) **Networking opportunities:** PAFA provides a platform for accountants from across Africa to network, share experiences, and collaborate.
(b) **Research and thought leadership:** PAFA undertakes research and publishes reports on topics relevant to the accountancy profession in Africa, promoting thought leadership and innovation.
(c) **Collaboration with international organisations:** PAFA collaborates with international organisations, such as the International Federation of Accountants (IFAC), to promote the interests of African accountants and advance the profession globally.

5.6 The African Professionalisation Initiative (API)

The African Professionalisation Initiative (API) is a partnership between Accountants General, Professional Accountancy Organisations and Supreme Audit Institutions whose core objective is to professionalise accounting and auditing in the public sector in Africa.

5.6.1 Objectives of API

(a) **Improved public financial management**: API aims to strengthen public financial management practices in Africa.
(b) **Professionalisation**: Enhance the skills, knowledge, and competencies of public sector accountants.
(c) **Accountability and transparency**: Promote accountability and transparency in public financial management.

5.6.2 Key components

(a) **Capacity-building**: Training and development programmes for public sector accountants.
(b) **Certification**: Professional certification programmes to enhance credibility and recognition.
(c) **Mentorship**: Pairing experienced professionals with less experienced ones for guidance and support.

5.6.3 Benefits

(a) **Enhanced professionalism**: Improved skills and competencies among public sector accountants.
(b) **Better public financial management**: Strengthened public financial management practices.
(c) **Increased accountability**: Promoting accountability and transparency in public financial management.

5.7 Characteristics of government accounting

(a) There are distinct aspects of accounting information, classification and procedures, which apply only to transactions made by the government. Examples are the budgeting system and applicable procedures, fiscal policy, accounting methods and sources of revenue. The peculiar nature of government transactions makes it desirable and indeed mandatory to treat them in accordance with specific, but cohesive and standardised measurement approaches and rules.
(b) In view of the requirements to obtain legislative approval for government revenue and expenditure, budgeting largely determines the structure of Public Sector Accounting. The government sometimes finds it necessary to segregate its resources into specific or special purpose compartments, a set-up of receipts and expenditure known as 'Funds'. The method of accounting adopted in recording and measuring the Funds is referred to as 'fund accounting.'
(c) Another peculiarity of government operations is that the accounting system is maintained on ''cash basis.'' Only transactions involving the movement of cash come into reckoning. Although the approach has its inadequacies, the general practice is to adopt the 'cash-basis' of accounting. All assets are written off as they are regarded consumed at the point they are paid for. Accordingly, government's statement of assets and liabilities do not contain information on tangible assets and neither is depreciation charged in the revenue and expenditure accounts.

5.8 The objectives of professional pronouncements

These may be discussed, as follows:

(a) to develop and harmonise public sector financial reporting, accounting and auditing practices;
(b) to put into practice the same accounting standards throughout the world, in order to make comparisons possible and meaningful;

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

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The various pronouncements made so far can be summarised as shown below and c**ompared with the position of Nigeria, in the following vein:**

Summary of key International Accounting Standards Issues

United Nations prescriptions	Nigeria's Accounting Systems	Remarks
Accounting systems should be designed to comply with the constitutional, statutory and other legal requirements of 'third world countries	Government Accounting system in Nigeria adheres with the Nigerian Constitution; Finance (Control and Management) Act, Cap 144 LFN 2004 (as amended); Revenue Allocation Laws; other Federal and State Laws and Regulations; Local Government bye laws etc.	Government accounting system effectively
Does the Public sector accounting Law adopt IPSAS?	Yes	The FAAC pronouncements specifically require the financial statements to be prepared as per international standards. The financial statements of federal government also indicate that they are prepared as per IPSAS. However, the financial statements do not fully comply with the requirements of cash IPSAS. This needs to be ensured.
Does accounting education a training accord with IES?	Yes	The education and training is broadly as per the requirements of IES. However, there is need for more public sector accounting programmes/ certifications available in the country.
Does the Code of Ethics match international standards?	No	The Public Services Code lays down the requirements relating to conduct of government servants. More specific adoption of a set of standards is advisable. The members of ICAN follow the ICAN code

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United Nations prescriptions	Nigeria's Accounting Systems	Remarks
		of ethics with matches with international standards
Is there a body to prescribe public sector accounting standards?	Substantially, Yes	Presently, FRC has legal mandate to issue Accounting Standards applicable to the public sector but has not issued public sector specific standards. The Nigerian public sector accounting system is presently derived from various legislations, pronouncements and circulars issued by OAGF. In practice FRC also performs roles relating to enlightenment and education on public sector accounting standards.
Are the financial statements in accord with the IPSAS standard?	No	Reformatting of the accounts would enable reporting in accordance with much of the Cash Basis IPSAS format
Is the statement of cash receipts and payments in IPSAS form?	Substantially	Reformatting of the accounts would enable reporting in accordance with much of the Cash Basis IPSAS format
Are accounting policies and explanatory notes required?	Yes	
Are other disclosures in accord with IPSAS?	No	
Does the government issue a consolidated financial statement, which consolidates all controlled entities?	No	There are many parastatals, agencies and organisations, which are distinct from GBEs. They all prepare their own financial statements but their cash flows are not currently consolidated with those of Federal Government. However, the cash flows of these entities have been proposed for consolidation.

Summary of IFAC-issued International Standards on Auditing (ISA),in addition to the INTOSAI Auditing Standards on auditing for government audits as compared with Nigeria position

United Nations Prescriptions through issuance of International Auditing Standard	Nigerian Current Status	Actions Required to be taken to move towards International Standards
Statutory framework for auditing		
Is the SAI statutory framework in accord with the needs of the INTOSAI Auditing Standards?	Broadly yes, but some existing deficiencies need to be corrected.	Some additional powers need to be established by legislation. Observed deficiencies need to be addressed either by the new Audit Law; some others can be corrected through issuance of directives by AuGF, whichever is appropriate.
Setting standards on auditing		
Is there a body to prescribe public sector auditing standards?	There is no dedicated body.	The FRC Act provides the function under a separate directorate for PSA.
Ensuring independence of the auditor		
Is the accountability process in the SAI in accord with INTOSAI Auditing Standards?	Partially	There is need for the Office to strive towards complete attainment of INTOSAI Auditing Standards.
Does the SAI legal framework meet the INTOSAI Auditing Standard of independence and power?	Partially	The SAI needs improved legislation especially for its personnel policies, funding arrangement and reporting processes. The Audit Act needs to be amended to provide, inter alia, more involvement of the legislative.

Training and auditing competence		
Does the education and training of auditor's accord with INTOSAI and IES Standards?	Broadly yes, but there is more room for improvement.	Recruitment and continuing professional education processes should be revised by the OAUGF. Training programmes should lead to professional certification
Is the SAI equipped with the audit methods and technologies to meet INTOSAI Auditing Standards?	Partially, but more resources are needed.	Computer-based audit technology and other technological audit techniques need to be applied within the OAuGF for conducting the audit of entities having computer- based accounting system.

Quality assurance		
Does the SAI have the quality assurance programmes to meet International Standards?	Partially as the implementation needs improvement.	Improved working paper guidance and automation combined with more effective supervision and quality review processes are required. A Quality Assurance Function is being established to provide improved research facilities.
Audit planning conduct		
Does the process to plan the audits meet international standards?	Party, improved methodologies are in the process of being developed	The testing for compliance should be more statistically based to enable valid conclusions to be drawn about systems of control and specific system defects to be identified for remedy. Systems-based audit techniques are being developed to enable OAuGF audit ministries as entities. Auditors will be trained in preparing planning files that meet INTOSAI standards by Frog10.

Does the process to supervise the audits meet international standards?	Partially	The methodology needs to be risk and systems based
Does the process to evaluate the reliability of internal control meet international standards?	Partially	The testing for compliance should be more statistically based. Improved methodologies should be implemented through a training programme.
Does the process used in audits to assess compliance with laws meet international standards?	Broadly.	
Does the audit process used to obtain evidence for supporting conclusions meet international standards?	Partially.	Same as above
Audit reporting		
Does the audit analyse the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with?	Partially. Yes. In the case of SOEs and project financial statements being submitted by OAGF.	Audit opinions need to be more specific in accordance with INTOSAI standards.
Does the auditor prepare an audit opinion on the financial statements in a form that accord with international standards?	Not in the OAuGF Annual Report. Partially in the case of specific audit report provided by SOEs and project financial statements submitted by OAGF.	The audit methodology needs to be changed to support an opinion that meets the international standards and provides specific assurance about the adequacy of the accounts. The audit work must be planned to meet the confidence level that is implicit in the audit opinion and which underpins the level and extent of audit testing required in order to express that opinion. The methodology needs to be aimed at forming an opinion on the truth and fairness of

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		these financial statements so that the AuGF can sign an opinion in accordance with ISA 700,the Auditor's Reports in Financial Statements. The AuGF should issue audit report giving reference to the financial reporting framework used to prepare financial statements and expressing opinion on the complete set of financial statements of the Government budget sector and the fully owned Sots
Does the consideration of fraud and error in an audit of financial statement accord with international standards?	Partially.	The testing needs to be more statistically based. Forensic audit training is also needed. More systems – based auditing would bring an improvement.
Are the Auditors'–General's Reports made public.	Partially, but through the National Assembly.	Process and time allowed for publication should be laid down in the Law.
Response to audit report		
Is the process for taking action on audit recommendations sufficiently effective to meeting international standards?	Partly, Governance requirement. For SOEs there are major delays in issuing audit reports, long standing unresolved audit queries, and general lack of response to audits. There is dissatisfaction with the audit report going to the PAC	The AuGF reports could be improved in terms of communicating clear objectives, addressing more relevant problems, making more effective recommendations and involving more extensive audit work. Governance requirements in the SOEs need to be upgraded.

5.9 Public sector accounting in other countries

It is difficult to report on the accounting practices in all the advanced countries of the world in one book. An attempt is hereby made on a broad summary of the accounting practices in the United States of America which adopts the presidential system of Government, and the United Kingdom from which Nigeria originally derived its accounting system.

5.9.1 United States of America

The practice of Government Accounting in the United States of America has come a long way through public criticism, research studies backed by public hearings and political evolution. The American Congress has the power of the 'purse,' politically, in consonance with the stipulations of the country's constitutions.

As far back as 1901, when the American Society was in search of an efficient accounting system, many agencies and public bodies had criticised the existing accounting system. In that year, for example, the firm of Haskins and Sells, Certified Public Accountants, made an investigation into the affairs of the City of Chicago at the request of the Merchants' Club and subsequently installed a completely new system of accounting for that City. Revolution in systems of accounting swept through the cities of Newton, Massachusetts and Baltimore. In view of well-informed and volatile nature of the society, dynamic reforms had gone on since then.

On July 1, 1974, the National Council on Government Accounting (NCGA) was formed. The Council conducts and sponsors research, holds public hearing and issues formal statements and interpretations with respect to principles and standards of government budgeting, accounting, reporting and auditing.

5.9.2 United Kingdom

Government accounting in the United Kingdom is the same approach adopted by Nigeria, since the colonial era. While, however, the United Kingdom has not stopped research work, Nigeria's system has not experienced radical change. The last comprehensive review made by the country was in 1976.

In 1984, two scholars, Messrs. Andrew Likierman and Peter Vass conducted, in the United Kingdom, research titled, "The Structure and Form of Government Expenditure Report: Proposals and Reform." Their search effort concluded that government should continue to adopt the 'cash-basis" of accounting.

5.10 Some observations on government accounting system in developing countries

Unlike the advanced countries, where research work has been documented and published, the records of general practice in the individual countries in the developing countries are difficult to obtain.

The general features of Government Accounting system as published by the United Nations are as follows:

a. relatively little has been given to social government accounting and budgetary control system;
b. accounting procedures in government departments, which reflect complicated systems of checks and balances, tend to hamper the efficacy and time lines of the accounting information and statistics produced;
c. government accounting is seen mainly as an accountability device for public receipts and expenditure. Efficiency, effectiveness and economy of the operations tend to be neglected;

d. bookkeeping or administrative legal compliance procedures are more common than modern accounting approaches;
e. accounting tends to be identified with expenditure control. the fact is that expenditure is subject to multiple checks;
f. the amount of paper work is much, but no efficiency, accountability or financial control is achieved;
g. the accounting data up on which government budgets and plans are based are frequently inaccurate and incomplete; and
h. financial reports are delayed and generally in arrears. they consequently become obsolete at the point of implementation.

Performance budgeting systems and methods need to be installed. Care should be taken in changing from the traditional budgets to performance budgets. It is better to start first with performance budgeting procedures which are geared towards national plans, and graduate into more elaborate areas of Planning, Programming and Budgeting System.

5.11 Features of a good system of public sector accounting as contained in a United Nations manual on government accounting.

The system must:

(a) comply with constitutional, statutory and other legal requirements of the relevant country;
(b) be related to budget classifications. budgetary financial management must be closely integrated;
(c) be maintained in a manner that will clearly identify the objects and purposes for which funds have been received and expended, and the executive authorities who are responsible for custody and use of funds in programme / budget implementation;
(d) maintain records in a way that will facilitate audit by external review authorities and readily furnish the information needed for effective audit;
(e) be developed in a manner that will permit administrative control of funds;
(f) be developed so that it effectively discloses the economic and financial results of programme operations, including the sources of revenue, identification of costs and determination of the operating results of government programmes and organisation; and
(g) be maintained in a manner that will provide financial data useful for economic analysis and identification of governmental transactions and also assist in the development of the country's accounts.

5.12 Chapter review

This chapter discusses the contributions of PAFA and the United Nations to the development of public finance management in Africa through development programmes such as African Professionalism Initiative aimed at capacity development for accountants in Africa working in the public sector.

5.13 Worked examples

5.13.1 Examination type questions

1. A United Nations survey was conducted and recommendations were made for improvements in the government accounting systems of 'third world' countries.

   Required:
   Discuss the observations made by the United Nations Organisation on Government Accounting System in developing countries.

2a. Political stability is very essential for the growth of an economy and the government has to provide the enabling environment. It is in the realisation of the foregoing and to bridge the gap between public and private sectors that many international pronouncements have been made

   Required:
   Explain the objectives of Professional Pronouncements.

b. The "Blue Book" according to the National Committees on Government Accounting in the USA set forth the basic accounting and reporting principles covering specified areas.
   Required:
   Explain **FIVE** of these areas.

3. Government accounting in the United Kingdom is the same approach adopted by Nigeria, since the colonial era. While, however, the United Kingdom has not stopped research work, Nigeria's system has not experienced radical change.

   Required:
   Explain the general features of Government Accounting Systems as published by the United Nations.

5.13.2 Suggested solutions

1. The following are the observations made by the United Nations Organisation on Government Accounting system in developing countries:
   (i) Relatively little has been given to Social Government Accounting and Budgetary Control system.
   (ii) Accounting procedures in Government Departments reflect complicated system of checks, rechecks and balances which tend to hamper the efficacy and timeliness of the accounting information.
   (iii) Government Accounting is seen mainly as an accountability device for public receipts and expenditure; effectiveness and economy of operations tend to be neglected, bookkeeping or administrative legal compliance are more common than modern accounting approaches.
   (iv) Accounting tends to be identified with expenditure control. Expenditure is subject to multiple checks.

(v) The amount of paperwork is vast but no efficiency, accountability and financial controls are achieved.
(vi) The accounting data upon which Government Budgets and plans are based are frequently inaccurate and incomplete.
(vii) Financial reports are delayed and generally in arrears.

2 (a) The objectives of Professional Pronouncements are to:
(i) develop and harmonise public sector financial reporting, accounting and auditing practices;
(ii) put into practice the same accounting standards throughout the world in order to make comparisons possible and meaningful;
(iii) make guidelines available for practitioners in order to maintain high reporting standards.

(b) The "Blue Book" specified the following areas:
(i) Basis of accounting
(ii) Legality
(iii) Funds and Fund accounting
(iv) Budgetary, planning and control
(v) Tangible assets and depreciation
(vi) Terminologies and accounting classification
(vii) Financial reporting

3 (a) Not much attention has been accorded to Social Government Accounting and Budgetary Control System.

(b) Accounting procedures in Government Departments, which reflect complicated systems of checks and balances, tend to hamper the efficacy and timeliness of the accounting information and statistics produced.

(c) There is a belief that Government Accounting is only aimed at accountability for public fund receipts and disbursement while efficiency and effectiveness of the operations are ignored.

(d) Accounting compliance procedures are taken more seriously than modern accounting approaches.

(e) Accounting tends to be identified with expenditure control.

(f) Efficiency, accountability and financial control are not put in place but only accounting records.

(g) The available data on which government budgets are prepared are most of the times incomplete, inaccurate and unreliable.

(h) Delay in financial reports which make them obsolete and irrelevant at the point of implementation.

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CHAPTER 6

PENSIONS AND GRATUITY

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6 Pensions and Gratuity

6.0 Learning objective

The objective of this chapter is to enhance readers' understanding of the institutional and legal framework for pension administration and the provisions of Pension Reform Act, **2014**.

6.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

(a) discuss the provisions of 1999 Constitutional provisions;
(b) outline the objectives of Pension Reform Act 2014;
(c) identify the categories of people exempted from Pension Reform Act 2014;
(d) discuss the powers and functions of the key pension administration institutions; and
(e) discuss IPSAS 39 on Employees Benefits.

6.2 1999 Constitutional provisions

(a) Section 173 (3) of 1999 Constitution says, "Pensions shall be reviewed every five years or together with any Federal civil service salary reviews, whichever is earlier."
(b) Section 173 (4) of the Constitution stipulates, "Pensions in respect of service in the public service of the Federation shall not be taxed."
(c) According to Section 84 (5) of the 1999 Constitution, ''Any person who has held office as President or Vice President shall been titled to pension for life at a rate equivalent to the annual salary of the incumbent President or Vice-President, provided that such a person was not removed from office by the process of impeachment or for breach of any provision of this Constitution."
(d) Section 84 (6) of the Constitution states that ''any pension granted by virtue of sub section (5) of this section shall be a charge upon the Consolidated Revenue Fund of the Federation."

6.3 Pension Reform Act 2014

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

(a) any employment in the public service of the Federation, the public service of the Federal Capital Territory, the public service of state governments, the public service of local government councils and the private sector;
(b) in the case of the private sector, the scheme shall apply to employees who are in the employment of an organization in which there are 15 or more employees; and
(c) employees of organisations with less than three employees as well as self-employed persons shall be entitled to participate under the scheme in accordance with guidelines issued by the Commission.

6.3.1 Objectives of the new Pension Reform Act, 2014

(a) Establish a uniform set of rules, regulations and standard for the administration and payments of retirement benefits for the public service of the Federation, the public service of the Federal Capital Territory, the public service of state governments, the public service of local government councils and the private sector.
(b) Make provision for the smooth operation of the contributory pension scheme.
(c) Ensure that every person who worked in either the public service of the Federation, the public service of the Federal Capital Territory, the public service of state governments, the public service of the local government Councils and the private sector receives his retirement benefits as and when due and
(d) Assists improvident individuals by ensuring that they save in order to cater for their livelihood during old age.

6.3.4 The rates of contributions to the scheme

(a) The contribution for any employee to which this Act applies shall be made in the following rates relating to his monthly emoluments:
(b) A minimum of 10 percent by the employer.
(c) A minimum of 8 percent by the employee.
(d) These deductions should be made from the workers' salaries at source, while government's contributions shall be a first charge on the Consolidated Revenue Fund of the Federation.
(e) The rates of contribution may, upon agreement between any employer and employee, be revised upwards, from time to time, and the Commission shall be notified of such revision.
(f) Any employee may, in addition to the total contributions being made by him and his employer, make voluntary contributions to his retirement savings account.
(g) Notwithstanding any of the provisions of this Act, an employer may agree on the payment of additional benefits to the employee upon retirement; or elect to bear the full responsibility of the scheme provided that in such case, the employer's contribution shall not be less than 20% of the monthly emoluments of the employee.
(h) In addition to the rates specified above, employers shall maintain life insurance policies in favour of the employees for a minimum of three times the annual total emoluments of the individuals.
(i) Where the employer failed, refused or omitted to make payment as and when due, the employer shall make arrangement to effect the payment of claims arising from the death of any staff in its employment during the period.

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

The categories of persons exempted from the Contributory Pension Scheme are:

(a) the categories of persons mentioned in Section 291 of the Constitution of the Federal Republic of Nigeria 1999 (as amended) including the members of Armed Forces, the Intelligence and Secret Services of the Federation;

(b) an employee who is entitled to retirement benefits under any Pension Scheme existing before the 25th day of June 2004 and has 3 or less years to retire (i.e. Fully Funded Pension Scheme);

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

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

6.4.1 Supervision of retirement benefits of employees exempted from the scheme

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

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

(c) The Accountant-General of the Federation and the FCT Treasury, as the case may be, subject to the framework developed jointly with the Commission, shall make payments of retirement benefits directly into individual bank accounts of retired persons covered under section 5 (1) (b) of this Act and details of such payment shall be submitted to the Commission and the Pension Transitional Arrangements Directorate of the Federation and Federal Capital Territory established under sections 42 and 44 of this Act respectively.

6.5 Retirement benefits

6.5.1 Payment of retirement benefits

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

i. programmed monthly or quarterly withdrawals calculated on the basis of an expected life span;

ii. withdrawal of a lump sum from the total amount credited to his retirement savings account provided that the amount left after the lump sum

withdrawal shall be sufficient to procure a programmed fund withdrawals or annuity for life in accordance with extant guidelines issued by the Commission, from time to time;

iii. annuity for life purchased from a life insurance company licensed by the National Insurance Commission with monthly or quarterly payments;

iv. professors covered by the Universities (Miscellaneous Provisions (Amendment) Act, 2012 shall be according to the University Act; or

v. other categories of employees entitled, by virtue of their terms and conditions of employment, to retire with full retirement benefits shall still apply.

(b) Where an employee retires before the age of 50 years, the employee may request for withdrawal of lump sum of money of not more than 25 per cent of the amount standing to the credit of the retirement savings account, provided that such withdrawals shall only be made after six months of such retirement and the retired employee does not secure another employment.

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

6.5.2 Death of employee

Where an employee dies:

(a) the entitlement under the life insurance policy maintained shall be paid to his retirement savings account; and

(b) the pension fund administrator shall add the amount paid from life insurance policy in favour of the beneficiary under a will or the spouse and children of the deceased or the absence of wife and child, to the recorded next of kin or any person designated, by him during his life time or in the absence of such designation, to any person appointed by the Probate Registry as the administrator of the estate of the deceased, in line with the payment of retirement benefit.

6.5.3 Where an employee is missing

Where an employee is missing and is not found within a period of one year from the date, he was declared missing, and a Board of Inquiry set up by the Commission concludes that it is reasonable to presume that he has died, normal payment of pension proceeding should be followed. That is to say that the employee's entitlements under the life assurance policy maintained shall be paid to his retirement savings account.

6.5.4 Exemption from taxes

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

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

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

(d) Any voluntary contribution shall be subject to tax at the point of withdrawal where the withdrawal is made before the end of 5 years from the date the voluntary contribution was made.

6.6 Retirement Savings Account (RSA)

6.6.1 Retirement Savings Account (RSA) and remittance of contribution

(a) Every employee to whom this Act applies shall maintain an account, (in this Act referred to as "Retirement Savings Account") in his name with any Pension Fund Administrator of his choice.

(b) The employee shall notify his employer of the Pension Fund Administrator chosen and the identity of the retirement savings account opened under (a) above.

(c) The employer shall:

i. deduct at source the monthly contribution of the employee; and

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

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

(e) Where an employee fails to open such Retirement Savings Account within a period of six months after assumption of duty, his employer shall, subject to guidelines issued by the Commission, request a Pension Fund Administrator to open a nominal retirement savings account for such employee for the remittance of his pension contributions.

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

(g) The penalty referred to in (f) above shall not be less than 2 percent of the total contribution that remains unpaid for each month or part of each month the default continues and the amount of the penalty shall be recoverable as a debt owed to the employee's retirement savings account, as the case may be.

(h) Employee shall not have access to his retirement savings account or have any dealing with the Pension Fund Custodian with respect to the retirement savings account except through the Pension Fund Administrator.

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

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

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

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

6.6.3 Transfer of account from one Pension Fund Administrator to another

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

6.6.4 Transfer from one employment to another.

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

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

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

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

ii. In the case of employees of the Federal Capital Territory where the scheme is unfunded, be recognised in the form of an amount

acknowledged through the issuance of a bond to be known as Federal Capital Territory Retirement Benefits Bonds, in favour of the employees and the bond issued under this subsection shall be redeemed upon retirement of the employee in accordance with Section 39 of this Act and the amounts redeemed shall be added to the balance in the retirement savings account of the employee and applied in accordance with the provisions of Section 7 of this Act; and

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

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

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

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

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

6.6.5 Withdrawal from retirement savings account

The conditions, which govern withdrawal from the scheme, are as follows:

(a) withdrawal is not allowed until the attainment of 50 years of age;

(b) an officer who retired and is less than 50 years, on the advice of a suitably qualified physician or properly constituted medical board, certifying that the

employee is no longer mentally and physically capable of carrying out the function of his office, may withdraw;

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

(d) where the employee retires before the age of 50 years in accordance with the terms and conditions of his employment, he shall be entitled to make withdrawals;

(e) the medical board or suitably qualified physician, at their quest of the employee, be made once in every two years to review the fitness of the employee and where the Medical Board certifies that he is now mentally and physically capable of carrying out the functions of his office, he may re-enter the scheme upon securing another employment; and

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

6.6.5 Age of contributor

The authentic age of an employee entering the public service or any other employment shall be that submitted by him on entering the service or taking up the employment.

6.6.6 Dispute resolution

Any employee or beneficiary of a retirement savings account who is dissatisfied with a decision of the Pension Fund Administrator or Custodian may request, in writing, that the Pension Fund Commission should review such a decision.

6.7 National Pension Commission

6.7.1 Objectives

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

Other objectives of establishing the National Pension Commission are to:

(a) ensure that every person who works in the public service of the Federation, FCT and private sector receives his retirement benefits as and when due;

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

(c) establish a uniform set of rules, regulations and standards for the administration and payments of retirement benefits for the public service of the Federation, Federal Capital Territory and the private sector.

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6.7.2 Powers of the Commission

The Commission shall have power to:

(a) formulate, direct and oversee the overall policy on pension matters in Nigeria;
(b) fix the terms and conditions of service, including remuneration of the employees of the Commission;
(c) request or call for information from any employer or pension administrator or custodian or any other person or institution on matters relating to retirement benefits;
(d) charge and collect such fees, levies or penalties, as may be specified by the Commission;
(e) establish and acquire offices and other premises for the use of the Commission in such locations as it may deem necessary for the proper performance of its functions;
(f) establish standards, rules and regulations for the management of the pension funds;
(g) investigate any Pension Fund Administrator, custodian or other party involved in the management of pension funds;
(h) impose administrative sanctions or fines on erring employers or Pension Fund Administrators or Custodians;
(i) order the transfer of management or custody of all pension funds or assets being managed by a pension fund administrator or held by a custodian whose licence has been revoked or subject to insolvency proceedings to another pension fund administrator or custodian; and
(j) do such other things, which in its opinion are necessary to ensure the efficient performance of the functions of the Commission.

6.7.3 Functions of the Commission

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

(a) regulate and supervise the scheme established under this Act;
(b) issue guidelines for the investment of pension funds;
(c) approve, license, regulate and supervise Pension Fund Administrators, Custodians and other institutions relating to pension matters as the Commission may from time to time determine;
(d) establish standards, rules and guidelines for the management of the pension funds under this Act;
(e) ensure the maintenance of a National Data Bank on all pension matters;
(f) carry out public awareness and education on the establishment and management of the scheme;
(g) promote capacity building and institutional strengthening of pension fund administrators and custodians;
(h) receive and investigate complaints of impropriety levelled against any pension fund administrator, custodian or employer or any of their staff or agents; and
(i) perform such other duties which, in the opinion of the commission, are necessary or expedient for the discharge of its functions under the Act.

According to the pension reform, all employees in the service of the Federation, Federal Capital Territory and private sector shall henceforth contribute certain percentages of their monthly emoluments towards their retirement. However, this reform will not apply to those who have less than three years to retire.

6.7.4 Composition of National Pension Commission

(a) Apart-time chairman in possession of a university degree or its equivalent and 20 years experience.
(b) A Director-General who shall be the Chief Executive Officer of the Commission and in possession of appropriate professional skills with not less than twenty years cognate experience.
(c) Four (4) full time Commissioners, who shall each possess professional skills and not less than 20 years cognate experience in Finance, Investment, Accounting, Pension Management, Business Administration or Actuarial Science.
(d) Representatives of:
    (i) Head of the Civil Service of the Federation;
    (ii) The Federal Ministry of Finance;
    (iii) The Nigeria Union of Pensioners;
    (iv) The Nigeria Employers' Consultative Association;
    (v) The Central Bank of Nigeria;
    (vi) The Nigeria Labour Congress;
    (vii) The Securities and Exchange Commission;
    (viii) Trade Union Congress of Nigeria;
    (ix) Nigerian Stock Exchange; and
    (x) National Insurance Commission.

6.8 Pension Fund Administration (PFA)

6.8.1 Application for a licence as Pension Fund Administrator.

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

6.8.2 Requirements for licence as a Pension Fund Administrator

(a) An application for licence to operate as a Pension Fund Administrator shall not be granted unless the applicant:
    (i). Is a limited liability company incorporated under the Companies and Allied Matters Act whose object is to manage pension funds;
    (ii). Has a minimum paid up share capital of such sum as may be prescribed, from time to time, by the Commission;

(iii). Satisfies the Commission that it has the professional capacity to manage pension funds and administer retirement benefits;

(iv). Has never been a manager or administrator of any fund which was mismanaged or has been in distress due to any fault, either fully or partially, of the Pension Fund Administrator or any of its subscribers, directors or officers;

(v). Undertakes to the satisfaction of the Commission, that it shall not be engaged in any business other than the management of pension funds; and

(vi). Satisfies any additional requirement or condition as may be prescribed, from time to time; by the Commission.

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

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

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

6.8.3 Functions of Pension Fund Administrators

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

The Pension Fund Administrators shall carry out the following functions:

(a) open retirement savings accounts for all employees with personal identity numbers (PIN) attached;

(b) invest and manage pension funds and assets;

(c) maintain books of accounts on all transactions;

(d) provide regular information on investment strategy, market returns and other performance indicators to the Commission and employees or beneficiaries of the retirement savings accounts;

(e) provide customers' service support to employees, including access to employees' account balances and statements on demand;

(f) process the calculations and payments of retirement benefits; and

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

6.8.4 Prohibited transactions

A Pension Fund Administrator shall not:

(a) hold any pension fund or asset;

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

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

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

6.8.5 Prescribed structure of Pension Fund Administration

The following Standing Committees are required to carry out the Fund's functions and ensure compliance with the Act:

(a) Risk management

(i) To determine the risk profile of the investing portfolios of the Pension Fund Administrator.

(ii) Draw up programmes of adjustments in the case of deviations.

(iii) Determine the level of reserves to cover the risk of the investment portfolios.

(iv) Advise the Pension Fund Administrators in maintaining adequate internal control measures and procedures.

(v) Carry out such other functions relating to risk management as the Pension Board may direct.

(b) Investment strategy committee

(i) Formulate strategies for complying with investment guidelines issued by the Commission.

(ii) Determine an optimal investment mix consistent with risk profile agreed by the Board of the Pension Fund Administration.

(iii) Evaluate the value of the daily `mark-to-market' portfolios and make proposals to the Board of the Pension Fund Administration.

(iv) On a periodic basis, review the performance of the major securities of the investment portfolios of the Pension Fund Administration.

(v) Carry out such other functions relating to investment strategy as the Board may determine from time to time.

6.9 Pension Fund Custodians

(a) Application for licence as Pension Fund Custodian

A person proposing to act as a custodian of pension funds shall apply to the Commission for a licence in such form with the payment of such fees as may be prescribed by the Commission, from time to time. The Commission may, if satisfied that the applicant meets the requirements set out in 6.10.2 below or

Section 62 of this Act, issue a licence to the applicant to carry out the functions of a Pension Fund Custodian prescribed under Section 46 of this Act.

6.9.1 Requirements for a licence as Pension Fund Custodian

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

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

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

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

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

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

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

6.9.2 Functions of Pension Fund Custodian (PFC)

Section 57 of Pension Reforms Act of 2014 states that Pension Fund Custodian shall carry out the following functions:

(a) receive the total contributions remitted by employers on behalf of the pension fund administrators;

(b) notify the pension fund administrators within 24 hours of the receipt of contribution from any employer;

(c) hold pension funds and assets in safe custody on trust for the employees and beneficiaries of the retirement savings account;

(d) settle transactions and undertake activities related to pension fund investments, including the collection of dividends and related activities;

(e) provided at a and information on investment to the Pension Fund Administration and the Commission;

(f) undertake statistical analysis on the investments and returns on investments with respect to pension funds in its custody and provided at a and information to the Pension Fund Administrator and the Commission;

(g) execute in favour of the Pension Fund Administrator relevant proxy for the purpose of voting in relation to the investments; and

(h) carry out other functions as may be prescribed by regulations and guidelines issued by the Commission, from time to time.

6.9.3 Specific obligation of the Pension Fund Custodian

The Pension Fund Custodian shall:

(a) maintain all pension funds and assets in its custody to the exclusive order of the relevant Pension Fund Administrator and the Commission;

(b) utilise any pension fund or assets in its custody to meet its own financial obligation to any person whatsoever; and

(c) not divert or convert pension funds and assets as well as any income or brokerage, commission arising from the investment of pension fund or asset or by any other means.

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

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

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

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

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

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

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

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

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

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

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

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

The Commission shall, before revoking any licence, give:

(a) the Pension Fund Administrator or Pension Fund Custodian at least seven calendar days notice of its intention and shall consider any representations made

to it in writing by the Pension Fund Administrator or Pension Fund Custodian within that period before there vocation;

(b) the notice of their vocation shall be in the prescribed form and shall specify the reasons for the-revocation of licence;

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

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

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

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

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

6.10.1 General obligations of the Pension Fund Administrator and Pension Fund Custodian

The Pension Fund Administrator and Pension Fund Custodian shall:

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

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

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

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

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

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

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

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

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

i. sale or transfer of significant shareholding of the Pension Fund Administrator or Pension Fund Custodian which is capable of causing a change in the shareholding structure of the Pension Fund Administrator or Pension Fund Custodian;

ii. restructuring of its share capital;

iii. amalgamation or merger of the Pension Fund Administrator or Pension Fund Custodian with any other Pension Fund Administrator or Pension Fund Custodian;

iv. restructuring of the Pension Fund Administrator or Pension Fund Custodian; or

v. employment of a management agent or transfer its business to any agent

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

6.10.2 Appointment of Chief Executive Officers for Pension Fund Administrators and Pension Fund Custodians

The Chief Executive Officer, Directors and Management Staff of a Pension Fund Administrator or Pension Fund Custodian shall:

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

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

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

6.10.3 Appointment of compliance officer

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

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

(b) have relevant professional and cognate experience;

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

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

6.10.4 Statutory reserve fund

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

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

6.10.5 Pension protection fund:

The Pension Protection Fund shall consist of:

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

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

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

The Commission shall utilise the Pension Protection Fund for:

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

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

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

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

6.10.6 Pension Fund administrative expenses

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

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

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

6.11 Minimum pension guarantee

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

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

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

6.12 Investment of pension funds and restricted investments

6.12.1 Investment of pension funds

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

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

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

(b) bonds, bills and other securities issued by the States and Local Governments;

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

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

(e) bank deposits and bank securities;

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

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

(h) real estate development investments; or

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

6.12.2 Restricted investments

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

(b) A Pension Fund Administrator shall not sell:

(i). pension fund assets to itself, any shareholder, director, affiliate, subsidiary, associate, related party or company of the Pension Fund Administrator, any employee of the Pension Fund Administrator, affiliates of any shareholder of the Pension Fund Administrator, or the Pension Fund Custodian hold ing pension fund assets to the order of the Pension Fund Administrator and any related party to the Pension Fund Custodian;

(ii) utilise pension fund to purchase assets from the persons mentioned in subsection (a) of this section; and

(iii). apply pension fund assets under its management by way of loans and credits or as collateral for any loan taken by a holder of retirement savings account or any person whatsoever.

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

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

6.13 Offences, penalties and enforcement powers

6.13.1 Offences and penalties

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

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

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

(d) A Pension Fund Administrator, Pension Fund Custodian that reimburses or pays for a staff, officer or director directly or indirectly a fine imposed under this Act commits an offence and is liable on conviction to a fine of not less than

₦5,000,000 and also forfeits the amount repaid or reimbursed to the staff, officer or director.

6.13.2 Penalties for misappropriation of pension fund

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

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

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

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

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

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

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

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

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

6.14 Deficiencies of Pension Reform Act, 2014

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

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

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

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

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

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

6.15 Pension Transitional Arrangements Directorate (PTAD)

Pension Transitional Arrangement Directorate (PTAD) is responsible for the pension administration of the Defined Benefit Scheme (DBS). PTAD was established to

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

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

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

(a) Implementation of policies, rules and regulations relating to pension matters under the Defined Benefit Scheme (DBS).
(b) Ensure accurate payments are made to authentic Pensioners under the Civil Service jurisdiction.
(c) Facilitate the maintenance of an accurate and comprehensive database of pensioners under its jurisdiction.
(d) Management and maintenance of pensioners' records and files.
(e) Prepare budgetary estimates for existing pensioners as well as outstanding liabilities and benefits of pensioners with genuine complaints.
(f) Prepare and submit the Monthly Payroll of Civil Service Pensioners and issue payment instructions to the Office of the Accountant General of the Federation, OAGF through the GIFMIS platform for direct payment to pensioners.
(g) Respond to pensioners' complaints, relating but not limited to, non-/under-/ over-payment of pensions, gratuities, death benefits, etc.
(h) Carry out monthly payment analysis and payroll review and ascertain deficits in pension payments.
(i) Prepayment audit of all payment vouchers.
(j) Compliance audit to ensure government financial rules and regulations are complied with in all financial transactions.
(k) Review of Financial Statements –Transcripts, bank reconciliations, pensioners' statement of claims, etc.
(l) Safeguarding the assets of the department.
(m) Periodic examination of systems and processes, certification of payment vouchers and other accounting books and records by use of Internal Audit Stamp.
(n) Production of monthly audit reports.
(o) Collaborate with Pension Support and ensure periodic verification of civil service pensioners.

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

The Commission shall have power to:

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

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

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

6.16 Pension provisions for private sector

Any pension scheme in the private sector existing before the commencement of this Act may continue to exist provided that:

(a) the pension scheme shall be fully funded and in case of any defined contribution scheme, contributions in favour of each employee including the attributable income shall be computed and credited to a retirement savings account opened for the employee;

(b) the pension funds and assets shall be fully segregated from the funds and assets of the company;

(c) the pension funds and assets shall be held by a custodian;

(d) every employee in the existing scheme shall be free to exercise the option of coming under the scheme established under section 3 of this Act and his employer shall compute and credit to his account, his contributions and distributable income earned as at the date the employee exercises such an option subject to the regulations, rules and standards established by the Commission;

(e) any amount computed under paragraph (d) of this sub-section shall be transferred to the retirement savings account of the employee maintained with a pension fund administrator of his choice;

(f) all investments in assets other than those specified as permissible investment for pension funds and assets under section 86 of this Act may be maintained and from the commencement of this Act all investments shall be subject to the regulation, rules and standards established by the Commission;

(g) the employer shall undertake to the Commission that the pension fund shall be fully funded at all times and any short fall to be made up within 90 days or as may be prescribed by the Commission; and

(h) the existing scheme shall be closed to new employees and such new employees shall be required to open a retirement savings account.

An employer operating any defined benefits scheme shall undertake, at the end of every financial year, an actuarial valuation to determine the adequacy of his pension fund assets.

6.16.1 Closed Pension Fund Administrator

Subject to the provisions of this Act and any regulation issued by the Commission, Closed Pension Fund Administrators licensed by the Commission before the commencement of this Act may continue to exist provided that new employees of sponsor companies shall join the Contributory Pension Scheme and open Retirement Savings Account.

Every closed pension fund administrator shall be:

(a) subject to supervision and regulation by the Commission; and

(b) deemed to be pension fund administrator, and all provisions in this Act relating to the conduct and operations of a pension fund administrator shall apply to it.

16.6.2 Funds with Nigeria Social Insurance Trust Fund

(a) The Nigeria Social Insurance Trust Fund shall continue to maintain the company it established under the Pension Reform Act, 2004 to undertake the business of a Pension Fund Administrator in accordance with this Act.

(b) The funds contributed to the Nigeria Social Insurance Trust Fund by any person before the registration of a pension fund administrator under this Act including any attributable income thereof not required for the purpose of administering minimum pension as determined by the Commission shall be computed and credited into the respective retirement savings accounts opened under this Act by each contributor or beneficiary of the contributions made under the Nigeria Social Insurance Trust Fund Act.

(c) Where a person who contributed any fund under the Nigeria Social Insurance Trust Fund Act has retired before the commencement of this Act, the funds due to him shall be paid to him in accordance with section 7 of this Act or in lump sum in accordance with the rules and regulations of the Commission.

(d) Where a person who contributed any fund under the Nigeria Social Insurance Trust Fund has died before the commencement of this Act, the estate or beneficiary of the deceased shall be paid the entitlement of such deceased person subject to the provisions of the Nigeria Social Insurance Trust Fund Act.

(e) All pension funds and assets held and managed by the Nigeria Social Insurance Trust Fund shall, pursuant to rules made by the Commission, be transferred to a Pension Fund Custodian or Administrator.

6.17 Miscellaneous

6.17.1 Micro pension plan

Section 2(3) of the Pension Reform Act, 2014 (PRA 2014) provides that employees of organisations with less than three employees as well as the self-employed persons shall be entitled to participate in the Contributory Pension Scheme in accordance with

guidelines issued by the Commission. In accordance with the provisions of section 2(3), a "Micro Pension Plan" which refers to an arrangement for the provision of pensions to the self- employed and persons operating in the informal sector.

6.17.2 Definition of terms

(a) **Informal sector -** the informal sector refers to employees in business entities, organisations and/or persons that are not mandated to implement the Contributory Pension Scheme as provided in Section 2(1) of the Pension Reform Act, 2014

(b) **Self-employed -** A self-employed individual earns his/her income through conducting trade or business for him/herself

(c) **Micro pension contributor (MPC)** - A person who is registered under Micro pension plan.

(d) **Micro pension fund (MPF)-** This is a pool of contributions and all other assets under Micro pension plan.

(e) **Named beneficiary** - An individual or any person who is legally entitled to receive or enjoy any benefit accruable to a deceased/missing Micro Pension Contributor.

(f) **Automated finger print identification system (AFIS)-** A biometric identification (ID) methodology that uses digital imaging technology to obtain, store and analyse finger prints data

(g) **Personal Identification Number (PIN) -** Personal identification number is a number issued to an individual upon opening a Retirement Savings Account (RSA).

6.17.3 Objectives of the guidelines

These guidelines are set out to achieve the following objectives:

(a) set eligibility criteria for participation in micro pension plan;
(b) establish the process of registration for prospective micro pension contributors;
(c) define the process of making contributions by micro pension contributors;
(d) provide the criteria for managing the micro pension fund;
(e) outline the modes of accessing benefits under micro pension plan;
(f) define the mode of conversion from micro pension plan to mandatory contribution; and
(g) set the minimum ICT requirements for licensed pension fund administrators and custodians.

6.17.4 Micro pension contributor

The micro pension contributor shall:

(a) open a Retirement Savings Account (RSA) with any Pension Fund Administrator (PFA) of his/her choice;
(b) make contributions into his/her RSA in accordance with these guidelines;
(c) request for RSA statement from his/her PFA;

(d) update his/her RSA information non request;
(e) appoint a next of kin;
(f) choose the platform for making contributions;
(g) decide to make contingent withdrawals;
(h) choose the mode of accessing pension (programmed withdrawal or annuity) from micro pension plan; and
(i) demand for adequate customer service as provided in the consumer protection framework issued by the Commission.

6.17.5 Pension Fund Administrators (PFAs)

(a) Open RSA for the micro pension contributor.
(b) Manage micro pension funds and assets in line with the regulation on investment of pension fund assets issued by the commission.
(c) Provide customer service support to micro pension contributors.
(d) Process, approve and pay contingent benefits to micro pension contributors.
(e) Process and pay retirement benefits to micro pension contributors.
(f) Provide secure and suitable platforms for the remittance of contributions and payments of benefits under micro pension plan.
(g) Request the commission to approve other incentives for micro pension plan.
(h) Render daily and monthly returns on the micro pension fund and other periodic returns as may be required by the commission from time to time.
(i) Conduct regular public awareness, enlightenment and education on micro pension plan.
(j) Issue quarterly RSA statements to the micro pension contributor.
(k) Carry-out other functions on Micro Pension Plan as may be specified by the Commission from time to time.

6.17.6 Pension Fund Custodians (PFCs)

The PFCs shall:

(a) receive all pension contributions remitted under micro pension plan from the contributor on behalf of the PFA;
(b) hold micro pension funds and assets in safe custody on trust for the micro pension contributors and the beneficiaries of the RSAs;
(c) settle all transactions relating to the administration and investment of micro pension funds and assets on behalf of the PFA;
(d) render returns to the commission on matters relating to micro pension plan assets being held by it on behalf of any PFA at such intervals as may be determined from time to time by the Commission;
(e) provide secure and suitable platforms for the remittance of contributions and payments of benefits under micro pension plan; and
(f) carryout other functions on micro pension plan as may be directed by the commission from time to time.

6.17.7 Operational modalities for micro pension plan

The following persons not below 18years of age with source of income shall be eligible for participation in micro pension plan under Section 2(3) of the Pension Reform Act. 2014:

(a) self-employed persons that belong to a trade, profession, cooperative or business association.
(b) self-employed persons with a business registration as a company, partnership or enterprise.
(c) employees operating in the informal sector who work with or without formal written employment contract.
(d) other self-employed individuals.
(e) micro pension contributors shall be resident in Nigeria.

6.17.8 Registration

(a) A prospective micro pension contributor shall be required to open a Retirement Savings Account (RSA) by completing a registration form with a PFA of his/her choice.
(b) The PFA will assign the appropriate nature of business (NOB) codes for the prospective micro pension contributor as provided by the Commission.
(c) Electronic registration should be made available by all PFAs.
(d) PFAs shall electronically capture the applicant's ten fingerprints and must pass the AFIS quality requirements specified in the guidelines for the registration of contributors/members issued by the commission.
(e) Where the quality of the ten finger prints does not meet the required AFIS specification due to physical impairment, the PFA shall treat such prospective micro pension contributor as physically/partially challenged and shall register such in line with the guidelines for registration of contributors/members issued by the Commission.
(f) The registration information shall be transmitted to the Commission electronically by the PFA to enable PIN generation.
(g) The PIN generated by the Commission shall be forwarded to the PFA immediately.
(h) The PFA shall forward the PIN to the micro pension contributor.
(i) Registration shall also cover the "Customer Familiarity Index" (CFI) on Micro Pension Contributor.
(j) Any of the following valid means of identification shall be provided at the point of registration:
    (i) national identification number;
    (ii) permanent voters' card;
    (iii) driver's licence; and
    (iv) international passport
(k) Any of the following documentation shall be provided at the point of registration:
    (i) evidence of membership of a registered association, union or cooperative society;
    (ii) certificate of business registration;
    (iii) certificate of incorporation;

(iv) letter of employment; and
(v) Bank Verification Number (BVN)

(l) other documentation as may be specified by the PFA.

(m) a Micro Pension Contributor may transfer his/her Retirement Savings Account from one PFA to another in line with the Regulations for the Transfer of RSA issued by the Commission.

6.17.9 Contributions

(a) Contributions shall be made in Nigerian currency (Naira).

(b) Micro pension contributors may make contributions daily, weekly, monthly or as may be convenient to them provided that contributions will be made in any given year.

(c) Every contribution shall be split into two comprising 40% for contingent withdrawal and 60% for retirement benefits.

(d) The amount of contribution shall be dependent on the micro-pension contributor's pension aspiration and financial capacity.

(e) Both PFAs and PFCs are required to inform the Economic and Financial Crime Commission of any single lodgement of ₦5 Million and above.

(f) Contributions shall be made by cash deposit, electronically, through any payment instrument/platform or other financial service agents approved by the Central Bank of Nigeria.

(g) The PFC shall immediately advise the PFA upon receipt of value of contributions.

(h) Upon receipt of notification from the PFC, the PFA shall immediately notify the micro pension contributor.

(i) PFAs shall charge a maximum administration fee of eighty naira (₦80) for contributions of four thousand Naira (₦4,000.00) and above while a maximum administration fee of twenty naira (₦20) shall be charged on RSAs for contributions below the sum of four thousand naira (₦4,000.00).

(j) There shall be no additional charges/costs other than what is specified in these guidelines.

(k) The narration of the standing order shall include the contributor's PIN.

(l) In all cases the narration of the transfer shall include the contributor's PIN.

(m) Contributions received from political office holders and those on tenured employments other than those on contract appointments shall be treated in line with the Guidelines on Voluntary Contributions issued by the Commission.

6.17.10 Investment of micro pension fund /assets

(a) Contributions under micro pension plan shall be managed as one fund known as the Micro Pension Fund (MPF).

(b) The investment of the fund shall be treated in line with the regulation on investment of pension fund assets issued by the commission.

(c) Management fees shall be in accordance with the Regulation on Fees Structure issued by the Commission.

6.17.11 Benefits administration

The participation of the informal sector in the contributory pension scheme as provided by Section 2(3) of the PRA 2014 is primarily to provide for retirement benefits.

Withdrawals/accessing benefits shall be two types reflecting the flexibility incorporated in the treatment of the contributions.

6.17.12 Contingent withdrawal

The micro pension contributor shall be eligible to access the portion of his/ her contribution available for withdrawal 3 months after making the initial contribution.

Subsequently, the micro pension contributor can only make withdrawals once in a week from the balance of the contingent portion of the RSA.

The micro pension contributor may withdraw the total balance of the contingent portion of his/her RSA including all accrued investment income thereto.

The micro pension contributor may choose to convert the contingent portion of the contributions to the retirement benefits portion at the end of every year.

The time frame for processing and payment of contingent withdrawals shall not exceed two working days.

Payment shall be made only to the Micro Pension Contributor's designated bank account.

The PFA shall approve and pay all requests for contingent withdrawals.

The PFA shall notify the Commission of all payments made monthly.

Contingent withdrawals shall be subject to applicable tax laws in accordance with the provisions of Section 10(4) of the PRA 2014.

At retirement, the Micro Pension Contributor has the option of transferring part/all of his outstanding balance on the contingent portion to his retirement benefits portion.

6.17.13 Retirement benefits withdrawal

(a) The micro pension contributor shall be eligible to access pensions upon retirement and attaining the age of 50 years or on health grounds in accordance with the regulation for the administration of retirement and terminal benefits.
(b) The micro pension contributor shall be required to fill a standard retirement notification format retirement.
(c) The PFA shall inform micro pension retiree on the various options of accessing retirement benefits.
(d) The micro pension retiree shall decide on the mode of accessing retirement benefits either through the programmed withdrawal or the life annuity.
(e) The commission shall approve all programmed withdrawals, life annuity and exit pay outs under micro pension plan.

(f) In the case of programmed withdrawal, the PFA and the retiree shall jointly execute a programmed withdrawal agreement, stating the terms and conditions of the contract.

(g) In the case of the life annuity, the insurance company and the retiree shall jointly execute the annuity contract, stating the terms and conditions of the contract.

(h) All payments for contingent and payments of pensions shall be made only to the contributor's/retiree's designated bank account through channels approved by the CBN.

(i) Micro pension contributors shall be entitled to guaranteed minimum pension provided they satisfy the provision of Section 84(1) of the PRA 2014 and the Guidelines on Minimum Pension Guarantee issued by the Commission.

(j) Where the total amount contributed is below the amount required to qualify for Minimum Pension Guarantee, the Micro Pension retiree shall be paid en bloc in accordance with the Regulation for the Administration of Retirement and Terminal Benefits.

(k) Any contribution after retirement shall be treated as Voluntary Contributions (VC).

6.17.14 Deceased / missing persons

The processing of deceased/missing person's benefits under micro pension plan shall be in line with the regulations for the administration of retirement and terminal benefits issued by the commission.

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6.17.15 Conversion from micro pension plan to mandatory contribution

(a) The micro pension contributor shall be eligible to participate under Section 2(1) of the Pension Reform Act, 2014 where he/she secures employment in the formal sector with an organisation that has three (3) or more employees.
(b) The micro pension contributor shall formally request for conversion, attaching all necessary documents specified in the guidelines for the registration of contributors/members issued by the commission.
(c) The micro pension contributor shall retain his/her existing RSA.
(d) Micro pension contributor may withdraw the total balance of the contingent portion of his/her RSA prior to conversion.
(e) Where the Micro pension contributor chooses not to withdraw the contingent portion, the balance of his/her contingent portion shall be merged with the retirement benefits portion of his/her RSA prior to conversion.
(f) At conversion, the PFA shall move the micro pension contributor's RSA balance to the appropriate fund under the multi-fund structure.
(g) Where an eligible contributor fails/refuses to request for conversion to the mandatory contribution after one (1) month of receiving remittance from his/her new employer, the PFA shall automatically change the status of the contributor upon receiving the second remittance.
(h) The PFA shall notify the employer of the status of the RSA of the contributor.
(i) The PFA shall forward monthly returns on conversion to the Commission.

6.17.16 Conversion from mandatory contribution to micro pension plan

Participants in mandatory contribution shall not be allowed to convert to micro pension plan.

6.17.17 Returns

(a) PFAs/PFCs shall render regular returns through the Risk Management and Analysis System (RMAS) and/or any other platform as specified by the commission.
(b) PFAs/PFCs shall also render the daily and monthly returns for the micro pension fund.
(c) PFAs/PFCs may be required to render other periodic returns.

6.17.18 Minimum requirements for participation by licensed pension fund administrators and custodians

(a) PFAs/PFCs shall establish adequate structure for the effective and efficient operation of micro pension plan.
(b) The minimum ICT requirements shall be in-line with the ICT guidelines issued by the Commission.
(c) Licensed PFAs/PFCs shall provide multi-channel platforms for registration, collection, and customer service and benefits administration.

6.18 National Pension Commission circular Reference PenCom/INSP/Surv/2025/Aut/451dated 12 March 2025 issued by National Pension Commission

(a) Effective from June 1, 2025, the Commission will no longer approve or grant "No Objections" to the following benefits applications before the PFAs process them for payments.
   (i) Programmed withdrawal;
   (ii) Retire life annuity;
   (iii) Access to Benefits upon temporary loss of employment;
   (iv) En-bloc payments to retirees whose RSA balances cannot provide a reasonable pension;
   (v) Pre-Pension Reform Act benefits payments to retirees in the private sector;
   (vi) Voluntary contributions;
   (vii) Payments to RSA holders towards payment of equity contributions for residential mortgages;
   (viii) Payment of Nigeria Social Insurance Trust Fund (NSITF) Contributions to retirees whose NSITF contributions were transferred to their RSAs;
   (ix) Changes in the periodicity of pension payments;
   (x) Resolution of errors from employers' remittances of pension contributions for private sector and self-funding agencies; and
   (xi) Refunds to persons exempted from participating in the CPS by the PRA 2014.

(b). The processing, approval and payment of the above requests shall be concluded by the PFA within two (2) working days after completing the necessary documentations and instructing the appointed PFC to effect payment, with the Commission in copy.

(c) The medium for forwarding instructions to the PFC for processing payments shall be the Shared Folders deployed by the Commission.

(d) The PFCs shall effect payment into the beneficiaries' accounts within 24 hours upon receipt of instructions from the PFA. PFAs shall continue to forward requests for approval to the Commission relating to depleted RSAs and death benefit applications in line with Section 8 (2) of the PRA 2014.

6.18.1 Amendments

In order to facilitate the implementation of the above directives, the Commission has approved the amendment of the following Sections of five (5) regulatory instruments on benefits administration as specified in the table below:

Details	Current provisions	Provisions of the amendments
Revised Regulation on the Administration of Retirement and Terminal Benefits	Section 2.4.1 of the Regulation stipulates that PFAs shall forward all processed requests for retirement/death benefit payments to the Commission within two (2) days after the completion of necessary documentation and verification of the retiree.	Pension Fund Administrators shall process and approve requests for all retirement payments after the completion of necessary documentation and verification of the retiree or legal beneficiary(ies).
	Section 2.4.2 of the Regulation stipulates that the Commission shall within two (2) working days of receipt of the requests in 2.4.1 above, communicate its no-objection or rejection to the PFA.	Deleted
Guidelines on Voluntary Contribution Under the Contributory Pension Scheme	Section 3.26 of the VC Guidelines stipulates that PFAs shall be required to process and forward to the Commission the request for Voluntary Contributions withdrawal from an applicant within 72 hours (3 working days) of the receipts for approval.	Pension Fund Administrators shall process and approve requests for Voluntary Contributions withdrawal from an applicant.

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Details	Current provisions	Provisions of the amendments
	Section 3.34 of the VC Guidelines stipulates that PFA shall segregate the portion of Voluntary Contributions from mandatory and forward the request for the transfer to the Commission within 72 hours (3 working days).	Pension Fund Administrators shall process and approve requests for transfers from the mandatory section of the RSA to the voluntary section.
	Section 3.35 of the VC Guidelines stipulates that upon the receipt of such request, the Commission shall approve the request within 72 hours (3 working days).	Deleted
Guidelines on Accessing Retirement Savings Account (RSA) Balance Towards Payment of Equity Contribution for Residential Mortgage by RSA Holders	Section 5.1.23 of the Guidelines on Equity Contributions stipulates that the PFA shall process the application and forwards same to the Commission within two working days of successful documentation review.	Pension Fund Administrators shall process and approve requests from RSA holders accessing their RSA balances to pay equity contributions for a residential mortgage.
	Section 6.1.2 of the Guidelines on Equity Contributions stipulates that the Commission shall communicate approval or decline to the PFA within one working day that such approval or decline was granted.	Deleted
Framework on Additional Benefits for Existing Retirees	Section 5.7 of the Additional Benefits Framework stipulates	Pension Fund Administrators shall process and approve additional

Details	Current provisions	Provisions of the amendments
Under the Contributory Pension Scheme	that PFAs are required to forward computed Additional Benefits Template requests to the Commission for approval.	benefits requests using the Additional Benefits Template.
Framework on Pension Enhancement for Existing Retirees on Programmed Withdrawal Under the Contributory Pension scheme	Section 5.10 of the Enhancement Framework stipulates that PFAs are required to forward computed enhanced pensions in batches to the Commission for approval using the Request for Pension Enhancement provided by the Commission.	Pension Fund Administrators shall process and approve enhanced pensions using the Request for Pension enhancement provided by the Commission.

6.19 Chapter review

The chapter discusses institutional and legal framework for pension administration in detail. Pension Reform Act 2014 treats extensively the management of pension funds both in the public and private sectors. The Act established a uniform management of pension funds for the two sectors.

6.20 Worked examples

Examination type questions

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

   Required:
   In line with the provisions of the Pension Reform Act 2014:
   (a) Explain the composition of the National Pension Commission.
   (b) Enumerate **FIVE** (5) powers of the National Pension Commission.
   (c) Explain **FIVE** (5) functions of the National Pension Commission.

2. Mr. James Ojo was employed as a clerk in the Federal Ministry of Housing on January 2, 1980. He proceeded on approved leave without pay to the United Kingdom to study Building Technology on June 11, 1995 and returned to his duty post on May 29, 1997. There was a change in Pension Act providing for

contributory Pension on July 1, 2004, and was promoted to Grade Level 17 officer with an annual remuneration of ₦5,500,000 on January 1, 2004. He retired from service on January 1, 2015.

The total employer and employee contributions with his Pension Fund Administrator (PFA) as the time of retirement was ₦12,950,850.

The total bond cash backed by Pension Commission between January 2,1980 to June30, 2004 and paid to his PFA was ₦11,000,550.0 According to the template provided and approved by the Pension Commission, the officer is entitled to 45% of his benefits as lump sum payment.

Required:

(a) Compute the total retirement benefits of Mr Ojo.
(b) Compute the total lump sum payment due to him on retirement.
(c) Explain the statutory age of retirement from civil service in Nigeria.
(d) Discuss the conditions under which an employee may make withdrawals from his Retirement Savings Accounts where he is less than 50 years or retires from service before attaining the age of 50 years.

3. A person proposing to operate as a Pension Fund Administrator and a Custodian of Pension Funds shall apply to the Pension Fund Commission for a licence in such form and with the payment of such fees as may be prescribed by the Commission from time to time.

Required:

Discuss the pre-requisites for granting licence for an entity to be in operation as a:

i. Pension Fund Administrator
ii. Custodian of Pension Funds

Suggested solutions

1(a) Composition of the Pension Fund Commission

The Composition of the Commission is as follows:

(i) Apart time Chairman with university degree or its equivalent and with 20 years experience in pension matters and or insurance;
(ii) Director General who shall be the CEO responsible for the day- to-day administration of the commission, he must also possess not less than 20 years experience in pension matters and or insurance or related field;
(iii) Four full time commissioners with experience each in Finance Investment;
(iv) Accounting, Pension Management, Actuarial Science or Business Administration; and
(v) Part – time members of the Commission who shall be representatives each of:
    - The Head of the Civil Service of the Federation

- The Federal Ministry of Finance
- The Nigeria Labour Congress
- The Nigeria Union of Pensioners
- The Nigeria Employers Consultative Association
- The Central Bank of Nigeria
- The Securities and Exchange Commission.

(b) Powers of the Commission

(i) Power to fix the terms and conditions of service including remuneration of employees of the Commission

(ii) Power to oversee the overall policy on pension matters in Nigeria.

(iii) Power to charge and collect any fee, levy or penalty as may be specified by the Commission.

(iv) Power to make request for information from any employer or Pension Fund Administrator on retirement benefits matters.

(v) Power to impose administrative sanctions or fines on any erring employer or Pension Fund Administration.

(c) Functions of the Commission

i. To supervise, regulate and coordinate the pension scheme established by the Act.
ii. To formulate and issue guidelines for the investment of pension funds
iii. To approve, license, regulate and supervise Pension Fund Administrators
iv. To ensure the maintenance of a National Data Bank on all pension matters
v. To carry out public awareness and education on the establishment and management of pension schemes.
vi. To receive and investigate complaints of impropriety levelled against any pension fund administrator.

2(a) Retirement benefits

	₦
Employer and employee contributions	12,950,850.00
Federal Government Bond	11,000,550.00
Total benefits	**23,951,400.00**

(b) Lump sum payment

45% of ₦23,951,400.00 = ₦10,778,130.00

(c) Statutory age of retirement

All officers shall retire on reaching the age of 60 years or having served for 35 years in service, whichever comes earlier. But an officer may be retired at any time on reaching the minimum age of 50 years, subject to 3 months' notice in writing or 3 months' salary in lieu of notice being paid.

(d) (i) Where an Officer retires before attaining the age of 50 years, on the advice of suitably qualified physician or properly constituted Medical Board, certifying that the employee is no longer mentally and physically capable of carrying out the function of his office, may withdraw; or if the officer is retired due to his total or permanent disability either of mind or body.

(ii) Where the employee retires before the age of 50 years in accordance with the terms and conditions of his employment, he shall be entitled to make withdrawals.

3 (a) Pension Fund Administrator (PFA)

A Pension Fund Administrator must possess the following:

(i) a practising licence issued by National Pension Commission
(ii) be a Limited Liability Company set up to manage pension fund only
(iii) a minimum of ₦150m paid up capital
(iv) professional capacity to manage funds and administer retirement benefit.

(b) Pension Assets Custodian (PAC)

A Pension Asset Custodian must possess the following: -

(i) Issued licence to hold pension funds and assets intrust.
(ii) Minimum net worth of Five Billion Naira (5Bn)
(iii) A balance sheet position of ₦125m
(iv) Execute the orders of the PFA as regards holding pension funds and assets.

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Skills Level
Public Sector Accounting and Finance

CHAPTER 7

EMPLOYEE BENEFITS AND RETIREMENT BENEFIT PLANS

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7 Employee Benefits and Retirement Benefits

7.0 Learning objective

The objective of this chapter is to enhance readers' understanding of the provisions of IPSAS 39 - Employee Benefits and IPSAS 49 - Retirement Benefit Plans, as regards the definition, recognition, measurement and disclosures.

7.1 Learning outcomes

On successful completion of this chapter, readers should be able to understand:

(a) the objectives of the Standards in relation to the accounting, and disclosure requirements for employee benefits;

(b) the requirements of an entity to recognise:

  (i) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and

  (ii) an expense when the entity consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

7.2 IPSAS 39 – Employee benefits (Amended IPSAS 25)

7.2.1 Introduction

The standard is set to prescribe the accounting and disclosure requirement for employee benefits. The standard requires an entity to recognise:

a. a liability when an employee has provided service in exchange of employee benefits to be paid in the future; and

b. an expense when the entity consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

Employee benefits include:

(a) short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;

(b) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;

(c) other long-term employee benefits, which may include long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation; and

(d) termination benefits.

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7.2.2 Definitions of employee benefits

(a) **Employee benefits** are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment.

(b) **Short-term employee benefits** are employee benefits (other than termination benefits) that are due to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service.

(c) **Post-employment benefits** are employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment.

(d) **Other long-term employee benefits** are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.

(e) **Termination benefits** are employee benefits provided in exchange for the termination of an employee's employment as a result of either:

(i) an entity's decision to terminate an employee's employment before the normal retirement date; or

(ii) an employee's decision to accept an offer of benefits in exchange for the termination of employment.

7.2.3 Definitions relating to classification of plans

(a) **Post-employment benefit plans** are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

(b) **Defined contribution plans** are post-employment benefit plans under which an entity pays fixed contributions to a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

(c) **Defined benefit plans** are post-employment benefit plans other than defined contribution plans.

(d) **Multi-employer plans** are defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:

i. pool the assets contributed by various entities that are not under common control; and

ii. use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees.

(e) **State plans** are plans established by legislation that operate as if they are multi-employer plans for all entities in economic categories laid down in legislation.

7.2.4 Definitions relating to the net defined benefit liability (asset)

(a) **The net defined benefit liability (asset)** is the deficit or surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.

(b) **The deficit or surplus** is:

i. the present value of the defined benefit obligation less

ii. the fair value of plan assets (if any).

c. **The asset ceiling** is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

d. **The present value of a defined benefit obligation** is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

e. **Plan assets comprise**:
   i. assets held by a long-term employee benefit fund; and
   ii. qualifying insurance policies.

f. **Assets held by a long-term employee benefit fund** are assets (other than non-transferable financial instruments issued by the reporting entity) that:
   (i) are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits; and
   (ii) are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in bankruptcy), and cannot be returned to the reporting entity, unless either:
      - The remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
      - assets are returned to the reporting entity to reimburse it for employee benefits already paid.

(g) **A qualifying insurance policy** is an insurance policy issued by an insurer that is not a related party (as defined in IPSAS 20) of the reporting entity, if the proceeds of the policy:
   i. Can be used only to pay or fund employee benefits under a defined benefit plan; and
   ii. Are not available to the reporting entity's own creditors (even in bankruptcy) and cannot be paid to the reporting entity, unless either
      - the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
      - the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

7.2.5 Definitions relating to defined benefit cost

(a) Service cost comprises:
   (i) current service cost, which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period;
   (ii) past service cost, which is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by a plan); and
   (iii). any gain or loss on settlement.

Net interest on the net defined benefit liability (asset) is the change during the period in the net defined benefit liability (asset) that arises from the passage of time.

(b) Re-measurement of the net defined benefit liability (asset) comprise:
  (i) actuarial gains and losses;
  (ii) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and
  (iii) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

Actuarial gains and losses are changes in the present value of the defined benefit obligation resulting from:

(a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and
(b) the effects of changes in actuarial assumptions.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realized and unrealised gains or losses on the plan assets, less:

(a) any costs of managing the plan assets; and
(b) any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the present value of the defined benefit obligation.

A settlement is a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.

7.2.6 Recognition and measurement of short-term employee benefits

When an employee has rendered service to an entity during an accounting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

(a) as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
(b) as an expense, unless another standard requires or permits the inclusion of the benefits in the cost of an asset.

An entity shall recognise the expected cost of short-term employee benefits in the form of compensated absences under paragraph (a) above as follows:

(a) in the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences; and
(b) in the case of non-accumulating compensated absences, when the absences occur.

7.2.7 Profit-sharing and bonus plans

An entity shall recognise the expected cost of profit-sharing and bonus payments under paragraph 11 when, and only when:

(a) the entity has a present legal or constructive obligation to make such payments as a result of past events; and

(b) a reliable estimate of the obligation can be made. A present obligation exists when, and only when, the entity has no realistic alternative but to make the payments.

7.2.8 Post- employment benefits: distinction between defined contribution plans and defined benefit plans

(a) Post-employment benefits.

(i) Retirement benefits, such as pensions, gratuity; and

(ii) Other post-employment benefits, such as post-employment life insurance and post-employment medical care.

(b) Under defined contribution plans

(i) The entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund; and

(ii) In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee.

(c) Under defined benefit plans:

(i) The entity's obligation is to provide the agreed benefits to current and former employees; and

(ii) Actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity. If actuarial or investment experience are worse than expected, the entity's obligation may be increased.

7.2.9 Statement of financial position

An entity shall recognise the net defined benefit liability (asset) in the statement of financial position. When an entity has a surplus in a defined benefit plan, it shall measure the net defined benefit asset at the lower of:

(a) the surplus in the defined benefit plan; and

(b) the asset ceiling, determined using the discount rate specified in IPSAS 39 paragraph 85.

7.2.10 Reimbursement (paragraph 118 of IPSAS 39)

When and only when, it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, an entity shall:

(a) recognise its right to reimbursement as a separate asset. The entity shall measure the asset at fair value.

(b) disaggregate and recognise changes in the fair value of its right to reimbursement in the same way as for changes in the fair value of plan assets. The components of

defined benefit cost may be recognised net of amounts relating to changes in the carrying amount of the right to reimbursement.

7.2.11 Financial performance disclosures

An entity shall disclose information that enables users of financial statements to evaluate the nature of its defined benefit plans and the financial effect of changes in those plans during the period.

An entity shall disclose information that:

(a) explains the characteristics of its defined benefit plans and risks associated with them (see below);

(b) identifies and explains the amounts in its financial statements arising from its defined benefit plans (see below); and

(c) describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows (see below).

7.2.12 Characteristics of defined benefit plans and risks associated with them

An entity shall disclose:

(a) information about the characteristics of its defined benefit plans, including:

  i. the nature of the benefits provided by the plan (for example final salary defined benefit plan or contribution-based plan with guarantee);

  ii. a description of the regulatory framework in which the plan operates, for example the level of any minimum funding requirements, and any effect of the regulatory framework on the plan, such as the asset ceiling; and

  iii. a description of any other entity's responsibilities for the governance of the plan, for example responsibilities of trustees or of management of the plan.

(b) a description of the risks to which the plan exposes the entity, focused on any unusual, entity-specific or plan-specific risks, and of any significant concentrations of risk. For example, if plan assets are invested primarily in one class of investments, for example property, the plan may expose the entity to a concentration of property market risk;

(c) a description of any plan amendments, curtailments and settlements; and

(d) the basis on which the discount rate has been determined.

Explanation of amounts in the financial statements

An entity shall provide reconciliation from the opening balance to the closing balance for each of the following, if applicable:

(a) the net defined benefit liability (asset), showing separate reconciliations for:
  (i) plan assets;
  (ii) the present value of the defined benefit obligation; and
  (iii) the effect of the asset ceiling; an

(b) any reimbursement rights. An entity shall also describe the relationship between any reimbursement right and the related obligation.

Each reconciliation listed in the paragraph above shall show each of the following, if applicable:

(a) current service cost;
(b) interest revenue or expense; and
(c) re-measurement of the net defined benefit liability (asset), showing separately:
    (i) the return on plan assets, excluding amounts included in interest in (b);
    (ii) actuarial gains and losses arising from changes in demographic assumptions;
    (iii) actuarial gains and losses arising from changes in financial assumptions;
    (iv) changes in the effect of limiting a net defined benefit asset to the asset ceiling, excluding amounts included in interest in (b). An entity shall also disclose how it determined the maximum economic benefit available, i.e. whether those benefits would be in the form of refunds, reductions in future contributions or a combination of both;
(d) past service cost and gains and losses arising from settlements. Past service cost and gains and losses arising from settlements need not be distinguished if they occur together;
(e) the effect of changes in foreign exchange rates;
(f) contributions to the plan, showing separately those by the employer and by plan participants;
(g) payments from the plan, showing separately the amount paid in respect of any settlements; and
(h) the effects of public sector combinations and disposals.

An entity shall disaggregate the fair value of the plan assets into classes that distinguish the nature and risks of those assets, subdividing each class of plan asset into those that have a quoted market price in an active market and those that do not. For example, an entity could distinguish between:

(a) cash and cash equivalents;
(b) Equity instruments (segregated by industry type, company size, geography, etc.);
(c) instruments (segregated by type of issuer, credit quality, geography etc.);
(d) real estate (segregated by geography etc.);
(e) derivatives (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, credit contracts, longevity swaps etc.);
(f) investment funds (segregated by type of fund);
(g) asset-backed securities; and
(h) structured debt.

An entity shall disclose the fair value of the entity's own transferable financial instruments held as plan assets, and the fair value of plan assets that are property occupied by, or other assets used by, the entity.

An entity shall disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation. Such disclosure shall be in absolute terms (for example as an absolute percentage, and not just as a margin between different percentages and other variables). When an entity provides disclosures in total for a grouping of plans, it shall provide such disclosures in the form of weighted averages or relatively narrow ranges.

Amount, timing and uncertainty of future cash flows
An entity shall disclose:

(a) a sensitivity analysis for each significant actuarial assumption as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date;
(b) the methods and assumptions used in preparing the sensitivity analyses required by (a) and the limitations of those methods; and
(c) changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes.

An entity shall disclose a description of any asset-liability matching strategies used by the plan or the entity, including the use of annuities and other techniques, such as longevity swaps, to manage risk.

To provide an indication of the effect of the defined benefit plan on the entity's future cash flows, an entity shall disclose:

(a) a description of any funding arrangements and funding policy that affect future contributions;
(b) the expected contributions to the plan for the next reporting period; and
(c) information about the maturity profile of the defined benefit obligation. This will include the weighted average duration of the defined benefit obligation and may include other information about the distribution of the timing of
benefit payments, such as a maturity analysis of the benefit payments.

7.2.13 Main differences between IPSAS 39 and IPSAS 25

The requirements for defined benefit pension plans are a key aspect of IPSAS 25. Pension liabilities are highly significant in the public sector. The new recognition, presentation and disclosure requirements in IPSAS 39 will ensure that the financial statements provide useful and transparent information about the liabilities related to defined benefit plans. IPSAS 39 amended IPSAS 25 in the following areas:

Recognition: Currently IPSAS 25 permits public sector entities to defer the recognition of certain actuarial gains and losses arising from defined benefit plans (the "corridor approach"). IPSAS 39 removed the "corridor approach"

Presentation: IPSAS 39 eliminates presentational options on actuarial gains and losses that previously existed in IPSAS 25.

Disclosure: IPSAS 39 introduces disclosure objectives for defined benefit plans according to the characteristics, risks associated with them and their relationship with the entity`s financial statements

Scope: IPSAS 25 applies to all public sector entities other than Government Business Enterprises while IPSAS 39 applies to all public sector entities, Government Business Enterprises and private sector entities.

The details of the amendment and differences are in the table below.

IPSAS 25	IPSAS 39
Recognition of actuarial gains and losses	
IPSAS 25 has three options for the recognition of actuarial gains and losses in: i. surplus or Deficit in the period in which they occur; ii. net assets/equity in the period in which they occur; and iii. future periods (the "corridor approach"). As a result, a deficit could be recognised as an asset, a surplus could be recognised as a liability and faithful representation and comparability between entities would be difficult to achieve.	IPSAS 39 has removed options for the recognition of actuarial gains and losses by: i. recognising re-measurements in net assets/equity in the period in which they occur; and ii. recognising a surplus as a net defined benefit asset and a deficit as a net defined benefit liability. By removing options and requiring entities to recognise changes immediately, comparability and understandability of information related to defined benefit plans in the period are improved.
New components of defined benefit cost.	
Components of defined benefit cost in IPSAS 25: i. Interest cost and expected return on plan assets – replaced by a single net interest component. ii. Curtailments – as one form of past service cost. The net interest approach results in an entity recognising interest revenue/expense due to the passage of time when the plan has a surplus/deficit.	New components of defined benefit cost in IPSAS 39: i. Service cost – the liability that arises from employees providing service during the period. ii. Net interest – the interest expense/revenue on the net defined benefit liability (asset). iii. Re-measurements – other changes in the value of the defined benefit obligation, such as changes in estimates and other changes in the value of plan assets.

IPSAS 25	IPSAS 39
Settlements	
IPSAS 25 does not classify settlement	IPSAS 39 clarifies that a settlement is: • The difference between the present value of the defined benefit obligation being settled and the settlement price; and • A payment of benefits that is not set out in the terms of the plan. • As a consequence, any difference between an estimated benefit payment and the actual benefit payment is an actuarial gain or loss.
Disclosures	
An entity shall disclose information that enables users of financial statements to evaluate the nature of its defined benefit plans and the financial effects of changes in those plans during the period.	An entity shall disclose information that: Explains the characteristics of its defined benefit plans and risks associated with them ; Identifies and explains the amounts in its financial statements arising from its defined benefit plans; and Describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows.
Actuarial assumptions—Mortality	
Actuarial assumptions in relation mortality are an entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits.	IPSAS 39 makes its explicit that mortality assumptions used to determine the defined benefit obligation are the best estimate of the mortality of plan members both during and after employment.
Taxes and administration costs	
IPSAS 25 did not treat taxation and administrative costs	IPSAS 39 clarifies that: i. Taxes payable by the plan on contributions related to service before the reporting date, or on benefits resulting from that service are included in the estimate of the present value of the defined benefit obligation; ii. Other taxes should be deducted from the return on plan assets; and

IPSAS 25	IPSAS 39
	iii. Administration costs directly related to the management of plan assets are deducted from the return on plan assets.
Changes to defined benefit cost	
IPSAS 25 distinguishes the recognition of vested and unvested past service cost;	iv. Does not distinguish the recognition of vested and unvested past service cost; v. Includes curtailments as one form of past service cost; and vi. Recognises that unvested past service cost results in the same accounting for past service cost and curtailments.
Presentation	
This standard does not specify whether an entity should present current service cost, interest cost and the expected return on plan assets as components of a single item of revenue or expense on the face of the statement of financial performance.	IPSAS 39 clarifies that the presentation of service cost and net interest on the net defined benefit liability (asset) is made in accordance with IPSAS 1, Presentation of Financial Statements
Termination benefits	
An entity shall recognise termination benefits as a liability and an expense when, and only when, the entity is demonstrably committed to either: Terminate the employment of an employee or group of employees before the normal retirement date; or Provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.	IPSAS 39 requires that termination benefits shall be recognised when the entity can no longer withdraw that offer (for example, when the employee accepts the offer).
Other long-term employee benefits	
An entity shall recognise the net total of the following amounts as expense or (subject to paragraph 69) revenue, except to the extent	For other long-term employee benefits, an entity shall recognise the net total of the following amounts in surplus or deficit, except to the extent that another IPSAS requires or permits their inclusion in the

IPSAS 25	IPSAS 39
that another standard requires or permits their inclusion in the cost of an asset: i. Current service cost; ii. Interest cost; iii. The expected return on any plan assets and on any reimbursement right recognised as an asset; iv. Actuarial gains and losses, which shall all be recognised immediately; v. Past service cost, which shall all be recognised immediately; and vi. The effect of any curtailments or settlements (see paragraphs).	cost of an asset: i. Service cost ii. Net interest on the net defined benefit liability (asset) and iii. Re-measurements of the net defined benefit liability (asset)

7.3 Accounting documentations and procedures

Documentations

(a) Annual leave roaster
(b) Personal emoluments record cards
(c) Post-Employment benefit (Pension) journal vouchers
(d) Cash book
(e) Payroll journal vouchers
(f) Payroll deduction journal vouchers
(g) Bank pay-in advice
(h) Approved establishment list

Procedures

(a) Confirm budgetary provisions for employee benefits for the year.
(b) Recognise employee benefits in the various books and ledgers.
(c) Recognise and accrue for employee benefits not yet paid for the year.

7.4 Accounting treatment

S/N	Details	Remarks
i.	Dr.- Gross salary benefit account Cr. Net salary payable account Cr. Relevant deductions accounts	To recognise salary payable to the employees

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ii.	Dr. Net salary payable account Dr. Relevant deductions accounts Cr. Bank account	To recognise net salary payable and remittances of deductions

Illustration 7-1

Mr. George extracted the following balances from October, 2017 payroll of Ministry of Culture. It is the policy of the organisation to pay its staff one month in arrears.

i.	Gross salary	₦2,511,000
ii.	PAYE deduction	₦350,000
iii.	Pension deduction	₦250,000
iv.	NHIS deduction	₦105,000
v.	Cooperative contributions	₦85,000

Also, the Ministry granted overtime allowance of ₦450,000 to its staff for the month

Required

Show relevant accounting entries to record the transactions

Solution 7-1

Details	Dr (₦)	Cr (₦)	Remarks
Gross salary	2,511,000		Being recognition of Gross Salary, Deductions and Net Salary payable for the month of October 2017
Payee deduction		350,000	
Pension deduction		250,000	
NHIS deduction		105,000	
Cooperative contributions		85,000	
Net salary payable		1,721,000	

Payee deduction	350,000		Being payment of payment of outstanding October Salaries in November 2017
Pension deduction	250,000		
NHIS deduction	105,000		
Cooperative contributions	85,000		
Net salary payable	1,721,000		
Bank		2,511,000	
Staff benefit expense	450,000		Being recognition of staff benefit for the month of October 2017
Staff benefit expense payable		450,000	
Staff benefit expense payable	450,000		Being payment of staff benefit for the month of October 2017 in November 2017
Bank		450,000	

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7.5 IPSAS 49- Retirement Benefit Plans

7.5.1 Introduction

The standard is to prescribe the accounting and reporting requirements for public sector retirement benefit plans, which provide retirement benefits to public sector employees and other eligible participants. A retirement benefit plan that prepares and presents financial statements under the accrual basis of accounting shall apply this standard. Retirement benefit plans are normally described as either defined benefit plans or defined contribution plans, each having their own distinctive characteristics

7.5.2 Definitions

a. **Actuarial present value of promised retirement benefits** is the present value of the expected payments by a retirement benefit plan to participants attributable to service, as employees, already rendered.

b. **Defined benefit plans** are, for the purposes of this standard, retirement benefit plans other than defined contribution plans.

c. **Defined contribution obligations** are the amounts owed to participants under the terms of a defined contribution plan.

d. **Defined contribution plans** are, for the purposes of this Standard, retirement benefit plans under which amounts to be paid as retirement benefits are determined by contributions to a fund together with investment earnings thereon.

e. **Funding** is the transfer of assets to an entity (the retirement benefit plan) separate from the employer/sponsor to meet future obligations for the payment of retirement benefits.

f. **Net assets available for benefits** are:

   i. for defined benefit plans – the assets of a plan less liabilities other than the actuarial present value of promised retirement benefits and, in a hybrid plan, the defined contribution obligation to participants; and

   ii. for defined contribution plans – the assets of a plan less liabilities other than the defined contribution obligations to participants.

g. **Participants** are the members of a retirement benefit plan and others who are entitled to benefits under the plan.

h. **Retirement benefit obligations** are:

   (a) for defined benefit plans – the actuarial present value of promised retirement benefits; and

   (b) for defined contribution plans – the defined contribution obligations.

i. **Retirement benefit plans** are arrangements whereby an employer/sponsor provides benefits for participants on or after termination of service as employee (either in the form of an annual income and/or as a lump sum) when such benefits,

or the contributions towards them, can be determined or estimated in advance of retirement from the provisions of a document or from the employer's/sponsor's practices.

j. **Vested benefit**s are benefits, the rights to which, under the conditions of a retirement benefit plan, are not conditional on continued employment.

7.5.1 Recognition

a. For defined benefit plans, retirement benefit obligations owed to participants shall be recognised in the statement of financial position as a provision for the actuarial present value of the promised retirement benefits.
b. For defined contribution plans, retirement benefit obligations owed to participants shall be recognised in the statement of financial position as defined contribution obligations.

7.5.2 Measurement

(a) Valuation of plan investments- Retirement benefit plan investments shall be measured at fair value.
(b) Actuarial present value of promised retirement benefits
(c) The actuarial present value of promised retirement benefits for defined benefit plans shall be based on the benefits promised under the terms of the plan on service rendered to date using projected salary levels.
(d) If an actuarial valuation has not been prepared at the date of the financial statements, the most recent actuarial valuation, updated for any material transactions and material changes in circumstances shall be used.

7.5.3 Presentation and disclosure

Presentation of financial statements

A retirement benefit plan, whether defined benefit or defined contribution, shall present the following:
(a) a statement of financial position;
(b) a statement of changes in net assets available for benefits;
(c) a cash flow statement; and
(d) notes to the financial statements.

A retirement benefit plan shall also explain the changes in retirement benefit obligations to participants either by:
(i) presenting a statement of changes in retirement benefit obligations; or
(ii) disclosing in the notes to the financial statements a reconciliation between the opening and closing retirement benefit obligation balances.

Financial statement contents

(a) **Statement of financial position**

The face of the statement of financial position shall include line items that present the following amounts (if applicable and as appropriate, but not limited to):

(i) plan investments (suitably classified);
(ii) contributions receivable;
(iii) other assets;
(iv) benefits due and payable;
(v) any other liabilities excluding retirement benefit obligations to participants;
(vi) net assets available for benefits;
(vii) provision for actuarial present value of promised retirement benefits in a defined benefit plan;
(viii) defined contribution obligation to participants; and
(ix) excess or deficit.

(b) **Statement of changes in net assets available for benefits**

The statement of changes in net assets available for benefits shall present opening and closing balances and include line items that present the following amounts, (if applicable and as appropriate, but not limited to):

(i) employer/sponsor contributions;
(ii) participant contributions;
(iii) investment income;
(iv) other income;
(v) benefits paid or payable (analysed, for example, as retirement, death and disability benefits, or lump sum payments);
(vi) transfers from and to other plans;
(vii) administrative expenses;
(viii) other expenses; and
(ix) taxes on income.

(c) **Cash flow statement**

(d) **Changes in retirement benefit obligations**

Paragraph 16 requires a retirement benefit plan to present information that explains the changes in retirement benefit obligations to participants either as a financial statement or as a reconciliation in the notes to the financial statements.

This statement or note shall present opening and closing balances and the following information (if applicable and as appropriate, but not limited to):

(i) amendments to the plan (for example, changes in participant benefits);
(ii) changes in the nature of the plan (for example, a merger with another plan);
(iii) participant benefits allocated to defined contribution participant accounts;
(iv) net changes to defined benefit participant accrued benefits (for example, actuarial movements);
(v) employer/sponsor contributions;
(vi) participant contributions;
(vii) taxes on contributions;
(viii) benefits paid; and
(ix) administration expenses.

7.5.4 Disclosure

(a) The notes to the financial statements of a retirement benefit plan, whether defined benefit or defined contribution, shall disclose the following:

i. a summary of significant accounting policies;
ii. a description of the plan (see paragraph 24) and the effect of any changes n the plan during the period;
iii. the basis for the valuation of all plan assets, including fair value measurement disclosure per class of plan assets as required by the applicable IPSAS;
iv. details of any single investment exceeding either 5 percent of the net assets available for benefits or 5 percent of any class or type of security;
v. details of any investment in the employer/sponsor;
vi. liabilities other than the provision for actuarial present value of promised retirement benefits or the defined contribution obligation to participants; and
vii. a description of the funding policy, including any obligations by the employer/sponsor to meet any actuarial determined shortfall in assets in a funded retirement benefit plan.

(b) For defined benefit plans the following shall also be disclosed in the notes to the financial statements:

i. the actuarial present value of promised retirement benefits, distinguishing between vested benefits and non-vested benefits;
ii. a description of the:
    - significant actuarial assumptions made; and
    - method used to calculate the actuarial present value of promised retirement benefits;
iii. the effect of any changes in actuarial assumptions that have had a significant effect on the actuarial present value of promised retirement benefits; and
iv. the date of the actuarial valuation and when the next valuation will be undertaken.

(c) A retirement benefit plan's financial statements shall contain a description of the plan. It shall contain the following:

i. the name(s) of the employer(s)/sponsor(s) and the participant groups covered;
ii. the number of participants receiving benefits and the number of other participants, classified as appropriate;
iii. the type of plan – defined contribution or defined benefit;
iv. a note as to whether participants contribute to the plan;
v. a description of the retirement benefits promised to participants;
vi. a description of any plan termination terms; and
vii. changes in items (a) to (f) during the period covered by the financial statements.

7.6 Chapter review

This chapter discusses the IPSAS 39 on Employee Benefits and IPSAS 49 on Retirement Benefit Plans, respectively as they relate to objectives and scope; definition of terms; short-term employee benefits; disclosure and other requirements.

7.7 Worked examples

7.7.1 Examination type questions

IPSAS 49- Retirement Benefit Plans prescribes the accounting and reporting requirements for public sector retirement and benefit plans, which provide retirement benefits to public sector employees and other eligible participants.

Required:

a. Differentiate between defined contribution plans and defined benefit plans.

b. Explain a qualifying insurance policy.

Suggested solution

1a. Differentiation between defined contribution plans and defined benefit plans

(i) Post-employment benefits include:
- Retirement benefits, such as pensions; and
- Other post-employment benefits, such as post-employment life insurance and post-employment medical care.

(ii) Under defined contribution plans:
- The entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund; and
- In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee.

(iii) Under defined benefit plans:
- The entity's obligation is to provide the agreed benefits to current and former employees; and
- Actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity. If actuarial or investment experience are worse than expected, the entity's obligation may be increased.

b. A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in IPSAS 20) of the reporting entity, if the proceeds of the policy:

(i) can be used only to pay or fund employee benefits under a defined benefit plan; and

(ii) are not available to the reporting entity's own creditors (even in bankruptcy) and cannot be paid to the reporting entity, unless by either:
- The proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefits obligations; and

- The proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

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Skills Level
Public Sector Accounting and Finance

CHAPTER 8

EMERGING ISSUES IN NIGERIAN PUBLIC SECTOR

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8 Emerging issues in Nigerian public sector

8.0 Learning objective

The objective of this chapter is to enhance readers' understanding of financial management reforms put in place by the government for efficient operations in the public service.

8.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

(a) share information and implementation experience of TSA concept, design, benefits and the role of stakeholders at Federal, States governments in Nigeria, and

(b) understand other financial management reforms.

8.2 Introduction

In July 2003, the Federal Government commenced the implementation of deliberate policies, programmes and projects aimed at strengthening the economy, governance and fight corruption.

This led to the first Economic Reform and Governance Project (ERGP) initiative which was approved in December 2004, in line with FGN goal to strengthen governance, accountability, reduce corruption and deliver services more effectively. This brought about the reforms in Public Sector of the economy.

The Bureau of Public Service Reforms in collaboration with UK Department for International Development (DFID), developed the second initiative of National Strategy for Public Service Reform (NSPSR), in 2008. The NSPSR framework was derived from Vision 2020 NEEDS document and other global initiatives, aimed at improving the quality of public administration and good governance.

8.3 Treasury Single Account (TSA)

8.3.1 Definition of Treasury Single Account (TSA)

(a) The Treasury Single Account (TSA) is part of the Public Financial Management (PFM) Reforms approved in 2004.

(b) The TSA is a bank account or set of linked accounts through which government transacts financial operations.

(c) It is a unified structure that gives consolidated view of government cash resources with a view to strengthening effective budget implementation, check idle cash balances, make planning easy and allow for effective decision making.

8.3.2 Objectives of TSA

The cardinal objective of TSA is to facilitate the implementation of an effective cash flow policy with a view to:

(a) ensuring that sufficient cash is available as and when needed to meet payment commitments;
(b) controlling the aggregate of cash flows within fiscal, monetary and legal limits;
(c) improving the management of government's domestic borrowing programmes;
(d) enhancing operating efficiency through the provision of high-quality services at minimal costs;
(e) investing of excess or idle cash;
(f) ensuring greater accountability in public expenditure.

8.3.3 TSA Models

(a) The "Pure" TSA – Model 1-No account sub-structure; all deposit and payment transactions are processed through a single bank account. This is relatively rare
(b) The Decentralised TSA -Model 2
    i. Separate accounts, in commercial banks or Central Bank, zero-balanced overnight (ZBAs)
    ii. More normal in a decentralised environment where commercial banks process transactions.
    iii. Each ministry/agency makes its own payments and directly operates the respective bank account under the TSA system.
    iv. Ministry of Finance sets the cash disbursement limits (based on unit of appropriation) for control purposes.

8.3.4 Reasons for the introduction of TSA

(a) Inability of government to determine cash position at any point in time.
(b) Unlimited commercial bank accounts maintained by MDA.
(c) Growing domestic debt and borrowing not aligned to need.
(d) Idle Cash balances/unspent balances in MDA accounts.
(e) Excessive use of Ways and Means in financing budget expenditure.
(f) Inability to undertake effective cash planning and management as required by the Fiscal Responsibility Act.
(g) No reliable basis to prepare Warrants to MDA, delays in budget execution and perennial existence of unspent balances by the year end. Warrants/AIEs releases were not based on cash plan.
(h) Over ₦100 billion lost in failed commercial banks.

8.3.5 Benefits of Treasury Single Account (TSA)

(a) Helps the government to unify banking arrangements.
(b) Assists the government in the efficient utilisation of government funds for approved projects.
(c) Promotes transparency and accountability in government operations.
(d) Reduces the amount, and cost of government borrowing by maximising the use of available government resources to deliver projects.
(e) Ensures centralised control over revenue through effective cash management.

(f) Enhances accountability and enables government to know how much is accruing to it on a daily basis.

(g) Reduces fiscal criminality and help tame the tide of corruption.

8.3.6 Components of TSA

(a) **E-payment-** The Federal Government of Nigeria commenced the implementation of Treasury Single Account (TSA) in April 2012, with three-payment components. It is a direct payment through electronic transfer to an individual or an organisation using the medium of information and communication technology.

(b) **E- collection-**The e-collection component of TSA commenced in January 2015.

The circular on e-collection was issued on the 19 March, 2015, followed by guidelines in September 2015. It is a comprehensive electronic solution for the remittance, management and reporting of all Federal Government receipts (revenues, donations, transfers, refunds, grants, fees, taxes, duties, tariffs, etc.) into the TSA and sub-accounts maintained and operated at the CBN.

8.3.7 Objectives and benefits of TSA E- payment and E-collection

E-payment	E- collection
Objectives	
i. To avoid borrowing and paying additional charges to finance the expenditure of MDA while some MDA keep idle funds in their respective bank accounts; ii. To ensure effective aggregate control of cash in monetary and budgetary management; iii. Minimising transaction costs; iv. Making rapid payments of expenses; v. Facilitating reconciliation; vi. Efficient control and monitoring of funds allocated to MDA; and vii. Support monetary policy implementation.	i. To ensure total compliance with the relevant provision of the 1999 Constitution of the FRN (Sections 162 and 80); ii. To collect and remit all revenue due to the Federation Account and Consolidated Revenue Fund (CRF); iii. To block all leakages in government revenue generation, collection and remittance; iv. To enthrone a new regime of transparency and accountability in the management of government receipts; v. To improve on availability of funds for the developmental programmes and projects; vi. To align with the CBN cashless policy; and vii. To ease the burden of revenue payers.

E-payment	E- collection
Benefits	
i. Provides complete and timely information on government cash resources; ii. Improve operational control on budget execution; iii. Enables efficient cash management; iv. Reduces bank fees and transaction costs; v. Facilitates efficient payment mechanisms; vi. Improves bank reconciliation and quality of fiscal data; vii. Improves liquidity of government; viii. viii. Allows issuance of warrants and AIEs based on cash plan; ix. No more commercial bank accounts maintained by MDA; x. Brings about drastic fall on the ways and means (overdraft) requirement from CBN; and xi. Supports government budget execution.	i. It controls and monitors receipts and payments of FGN funds; ii. It prevents and detects potential and actual fraud; iii. It improves planning through MTEF; v. Creates an accurate cash flow statements that helps the government to obtain an appropriate line of credit; vi. Implements cash collection acceleration techniques; vii. Integrates policy priorities into annual budgets and thereby ensures that available resources are channelled to priority sectors; viii. Minimises deficits and borrowings within limits set by government; and ix. Improves transparency and accountability of all FGN receipts.

Scope of TSA

S/N	MDA Category	Implementation Strategy	
a.	MDAs fully funded from the budget e. g Ministries etc.	i. ii.	All collections to be paid directly into CRF/ TSA Expenditure to be drawn from CRF /TSA based on annual budget.
b.	MDAs partially funded but generate additional revenue for example teaching hospitals, tertiary institution etc.	i. ii.	All collections to be paid directly into CRF/ TSA except for extra budgetary receipts which are to be paid into Sub- Accounts at CBN, which are linked to TSA. Platform configured to allow access to funds based on approved budget
c.	MDAs not funded from budget but expected to pay operating surplus/25% of gross earnings to the CRF for example CBN, NPA,	i. ii.	All collections are paid into sub- accounts at CBN, which are linked to TSA. Platform configured to allow access to funds based on approved budget

S/N	MDA Category	Implementation Strategy	
	FAAN, NDIC, etc.		
d	MDAs funded from Federation Account for example NNPC, FIRS, NCS, DPR, MMSD	i. ii. iii. iv. v.	All Federation revenues generated by the agencies to be paid into Federation Account at CBN. All independent revenue generated by these agencies to be paid into CRF/TSA FGN share of Federation Account to be paid into CRF/TSA Statutory approved cost of collection to be paid into sub-accounts at CBN which are linked to TSA Platform configured to allow access to funds based on approved budget
e.	Agencies funded through special accounts (Levies). for example PTDF, NSC, NPA, RMRDC	i. ii. iii.	Sub- accounts linked to TSA to be maintained at CBN. All IGR collected to be directly paid into CRF/TSA Platform configured to allow access to funds based on approved budget.
f	Profit oriented Public Corporations/ Business Enterprises for example BOI, NEXIM, BOA, etc.	Dividends from these agencies to be paid into the CRF/TSA	
g	Revenue generated under Public Private Partnership for example Production of International Passports, Concession Arrangement	i. ii.	FG portion of the collection to be paid into CRF/TSA. Partners portion of the revenue to be transferred to the partners account
h	MDAs with revolving funds and project accounts for example Drug or Fertilizer Revolving Fund, Roll-Back Malaria, SURE-P	i. ii. iii.	Project account (revolving funds) to be maintained at CBN. Collection (IGR) to be paid into CRF/TSA. Platform configured to allow access to funds based on approved budget.
i	Donor and Counterpart Funds	i. ii.	Donor fund sub-account will be opened at CBN and to be linked to CRF/TSA Spending from such accounts are based on approved Budget

8.3.8 Role of Office of Accountant General of the Federation

(a) Ensures effective implementation of e-collection reform.
(b) Ensures proper monitoring of the e-collection gateway.
(c) Ensures prompt reconciliation of all collections.

(d) Provides MDAs with periodic report of collection.
(e) Supports MDAs, banks and payers on the operation of e-collection.
(f) Ensures regular monitoring of all collections to ensure prompt remittance and accounting for collection.
(g) Ensures continuous update of e-collection guidelines and processes.
(h) Abides by the provisions of the MoU with Stakeholders.

8.3.9 Role of Directors of Finance and Accounts of the Ministries, Departments and Agencies (MDAs)

(a) Ensures that proper books of Revenue Accounts are maintained.
(b) Ensures prompt issuance of receipts for remittances paid through the e-collection.
(c) Ensures that Internally Generated Revenue is not diverted
(d) Ensure that returns on revenue performance are rendered promptly.
(e) Ensures sharp practices emanating from collusion among dishonest revenue officers are discouraged and stopped.
(f) Ensures that idle funds are invested and accrued interests there from are transferred into the CRF promptly in line with the extant laws.
(g) Ensures revenue monitoring visits to all MDAs, FPOs, Government Companies and Parastatals.

8.3.10 Roles of Central Bank of Nigeria (CBN)

(a) Deployment of gateway for use by other stakeholders.
(b) Ensures that Remita platform facilitates the transmission of all instructions.
(c) Designs the payment and collection process across all banks based on operational standards.
(d) Maintains the Treasury Single Account (TSA) of the FGN.
(e) Ensures maintenance, security and optimum performance of the gateway to meet its obligations.
(f) Issues guidelines (circular) to DMBs on the operation of the TSA.
(g) Abides by all terms and conditions for the operation of TSA.

8.3.11 Roles of the Deposit Money Banks (DMBS)

(a) Ensures that payments to government are given prompt attention.
(b) Ensures that all collections in favour of FGN are promptly remitted and complains are lodged with Office of the Accountant-General of the Federation (OAGF), CBN and REMITA without delay.
(c) Liaises regularly with OAGF to ensure smooth operation of the TSA.
(d) Liaises with relevant Departments of OAGF and CBN on the operations of TSA.
(e) Ensures that terms and conditions enshrined in the MoU are effectively discharged.

8.3.12 Role of service provider

(a) Works with CBN, OAGF and other stakeholders to articulate system requirements.
(b) Provides a robust stable and effective integrated processing platform.

(c) Ensures the optimal availability of all relevant systems and platforms.
(d) Provides effective and efficient support to users of the platform.
(e) Provides users with relevant reports.
(f) Training of users on the use of the payment gateway.

8.4 Automated Accounting Transaction Recording and Reporting System (ATRRS)

It is an ICT based accounting software application, which facilitates the input of accounting transactions, reconciliations and generation of standard accounting reports that meet the required standard of the Treasury. The Treasury (OAGF) develops the software. It provides a leverage solution to automate the manual recording of the accounting transactions in the Line Ministries, Agencies and Parastatals of government. Its introduction helps in prompt rendition of financial and accounting returns; accurate presentation of financial reports; enhanced capacity to generate complex analytical reports; enhanced ability to cope with large volume of transactions; automatic mode of processing transactions; and ability to eventually operate on-line real time processing. With this package, solution is provided to most of the challenges posed by the manual accounting processes.

8.4.1 Benefits of the ATRRS Accounting software

a. Familiarises the workforce with the use of IT equipment at an early stage of Government integrated Financial Management Information System (GIFMIS) implementation, which would enable a smoother transition to the GIFMIS software.
b. Potentially reduces training period and requirement for GIFMIS.
c. Potentially reduces GIFMIS implementation costs.
d. Shortens Business Process re-engineering period (i.e. it is faster to transit from a semi-automated process than a manual process.
e. Facilitates ease of reconciliation of the various bank accounts.
f. Ensures that clean and accurate data will be available for migration into GIFMIS.

8.5 Integrated Personnel and Payroll Information System (IPPIS)

IPPIS was conceived by the Federal Government (FGN) to improve the effectiveness and efficiency in the storage of personnel records and administration of monthly payroll in such a way as to enhance confidence in staff emolument costs and budgeting.

8.5.1. Objectives of IPPIS

(a) Facilitates planning: Having all the civil service records in a centralised data base will aid manpower planning as well as assist in providing information for decision-making;
(b) Aids budgeting: An accurate recurrent expenditure budget on emolument could be planned and budgeted for on a yearly basis;
(c) Monitors the monthly payment of staff emolument against what was provided for
(d) Ensures data base integrity so that personnel information is correct and intact;
(e) Eliminates payroll fraud such as “ghost workers syndrome”; and

(f) Facilitates easy storage, updating and retrieval of personnel records for administrative and pension processes.

8.5.2 Functions of components of IPPIS

(a) Data capture equipment with fingerprint scanners for biometric enrolment and camera for employee photographs. These allow each of the MDA to capture, update and process its personnel records;
(b) They allow all public servants from the MDAs to have their records and biometric data captured, verified and stored in the centralised personnel database of IPPIS;
(c) They allow salaries to be paid directly into the bank accounts of public servants whose records exist in the IPPIS database; and
(d) They also allow third party agencies such as FIRS, SBIR, PENCOM and Cooperative Societies to also receive their payments directly.

8.6 Government Integrated Financial Management Information System (GIFMIS)

GIFMIS is a sub component of the ERGP (Economic Reform and Governance Project) which will support the public resource management and targets anti-corruption initiatives through modernising fiscal processes using better methods, techniques and information technology. The Government Integrated Financial Management Information System (GIFMIS) is an IT based system for budget management and accounting that is being implemented by the Federal Government of Nigeria to improve Public Expenditure Management processes, enhance greater accountability and transparency across Ministries and Agencies.

GIFMIS is designed to make use of modern information and communication technologies to help the Government of Nigeria to plan and use its financial resources more efficiently and effectively.

The Government recognises, nevertheless that additional challenges remain and that public expenditure management needs to be further strengthened to:

(a) build an integrated budget based on programs that are clearly linked to key developmental objectives;
(b) ensure greater accountability from budget holders; and
(c) allow greater emphasis on budget outcomes and impact; and (iv) identify and address the remaining sources of leakage in budget execution in order to strengthen efficiency of public expenditure.

This will require, in addition to changes in policies and regulations, considerable modernisation and automation of current budget and financial management and procurement practices.

8.6.1 Purpose of GIFMIS

The purpose of introducing GIFMIS is to assist the FGN in improving the management, performance and outcomes of Public Financial Management (PFM). The immediate purpose of this project is to enable an executable budget, i.e. a budget that can be

implemented as planned by addressing the critical public financial management weaknesses including:

(a) failure to enact the budget before the start of the financial year;
(b) budget not based on realistic forecasts of cash availability;
(c) lack of effective cash management – multiple bank accounts within Treasury and MDAs that make effective control impossible and when combined with lack of cash forecasting leads to inefficient and unplanned borrowings; and
(d) lack of integration between different financial management functions and processes, for example budget is prepared in a way that makes it difficult to manage budget execution through the chart of accounts.

It must be underscored that, whereas GIFMIS is part of the solution to the above problems, it (GIFMIS) cannot be a driver of change to better public financial management, rather it is a tool to facilitate change. To this end, the introduction of GIFMIS will have to be combined with major changes in business processes. However, GIFMIS provides an opportunity to move to Treasury Single Account and to reduce the number of stages in transaction processing. In addition, it will provide better access to information, which can be used to improve fiscal and operational management. GIFMIS will also reduce fiduciary risk by enabling greater transparency and by reducing the opportunities for manual intervention in financial transactions.

8.6.2 Objectives of GIFMIS

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

(a) the ability of FGN to undertake central control and monitoring of expenditure and receipts in the MDAs;
(b) the ability to access information on financial and operational performance;
(c) internal controls to prevent and detect potential and actual fraud;
(d) the ability to access information on Government's cash position and economic performance;
(e) Improvement in medium term planning through a Medium-Term Expenditure Framework (MTEF);
(f) the ability to understand the costs of groups of activities and tasks and
(g) the ability to demonstrate accountability and transparency to the public and cooperating partners.

8.6.3 Scope of GIFMIS

(a) The GIFMIS will be used to support the government in all aspects of budget preparation, execution and management of government financial resources.
(b) The system will cover all spending units financed from the government's budget, and will process and manage all expenditure transactions (including interfaces) pertaining to these units.

(c) All steps in the expenditure cycle including, budget appropriations, financing limits, commitments, verification and payment transactions will be recorded by and managed through the system.

In other words, the system will be a modern, efficient and user-friendly facility, providing comprehensive information on all the financial affairs of the Government. This will act as a reliable basis for multi-year budgeting, annual budgeting, commitment control, payment control, financial and cash management and economic planning.

(d) The financial management functions of the GIFMIS covers the entire financial management cycle including:
  (i) budget preparation;
  (ii) budget maintenance and management;
  (iii) budget execution and treasury management; and
  (iv) general ledger;

(e) Procurement, including commitments of purchase orders, maintenance of a central suppliers' register and support fore-procurement.

(f) Receipting, accounts receivable and revenue management.

(g) Payments and accounts payable.

(h) Inventory and stock control.

(i) Asset management.

(j) Budget execution reporting.

(k) Financial reporting.

(l) Project accounting.

(m) Loans and advances.

8.6.4 Interface with third parties

Interfaces with third party systems to be provided by the GIFMIS.

(a) Human Manager – Payroll – OAGF – Payroll costs/Loan repayments;
(b) ASYCUDA – Customs – NCS –Revenue;
(c) SAP – Taxation – FIRS –Revenue;
(d) CD-DRMS – Debt Management – DMO – Debt payments;
(e) Oracle ERP – Banking interface – CBN – Bank Statements; and
(f) Oracle 9i – Medium Term Budget – BOF – Annual Budgets and ceilings

8.7 Mandatory Federal Treasury E-Receipt (FTeR) and ERS E-Invoicing

The Federal Government of Nigeria has introduced mandatory e-receipts and e-invoicing systems to enhance transparency, curb corruption, and improve revenue collection.

8.7.1 Federal Treasury eReceipt (FTeR)

The Nigerian government has introduced the Federal Treasury eReceipt (FTeR) system, making e-receipts mandatory for all federal government transactions starting January 1, 2026. This initiative aims to enhance transparency, accountability, and efficiency in revenue collection, while also reducing revenue leakages and corruption.

The implementation of e-receipts is part of the government's broader efforts to modernise public finance, strengthen fiscal discipline, and improve public financial management.

Under this system, all payments to federal government agencies must be made digitally, and the FTeR will serve as the only valid proof of payment. The Revenue Optimisation (RevOp) Platform will support the FTeR system, enabling real-time tracking and reconciliation of government revenues.
The Office of Accountant-General of the Federation issued Circular Ref No. TRY/A7 & B7/2025/OAGF/CAD/026/Vol.V/271 dated 26th November, 2025 on adoption of the Federal Treasury e-receipt (FTe-R) which states that:

(a) The FTe-R shall be issued electronically to the payer by the MDA/STF upon confirmation of receipt of revenue collected through any of the approved payment channel(s) integrated with TSA. No FTe-R shall be issued without actual receipt of value in the Treasury's account; and
(b) The FTe-R shall serve as the official receipt for the payer and the corresponding proof of revenue collection for the respective MDA

8.7.1.1 Key features of the e-receipt system

(i) Digital receipts generated through the RevOp platform
(ii) Automatic sending of receipts to payers through email or mobile apps
(iii) Real-time tracking and reconciliation of payments
(iv) Elimination of fake receipts and unverifiable paper-based acknowledgments
(v) Contains transaction details and often QR codes or links for support

8.7.1.2 Benefits of e-Receipts

(i) Convenience: Easily stored and retrieved digitally.
(ii) Environmental: Reduces paper waste and clutter.
(iii) Cost-effective: Saves businesses costs on paper and storage.
(iv) Enhanced customer experience: Quick and easy access to receipts.

8.7.1.3 Implementation guidelines circulars issued by the Office of the Accountant-General of the Federation.

In order for the government to implement the e-receipts policy, the Office of Accountant-General for the Federation issued the following circulars:

(a) **Ref. No. TRY/A5 & B5/2025/OAGF/CAD/026/Vol.V/265 dated 24th November, 2025 on Enforcement of "No Physical Cash Receipt Policy" for all Federal Government revenue transactions:** The circular directed that, collections and/or acceptance of physical cash (in Naira or other currencies) for all revenues due to federal Government is strictly prohibited. All revenue collections, for and on behalf of the Federal Government must be made via electronic processing.

In view of the above, the following guidelines must be followed:

(i) All Ministries, Departments and Agencies (MDAs) and Federal Government-Owned Enterprises (FGOEs) are required to immediately

sensitise their staff, parties and general public transacting business with them on this policy;

(ii) Notices stating a "NO PHYSICAL CASH RECEIPT" and " NO CASH PAYMENT" in official transactions of government must be conspicuously displayed at all revenue collection points. Hence ALL PAYMENTS to government MUST BE MADE VIA ELECTRONIC CHANNELS; and

(iii) MDAs/FGOEs currently collecting physical cash at various revenue centres or locations, must within forty-five days (45) days of this circular, ensure the deployment of functional Point of Sale (POS) terminals or other approved electronic devices at all such locations.

It should be noted that all Accounting Officers are to enforce this directive, as they will be held accountable for any breach(es) traceable to official transactions of their MDAs/FGOEs.

(b) **Ref. No. TRY/A6 & B6/2025/OAGF/CAD/026/Vol.V/268 dated 25th November, 2025 on immediate cessation of direct deductions on MDAs dedicated collection systems.**

As a follow up to Treasury Circular stated in (a) above, all MDAs/FGOEs are hereby directed to ensure:

(i) Immediate stoppage of any direct deductions from government revenues collected through dedicated portals and or Payment Solution Service Providers (PSSPS) and other applications;

(ii) Remittance of gross amount of all revenues received from any payer is routed and settled directly into designated TSA/Sub-TSA account without any deductions. All charges, fees, levies, etc. arising from the services rendered by service provider shall be paid from the designated TSA Sub-account;

(iii) All Portals/PSSPs and other service providers already engaged by MDAs for revenue collections are regularised with OAGF on or before 31st December, 2025; and

(iv) MDAs/ FGOEs engaged in Public Private Partnership (PPP) arrangements are advised to liaise with OAGF for further guidance.

It should be noted that, MDAs/ FGOEs found non-compliant shall have all access on GIFMIS and TSA Sub-accounts disabled; and in the same vein, TSA/GIFMIS Department has been mandated to ensure compliance.

(c) **Ref. No. TRY/A8 & B8/2025/OAGF/CAD/026/Vol.V/273 dated 27th November, 2025 on rollout and implementation guidelines on the adoption of the Revenue Optimisation (RevOP) platform**

The Federal Government is adopting a service-wide Revenue Optimisation (RevOP) and Assurance Platform for end-to-end revenue optimisation; providing unified automation of billing information, reconciliation and treasury visibility. The platform shall further enable automated disbursement, revenue splitting, real-time monitoring of all local and foreign currency maintained by MDAs/FGOEs

and seamless integration with TSA, GIFMIS, CBN, Nigeria Inter-Banking Settlement System (NIBSS) and National Expenditure Systems (NES) and all revenue collecting banks

This circular provides the following implementation guidelines for the operations of RevOP in which every MDAs/FGOEs shall:

(i) Nominate three (3) officers, not below and equivalent to Grade Level 10 that will serve as RevOP focal personnel (one support staff and two Finance and Accounts staff, particularly revenue desk officers) and forward details to OAGF within seven (7) working days of this circular;

(ii) Ensure integration of all Enterprise Resource Planning (ERP)/ Financial Systems currently in use by MDAs/FGOEs with RevOP platform;

(iii) Ensure that only CBN-licensed Payment Solution Service Providers (PSSPs) recommended by National Information Technology Development Agency (NITDA) and approved by OAGF shall be allowed to provide the services of RevOP on behalf of MDAs/FGOEs;

(iv) Ensure that all PSSPs currently providing billing information on behalf of MDAs/FGOEs should connect with RevOP for instant harmonisation of government collections on the platform; The process of profiling PSSPs shall commence and all approved PSSPs by the Treasury shall be recognised and listed on RevOP for collection;

(v) Provide OAGF with complete information on all local and foreign currency accounts maintained with commercial banks and other financial institutions (where applicable);

(vi) Ensure compliance not later 60 days from the date of this circular in liaison with the OAGF implementation team during onboarding and system adoption; and

(vii) Contact the Director, Treasury Single Account (TSA) Department, Office of the Accountant-General for the Federation for technical supports and further clarifications.

8.7.2 NRS e-Invoicing

In November 2024, the Nigerian Revenue Service (NRS) (formerly Federal Inland Revenue Service (FIRS) announced the planned adoption of the Merchant Buyer Solution (MBS) also called the e-invoicing initiative for enhanced tax administration and tax collection. This is a national initiative involving various government agencies, such as the Nigeria Customs Service (NCS), Central Bank of Nigeria (CBN), National Information Technology Development Agency (NITDA), etc., but is primarily driven by the NRS. Electronic invoicing is simply a process of sending and receiving invoices electronically rather than through paper-based methods.

E-invoicing, or electronic invoicing, is the process of generating, sending, and receiving invoices in a structured digital format, replacing traditional paper-based methods. This system automates the exchange and processing of invoices between suppliers and buyers, enhancing efficiency, compliance, and collaboration in Nigeria. E-invoicing is mandatory for imports and exports, with plans for nationwide rollout.

The Nigerian Revenue Service (NRS) (formerly Federal Inland Revenue Service (FIRS)) has also mandated e-invoicing for large taxpayers, effective August 1, 2025. This system requires companies with an annual turnover of ₦5 billion or more to generate, validate, and submit invoices in real-time to the NRS platform

8.7.2.1 Key benefits of e-Invoicing

(i) Cost savings: Reduces expenses on paper, printing, postage, and storage.
(ii) Increased efficiency: Automates invoice processing, reducing manual errors and speeding up payment cycles.
(iii) Improved accuracy: Minimises human errors in data entry.
(iv) Enhanced security: Uses digital signatures and encryption to prevent tampering.
(v) Environmental sustainability: Reduces paper waste and carbon footprint.
(vi) Enhanced transparency and accountability.
(vii) Reduced revenue leakages and corruption.
(viii) Improved compliance with tax regulations.
(ix) Streamlined payment processes for citizens and businesses.

8.7.3 Affected parties

(i) Ministries, Departments, and Agencies (MDAs)
(ii) Large taxpayers (turnover of ₦5 billion or more)
(iii) Businesses and individuals interacting with government services

8.8 Open Treasury Portal (OTP)

The Minister of Finance launched Transparency Policy/Open-Treasury Portal on 9th December 2019, which coincided with the United Nations Anti-Corruption Day. The Office of the Accountant-General of the Federation is required to publish daily Treasury Statement that will provide information about what came into the national purse and what went out every day, so as to drive open treasury. The treasury publishes payments of ₦10 million and above while all MDAs must publish all payments above ₦5 million.

The information will include among others:

(a) the name of the MDA;
(b) the beneficiary; and
(c) the purpose and the amount involved.

8.8.1 Benefits

(a) The Transparency Policy will enable government to open its books to the public and to increase confidence in the operations of government.
(b) This will also put MDAs on their toes.
(c) To ensure close monitoring and sustainability, a peer review mechanism is put in place which is made up of inter-ministerial representatives from the Offices of the Accountant-General, Auditor-General, EFCC, ICPC, etc.
(d) The expected result of this initiative is improved transparency and combating corruption.

8.9 Chapter review

This chapter discusses the operation of Treasury Single Accounting and other financial management reforms put in place by the government for efficient financial operations in the public service.

8.10 Worked examples

8.10.1 Examination type questions

1 The Federal Government of Nigeria commenced the implementation of Treasury Single Account (TSA) in April 2012, with three-payment components.

Required:

(a). Explain e-payment.
(b). Explain **TEN** benefits of e-payment.
(c). Explain **TWO** types of transactions covered by e-payments.
(d). Itemise the contents of an e-payment voucher.

2. The Treasury Single Account (TSA) is part of the Public Financial Management (PFM) Reforms approved in 2004.

Required:

(a) Explain the concept of Treasury Single Account (TSA)
(b) Discuss any five benefits of TSA.

3. The government replaced IPPIS with the GIFMIS for salary payments of workers in federal tertiary institutions.

Required:

(a) State the full meaning of the Acronym GIFMIS.
(b) State the main objectives of GIFMIS.

8.10.2 Suggested solutions

1 (a) E-payment is a subset of e-governance which is the application of electronic means in the interaction between government and citizens and government and businesses.
It is a form of direct payments and banking without physical appearance at the MDAs or bank through the means of electronic, interactive communication channels and other technological infrastructures.

(b) Benefits of TSA (E-PAYMENT)

(i) Provides complete and timely information on government cash resources.
(ii) Improves operational control on budget execution.
(iii) Enables efficient cash management.
(iv) Reduces bank fees and transaction costs.
(v) Facilitates efficient payment mechanisms.
(vi) Improves bank reconciliation and quality of fiscal data.

(vii) Improves liquidity of government
(viii) Issuance of Warrants and AIEs based on cash plan
(ix) No more commercial bank accounts maintained by MDA
(x) Drastic fall on the Ways and Means (Overdraft) requirement from CBN
(xi) Support government budget execution
(xii) The risk associated with cheques been stolen, forging of signature and disparity between amount in words and figures is totally eliminated.

(c). Transactions covered by e-payment

(i) All payments to contractors and to service providers.
(ii) Payments to staff, PHCN, FIRS and other government agencies.

(d). Contents of E-payment teller

(i) Account name of the beneficiary
(ii) Account number of the beneficiary
(iii) Bank and branch of the beneficiary
(iv) Sort code (if not part of Account Number)
(v) Amount payable
(vi) Purpose of the payment
(vii) Signature and thumb print impression of the account's signatories

2 (a) The Treasury Single Account (TSA) policy was established in order to reduce the proliferation of bank accounts operated by MDAs and to promote financial accountability among governmental agencies. The compliance of the policy faces challenges from majority of the MDAs.

(b) Benefits of TSA

(i) Assists the federal government in the efficient utilisation of government funds for approved projects;
(ii) Helps government unify banking arrangements;
(iii) Promotes transparency and accountability in government operations;
(iv) Reduces the amount, and cost of government borrowing by maximising the use of available government resources to deliver projects;
(v) Ensures centralised control over revenue through effective cash management;
(vi) Enhances accountability and enables government to know how much is accruing to it on a daily basis; and
(vii) Reduces fiscal criminality and help tame the tide of corruption.

3. (a) **GIFMIS- Government Integrated Financial and Management Information System**

(b) Objectives of the GIFMIS

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

(i.) Increases the ability of FGN to undertake central control and monitoring of expenditure and receipts in the MDAs;
(ii.) Increases the ability to access information on financial and operational performance;
(iii.) Increases internal controls to prevent and detect potential and actual fraud;
(iv.) Increases the ability to access information on Government's cash position and economic performance;
(v.) Improves medium term planning through a medium-term expenditure framework (MTEF);
(vi.) Provides the ability to understand the costs of groups of activities and tasks; and
(vii.) Increases the ability to demonstrate accountability and transparency to the public and cooperating partners.

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Skills Level
Public Sector Accounting and Finance

CHAPTER 9

STANDARDISATION OF FEDERAL, STATE AND LOCAL GOVERNMENTS' REPORTING FORMATS IN NIGERIA

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9 Standardisation of Federal, State and Local Governments' Reporting Formats in Nigeria

9.0 Learning objective

The objective of this chapter is to enhance readers' understanding of financial management reforms put in place on the standardisation of reporting formats in the three levels of government for efficient operations in the public service.

9.1 Learning outcomes

On successful completion of this chapter, readers should be able to understand:

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

9.2 Introduction

Nigeria, a leading African nation with a population of over 200 million and a foremost OPEC member with a public sector dominated economy, has identified the need to consider the value of IPSAS and has implemented same in order to remain relevant in the comity of nations.

9.3 National Chart of Accounts (NCOA) for General Purpose Financial Reporting (GPRS) and budgeting

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

9.3.1 Definition of NCOA:

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

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

9.3.2 Objectives

(a) To give ample opportunity for comparability;
(b) Unification and harmonisation of coding, budgeting, accounting and reporting system;

(c) To bring about global interpretation of Nigeria General Purpose Financial Statements (GPFS);
(d) Nationally consistent financial reporting;
(e) Improvement in transparency and accountability;
(f) To facilitate ease of computerisation of accounting system.

9.3.3 Features of NCOA:

(a) NCOA was designed after due consultations with all Local Government Councils, States and Federal Government of Nigeria taking into consideration their peculiar needs.
(b) Expandable/Flexible.
(c) Each item has a unique code.
(d) Used for both budgeting and accounting.
(e) IPSAS cash and accrual basis compliant.
(f) Government financial statistics (GFS) 2001 compliant.
(g) Incompliance with the classification of functions of government (COFOG).

9.3.4 Structure of National Chart of Accounts

(a) **Administrative segment:** The Administrative segment assigns responsibility for each transaction whether revenue centre (receipt) or cost centre (payment).
(b) **Economic segment:** Every receipt must be from a particular source for example contractor registration fee. Likewise, every expense must be on a particular item or object for example purchase of drugs and medical supplies. It answers "What" question of every transaction.
(c) **Functional segment:** Functional classification categorises expenditure according to the purposes and objectives for which they are intended. Functional classification or classification by functions of government (COFOG) is defined as a detailed classification of the functions, or socio-economic objectives that general government units aim to achieve through various kinds of outlays. Functional classification organises government activities according to their broad objectives or purposes (for example, education, social security, housing, etc.). Government expenditure is measured according to internationally recognised functional categories. A functional classification is especially useful in analysing the allocation of resources among sectors. Functions and sub-functions will be assigned at the point of budget and planning for every transaction or initial setup.
(d) **Programme segment:** The programme classification identifies various set
(e) of activities to meet specific policy objectives of the government for example Pre-primary education, poverty alleviation and food security.
(f) **Funds segment:** The Fund segment addresses the "Financed by" element of a transaction. Fund refers to the various pools of resources for financing government activities. It will fast track the implementation of IPSAS particularly with respect to the full disclosure of government revenue including external assistance.

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

9.3.5 Advantages

(a) NCOA harmonised all the various COA of Federal, States and Local Government Councils to a standardized COA that will enhance the attainment of minimum reporting requirement that is in line with international best practices.
(b) NCOA comprises the coding of items used for classification, budgeting, accounting and reporting within the financial year.
(c) It serves to facilitate the recording of all transactions and is directly linked to General Purpose Financial Statements (GPFS).

9.4 Financial reporting format – Cash IPSAS

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

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

9.4.1 Structure of cash basis IPSAS

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

(a) Mandatory requirements are requirements that are applicable to all entities preparing cash based GPFS and must be complied with by entities which claim to be reporting in accordance with the cash basis IPSAS.
(b) Additional disclosures identify additional accounting policies and disclosures that an entity is encouraged to adopt and includes explanations of alternative methods of presenting certain information. Cash IPSAS encourages the disclosure of additional information that are useful to the understanding of the GPFS. These additional disclosures include explanations of alternative methods of presenting certain information and accounting policies.

9.4.2 Objectives of cash basis IPSAS

(a) Cash basis IPSAS prescribes the manner in which the GPFS on the cash basis should be presented.
(b) Accountability about the cash receipts, cash payments and cash balances.
(c) Transparency about the allocation of cash resources.
(d) Assessment of the ability of the entity to generate adequate cash in the future.
(e) Enhances comparability
(f) Provides a sound base for transition to the accrual basis.

9.4.3 Components of cash basis IPSAS in the GPFS.

(a) Statement of cash receipts and payments (Cash flow Statement);
(b) Accounting policies and explanatory notes; and
(c) Comparison of budget and actual amounts.

Cash basis IPSAS financial statements prepared as financial reports in the public sector in Nigeria.

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

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

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

(d) **Cash flow statements:** Cash flow statements (statement of receipts and payments) is one of the statements required under cash IPSAS. The cash flow statement identifies the sources of cash inflows, the items on which cash was expended during the reporting period, and the cash balance as at the reporting date. Cash flows are basically reported under three separate activities namely:
   i. operating activities;
   ii. investing activities; and
   iii. financing activities;

(e) **Notes to the accounts:** Notes are additional information to support items disclosed in the statements presented in the GPFS.

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

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

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

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

i. the domicile and legal form of the entity, and the jurisdiction within which it operates;
ii. a description of the nature of the entity's operations and principal activities;
iii. a reference to the relevant legislation governing the entity's operations, if any;
iv. an entity should be in a position to issue its financial statements within six months of the reporting date, although a timeframe of not more than three months is strongly encouraged.
v. under IPSAS cash basis, an entity should disclose the date when the financial statements were authorised for issue and who gave that authorisation. If another body has the power to amend the financial statements after issuance, the entity should disclose that fact.

9.5 Financial reporting format – Accrual IPSAS

9.5.1 Definition

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

9.5.2 Differences between GPFS - Cash and GPFS - Accrual

The differences between cash and accrual GPFS, stem from the basis of accounting adopted by reporting entity.

(a) Under Accrual basis transactions and other events are recognised when they occur, while cash basis recognised transactions and other events when cash or its equivalent is received or paid.
(b) Accrual based GPFS discloses information on tangible assets, accounts receivables and payables while cash based GPFS doesn't disclose them.
(c) Accrual based GPFS also differs from cash based GPFS in terms of its components. Principal statements in accrual based GPFS are different from that of cash based.

9.5.3 Components of accrual based GPFS

IPSAS 1 covers presentation of financial statements as a whole while issues of recognition, measurement and presentation of line items in the financial statements are covered by other issued standards.

Accrual based GPFS financial statements.

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

i. **Current assets** include the following: Cash and its equivalents; receivables; inventories; prepayments; and other current assets.
ii. **Non-current assets** are made up of loans granted (receivables); investments; infrastructure; plant and equipment; investment property; plant and equipment; and intangible assets.
iii. **Current liabilities** include deposits; short term loans and advances; unremitted deductions; accrued expenses; and current portion of borrowings.
iv. **Non- current liabilities** are made up of public funds and long-term borrowings.

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

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

(i) revenue from operating activities;
(ii) surplus or deficit from operating activities;
(iii) finance costs;
(iv) share of net surpluses or deficits of associates and joint ventures accounted for using the equity method;
(v) surplus or deficit from ordinary activities;
(vi) extraordinary items;
(vii) minority interest shares of net surplus or deficit; and

(viii) net surplus or deficit for the period.

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

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

Cash flows are basically reported under three (3) separate activities stated below.
Operating activities- activities of an entity, that are not investing or financing activities. These are day to activities of an entity.

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

Financial activities- activities that result in changes in the size and composition of the contributed capital and borrowings

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

IPSAS 2 recognises two methods of preparing cash flow that is direct and indirect method.

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

(ii) Indirect method, net surplus/deficit is adjusted for the effect of, for instance transactions of non-cash nature like depreciation.
IPSAS 2, however, recommended direct method.

(d). **Statement of changes in net assets/equity:** Net assets/equity simple refers to assets less liability.
Net assets/equity is financed by reserves, accumulated surpluses/deficit, minority interest etc. the statement is important in GPFS because it enables users to ascertain causes for movement in net equity of an entity.

Changes in net assets/equity are therefore normally caused by:
(i) significant changes in accounting policies;
(ii) correction of prior years' errors;
(iii) revaluation of the assets;
(iv) surplus or deficit for the period; and
(v) changes in currency translation.

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

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

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

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

(f). **Statement of accounting policies:**

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

9.6 Chapter review

This chapter discusses the implementation and structure of national chart of accounts (NCOA). It also discusses the use of NCOA and financial reporting format under Cash and Accrual IPSAS.

9.7 Worked examples

9 7.1 Examination type questions

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

Required:

(a) Explain national chart of accounts, including its objectives, features and structures.
(b) Explain the advantages of national chart of accounts.

2. IPSAS 1 covers presentation of financial statements as a whole, while issues of recognition, measurement and presentation of line items in the financial statements are covered by other standards

Required:
Explain the components of accrual based GPFS.

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

Required:

(a) Explain the structure of IPSAS Cash Basis.
(b) Explain the components of financial statements as prepared by the Public Sector in Nigeria.

9.7.2 Suggested solutions

1a. The national chart of accounts (NCOA) may be defined as a complete list of budget and accounting items where each item is uniquely represented by a code and grouped into tables of related data for the purposes of tracking, managing and reporting budgetary and accounting items in an orderly, efficient and transparent manner.

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

Objectives

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

Features of NCOA:

NCOA is based on the following key features:

(i) NCOA was designed after due consultations with all the local government councils, states and federal government of Nigeria taking into consideration their peculiar needs;
(ii) Expandable/flexible;
(iii) Each item has a unique code;
(iv) Used for both budgeting and accounting;
(v) IPSAS cash and accrual basis compliant;

(vi) Government financial statistics (GFS)2001 compliant; and
(vii) Incompliance with classification by functions of government (COFOG).

Structure of national chart of accounts

(i) Administrative segment: The administrative segment assigns responsibility for each transaction whether revenue centre (receipt) or cost centre (payment).
(ii) Economic segment: Every receipt must be from a particular source for example contractor registration fee. Likewise, every expense must be on a particular item or object for example purchase of drugs and medical supplies. It answers "What" question of every transaction.
(iii) Functional segment: Functional classification categorises expenditure according to the purposes and objectives for which they are intended. Functional classification or classification by functions of government (COFOG) is defined as a detailed classification of the functions, or socio-economic objectives, that general government units aim to achieve through various kinds of outlays. Functional classification organises government activities according to their broad objectives or purposes (for example, education, social security, housing, etc.). Government expenditure is measured according to internationally recognised functional categories. A functional classification is especially useful in analysing the allocation of resources among sectors. Functions and sub-functions will be assigned at the point of budget and planning for every transaction or initial setup.
(iv) Programme segment: The programme classification identifies set of activities to meet specific policy objectives of the government for example Pre-primary education, poverty alleviation and food security.
(v) Funds segment: The fund segment addresses the fund by element of a transaction. Fund refers to the various pools of resources for financing government activities.
(vi) The geographic segment: Addresses the "Where" (location/station) element of every transaction. It is for location or physical existence of transaction so that analysis of government budget and expenditure along the geo-political zones, states, and local government councils in the country. The use of geographic code makes it easier for agencies with oversight function like monitoring and evaluation (M&E) mandates to locate projects across the country.

(b) Advantages

(i) NCOA harmonised all the various COA of federal, states and local government councils to a standardised COA that will enhance the attainment of minimum reporting requirement that is in line with international best practices.
(ii) NCOA comprises the coding of items used for classification, budgeting, accounting and reporting within the financial year.

(iii) It serves to facilitate the recording of all transactions and is directly linked to general purpose financial statements (GPFS).

2 A complete set of accruals based GPFS includes the following components:

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

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

(ii) Non**-current assets** is made up of Loans Granted (Receivables); Investments; Infrastructure; Plant and Equipment; Investment Property; Plant and equipment; and Intangible Assets.

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

(iv) **Non- current liabilities:** Are made up of public funds and long-term borrowings. All the above sub-groupings as a minimum requirement must be disclosed at the face of the statement of financial position. Assets are however treated in the financial position net of all provisions while details are disclosed in the notes to the financial statements.

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

(i) revenue from operating activities;
(ii) surplus or deficit from operating activities;
(iii) finance costs;
(iv) share of net surpluses or deficits of associates and joint ventures accounted for using the equity method;
(v) surplus or deficit from ordinary activities;
(vi) extraordinary items;
(vii) minority interest share of net surplus or deficit; and
(viii) net surplus or deficit for the period.

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

(c) **Statement of cash flow i**s one of the statements required by IPSAS 1 to be presented in the GPFS. The cash flow statement identifies the sources of cash in flows, the items on which cash was expended during the reporting

period, and the cash balance as at the reporting date. The preparation and presentation of cash flow is covered by IPSAS 2.

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

(i) **Operating activities-** Activities of the entity that are not investing or financing activities. These are day to day activities of an entity;

(ii) **Investing activities -** The acquisition and disposal of long-term assets and other investments not included in cash equivalent; and

(iii) **Financial activities -** Activities that result in changes in the size and composition of the contributed capital and borrowings.

Cash flow of an entity must fall within the above three activities.
IPSAS 2 recognises two methods of preparing cash flow, that is direct and indirect.

- **Direct method,** major classes of gross cash receipts and gross cash payments are disclosed. Entities using direct method should provide a reconciliation of the surplus/deficit with the net cash from operating activities; and
- **Indirect method,** net surplus/deficits adjusted for the effect of, for instance transactions of non-cash nature like depreciation.

IPSAS 2 however recommended direct method.

(d) **Statement of changes in net assets/equity:** Net assets/equity simple refers to assets less liability.
Net assets/equity is financed by reserves, accumulated surpluses/deficit, minority interest etc. the statement is important in GPFS because it enables users to ascertain causes for movement in net equity of an entity.
Changes in net assets/equity are therefore normally caused by:

(i) significant changes in accounting policies
(ii) correction of prior years' errors
(iii). revaluation of the assets
(iv). surplus or deficit for the period
(v). changes in currency translation.

(e) **Notes and other disclosures to GPFS**: Notes and other disclosures to GPFS are additional information presented in GPFS to enables users understand the financial statements better and compare them with those of other entities. Notes include narrative descriptions or more detailed schedules or analyses of amounts shown on the face of the statement of financial performance, statement of financial position, cash flow statement and statements of changes in net assets/equity, as well as additional information such as contingent liabilities and commitments.
IPSAS has not specifically provided formats for preparation of notes and other disclosures to the financial statements but as a minimum requirement, notes are normally presented in the following order:

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

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

3a. Structure of cash basis IPSAS

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

(i) Mandatory requirements are requirements that are applicable to all entities preparing cash based GPFS and must be complied with by entities which claim to be reporting in accordance with the cash basis IPSAS.
(ii) Additional disclosures identify additional accounting policies and disclosures that an entity is encouraged to adopt and includes explanations of alternative methods of presenting certain information. Cash IPSAS encourages the disclosure of additional information that are useful to the understanding of the GPFS. These additional disclosures include explanations of alternative methods of presenting certain information and accounting policies.

b. At present the following financial statements are prepared as financial reports in the public sector in Nigeria:

Statement of consolidated revenue fund: This is a statement of recurrent income and expenditure of an entity over a financial period. It shows the overall financial performance of a reporting entity after deduction of the appropriate expenses. All revenues accruing to government are paid into this account. The

CRF will eventually be replaced with Statement of Financial Performance when migrated to accrual basis IPSAS;

Statement of asset and liabilities: Statement of assets and liabilities presents the government's financial position at a specific point in time. It includes assets and liabilities. Assets are grouped into two categories namely liquid assets and

investments and other cash assets. Liabilities are grouped into two, namely public funds and external and internal loans;

Statement of capital development fund: This is one of the statutory financial statements of the three tiers of government. It shows funds transferred from the consolidated revenue fund and other borrowings (loans) to finance capital oriented projects for an accounting period. It is also known as the capital income statement;

Cash flow statements: Cash flow statements (statement of receipts and payments) is one of the statements required under cash IPSAS. The cash flow statement identifies the sources of cash inflows, the items on which cash was expended during the reporting period, and the cash balance as at the reporting date. Cash flows are basically reported under three separate activities as follows:

a) Operating activities;
b) Investing activities; and
c) Financing activities;

Notes to the accounts: Notes are additional information to support items disclosed in the statements presented in the GPFS;

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

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

Accounting policies: Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements. They are part of the financial statements.

Entities should select and apply accounting policies so that the financial statements comply with the requirements of each applicable International Public sector accounting Standard.

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

(a) The domicile and legal form of the entity, and the jurisdiction within which it operates;
(b) A description of the nature of the entity's operations and principal activities;
(c) A reference to the relevant legislation governing the entity's operations, if any;

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

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

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CHAPTER 10

BUDGETING AND BUDGETARY CONTROLS

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10 Budgeting and Budgetary Controls

10.0 Learning objective

The objective of this chapter is to enhance readers' understanding of the procedures to be followed when preparing an annual budget, types of budgeting and the provisions of IPSAS 24 on presentation of budget information in financial statements

10.1 Learning outcomes

On successful completion of this chapter, the reader should be able to:

(a) define budget and explain the different methods of preparing it;
(b) describe budget implementation in the public sector; and
(c) explain budgetary control measures.

10.2 Introduction

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

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

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

10.3 Purposes of budget

In all government units, the executive arm prepares the budget and submits same to the legislative arm for review, modifications and approval. The approved budget serves as a basis for the activities of that government unit for the fiscal period under review.

There are four main purposes, which a government budget serves. These may be enumerated as follows:

(a) a budget is an economic and financial document. it highlights government's policies, which are designed to promote economic growth, full employment and enhance the quality of life of the citizenry;
(b) it is a useful guide for the allocation of available resources;
(c) through the legislature, the executive arm uses the budget as a means of accountability for the fund earlier entrusted and the newly approved appropriations; and
(d) a budget is a request by the executive arm of government to the legislature to collect and disburse funds.

10.4 Budgeting with the National Chart of Accounts (COA)

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

10.4.1 National Chart of Accounts structure for budgeting

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

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

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

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

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

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

10.4.2 Steps for budgeting with national chart of accounts

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

(a) identify the government institutions (cost and revenue centres) from the hierarchy of administrative list and codes provided in the chart of accounts;
(b) identify the economic items that would be executed during the fiscal year;
(c) identify the functions intended to be performed by government institutions (revenue and cost centres);
(d) identify the programmes intended to be carried out by the government institutions;
(e) determine the sources of financing the budgeted amount for each budget line; and
(f) identify the planned location for the economic transactions or government institutions.

10.4.3 Format for annual budgeting with chart of accounts

(a) Revenue budget
(b) Recurrent budget
(c) Capital budget
(d) Summary of total revenue budget
(e) Summary of recurrent expenditure budget
(f) Summary of independent revenue budget by MDAs
(g) Summary of total recurrent expenditure by MDAs
(h) Summary of total capital receipts budget by MDAs
(i) Consolidated budget summary

10.5 Methods of preparing budget by government in Nigeria

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

10.5.1 Traditional/line items/incremental budgeting

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

(a) trend of economic event;
(b) inflation; and
(c) the available funds.

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

The line-item budgeting system has the following features:

(a) the budget gives prominence to the ministries and extra-ministerial departments for which the budget is being prepared, while little or no attention is given to the end results for which the funds are provided;
(b) the current year's budget is arrived at through routine and incremental reasoning, and not by scientific analysis; and
(c) the main thrust of the budget is the achievement of control and accountability.

10.5.2 Advantages of line-item budgeting method

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

10.5.3 Disadvantages of the 'line-item' budgeting method

The drawbacks of 'line-item' budgeting are:

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

10.6 'Zero-based budgeting' technique (ZBB)

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

In government, the three key users of the 'zero-based' budgeting technique are the:

(a). Legislature;
(b). Executive; and
(c) various ministries, extra-ministerial departments and parastatals.

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

(a) identification of 'decision units' and formulating operational plans. the entire ministry or parastatal is divided into smaller components called `decision units;'
(b) analysing the whole budget into 'decision packages', based on the 'decision-units', to which costs are assigned and to the alternative ways of executing the same operation. it also involves assessing the effect of not performing the activity at all. different levels of performance between the minimum and maximum points are evaluated so as to obtain optimality;
(c) ranking the 'decision packages' covering the activities, both new and existing, in a competitive manner;
(d) determination of the 'cut-off' point, to choose the packages which can be included and those to be rejected; and
(e) priortisation of the packages, to highlight the ones which fit in with the available resources.

10.6.1 Advantages of ZBB

The following advantages have been associated with the use of 'zero based' budgeting:

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

10.6.2 Disadvantages/problems of ZBB

The following are the disadvantages of using ZBB:

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

(b) it may cause a major shift in resource allocation;
(c) bureaucrats often do not trust the approach and hence frustrate its effectiveness;
(d) in determining decision packages, there is, sometimes, the problem of fixing the minimum level of expenditure;
(e) it involves the task of analysing and ranking a lot of data and information, which a number of civil servants find difficult to manage. this situation is further complicated by lack of qualified and competent personnel in the public sector, to handle the application of this technique;
(f) there is a need to make accounting structure conform to the 'zero-based' philosophy, for the purposes of evaluation and control. this may necessitate a general review, overhauling, adding or scrapping of activities and functions; and
(g) it is not so good for recurrent expenditure. it has not been successful in the public sector.

10.7 Planning, programming and budgeting system (PPBS)

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

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

10.7.1 The main steps in PPBS

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

10.7.2 Advantages of PPBS

The advantages of the technique are:

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

10.7.3 Disadvantages of PPBS

The system is associated with the following disadvantages:

(a) natural resistance to change, particularly among the very senior officers in the governmental hierarchy;
(b) transitional problems at the introductory stage;
(c) problem of shortage of staff;
(d) paucity of data;
(e) re-orientation of the old accounting system to cater for the requirements of the new concept;
(f) problem of data collection and physical monitoring;
(g) difficult to install;
(h) makes heavy demand on resources; and
(i) uncertainty of the future makes long-term planning difficult.

10.8 Performance budgeting

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

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

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

10.9 Periodic budgeting

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

10.10 Flexible budget

This is a budget that recognises the difference between the fixed and variable costs and gives room for result determination and evaluation under the varying levels of activities.

Thus, it accommodates changing levels of production and facilitates the production of control reports for the prevailing levels of activities. It is a budget, which takes cognisance of cost behaviour and adjusts according to the level of activities attained. It is used for control purposes.

10.11 Capital expenditure budget

It is the budget prepared in the public sector for capital projects such as the construction of bridges and major road projects.

10.12 Base estimate

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

10.13 Rolling plan or continuous budgets

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

10.13.1 Rolling budget

Any budget prepared from within the rolling plan is referred to as rolling budget. It is the yearly provision of funds to prosecute the capital projects spelt out in the plan period. Achievements made are documented and compared with the yearly set targets. Making use of management by exception, government attention is particularly drawn to the areas of difficulties. The ministry or extra-ministerial department concerned furnishes reports on the progress made to the national planning commission.

10.13.2 Perspective planning

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

10.14 Factors which militate against the budgeting system in the public sector

(a) **Human element**

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

(b) Uncertainties underlying data inputs

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

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

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

(d) The problem of inflation

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

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

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

(f) Changing government policies

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

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

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

(i) Low agricultural output

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

(j) Fiscal indiscipline

Most government officers are always maximising their budget. Under the incremental budgeting system, they tend to expend the last naira available in a year's budget in order to justify the demand for increase allocation inthe subsequent year, with little or nothing to show as a proof of what has happened in the current year.

10.15 Committed growth

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

10.16 Procedure for preparation and approval of budgets

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

10.16.1 The ministerial or pre-treasury board phase

Before the issuance of the budget preparation guidelines, the Ministry of Budget and Planning (or the Ministry of Finance at the State level) receives policy pronouncements from the presidency (or the state governor). The guidelines are subsequently issued by the Ministry of Budget and Planning or Finance, in form of a call circular. When the various ministries, extra-ministerial departments and agencies receive the call circular, a committee on ‘advance proposals’ is set up. The committee, which acts as pre-treasury board is headed by the Permanent Secretary, Ministry of Budget and Planning (at the Federal Level) or Ministry of Finance, Budget and Planning (at the state level). The committee (or pre-treasury board) is charged with the appraisal of the various budget proposals received, in the light of fund available the requirements, having received provisional approval, are transmitted to the presidency or treasury board (headed by the state governor).

Note: A call circular is issued by the budget department of the Ministry of Finance to all agencies of government, requesting them to submit their revenue and expenditure estimates for the succeeding year.

10.16.2 Executive council phase

The draft estimates are presented to the cabinet members known as the council of ministers or the executive council for further consideration and approval. Members of the executive council are usually the Nation’s President, Vice-President (governor and deputy governor at the state level), Secretary to the government, all the ministers (commissioners at the state level) and Head of Service., The draft estimates is then sent to the National Assembly or the State Legislature, in the form of an Appropriation Bill.

10.16.3 Legislative phase

The President of Nigeria or state governor presents the budget package and speech to the National Assembly (the joint meeting of the two Houses) or House of Assembly at the state government level. The meeting is known as the “budget session”. There is a standing committee, which considers the budget proposals. Each arm of the National Assembly or the State House of Assembly approves the budget. Where there are discrepancies or divergent opinions on some items, the two houses appoint a Finance

committee, which will resolve the issues and the resolution of the Finance committee is final. The final stage is the consideration of the budget proposals at a joint session of the two houses of the National Assembly.

10.16.4 Presidential/governor's assent

The budget is sent back to the President or state governor for his assent. It subsequently becomes the Appropriation Act. Copies of the approved estimates are printed and distributed to the ministries, extra-ministerial departments and agencies of government.

10.17 Reserves/estimates

If the estimated income is more than the estimated expenditure this will result in a 'budget surplus'. Conversely, if the estimated income is less than the estimated expenditure there would be 'budget deficit'. Surplus or deficit financing is a policy of government.

10.18 Supplementary estimates

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

10.18.1 Conditions for approving supplementary funds

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

(a) the supplementary request must manifestly be in the public interest;
(b) the need is so urgent that the additional provision request cannot be deferred till the following year when it will be incorporated in the new estimates
(c) the need could not be foreseen when the current estimates were being approved; and
(d) the money required cannot be sourced through virement.

10.19 Uses of budget

(a) Planning

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

(b) Communication

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

(c) Motivation

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

(d) Standard for measurement of performance

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

(e) Evaluation of economic and social policy

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

(f) Cost reduction technique

Evaluation of operations and procedures may result in cost savings.

10.20 Personnel cost budget

Personnel cost budget (PCB) is the total of the basic salaries and allowances of the various categories of staff in each ministry/extra-ministerial department. The procedure is as follows:

(a) identification of various positions ranging from GL01-17;
(b) identification of the number of staff in each post, which may include newly promoted, new recruitment and the existing staff;
(c) identification of grade level of each position; and
(d) identification of basic salary and the annual incremental rate.

In the public sector, grade levels and steps are used in preparing PCB. At the Federal Government level, there are GL 01 – 17 and the corresponding steps. The golden rule in preparing PCB is that the salary given is step 1 of each grade level.

The format for the preparation of PCB as follows:

{incremental rate (x - 1) + Basic Salary} n

Where: x = new step each of the officer will be, 1 = constant

N = number of staff in each position.

Illustration 10-1:

Mr. Olowolayemo is on GL 10, step 5 and the structure of the salary is given as ₦60,000 x 20,000. Compute Mr. Olowolayemo's current basic salary.

Solution

Step			
1	60,000	or	{incremental rate (x – 1) + BS} 1
2	20,000		{20,000 (5-1)+ 60,000}1

3	20,000		= (80,000 + 60,000) x 1 = ₦140,000
4	20,000		
5	20,000		
	140,000		

For example:

Position	No. in post	GL		Salary (₦)
DFA	1	17	25,000 x	20,000
DD – A and F	3	16	20,000 x	20,000
AD – Accts.	4	15	15,000 x	10,000
CA	6	14	10,000 x	5,000

Note: - 1st column in salary is the ABS, while the 2nd column is the incremental rate.

Each staff salary should be based on Step 4 and staff allowances should be 30% of staff salary.

Suggested solutions

Personnel cost budget.

Position	No. in post	GL	Salary (₦)
DFA	1	17	85,000
DD – A and F	3	16	240,000
AD – Accts	4	15	180,000
CA	6	14	150,000
Sub-Total			655,000
Add staff allowances @ 30% of ₦655,000			196,500
Total personnel cost			**851,500**

Workings:

Formula in use = {Incremental Rate (x – 1) + Basic Salary }n

DFA	= {20,000 (4 – 1) + 25,000}1= {20,000(3) + 25,000}1=	85,000
DD	= {20,000 (4 – 1) + 20,000}3 = {60,000 + 20,000}3 =	240,000
AD	= {10,000 (4 – 1) + 15,000}4 = {30,000 + 15,000}4 =	180, 000
CA	= { 5,000 (4 – 1) +10,000}6 ={15,000 + 10,000}6 =1	150,000

Government's salary scale

Government has a salary scale graded from levels 01 to 017. Incremental rates are tied to the salary earnings. A typical array of hypothetical salary grades and scales is as per the following table:

Typical Table of Government's Salary Scale: Grade Levels 01 to 17

Grade	Steps					Salary placements	
	1	2	3	4	15		
	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000	
1	100	150	200	250	800	100 x 50 =	800
2	150	250	350	450	1,550	150 x 100 =	1,550
3	250	400	550	700	2,350	250 x 150 =	2,350
4	500	800	1,100	1,400	4,700	500 x 300 =	4,700
5	800	1,200	1,600	2,000	6,400	800 x 400 =	6,400
17	5,000	7,000	9,000	11,000	33,000	5,000 x 2,000 =	33,000

From the above table, we can interpret as follows:

(a) A government officer can be employed or promoted and placed on grade levels between 1 and 17.

(b) The highest step is 15. That is, the yearly increases have 15 steps.

(c) The above table can be interpreted as follows:

(i) A step, which is a yearly increase, has a fixed incremental rate for each level;

(ii) A staff will move from one step to the other on a yearly basis. It is automatic at the anniversary of a staff joining the service, provided, however, that he has good records in his file;

(iii) Staff can move from one grade to the other if he is promoted;

(iv) Double or triple promotion is allowed if the staff performs extra-ordinarily well or he has acquired additional qualification;

(v) A newly employed staff will be on step1 of the grade; if otherwise, the letter of appointment of the officer will state the step to which his salary has been placed;

(vi) Promotion is supposed to be given every four years, but it is not automatic and

(vii) The figures in the attached table relate to basic salaries alone.

Illustration 10 -2

Suppose Mr. Karim is a government staff on level 1 step2, of ₦150,000 per annum. He recently got promoted and was placed on level 2 step2.
Using the table above, you are required to calculate Mr. Karim's salary.

Suggested solution

Mr. Karim's latest basic salary per annum is ₦250,000. Generally, the rule is that upon promotion or advancement, an officer must earn more than what he was taking before the elevation.

Illustration- 10.3

Using the formula earlier stated, you are required to compute the entitlements for the following:

(a) Grade level 3 step 7

(b) Grade level 4 step 7

(c) Grade level 5 step 7

(d) Grade level 17 step 7

Suggested solutions

(a) Grade level 3, step7:

B + (n - 1) i

= 250,000 + (7 - 1)150,000

= 250,000 + (6 x150,000)

= 1,150,000

(b) Grade level 4, step7:

B + (n - 1) i

= 500,000 + (7 - 1)300,000

= 500,000 + (6 x300,000)

= 2,300,000

(c) Grade level 5, step7:

B + (n - 1) i

= 800,000 + (7 - 1)400,000

= 800,000 + (6 x400,000)

= 3,200,000

(d) Grade level 17, step7:

B + (n - 1) i

= 5,000,000 + (7 - 1)2,000,000

= 5,000,000 + (6 x2,000,000)

= 17,000,000

Illustration 10-4

ICAN 2026

The Ministry of Commerce and Industries in XYZ State of Nigeria is about to prepare its 2023 budget for submission to the State Budget Department. The Permanent - Secretary of the ministry made available to you the following information in respect of the personnel costs.

Job Title	Number in post	Grade Level (GL)	Salary
Director of commerce	—	17	60,000 x 20,000
Deputy director of commerce	2	16	55,000 x 18,000
Assistant director of commerce	3	15	50,000 x 15,000
Chief accountant	4	14	45,000 x 12,000
Assistant chief accountant	5	13	40,000 x 10,000
Principal accountant	4	12	35,000 x 9,000
Senior commercial officers	8	10	30,000 x 8,000
Commercial officer 1	5	09	25,000 x 7,000
Commercial officer II	10	08	20,000 x 6,000
Principal trade officer	12	10	30,000 x 8,000
Senior trade officer	10	09	25,000 x 7,000
Higher trade officer	12	08	20,000 x 6,000
Executive trade officer	15	07	15,000 x 5,000
Assistant executive trade officer	18	06	12,000 x 4,000
Clerical officer	25	04	10,000 x 3,000
Assistant clerical officer	20	03	8,000x2,000
Office assistant	5	03	8,000 x,2,000
Drivers	10	03	8,000x2,000
Cleaners	12	03	8,000x2,000

The following relevant information is also available.

(i) All the salary levels shown above are step one of the grades and it is the Ministry's policy to prepare personnel cost budget based on step 4 of the grade level.
(ii) One deputy director, two assistant directors, one chief accountant are due for promotion during the budget year.
(iii) During 2023, four senior commercial officers will be employed to strengthen the commercial division.
(iv) Staff allowances constitute 40% of staff salary.

Required:

Prepare in summary form, personnel cost budget for the commerce division of the ministry.

Suggested solutions

XYZ State Ministry of Commerce and Industries Personnel cost budget for 2023 Fiscal Year

Job Title	No. in position	GL	Salary
			₦
Director	1	17	120,000
Deputy director	3	16	327,000
Assistant director	2	15	190,000
Chief accountant	3	14	243,000
Asst chief accountant	5	13	350,000
Senior comm. officer	12	10	648,000
Comm. officer 1	5	09	230,000
Comm. officer II	10	08	380,000
Principal accountant	4	12	248,000
Prin. trade officer	12	10	648,000
Snr. trade officer	10	09	460,000
Higher trade officer	12	08	456,000
Executive trade officer	15	07	450,000
Asst. trade officer	18	06	432,000
Clerical officer	25	04	475,000
Asst. clerical officer	20	03	280,000
Office assistant	5	03	70,000
Drivers	10	03	140,000
Cleaners	12	03	168,000
Sub-total			6,315,000
Add staff allowances @ 40% of N6,315,000			2,526,000
Total personnel cost			8,841,000

ICAN 2023

Suggested solutions 11.4 (Workings)

D	=	{(4-1) 20,000] + 60,000 } 1	=	120,000
DD	=	{(4-1) 18,000] + 55,000 } 2 -1+2=3	=	327,000
AD	=	{(4-1) 15,000] + 50,000 } 3-2 +1=2	=	190,000
CA	=	{(4-1) 12,000] + 45,000 } 4 -1=3	=	243,000
ACA	=	{(4-1) 10,000] + 40,000 } 5	=	350,000
PA	=	{(4-1) 9,000]+ 35,000 } 4	=	248,000
SCO	=	{(4-1) 8,000] + 30,000 } 8+4=12	=	648,000
CO 1	=	{(4-1) 7,000] + 25,000 }5	=	230,000
CO II	=	{(4-1) 6,000] + 20,000 } 10	=	380,000
PTO	=	{(4-1) 8,000] + 30,000 } 12	=	648,000
STO	=	{(4-1) 7,000] + 25,000 } 10	=	460,000
HTO	=	{(4-1) 6,000] + 20,000 } 12	=	456,000
ETO	=	{(4-1) 5,000] + 15,000 } 15	=	450,000
AETO	=	{(4-1) 4,000] + 12,000 } 18	=	432,000
CO	=	{(4-1) 3,000] + 10,000 } 25	=	475,000
ACO	=	{(4-1) 2,000] + 8,000 }20	=	280,000
OA	=	{(4-1) 2,000] +8,000} 5	=	70,000
Drivers	=	{(4-1) 2,000] + 8,000 }10	=	140,000
Cleaners	=	{(4-1) 2,000] + 8,000 }12	=	168,000

10.21 Overhead cost budget

Overhead cost budget is prepared using the principle of incremental or traditional budgeting approach, by increasing the previous year's budgeted expenditure by inflation rate.

There are two ways examiners can test overhead cost budget under traditional budgeting system:

(i) Where the increase is given in values, the formula to apply is bi = (bo x i) + (co xi)
Where;

bi	=	budgeted activities level;
bo	=	base year activity;
i	=	inflation factor
co	=	current year activity

(ii) Where the increase is given in percentages (%), bi=bo x i x%.

Illustration 10-5

Using the 1st as a case study:

The following is in respect of Ministry of Agriculture where 20 tractors were maintained for ₦25 million in year 2023. The call circular from Ministry of Agriculture made provision for additional 10 tractors to be procured to strengthen the operation of the Ministry next year. Information from National Bureau of Statistics shows that inflation factor is 20%.

Suggested solutions

bi = (bo x i) + (co x i)

i = 10%, bo = 20 tractors, co =10 tractors

bi = ??

bi = (25 m x 1.1) + (12.5m x 1.1)

27.5 m+13.75 = ₦41.25million.

Where the increase is given as a percentage

To compute the overhead cost budget, let us assume the following actual expenditure occurred in the OAGF in 2023 budget year.

	₦
Maintenance of motor vehicle	40,000
Traveling and transport	100,000
Hotel accommodation	200,000
Utility services	100,000
Others	240,000
The inflation factor is 20%.	

Office of Accountant – General for the Federation
Overhead cost budget for the year 2024 fiscal year.

	2023	**Inflation**	**Year 2024**
	Actual(₦)	**Factor @ 20%**	**Estimate (₦)**
Maintenance of motor vehicle	40,000	(20% of ₦40,000)	48,000
Transport and travelling	100,000	(20% of ₦100,000)	120,000
Hotel accommodation	200,000	(20% of ₦200,000)	240,000
Utility services	100,000	(20% of ₦100,000)	120,000
Others	240,000	(20% of ₦240,000)	288,000
Total overhead cost budget	680,000		816,000

ICAN 2026

10.22 Functions of the Ministry of Budget and Planning

For preparation of the annual estimates and the formulation of the fiscal, monetary and other policies which are needed to support the economy, the Ministry of Budget and Planning performs the following functions:

(a) developing reasoned economic assumptions and forecasts;
(b) issuing budget guidelines to the ministries and extra-ministerial departments;
(c) acting as the liaison between the Presidency, ministries and extra-ministerial departments during the budget preparation;
(d) compiling total revenue and expenditure estimates;
(e) drafting the budget speech;
(f) supervising and controlling the implementation of the budget;
(g) monitoring and evaluating the performance of programmes funded through the government budget;
(h) assessing the impact of the budget on the economy;
(i) developing formats of returns aimed at ensuring cost effectiveness in the use of government resources; and
(j) carrying out research on budget utilisation and the attainment of National or State objectives.

10.23 Revenue budget

This is computed by aggregating all the various incomes accruing to a particular ministry, state or local government. The revenue of the government is derived from oil and non–oil sources. It refers to all government revenue, which accrues into the Federation account, Consolidated revenue fund, contingency fund and development fund.

10.23.1 Purposes of revenue budget

The following are the purposes of revenue budget:

(a) to determine the level of aggregate income receivable by the government;
(b) to determine the level of expenditure acceptable to the government;
(c) to determine areas of weakness in terms of revenue generation;
(d) to identify the major sources of income to the government;
(e) to evolve policies that will enhance revenue generation to the government;
(f) to plan the cash flow of the government;
(g) to serve as a basis for the control of income and expenditure of the government.

Illustration 10.6

IJUMU L.G.A. has a population of 10 million citizens of which 7 million are taxable adults who will pay tax at the rate of ₦500 per adult. It also has 20,000 market stalls rented to traders at ₦80,000 per annum per stall. There are 12,000 hawkers who will pay entrance fees to the market on daily basis at the rate of ₦100 per day. There are 28 days in a month and 12 months in a year.

Required:

Prepare the revenue budget of the Local Government for the year 2024.

Suggested solutions

Ijumu Local Government Area

Revenue budget for the year 2010

	₦
Taxes (7,000,000 x 500)	3,500,000,000
Market stall rentals (20,000 x 80,000 p.a.)	1,600,000,000
Hawkers (12,000 x 100 x 28 days x 12)	403,200,000
Total revenue budget	5,503,200,000

10.24 Budgetary control

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

10.24.1Objectives of budgetary control

The objectives of budgetary control are listed as follows:

(a) to combine the ideas of all levels of management in the preparation of budgets;
(b) to co-ordinate all the activities of a business or organisation;
(c) to centralise control;
(d) to decentralise responsibility to each manager;
(e) to act as a guide for management decision when unforeseeable conditions affect the budgets;
(f) to plan and control income and expenditure so that maximum benefit is achieved;
(g) to channel capital expenditure in the most profitable manner;
(h) to ensure that sufficient working capital or cash is available for the efficient operation of the business or organisation;
(i) to provide a yard stick against which actual results can be compared; and
(j) to show management where action is needed to remedy a situation.

10.25 Cash budgeting

The preparation of cash budget is part of the budgetary control exercise. It forecasts the cash inflows (receipts) and outflows (payments) of a ministry or parastatal, usually over three to six months at a time. Cash budgeting is designed principally to stave off liquidity problems.

10.25.1 Preparing cash budget

The receipts and payments figures are arranged in tabular form under each month, covering the period to which the cash budget relates. The opening balance(s) of cash

in-hand would be the ending figure(s) for the previous month or months. The whole exercise is a sequential arrangement of figures, monthly, revealing surpluses or deficits carried forward and brought forward before showing current transactions in receipts and payments. It has to be noted that, in the preparation of a cash budget, items that do not involve movement of cash (depreciation, sunk cost, net book value of an asset) are ignored.

10.25.2 Advantages of preparing cash budget

Advantages of preparing cash budget are as follows:

(a) a cash budget assists in the availability of cash to pay debts owing as they fall due;
(b) it facilitates the appreciation of the amount of liquid cash available to execute capital projects;
(c) the organisation may invest surplus or idle fund and consequently earn some return; and
(d) the cash budget monitors when the establishment is likely to be short of fund, so that loan or overdraft can be raised or marketable securities sold.

Illustration 10.7

INAGIJE State Government has a problem of not being able to pay the salaries of workers promptly. Apart from the statutory allocations receivable from the State and Federal governments, internally generated sources are meagre. You are the Chief Accountant assigned the responsibility of managing the Treasury. The following information are available:

On 31 May, 2023, the state anticipated the under listed transactions up to 31 December, 2023:

(a) Prepare the cash budget of the State for June to November 2023; and
(b) Advise the government on the ways of optimising the use of liquid funds.

	Statutory allocation	Internally generated Revenue	Salaries	Others
	₦'000	₦'000	₦'000	₦'000
June	50,000	10,000	5,000	600
July	70,000	12,000	4,900	620
August	65,000	8,000	5,100	650
September	72,000	11,000	6,000	630
October	61,000	5,000	7,200	580
November	42,000	3,000	15,000	710
December	49,000	1,560	15,550	490

Suggested solutions

(a) Inagije State of Nigeria Cash Budget-

June to November 2023

	June	July	August	September	October	November
	₦ '000	₦ '000	₦ '000	₦ '000	₦ '000	₦ '000
Balance b/f	-	54, 400	130, 880	198, 130	274, 500	332, 720
Receipts:						
Statutory Allocations	50, 000	70, 000	65, 000	72, 000	61, 000	42, 000
Internal Revenue	10, 000	12, 000	8, 000	11, 000	5, 000	3, 000
	60, 000	136, 400	203, 880	281, 130	340, 500	377, 720
Payments:						
Salaries	5, 000	4, 900	5, 100	6, 000	7, 200	15, 000
Others	600	620	650	630	580	710
	5, 600	5, 520	5, 750	6, 630	7, 780	15, 710
Balances c/f	54, 400	130, 880	198, 130	274, 500	332, 720	362, 010
	60, 000	136, 400	203, 880	281, 130	340, 500	377, 720

(b) Advice on liquid fund optimisation

The liquidity position of the State government is not under any threat, whatsoever. However, the government is advised, as follows:

(i). Purchases of materials should be done in bulk to secure quantity discount.

(ii) Excess liquid cash of about (₦50,000,000, ₦130,000,000, ₦195,000,000, ₦270,000,000 and ₦330,000 should be invested in marketable securities and fixed deposit accounts, for the months of June to December respectively. Doing so would attract considerable returns.

Alternative solution							
Cash Budget - June to November, 2009							
	June	**July**	Aug	Sept	Oct	Nov	Total
Receipts:	**₦'000**	**₦'000**	**₦'000**	**₦'000**	**₦'000**	**₦'000**	**₦'000**
Statutory Allocations	50,000	70,000	65,000	72,000	61,000	42,000	360,000
Internal Revenue	10,000	12,000	8,000	11,000	5,000	3,000	49,000
Total (A)	**60,000**	**82,000**	**73,000**	**72,000**	**66,000**	**45,000**	**409,000**
Payments:							
Salaries	5,000	4,900	5,100	6,000	7,200	15,000	43,200
Others	600	620	650	630	580	710	3,790
Total (B)	**5,600**	**5,520**	**5,750**	**6,630**	**7,780**	**15,710**	**46,990**
Balances (A - B)	**54,400**	**76,480**	**67,250**	**76,370**	**58,220**	**29,290**	**362,010**
Balances b/f	—	54,400	130,880	198,130	274,500	332,720	—
Balances c/f	**54,400**	**130,880**	**198,130**	**274,500**	**332,720**	**362,010**	**362,010**

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10.26 IPSAS 24 - Presentation of budget information in financial statements

This standard requires a comparison between budgeted amount and the actual amount arising from execution of the budget to be included in the financial statements of entities, which are required to make the government accountable to the public.

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

10.26.1. Definitions

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

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

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

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

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

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

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

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

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

10.26.2 Presentation of a comparison of budget and actual amounts

Subject to the requirement of the paragraph below (presentation and disclosure), an entity shall present a comparison of the budgeted amount on which it is held publicly accountable and actual amount either as a separate additional financial statement or as an additional budget column in the financial statements currently presented.

In accordance with IPSASs. The comparison of budgeted and actual amounts shall be presented separately for each level of legislative oversight:

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

10.26.3 Presentation and disclosure

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

10.26.4 Changes from original to final budget

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

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

10.26.5 Note disclosure of budgetary basis, period and scope

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

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

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

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

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

a) Format of presentation of budget information in financial statements

Federal Government of Nigeria

Extract Statement of Financial Performance showing Budget Information for the year ended December 31, 20XX

Previous Year	Description	Current Year	Final Budget for Current Year	Supplementary Budget	Original Budget	Difference between Original and Actual
₦	**Receipts**	₦	₦	₦	₦	₦
X	Taxation	X	X	X	X	X
X	Aid Agreements					X
X	International agencies	X	X	X	X	X
X	Other Grants and Aid	X	X	X	X	X
X	Proceeds: Borrowing	X	X	X	X	X
X	Proceeds: Disposal of plant and equipment	X	X	X	X	X
X	Trading Activities	X	X	X	X	X
X	Other receipts	X	X	X	X	X
X	Total receipts	X	X	X	X	X
	Payments					
(X)	Health	(X)	(X)	(X)	(X)	X
(X)	Education	(X)	(X)	(X)	(X)	X
(X)	Public order/safety	(X)	(X)	(X)	(X)	X
(X)	Social protection	(X)	(X)	(X)	(X)	X
(X)	Defense	(X)	(X)	(X)	(X)	X
(X)	Housing and community amenities	(X)	(X)	(X)	(X)	X
(X)	Recreational, cultural and religion	(X)	(X)	(X)	(X)	X
(X)	Economic affairs	(X)	(X)	(X)	(X)	X
(X)	Other	(X)	(X)	(X)	(X)	X
(X)	Total payments	(X)	(X)	(X)	(X)	X
X	NET RECEIPTS/(PAYMENTS)	X	X	X	X	X

10.27 Chapter review

This chapter discusses periodic preparation of government budgets for the approval of the National or State Assembly before implementation. Budgeting and budgetary control are powerful tools for sound financial management, most especially in the public sector where there is great emphasis on economy, efficiency, effectiveness, probity and accountability.

10.28 Worked examples

b) Examination type questions

1. Isioma Owode Local Government Council is about to prepare its year 2024 budget. The following figures were made available in respect of the personnel cost of the Works Department, for the year 2023:

Office	No in	Grade	Salary		
	Post	Level	₦		₦
City engineer	-	16	24,000	x	2,400
Deputy city engineer	1	15	20,000	x	1,800
Principal engineer	2	12	15,000	x	1,200
Senior engineer	5	10	12,000	x	950
Engineer I	8	9	10,000	x	860
Engineer II	8	8	9,000	x	720
Chief technical officer	2	13	17,000	x	1,500
Principal technical officer	13	10	12,000	x	950
Senior technical officer	18	09	10,000	x	860
Higher technical officer	8	08	9,000	x	720
Technical officer	15	07	7,200	x	600
Artisan grade I	22	05	4,800	x	360
Artisan grade II	30	04	3,600	x	210
Drivers	12	03	2,400	x	210
Cleaners	18	03	2,400	x	210

Additional information:

(i) The deputy city engineer is due for promotion.
(ii) 1 Senior engineer and 12 Artisans grade 1 are to be appointed.
(iii) The following are in the salary range stated below:

Salary scale	1	2	3	4	5
No of staff:					
Deputy engineer			1		
Principal engineer	1	1			
Senior engineer			2	3	
Engineer I	2	3	3		
Engineer II	4	2	2		
Chief technical officer	1	1			
Principal technical officer	5	3	5		

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Senior technical officer	4	10	3	1	
Higher technical officer	6	2			
Technical officer	5	6	2	2	
Artisan grade I	10	2	5	10	
Artisan grade II	5	10	5	10	
Drivers		6	6		
Cleaners	6	6	3	3	

(iv) Except those on promotion each member of staff will move to the next incremental step.
(v) Staff allowance is 20% of salary.

Required:

Prepare the summary of the personnel cost budget for the works department for the year 2024. Ignore comparative figures for 2023.

2. The General Manager of Housing Corporation of Rimmy State has requested for the cash position of the organisation for the first quarter of the year 2025. The following information is available:
   (i) The total annual subventions from the Federal Government in 2024 was ₦15,000,000. There is expectation that this figure will increase by10% in the year 2025. The expected 10% increase will be received in the first six months of the year along with the normal monthly allocations.
   (ii) The management has decided to reduce transport and travelling by 5% in the year 2025. The total amount in 2024 was ₦1,890,000 and the expense will accrue evenly throughout the year.
   (iii) Capital grant of ₦7 million monthly is expected in February, May and November.
   (iv) Salaries and wages for 2024 were ₦14million. 25% of the total amount was for housing allowance. Salaries and wages will be 12% of the amount paid in 2024.
   (v) Ground rent for industrial estates will be received as follows: January ₦1.4m; February N0.75m and March ₦1.02m.
   (vi) The training and development expenses of ₦350,000 are to be increased by 10% in the year 2025. The total amount will be spent on equal basis in February and October 2025.
   (vii) The corporation will commence construction of 50 units of house in the year 2025.

The following are the commitments through LPOs in 2024 which will be met in the new year:

Date				
Items	**Purchased**	**LPO NO**	**When payable**	**Amount**
Cement	15/8/24	4150	within six months	₦4.5 million
Iron rod	15/9/24	4743	3/3/2025	₦1.4 million
Gravel and Sand	31/10/24	5102	30/1/2025	₦0.75 million
Plumbing materials	1/11/24	5175	15/2/2025	₦375,500
Electrical materials	5/12/24	5223	31/3/2025	₦625,650

(viii) Rent receivable from the shopping complex of the corporation are: January ₦850,000; February ₦750,000 and March ₦1,250,000

(ix) The cash balance as at 31st December 2024 was ₦750,000.

Required:

Prepare a cash budget for the first quarter of the year 2025, stratified into monthly distributions.

3. "The budget cycle is a complete set of events occurring in the same sequence every year and culminating in the approved budget".

Required:

Given the above statement, **explain**:

(a) Zero based budgeting system

(b) The main features of "planning, programming and budgeting system

(a) Suggested solutions

(1) Isioma Owode Local Government Council

Summary of the personnel cost budget for 2025

Office Post	**No of Level**	**GL**	**Salary ₦**
City Engineer	1	16	24,000
Principal Engineer	2	12	33,600
Senior Engineer	6	10	84,350
Engineer I	8	09	94,620
Engineer II	8	8	80,880
Chief technical Officer	2	13	38,500
Principal technical Officer	13	10	180,950
Senior technical Officer	18	9	211,820
Higher technical Officer	8	08	126,600

Office Post	No of Level	GL	Salary ₦
Technical Officer	15	07	180,840
Artisan Grade I	34	08	127,200
Artisan Grade II	30	03	35,100
Drivers	12	03	35,100
Cleaners	18	03	51,390
			1,304,950
Staff Allowance:			
20 x ₦1,304,950 / 100			260,990
			1,565,940

(2)

Rimmy State Housing Corporation

Cash budget for the first quarter ended 31st March 2025

	January	February	March	Total
Receipts:	₦	₦	₦	₦
Balances b/d	750,000	1,850,375	4,882,750	750,000
Subvention from the Federal Government	1,500,000	1,500,000	1,500,000	4,500,000
Capital Grant	—	7,000,000	—	7,000,000
Ground Rent	1,400,000	750,000	1,020,000	3,170,000
Rents-Shopping Complex	850,000	750,000	1,250,000	2,850,000
Total Collections and cash in-hand (a)	4,500,000	11,850375	8,652,75	18,270,000
Payments:	₦	₦	₦	₦
Transport and travelling	149,625	149,625	149,625	448,875
Salaries and wages	1,312,500	1,312,500	1,312,500	3,937,500
Housing allowance	437,500	437,500	437,500	1,312,500
Training and development	—	192,500	—	192,500
Purchase of cement	—	4,500,000	—	4,500,000
Purchase of iron rod	—	—	1,400,000	1,400,000
Purchase of gravel and sand	750,000	—	—	750,000
Purchase of plumbing material	—	375,500	—	375,500
Purchase electrical materials	—	—	625,650	625,650
(b)	2,649,625	6,967,625	3,925,271	13,542,525
Balances c/d = (a) - (b)	1,850,375	4,882,750	4,727,475	4,727,475
	4,500,000	11,850,375	8,652,751	8,270,000

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Workings

(i) Grant from Federal Government = ₦1,500,000 x 1.1 = ₦16,000,000
Amount received from January- March

(ii) $= \frac{₦15,000,000}{12} + \frac{₦1,500,000}{6}$

$= ₦(1,250,000 + 250,000)$

$= ₦1,500,000$

(iii) Salaries and wages

₦14,000,000 x 11/2 = ₦21,000,000

Monthly housing allowance = $\frac{25\% \text{ of } ₦21,000,000}{12}$

= ₦437,500

Monthly salaries and wages = $\frac{75\% \text{ of } ₦21,000,000}{12}$

= ₦1,312,500

Transport and development = ₦350,000 x1.10

= $\frac{₦385.000}{2}$

= ₦192,500

(3) (a) Zero based budgeting attempts to shift the traditional management of the public sector budgeting process towards a new mode of thinking and operation. It is a management process that provides for systematic consideration of all programmes and activities in conjunction with the formulation of budget and programme planning. Zero based budgeting usually involves the use of "decision packages" and involves the following;

(i) Breaking the whole budget into decision packages, based on the decision units where costs are attached to each activity, to alternative ways of dealing with the same activity and with an assessment of the effect of not performing it. Different levels of performance between the minimum and the maximum are considered and optimal level selected;

(ii) Priority ranking of decision packages across the whole range of activities with each, new and old, competing with one another;

(iii) Determination of the "cut off point" to decide which packages can be included and which to be rejected; and

(iv) Comparison of list of packages in order of priority to match the resources available.

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(b) The main features of Planning, Programming, and Budgeting Systems (PPBS), are:

(i) Definition of an organisation's objectives in specific terms as much as possible;

(ii) Determination of programmes, including possible alternatives, to achieve the stated objectives;

(iii) Identification of major issues to be resolved in the formulation and/or development of programmes;

(iv) An annual cycle with appropriate sub-decisions for the planning, programming and budgeting steps to ensure an orderly approach and make appropriate time allocation for analysis and decision-making at all levels of management;

(v) Continuous re-examination of programme results in relationship to anticipated costs and outcomes, to determine need for changes in stated programmes and objectives as originally established;

(vi) Analysis of programmes and their alternatives in terms of probable outcomes, and direct and indirect costs;

(vii) Adaptation of existing accounting and statistical reporting systems to provide inputs into planning and programming, as well as continuous flow of information on resources used and action taken to implement programmes;

(viii) Development of a multi-year programme and financial plan each year; and

(ix) Recognition of issues and other problems that require more time than available in an annual cycle so that they can be explicitly identified and set apart from the current period, for completion in two or more years as the subject-matter and availability of personnel.

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CHAPTER 11

TRANSPARENCY AND ACCOUNTABILITY IN THE PUBLIC SECTOR

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11 Transparency and Accountability in the Public Sector

11.0 Learning objective

The objective of this chapter is to enhance readers' understanding of the concept of accountability, the IMF codes of good practices and fiscal transparency and measures.

11.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

(a) explain the concepts of accountability and fiscal transparency;
(b) enumerate the IMF code of good practices and fiscal transparency;
(c) discuss conditions that facilitate the promotion of public accountability; and
(d) comment on public sector accountability measures and practices in Nigeria.

11.2 Introduction

There are 36 States and 774 Local Government in Nigeria and they all generate internal revenue apart from the monthly allocation from the Federation account. Despite this huge revenue, there is no public provision or facility to justify the allocations. This chapter differentiates between accounting in the public sector and private sector and the concept of public accountability.

11.3 Concept of public accountability in the public sector

Accountability is an obligation to answer for the execution of one's assigned responsibilities. It is the requirement to provide explanation about the stewardship of public money and how this money has been used.

Accountability comprises two distinct components:

(a) rendering of accounts; and
(b) holding to account.

11.3.1 Rendering of account

It is by rendering of accounts that the information about the behaviour of a public organisation can be obtained. This means that without rendering of accounts, there can be no accountability.

11.3.2 Holding to accounts

This involves the exercise of judgment and power over public officials. Public accountability can be achieved only if those who receive the accounts have power and ability to take actions on the basis of those accounts.

Accountability is not just about the responsibility of public officers and the institutions to the people they support to serve but also includes willingness on the part of the officeholder to submit to scrutiny appropriate to the office he is holding. The principal means by which government department discharge its accountability responsibility is through public reporting which leads us to the concept of fiscal transparency.

11.4 Fiscal transparency

This is the aspect of accountability, which requires government to carry out all aspects of budgeting responsibilities with openness, trust, basic values and ethical standards so that it will have nothing to hide from public. Where a government has something to hide, public reporting is more likely to be unreliable and less comprehensive in order to hide material facts.

11.5 IMF Code of good practices and fiscal transparency

(a) **Clarity of roles and responsibilities:** The government sector should be separated from the rest of the public sector and from the rest of the economy. Also, policy and management roles within the public sector should be clearly stated and publicly disclosed;

(b) **Open budget process:** There should be clear procedures for budget execution, monitoring and reporting. The budget preparation should be guided by well-designed macroeconomic and fiscal policy objectives;

(c) **Public availability of information:** The public should be provided with comprehensive information on past, current and projected fiscal activity on major fiscal risks. The central government should publish information on the level and composition of its debts and financial assets, significant non-debt liabilities and natural resource assets. Fiscal information should be presented in a way that facilitates policy analysis and promotes accountability;

(d) **Assurances of integrity:** These include:

  (i) fiscal data should meet accepted data quality standards and budget forecasts and updates should reflect recent revenue and expenditure trends, underline macroeconomic development;

  (ii) data in fiscal reports should be internally consistent and reconciled with relevant data from other sources. Major revisions to historical fiscal data and any changes to data classification should be explained;

  (iii) ethical standards of behaviour for public servants should be clear and made public;

  (iv) purchases and sales of public assets should be internally audited and audit procedures should be open to review;

  (v) fiscal information should be independently scrutinised. All public finances and policies should be subject to scrutiny by national audit body or an equivalent organisation that is independent of the executive; and

  (vi) the national audit body or equivalent organisation should submit all reports, including its annual report to the legislature and publish them.

11.6 Transparency international

In 1993, a few individuals decided to take a stance against corruption and created Transparency International. Now present in more than 100 countries, the movement work relentlessly to stir the world's collective conscience and bring about change. Much remains to be done to stop corruption, but much has also been achieved, including:

(a) the creation of international anti-corruption conventions;

(b) the prosecution of corrupt leaders and seizures of their illicitly gained riches;

(c) national elections won and lost on tackling corruption; and
(d) companies held accountable for their behaviour both at home and abroad.

Transparency International is committed to advancing accountability, integrity and transparency.

The mission is to stop corruption and promote transparency, accountability and integrity at all levels and across all sectors of society, while the vision is a world in which government; politics, business, civil society and the daily lives of people are free of corruption. The core values are: transparency, accountability, integrity, solidarity, courage, justice and democracy.

Benefits

(a) Bribing foreign officials becomes an international crime in1997.
(b) A major milestone in the campaign for international action against corruption: The UN Convention against corruption was created in 2003 as a result of this campaign.
(c) The group of twenty industrial nations in the World (G20) leaders agreed in 2014 to making it harder for the corrupt to hide behind secret companies.

11.7 Open budget index (OBI)

The open budget survey (OBS) using open budget index assesses the three components of a budget accountability system.

(a) Public availability of budget information;
(b) Opportunities for the public to participate in the budget process; and
(c) The role and effectiveness of formal oversight institutions, including the legislature and the national audit office (referred to here as the "supreme audit institution").

The open budget index is the world's only independent, comparative measure of central government budget transparency. The index assigns countries covered by the open budget survey a transparency score on a 100-point scale using a subset of questions that assess the amount and timeliness of budget information that governments make publicly available in eight key budget documents in accordance with international good practice standards. Each country is given a score between 0 and 100 that determines.

Its ranking. A country's OBI score measures the extent to which it makes the eight key budget documents available to the public on the relevant government website in a timely manner and the comprehensiveness of publicly available budget information.

Measuring the timely release of information to the public throughout the budget process

Budget document	Deadlines for "Publicly available" documents*
Pre-budget Statement	Must be released at least one month before the executive's budget proposal is submitted to the legislature for consideration.

Budget document	Deadlines for "Publicly available" documents*
Executive's budget Proposal and supporting Documents	Must be publicly released while the legislature is still considering it and before it is approved. In no case would a proposal released after the legislature has approved it be considered "publicly available."
Enacted budget	Must be released no later than three months after the budget is approved by the legislature.
Citizens' budget	Must be released within the same timeframe as the underlying executive's budget proposal or enacted budget. For example, a citizens' budget for the executive's budget proposal must be released while the legislature is still considering the executive's budget proposal and before it is approved.
In-year reports	Must be released not later than three months after the reporting period ends.
Mid-year review	Must be released not later than three months after the reporting period ends.
Year-end report	Must be released not later than 12 months after the end of the fiscal year (the reporting period).
Audit report	Must be released not later than 18 months after the end of the fiscal year (the reporting period).

11.8 Conditions or measures to be put in place to enhance public accountability

To enhance the promotion of accountability in the public sector management in Nigeria the following conditions are canvassed.

(a) **Rendering of account:** It is expected that accounts should be rendered in all public organisations. Public accountability can be achieved only if those who receive the accounts have the power and ability to take actions on the basis of those accounts.

(b) **Accountable leadership:** The existence of leadership that genuinely believes and is committed to the notion of public accountability and will therefore ensure that the laws to safeguard public fund are enforced irrespective of the might of the public officer concerned.

(c) **Investigative reporting/media attention:** Public accountability needs the presence of active investigative media that will help to keep the leadership on their toes.

(d) **Public enlightenment:** Public accountability will be enhanced if the generality of the populace do not believe that embezzlement of public funds is part of the "political manifesto" which the political leaders must achieve while in office.

(e) **Whistleblowing policy:** "Whistleblowing" should been courage in the public sector whereby any public official who encounters mismanagement or wrong doing in the conduct of government business may" blow the whistle"" by taking the case to the public arena. The prospect that somebody may go public can deter some officials contemplating wrong doing.

(f) **Openness in governance:** All unethical and corrupt practices should be exposed as much as possible while those who indulge in them should be promptly and severely punished in accordance to the law. To this end, there should be full implementation of the Freedom of Information Act (FOIA), 2011 so as to promote openness and feedback in public governance and management.

(g) **Encouragement of due process:** There should be strict compliance with due process and public procurement procedure as spelt out in the Public Procurement Act (Nigeria, 2007), this will curb corrupt practices and instil financial discipline in budget implementation by the public bureaucracy. Moreover, there should also be strict adherence to the provisions of the Fiscal Responsibility Act.

(h) R**eview of current method of asset declaration:** The present method of secret declaration of assets by public officers leave much to be desired. As such there is need to institute a more open method of declaring assets so as to afford the opportunity for patriotic citizens to scrutinise and report any incorrectly declared assets to the appropriate authorities.

(i) **Strengthening of anti-graft bodies:** All anti-graft bodies such as the EFCC, ICPC, CCB and CCT should be further strengthened by way of being adequately staffed, equipped and funded to make them more effective institutional mechanisms for fighting corruption. Furthermore, other law enforcement agencies notably the police should be strengthened so as to build their capacity to detect, investigate, prosecute and deter or prevent corruption.

(j) **Deletion of immunity clause:** The immunity clause should be expunged from the Nigerian constitution. By so doing, political leaders who are fingered for corrupt practices can be prosecuted while in office.

11.9 Factors militating against effective public accountability in Nigeria

(a) As of the 2024 Transparency International Corruption Perceptions Index, Nigeria is ranked 140th out of 180 countries, with a score of 26 out of 100.

(b) Nigeria still rated low for Budget Transparency International Budget Partnership. The 2023 Budget Index Scored Nigeria 31 out of 100 compared to Ghana with 46.

(c) The continuing existence of special government funds which include the following:

S/N	Other funds
i	10% cocoa levy
ii	5 % sugar development levy
iii	10% rice levy
iv	7% port levy
v	2% National automotive council levy
vi	ECOWAS levy
vii	1% comprehensive import supervision scheme (CISS) pool levy
viii	0.5% Nigerian export supervision scheme (NESS) levy
ix	2% education pool account
x	Service charge pool account

S/N	Other funds
xi	EFCC recovery fund
xii	10% steel pool levy account
xiii	100% cigarette levy
xiv	Customs textile levy pool
xv	Implementation committee on FGN landed property
xvi	Cement levy (Nigeria customs service)
xvii	25% husk brown rice levy pool account
xviii	30% levy on sanitary pool account
xix	30% levy on wines spirits
xx	Cheque operational account
xxi	Pension bond redemption fund
xxii	Consolidated pool account
xxiii	MOFI optional account
xxiv	Monetisation (tangible assets)
xxv	FCT house sales proceeds account
xxvi	Monetisation (motor vehicle)
xxvii	65% wheat flour levy pool account
xxviii	15% wheat grain levy pool
xxix	FGN signature bonus account (dollar denominated)

(a) There are also special accounts with offshoot from the Federation Account. They include:
   (i) 1.68% FGN Development of Natural Resources;
   (ii) 1% FGN share of Derivation and Ecology; and
   (iii) 0.5% FGN Stabilisation Account.

   These funds do not require appropriations from National Assembly and the government does not render account to the public for the funds.
   The government should take a look at these special accounts and off-load them into the national budget. Where the government decides not to off-load all of them, it should render annual accounts to the National Assembly and the public on the use of the accounts retained.

(b) Non-provision of penalties for breaches of Fiscal Responsibility Act. Unless this particular area is addressed soon, the purpose of enacting the act may be defeated.

(c) Non-establishment of National Council on Public Procurement. Since the Public Procurement Act came into existence in 2007, the provision of the Act requires the establishment of National Council on Public Procurement which is to be headed by the Minister of Finance, has not been complied with. BPP is supposed to report persistent breached of the procurement act to this council.

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11.10 Chapter review

This chapter discusses public sector accountability. The concept of accountability was clarified and the need for fiscal transparency in public accountability was also discussed. The code of good practices for public sector accountability and fiscal transparency as spelt out by IMF were outlined. The general set of conditions that facilitate public sector accountability and some of the measures required to enhance public accountability in Nigeria were then highlighted. Some reasons why there have not been effective public accountability in Nigeria were also identified.

11.11 Worked examples

11.11.1 Examination type questions

1 There are 36 states and 774 local governments in Nigeria and they all generate internal revenue apart from the monthly allocations from the Federation account. Despite this huge revenue, the three tiers of government are yet to fully appreciate the values of accountability.

Required:

(a) Discuss accountability.

(b) In relation to public accountability, differentiate between rendering of accounts and holding to accounts.

2. Public finance management in the third world requires transparency and accountability to build trust amongst the citizenry.

Required:

(a) Discuss fiscal transparency.

(b) Enumerate **FOUR** (4) IMF Code of Good Practices on fiscal transparency.

3. As of the 2024 Transparency International Corruption Perceptions Index, Nigeria is ranked 140th out of 180 countries, with a score of 26 out of 100.

Required:

(a) Discuss **FIVE** (5) conditions that facilitate the promotion of public accountability.

(b) Discuss **SIX** (6) of the measures put in place by the Federal Government of Nigeria to enhance public accountability.

11.11.2 Suggested solutions examination type questions

1. (a) Accountability is the requirement to provide explanation in a record and accounting format with relevant documents, if required, on public funds received and disbursed.

(b) Rendering of accounts is the process of showing how public funds received have been spent while holding to account is the exercise of judgement and power over public officials.

2. (a) Fiscal transparency

This is the aspect of accountability, which requires government to carry out all aspects of budgeting responsibilities with openness, trust, basic values and ethical standards, so that it will have nothing to hide from public. Where a government has something to hide, public reporting is more likely to be infrequent, unreliable and less comprehensive in order to hide material facts.

(b) **IMF Code for good practices and fiscal transparency**

(i) Clarity of roles and responsibilities.
(ii) Open budget process.
(iii) Public availability of information.
(iv) Assurances of integrity

3. **(a) Conditions that facilitate the promotion of public accountability**

(i) Availability of democratic institutions that allow for changes in leadership through free and fair elections.
(ii) The existence of leadership that genuinely believes and committed to the notion of public accountability and will therefore ensure that the laws to safeguard public fund are enforced irrespective of the might of the public officer concerned.
(iii) Public accountability needs the presence of active investigative media that will help to keep the leadership on their toes.
(iv) Public accountability will be enhanced if the generality of the populace does not believe that embezzlement of public funds is part of the "political manifesto" which the political leaders must achieve while in office at the detriment of the original manifesto.
(v) Urgently address the issue of poverty through poverty reduction targeted government expenditure.

(b) **Measures put in place to enhance public accountability**

(i) The Fiscal Responsibility Act 2007
(ii) The Public Procurement Act 2007
(iii) The Freedom of Information Act 2011. It is expected to enhance transparency and accountability in the county.
(iv) Nigeria Code of Conduct Bureau
(v) Independent Corrupt Practices and Other Related Offences Commission (ICPC)
(vi) Economic and Financial Crime Commission (EFCC)
(vii) Public Accounts Committee of the two Houses of the National Assembly
(viii) Office of Auditor- General for the Federation and Office of Auditors-General in the States and Local Governments.
(ix) Nigeria Extractive Industries Transparency Initiative (NEITI) Act2007.
(x) Revenue and Inspectorate Departments of the Office of Accountant General of the Federation.
(xi) Office of Special Adviser on Project Monitoring in the Presidency.

CHAPTER 12

FINANCIAL RESPONSIBILITIES OF PUBLIC SECTOR OFFICERS

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12. Financial Responsibilities of Public Sector Officers

12.0 Learning objective

The objective of this chapter is to enhance readers' understanding of the powers and functions of finance officers in the public sector.

12.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

(a) identify the various finance officers, their powers, functions and responsibilities; and

(b) use appropriate terminologies in public sector accounting and finance.

12.2 Introduction

Chapter one of the financial regulations (FR) lists the following government officers that have financial responsibilities.

(a) Accountant General of the Federation (AGF).
(b) Auditor General for the Federation (AuGF).
(c) Accounting officer (AO).
(d) Sub-accounting officer (SAO).
(e) Revenue collector (RC).
(f) Imprest holder (IH).
(g) Officer controlling expenditure (OCE).

12.3 Accountant General of the Federation (AGF)

In accordance with Government Financial Regulations, the Accountant General of the Federation is the Chief Accounting Officer of the receipts and payments of the Federation. He is saddled with the responsibility of general supervision of the accounts of all ministries, extra-ministerial departments and the preparation of annual financial statements of the nation as may be required by the Honourable Minister of Finance. He or his representative shall have access at any reasonable time to all documents, information and records that are needed for the preparation of the accounts of every ministry and extra-ministerial department.

12.3.1 Powers/Duties of the Accountant General of the Federation

According to Government Financial Regulations 106 (2009 Edition), the Accountant General of the Federation has the following duties:

(a) power of access to books and records of all ministries at any reasonable time;
(b) power to request for information and explanation necessary for his duties; and
(c) power to carry out special/ad-hoc investigations in any ministry.

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

(i) serve as the chief accounting officer for the receipts and payment of the government of the federation;

(ii) supervise the accounts of federal ministries, extra-ministerial offices and other arms of government;
(iii) collate, prepare and publish statutory financial statements of the federal government and any other statements of accounts required by the minister of finance;
(iv) manage federal government investments;
(v) maintain and operate the accounts of the consolidated revenue fund, development fund, contingencies fund and other public funds and provide cash backing for the operations of the federal government;
(vi) maintain and operate the federation account;
(vii) establish and supervise federal pay offices in each state capital of the federation;
(viii) conduct routine and in-depth inspection of the books of accounts of federal ministries, extra-ministerial offices and other arms of government to ensure compliance with rules, regulations and policy decisions of the federal government;
(ix) approve and ensure compliance with accounting codes, internal audit guides and stock verification manuals of federal ministries, extra-ministerial offices and other arms of government.
(x) investigate cases of fraud, loss of funds, assets and store items and other financial malpractices in ministries/extra-ministerial offices and other arms of government;
(xi) provide financial guidelines through the issuance of treasury circulars to federal ministries/extra-ministerial offices and other arms of government to ensure, strict compliance with existing control systems for the collection, custody and disbursements of public funds and stores;
(xii) supervise and control the computerisation of the accounting system in the federal ministries, extra-ministerial offices and other arms of government;
(xiii) carry out revenue monitoring and accounting;
(xiv) issue officially approved forms bearing treasury numbers for use in all federal ministries, extra-ministerial offices and other arms of government to ensure uniformity;
(xv) formulate the accounting policy of the federal government;
(xvi) service public debt and loans; and
(xvii) organise training of accounts and internal audit personnel in all federal ministries, extra-ministerial offices and other arms of government.

12.4 Auditor General for the Federation (AuGF)

In accordance with the provisions of Government Financial Regulations, this is the officer responsible under the 1999 Constitution of the Federation, for the audit and reports on the public accounts of the Federation, including all persons and bodies established by law entrusted with the receipts, custody, issue, sale, transfer or delivery of any stamps, securities, stores or other property of the Government of the Federation and for the certification of the annual accounts of the nation. He is given free hand to examine the accounts in such a manner as he may deem fit. At the end of the audit, he is expected to write a report, stating whether in his opinion:

(a) the accounts have been properly kept;
(b) all public funds have been fully accounted for, and the rules and procedures applied are sufficient to secure effective check on the assessment, collection and proper allocation of revenue;
(c) monies have been expended for the purposes for which they were appropriated and the expenditure have been made as authorised; and
(d) essential records are maintained, and the rules and procedures applied are sufficient to safeguard public property and funds.

12.4.1 Appointment and removal

The appointment and removal of the Auditor - General for the Federation is legally recognised in S.86 of the 1999 Constitution of the Federal Republic of Nigeria, as follows:

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

12.4.2 Powers/functions of the Auditor General for the Federation

In accordance with government regulations, the Auditor General for the Federation has the following powers:

(a) power of access to books and records of all ministries and extra-ministerial departments, at reasonable times.
(b) power to request for information and explanation necessary for his duties.
(c) power to carry out special/ad-hoc investigations in any ministry and extra-ministerial department.

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

(a) **Financial audit** in accordance with extant laws in order to determine whether government accounts have been satisfactorily and faithfully kept;
(b) **Appropriation audit-** to ensure that funds are expended as appropriated by the National Assembly;
(c) **Financial control audit**–to ensure that laid down procedures are being observed in tendering, contracts and storekeeping with a view to preventing waste, pilferage and extravagance;
(d) **Foreign missions audit**- power to carry out the audit of foreign missions
(e) **Value-for-Money (Performance) Audit** – to ascertain the level of economy, efficiency and effectiveness derived from government projects and programmes.

The scope of work of the Auditor General

(a) Audit of the books, accounts and records of federal ministries, extra-ministerial offices and other arms of government;
(b) Vetting, commenting and certifying audited accounts of all Parastatals and government statutory corporations in accordance with the Constitution of the Federation;
(c) Audit of the accounts of federal government establishments located in all states of the federation including all Area Councils in the Federal Capital Territory, Abuja;
(d) Audit of the Accountant General's Annual Financial Statements;
(e) Auditing and certifying the Federation Account;
(f) Deliberation, verification and reporting on reported cases of loss of funds, stores, plants and equipment as stipulated in the Financial Regulations;
(g) Pre and post auditing of the payment of pensions and gratuities of the retired military and civilian personnel;
(h) Periodic checks of all government statutory corporations, commissions, authorities, agencies, including all persons and bodies established by an Act of the National Assembly; and
(i) Revenue audit of all government institutions.

12.5 Accounting officers

In accordance with Government Financial Regulations, Accounting Officers are the Permanent Secretaries of the Ministries and Heads of extra-ministerial departments. They are saddled with the responsibility of the day-to-day financial affairs of the ministries and extra-ministerial departments.

12.5.1 Functions of the accounting officer

The term "Accounting officer" means the Permanent Secretary of a ministry or the head of extra-ministerial office and other arms of government who is in full control of, and is responsible for human, material and financial resources, which are critical inputs in the management of an organisation. The Accounting officer shall:

(a) be responsible for safeguarding of public funds and the regularity and propriety of expenditure under his control;
(b) observe and comply fully with the checks and balances spelt out in the existing financial regulations which govern receipts and disbursement of public funds and other assets entrusted to his care and shall be liable for any breach thereof;
(c) note that his accountability does not cease by virtue of his leaving office and that he may be called upon at any time to account for his tenure as accounting officer;
(d) ensuring that proper budgetary and accounting systems are established and maintained to enhance internal control, accountability and transparency;
(e) ensuring that the essential management control tools are put in place to minimise waste and fraud;
(f) rendering monthly and other financial accounting returns and transcripts to the Accountant General of the Federation required by the Financial Regulations;

(g) ensuring the safety and proper maintenance of all government assets under his care;
(h) ensuring personal appearance before the Public Accounts Committee to answer audit queries to ministry/extra-ministerial department or agency;
(i) ensuring accurate collection and accounting for all public moneys received and expended;
(j) ensuring prudence in the expenditure of public funds;
(k) ensuring proper assessments, fees, rates and charges are made where necessary;
(l) ensuring internal guides, rules, regulations, procedures are adequately provided for the security and effective check on the assessment, collection and accounting for revenue;
(m) ensuring that any losses of revenue are promptly reported and investigated;
(n) ensuring that all revenue collected are compared with the budgeted estimates with a view to highlighting the variances, positive or otherwise and the reasons for them; and
(o) ensuring that any revenue collected are not spent, but remitted to the appropriate authorities promptly.

In compliance with their special role under the Public Procurement Act, all accounting officers of ministries, extra – ministerial offices and other arms of government are hereby charged with the following responsibilities. They shall:

(a) preside over the activities of their tenders' boards for the proper planning and evaluation of tenders and execution of procurements;
(b) ensure that adequate appropriation is available for procurements in their annual budget;
(c) integrate their entity's procurement expenditure into its yearly budget;
(d) ensure the establishment of a procurement planning committee over whose activities they shall preside;
(e) constitute a procurement evaluation committee for the efficient evaluation of tenders;
(f) constitute a procurement committee;
(g) render annual returns of procurement records to the Bureau of Public Procurement;
(h) liaise with the bureau of public procurements to ensure the implementation of its regulations; and
(i) ensure compliance with the provisions of the Public Procurement Act by their organisations, failing which they shall be personally liable for any breach or contravention thereof, whether or not such breach or contravention was caused by them in person, their subordinates or any person to whom they may have delegated their responsibilities.

12.6 Sub-accounting officer

In accordance with Government Regulations, this officer who is entrusted with the receipts, custody and disbursements of public funds, is required to maintain one of the

recognised cash books, together with such other books that may be required by the Accountant General.

Example includes sub - treasurer of the Federation, Federal Pay Officer (FPO), Police Pay Officer (PPO), Custom Area Pay Officer (CAPO), Director of Finance and Accounts (DFA), etc.

12.6.1 Functions of the Sub-accounting officer

According to Government Regulations, the functions of the sub-accounting officer are as follows:

(a) ensuring that the proper system of accounts as prescribed by the Accountant General is established;
(b) exercising supervision over the receipts of public revenue and ensuring prompt collection;
(c) promptly bringing into account, under the proper heads and sub-heads of the estimates or other approved classifications, all receipts, whether revenue or otherwise;
(d) ensuring that proper provision is made for safe keeping of public funds, securities, stamps, receipts, tickets, licences and other valuable documents;
(e) exercising supervision over all officers under his authority who are entrusted with the receipts and expenditure of public funds and taking precautions by putting in place efficient checks against the occurrence of fraud, embezzlement and carelessness;
(f) supervising the expenditure of government and ensuring that no payment is made without proper authorisation;
(g) promptly charging in his accounts under proper heads and sub-heads all disbursements;
(h) checking all cash and stamps in his care to reconcile the amounts with the balances in the cashbook and stamp register;
(i) promptly bringing to account as a receipt, any cash or stamp found in excess of the balance shown in the cashbook or stamp register;
(j) making good any minor deficiency not caused by theft or fraud, in the cash or stamps, for which he is responsible and thereafter reporting in writing to the minister of finance;
(k) promptly preparing such financial statements as are required by law or the minister of finance; and
(l) maintenance of cashbook.

12.6.2 Treasury cash book under cash basis

One of the main functions of sub - accounting officer is the maintenance of treasury cash book, which is expressly stated in FR 201, that a sub - accounting officer should keep a treasury cash book.

The treasury cash book is a permanent record of accounts, which is used to record all receipts, revenue and payments made by an organisation.

The treasury cash book is divided into two parts, namely: - debit and credit sides and each side contain eight columns, totalling 16 columns. Revenue and receipts are recorded on the debit (Dr) side, while payments and expenditure are entered on the credit (Cr) side with particular for all entries. The treasury cashbook is to be balanced daily with cash specifications shown for each day. The signature of the Head of Accounts or Central Pay Officer will be taken as certifying the accuracy as well as correctness of the entries and cash balance.

Example of treasury cashbook T.F.153A

TRVNo/ Date	From Whom Receivable	Classification H/Sub-Head	Treasury Receipt No	No of Bank Credit Slip	Gross	Cash	Bank	Treasury No	Dept. No	To Whom Payable	Classificatio n H/Sub- Head	Payee Bank	Cheque No.	Gross Amount	Deduction or Cash	Bank or Net

Insert Ministry and Section

Source: Appendix 4 of Financial Regulations (Revised to 31 December, 2009)
Illustration 13.1

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

Messrs A. Ayotunji and Amusat paid ₦80,000 and ₦500,000 being tax, and contractor's registration fee, respectively. Treasury receipt numbers 65 and 66 dated 16/9/20X1 were accordingly issued.

The payments, which were in bank draft numbers Logo bank C184860, and C160868 dated 25/9/20X1, were received into Head 1001, Sub-heads 419 and 420.

On 26 September, 20X1, the State Ministry of Education made payments for feeding students and WAEC examination fees, totalling ₦10,000,000 and ₦40,000,000 respectively, through the CBN cheque numbers A/B 846264 and A/B 946270. The payment vouchers were numbered 60 and 63, respectively.
The payment by the Ministry of Education was charged to Head 2004, Subheads 7 and 9, respectively.

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

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

Suggested solutions12-1

Giko State Ministry of Finance Treasury

Cash Book for the month of September, 20X1

TRV No Date	From whom received	Hd/ Sub Hd	TRN	No. of Bank Slip	Gross	Cash	Bank	P.V No	Dept. P.V. No	To whom Paid	Class. Hd/ Sub-Hd	Payee Bank	Cheque No	Gross Amt.	Ded/ Cash	Bank/ Net
					N' Mil	N' Mil	N' Mil							N' Mil	N' Mil	N' Mil
16/9 of x1	Mr. A	100 1/4 19	65	C18 4860	0.08	-	0.08	60 of 26/ 9/x 1		Feeding Exp	2004/7		A/B 846264	10		10
16/9 of x1	Mr. A	100 1/4 20	66	C18 4868	0.50		0.50	63 of 26/ 9/x 1		WAEC	2004/9		A/B 946270	40		40

12.7 Revenue collector

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

12.7.1 Functions of the revenue collector

(a) Exercising supervision over the receipt of public revenue and ensuring their prompt lodgement into the banks.
(b) Promptly reflecting in the accounts, under the proper Heads and Subheads of the estimates, all monies collected by him on behalf of government.
(c) Seeing that proper provision is made for the custody of public funds and securities.
(d) Supervision of all the officers under his authority who are entrusted with the receipts, custody and disbursement of public funds.
(e) Maintenance of efficient internal checks against the occurrence of malpractices.
(f) Checking all cash and stamps in his care; agreeing the amount with the balances in the Cash Book and Stamps Register.
(g) Making good any minor deficit which is not caused by theft or fraud and reporting accordingly in writing to the appropriate officer, for example Minister of Finance.

Example of revenue collector's cashbook

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

Source: Appendix 4A, Financial Regulations (Revised to 31 December, 2009)

Illustration 12-2

Mr. Ajonibode, a revenue collector, in the Magistrate Court of Doly Local Government, submits the following information, for the month ended 30 June 2024:

Date	Payer	Reasons for payment	Amount ₦
2/6/2024	Mrs. Mariam Gidado	Declaration of age	400.00
3/6/2024	Niger Killah	Court fine	2,000.00
5/6/2024	Mr. Ibrahim Limoh	Court fine	8,000.00
7/6/2024	Gani Waidi	Court proceeding document	800.00
9/6/2024	Beko Ishola	Court proceeding document	1.200.00
13/6/2024	Mrs. Kudirat Eniola	Declaration of age	400.00
21/6/2024	Yaro Balam	Court fine	1.500.00
30/6/2024	Mrs. Adio	Court proceeding document	500.00

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

(a) Declaration of age 01
(b) Court fine 04
(c) Court proceeding document 07

Mr. Ajonibode deposited the takings to the sub accounting officer on 29 June, 2024 and was issued with treasury receipt number M 400201. The receipts used by him were N800401 to N800450. The one issued to Mrs. Mariam Gigado was N800417.

On the assumption that receipt number N800423 was cancelled, write up the revenue collector's cash book and state how to treat the cancelled receipt.

Suggested Solutions 12-2

Magistrate Court of Doly Local Government

Revenue Collector's Cash Book for the Month ended 30 June, 2024.

Date	Revenue Receipt No	Classification Head S/head	From Whom Receivable	Amount ₦	Date	Treasury Receipt No	Amount ₦
2/6/2024	N800417	200----001	Mrs.M.Gidado	400	29/6/2024	M400201	14,300
3/6/2024	N800418	200----419	Niger Kilah	2,000			
5/6/2024	N800419	200----419	Mr.I. Limoh	8,000			
7/6/2024	N800420	200----005	Gani-Waidi	800			
9/6/2024	N800421	200----005	Beko Ishola	1.200			
13/6/2024	N800422	200----001	Mrs.K.Eniola	400			
21/6/2024	N800424	200----419	Yaro Baloon	1.500			
30/6/2024	N800425	200----005	Mrs. Adio	500	30/6/2004	Bal. c/d	500
				14,800			14,800
			Balance b/d	500			

Tutorial:

The closing balance of ₦500 is the value of the cancelled receipt no. 800423 which was issued to Mr. Adio for which a replacement no. ₦800425 was made. It is also the difference between the total value of the receipts of ₦14,800 and that of the un-cancelled receipts.

12.8 Imprest holder

The term "Imprest-holder" means an officer other than a Sub-Accounting officer who is entrusted with the disbursement of public money, for which vouchers cannot be presented immediately to a sub-accounting officer for payment and who is required to keep an imprest holder's cash book.

12.9 Officer controlling expenditure

This is an officer in charge of the various vote-heads of each ministry or extra-ministerial department, saddled with the responsibility of monitoring government expenditure and ensuring that there is no extra-budgetary spending.

12.9.1 Functions of officer controlling expenditure

(a) Supervision of government expenditure and ensuring that no payment is made without proper authority.
(b) Promptly charging in his accounts under proper heads and sub-heads all disbursements.
(c) Ensuring that all books are correctly posted and kept up to date.
(d) Producing when required by the Accountant General and the Auditor-General, all cash, stamps, etc., in his custody.
(e) Ensuring that funds are available under the appropriate head and sub-heads, to meet payments of specific vouchers.
(f) Effective monitoring of government expenditure.

(g) Ensuring that there is no extra-budgetary spending.
(h) Ensuring that there is adequate security over the custody of public funds.
(i) Maintenance of the vote book.

12.10 Vote book or departmental vote expenditure allocation book (DVEAB)

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

12.10.1 Reasons for keeping a vote book

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

Example of a Vote Book

NCOA_____ Service_____

Vote Book Authorised Appropriation: AGW_____ AIE__
Others_____Total____

Expenditure Liability

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Line No	Date	PV No	Particulars	Payment	Total Payments	Bal	Liab. Ref	Liab. Incurred	Liab. cleared	Outstanding Liability	Remarks	Bal Available	Line No	Line No

Illustration 12-3

The following transactions were recorded in a DVEA book of the Ministry of Education in respect of the purchase of stationery for the month of August 2024, thus:

1/8/2024	Authorised appropriation for the year is ₦1,000,000.
2/8/2024	Paid ₦45,000 for the purchase of stationery from Odunuga Bookshop on PV No. 004.
6/8/2024	₦50,000 paid on PV No. 005 for the supply of stencils from Abiola Bookshop.
10/8/2024	Issued LPO number 0044 to Lambus Bookshop for the supply of photocopying papers, for ₦100,000.
18/8/2024	Settled Lambus on account on P.V number 0006.
23/8/2024	Paid ₦20,000 for stapling pins and staplers from Orita Bookshop, on P.Vnumber 007.
26/8/2024	P.V 0008 for ₦120,000 was raised for payment for typing sheets to CSS Bookshop.
27/8/2024	Issued LPO number 00045 for ₦300,000 for supply of duplicating papers, to Olorus Stores Limited.
30/8/2024	Settled N300,000 on P.V number 009 for the purchase of carbon papers, to Dossy Book shop.
31/8/2024	Paid Olorus Stores Limited on account on P.V number 010.

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

Suggested solutions 12-3

Ministry of Education Vote Book for the month of August 2018

NCOA_____ Vote Book A Authorised Appropriation: AGW-N1,000,000

AIE_____

Others_____

Total----------

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Expenditure								Liability						
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Line No	Date	PV No	Particulars	Payment	Total Payments	Bal	Liab. Ref	Liab. Incurred	Liab. cleared	Outstanding Liability	Remarks	Bal Available	Line No	Line No
				N'000	N'000	N'000		N'000	N'000	N'000		N'000		
1	1/8		Auth. Appr.			1,000						1,000		1
2	2/8	004	Odunuga BK	45	45	955						955		2
3	6/8	005	Abiola BK	50	95	905						905		3
4	10/8				95	905	LPO 0044	100		100	LPO issued to Lambus	805		4
5	18/8	006	Lambus	100	195	805			100		Settlement of LPO	805	4	5
6	23/8	007	Orita BK	20	215	785						785		6
7	26/8	008	CSS BK	120	335	665						665		7
8	27/8				335	665	LPO 0045	300		300	LPO issued to Olorus	565		8
9	30/8	009	Dossy BK	300	635	365						65		9
10	31/8	010	Olorus Stores Ltd	300	935	65			300		Settlement to Olorus	65	8	10

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12.11 Definition of terms

These may be discussed, as follows:

12.11.1 Below - the line accounts

These are the accounts created and controlled by the Accountant General of the Federation. It is an account which at the time of budget preparation the exact amount of income receivable and expenditure incurable cannot be reasonably ascertained.

Examples include touring advance, loans and deposits. Deposits are money held on behalf of third parties by government. Below the line items also includes remittances and cash transfers in respect of the Nigerian Army, Police and Para-Military Organisations.

12.11.2 Federal pay officer

This is an officer who is in charge of a federal pay office in the state. He performs the same functions as those of a sub-accounting officer. However, although the sub-accounting officer is at the headquarters of each Ministry, the federal pay officer handles the processing of all financial transactions between the Federal and state governments, the local government councils and all branches of the Federal Government ministries in the states wherever located.

12.11.3 Above-the-line accounts

These are the expenditure budgeted for in the estimate. At the time of preparation of the budget they can reasonably be ascertained as to the exact amount of income receivable and expenditure incurable. Examples of costs, which may be budgeted for are salaries and overhead expenses. Revenue items anticipated include collections for customs and excise duties.

12.11.4 Financial regulations / accounting manual

They are the rules governing the management of public funds. The rules deal with the procedures to be adopted for the receipts and disbursements of public funds and how to ensure accountability. Financial regulations could be regarded as the accounting manual of Government as they state all the guidelines, rules and instructions to be followed, to ensure legal and wise spending.

12.11.5 Budgetary control concept

The concept simply states that Government should not undertake any action without a prior budget for it. The concept assumes that all government revenue and expenditure must be provided in the budget.

12.11.6 Token vote

It is a notional provision for a head or sub-head of an expenditure or revenue in an estimate. 'Token vote' is often represented by the symbol 'ioe'. It is a reminder to provide money for the activity function as soon as possible.

12.11.7 Account current

This is the balance on account between two or more persons (principal and his agent), showing what is due from one person to another. Account currents are often usedto take care of transactions between the Federal and State governments and their agencies.

12.11.8 Children's separation domicile allowance (SDR)

This is an allowance payable if an officer is separated from his children as a result of the following developments:

(a) if he is an expatriate officer; and
(b) where an officer is being posted to serve overseas.

12.12 Chapter review

This chapter deals with the various powers and functions of the Finance Officers of Government and key instruments which they use and definitions of terms in government accounting. It stresses the importance of the powers and functions of the Accountant General and those of the Auditor-General.

12.13 Worked examples

12.13.1 Examination type questions

(i) The Civil Service Commission named Permanent Secretaries of Ministries and Chief Executive Officers of government agencies as accounting officers for their organisations.

Required:

(a) Define the word "Accounting Officer".
(b) Explain the functions of an Accounting Officer.

(ii) Miss Ekolie, a revenue collector in the High Court of Eko State, submitted the following information for the month June 2024:

Date	Payer	Reasons for payment	Amount
			₦
4/6/24	Mr Okon	Registration of contractor	25,000
8/6/24	Miss Bisi	Court fine	10,000
11/6/24	Mr Ahmed	Court fine	35,000
13/6/24	Mr Charkes	Declaration of age	500
15/6/24	Mr Lateef	Declaration of age	500
18/6/24	Mr Bako	Court fine	500,000
21/6/24	Mr Okoro	Registration of contractor	25,000
25/6/24	Mr Ajala	Registration of contractor	25,000
28/6/24	Mitirs.T	Declaration of age	500

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The money collected in this is revenue head 300 with the following sub-heads:

(a) Declaration of age 002
(b) Court fine 005
(c) Registration of contractor 115

All payments made to Miss Ekolie were through a designated bank with copies of Bank Tellers produced by the Payers. Miss Ekolie made a bank transfer of all her takings to the main Cashier on 29th June, 2024 and was issued with Treasury receipt number A 12356. The receipt used by the Revenue Collector was KB 30001 to KB 30050. The one issued to Mr Okon was KB 30022.

Required:
Write up the Revenue Collector's cash book as at 30th June, 2024.

Chapter one of the financial regulations (FR) lists government officers that have financial responsibilities. The Auditor-General for the Federation is one of them.

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

12.13.2 Suggested solutions

1. (a) An Accounting Officer is the Permanent Secretary of each Ministry or Head of an extra-ministerial department.

(b) The functions of the Accounting Officer.

(i) Maintenance of proper books of accounts.
(ii) Establishment of functional system of internal control.
(iii) Establishment of Internal Audit Department as an integral part of the internal control system.
(iv) Ensuring that revenue is collected as at when due.
(v) Ensuring that all money collected is properly accounted for.
(vi) Supervising all officers entrusted with the receipts, custody and disbursement of public funds.
(vii) Ensuring that there are adequate securities over the custody of Government Funds

2

Date	Rev. Receipt No	Classification		From Whom Receivable	Amount	Date	Treasury Receipt No	Amount
					₦			₦
4/6/24	KB 30022	300	115	Mr Okon (Registration of Contractors)	25,000	29/6/24	A12356	621,500
8/6/24	KB 30023	300	005	Miss Bisi (Court Fine)	10,000			
11/6/24	KB 30024	300	005	Mr Ahmed (Court Fine)	35,000			
13/6/24	KB 30025	300	002	Mr Chakes (Declaration of Age)	500			
15/6/24	KB 30026	300	002	Mr Lateef (Declaration of Age)	500			
18/6/24	KB 30027	300	005	Mr Bako (Court Fine)	500,000			
21/6/24	KB 30028	300	115	Mr Okoro(Registration of Contractors)	25,000			

25/6/24	KB 30029	300	115	Mr Ajala (Registration of Contractors)	25,000			
28/6/24	KB 30030	300	002	Mrs.T (Declaration ofAge)	500			
					621,500			621,500

3. The statutory functions of the Auditor General for the Federation.

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

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

(i) Provide such bodies with:

- A list of qualified and experienced auditors from which the bodies shall appoint their external auditors and
- Guidelines on the level of fees to be paid to the external auditors.

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

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

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

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Skills Level
Public Sector Accounting and Finance

CHAPTER 13

SOURCES OF GOVERNMENT REVENUE

Contents

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13.9 Sources and classifications of government revenue in Nigeria
13.10 Value added tax (VAT)
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13 Sources of Government Revenue

13.0 Learning objective

The objective of this chapter is to enhance readers' understanding of various sources of inflows and outflows to the Federation Account and Consolidated Revenue Fund, Capital Development Fund and Contingency Fund.

13.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

(a) identify the general sources of government revenue;
(b) discuss the major revenue collection agencies of the government.
(c) list the sources and classification of government revenue in Nigeria and their groupings into the Consolidated Revenue Fund, the Federation Account, the Development Fund and the Contingencies Fund;
(d) trace the transfer of appropriations from the Federation Account and the Consolidated Revenue Fund (CRF), into the Development Fund (DF) and Contingency Fund (CF); and
(e) distinguish the different revenue fund/account and prepare them with relevant information.

13.2 Introduction

Government requires revenue to perform its various functions. Hence, government strives to generate enough revenue to finance its activities. This chapter, therefore, discusses the sources of revenue accruable to the three tiers of government in Nigeria.

13.3 Government revenue and sources

Government revenue refers to the income generated by government from various sources. The following are the general sources of government revenue:

(a) **Taxation:** is a compulsory levy imposed by the government, for which citizens receive no direct benefit. The levy is usually payable at different rates depending on the nature of economic activity conducted by an individual or firm.
(b) **Fees:** these are payments made by users of public services on a cost-sharing basis.
(c) **Fines:** refer to the penalties imposed by government against law reaches, i.e. any person or firm which has been proved guilty by law must be exposed to specific fines as compensation for the destruction made by the person or firm and the collected amount being revenue for the government.
(d) **Grant:** refer to non-repayable money received by the government from another government with the aim of helping such government either to improve or to start a project which is of great importance to the society of such government.
(e) **Foreign investment:** sometimes government may decide to invest beyond its boundary provided there is a proof for sustainable and profitability cash flow. The amount obtained from such investment constitutes revenue to the particular government.

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

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

13.4 Revenue collection agencies in Nigeria

Several agencies are responsible for revenue collection from the various sources discussed above for the government in Nigeria. The major ones are discussed as follows:

13.4.1 Nigerian National Petroleum Company Ltd (NNPCL)

NNPC Limited was to be incorporated under the CAMA 2020 (as amended), within 6 months of the commencement of the Petrol Industry Act, 2021 (PIA), with its shares held by the Ministry of Finance Incorporated and Ministry of Petroleum Incorporated on behalf of the Federal Government of Nigeria (FGN). Shares in NNPC Limited would only be transferable with the approval of the FGN and endorsement by the National Economic Council on behalf of the Federation. Any such sale or transfer is to be at a fair market value and subject to an open, transparent and competitive bidding process. It explores, produces, refines oil, and markets and retail petroleum products. It is also involved in petrochemicals and gas development, oil and gas engineering, supervision of government investments in the upstream sector, and the marketing of Nigeria's accruable crude.

The organisation is responsible for the foreign sale of crude oil and gas, domestic sale of crude oil and gas and miscellaneous revenue in form of investment income from fixed deposit on federation and excess crude oil account.

Specific functions of NNPCL (PIA section 64)

(a). Carry out petroleum operations on a commercial basis, comparable to private companies in Nigeria carrying out similar activities, including exemption to Public Procurement Act, Fiscal Responsibility Act and Treasury Single Account.

(b). NNPC Limited to be vested as the concessionaire of all Production Sharing Contracts (PSC), Profit Sharing and Risk Service Contracts as the National oil company on behalf of the Federation, in line with its competencies.

(c) Lift and sell royalty oil and tax oil on behalf of the Commission and the Service respectively for an agreed commercial fee and in the case of profit oil and profit gas payable to the concessionaire, NNPC Limited shall promptly remit the proceeds of the sales of the profit oil and profit gas to the Federation less its 30%

for management fee and Frontier Exploration Fund as specified in section 9 (4) of this Act.

(d). Carry out test marketing to ascertain the value of crude oil and report to the Commission.

(e) Be vested with the rights to natural gas under production sharing contracts entered into prior to and after the effective date of this Act.

(f) Carry out the management of production sharing contracts for a fee, based on the profit oil share or profit gas share in accordance with paragraph (c).

(g). With respect to any joint operating agreement in which NNPC is a party on the effective date, assume the working interest held by NNPC irrespective of whether such licence or lease is converted under section 92 of this Act.

(h). Engage in the business of renewables and other energy investments.

(i). Promote the domestic use of natural gas through development and operation of large-scale gas utilisation industries.

(j) Maintain the role of NNPC, under section 54 of this Act.

(k) Carry out task requested by the Commission or Authority on a fee basis and generally engage in activities that ensure national energy security in an efficient manner, in the overall interest of the Federation.

(l) Carry out such other tasks as may be determined by the Board of NNPC Limited.

(m) Make NNPC Limited supplier of last resort for security reasons and all associated costs shall be for the account of the Federation.

13.4.2 Nigerian Upstream Regulatory Commission (NURC) (the Commission)

The Commission is the regulator for all upstream petroleum operations including technical, operational and commercial activities. Vested with assets, funds, rights and liabilities of the Petroleum inspectorate or the Department of Petroleum Resources (DPR). NURC may, with the approval of the Minister, renew and suspend licenses and leases, and issue guidelines pursuant to the PIA or regulations made thereunder, in respect of upstream petroleum operations. The organisation is responsible for the collection of royalty on crude oil and gas, rentals, penalty on gas flared, signature bonuses and miscellaneous incomes into the federation account.

Objectives:

The objectives of the Commission are as follows:

(a) Regulate upstream petroleum operations, including technical, operational and commercial activities;

(b) Ensure compliance with all applicable laws and regulations governing upstream petroleum operations;

(c) Ensure that upstream petroleum operations are carried out in a manner to minimise waste and achieve optimal government revenues;

(d) Promote healthy, safe, efficient and effective conduct of upstream petroleum operations in an environmentally acceptable and sustainable manner;

(e) Ensure efficient, safe, effective and sustainable infrastructural development of upstream petroleum operations;

(f) determine, administer and ensure the implementation and maintenance of technical standards, codes, practices and specifications applicable to upstream petroleum operations pursuant to good international petroleum industry practices;
(g) Implement government policies for upstream petroleum operations as directed by the Minister of Petroleum in accordance with the provisions of this Act;
(h) Promote an enabling environment in upstream petroleum operations;
(i) Ensure strict implementation of environmental policies, laws and regulations for upstream petroleum operations;
(j) Ensure the implementation of national policies for upstream petroleum operations; and
(k) Implement such other policies and objectives as are consistent with the provisions of this Act.

Functions of the Commission

NURC carries out both technical and commercial functions as stated below:

Technical functions

(a). Implementing policies and applicable laws and regulations for upstream petroleum operations.
(b). Issuing permits for upstream activities and conducting bidding rounds for award of Petroleum Prospecting Leases (PPL).
(c). Setting and enforcing approved standards and regulations for plants and installations used in upstream operations.

Commercial functions

(a). Approving commercial aspects of Field Development Plans (FDPs) for all licensees, lessees or permit holders.
(b). Ensuring cost control in upstream operations as well as implementing cutbacks of crude oil or condensate production ordered by the Minister.
(c) Developing cost studies and benchmarks for the evaluation of upstream petroleum operations.

Others

(a). Regulate upstream petroleum operations including technical, operational and commercial activities.
(b). Ensure compliance with all applicable laws and regulations governing upstream petroleum operations.
(c) Ensure that upstream petroleum operations are carried out in a manner to minimise waste and achieve optimal government revenues.
(d). Promote healthy, safe, efficient and effective conduct of upstream petroleum operations in an environmentally acceptable and sustainable manner

Revenue

Determination and collection of:
(a). rents and royalties and its enforcement under this act; and

(b). related payments or production shares, where the model contract includes provisions on production sharing, profit sharing or risk service.

Special powers of the Commission:

The Commission in performing its functions under this Act shall have the following special powers:

(a) Inquire, inspect, examine or investigate any business or activity relating to upstream petroleum operations under this Ac, where it believes that illegal upstream petroleum operations are going on;

(b) Conduct surveillance on crude oil and natural gas installation, premises and vessels where it believes that illegal upstream petroleum operations are going on;

(c) Enter any upstream wellsite, plant, facility or place:
   (i) at which crude oil or natural gas is produced, handled or treated, or
   (ii) that is used in connection with any upstream wellsite, plant, facility or place where crude oil or natural gas is produced, handled or treated;

(d) Enter at any reasonable time premises containing any records or property required to be maintained under this Act or related to the administration of upstream petroleum operations under this Act for the purpose of inspecting those records or that property;

(e) Require any person or his agent, representative, partner, director, officer or employee engaged in upstream petroleum operations to:
   (i) answer any question that may be relevant to the inquiry, inspection, examination or investigation and
   (ii) provide any required information contained in a computer hardware or software or any other data storage, processing or retrieval device or system used in connection with the business or activities relating to upstream petroleum operations under this Act;

(f) Take any sample or carry out any test or examination as it may consider necessary in the performance of its operations;

(g) Use any machinery, equipment, appliance or thing as it may consider necessary in the performance of its functions;

(h) Remove for examination and copy anything that may be relevant to the inquiry, inspection, examination or investigation, including removing any computer hardware or software or any other data storage, processing or retrieval device or system, during which copying and trade secrets shall be properly protected;

(i) In conjunction with Nigeria Police or other enforcement agencies, arrest with a warrant, any person reasonably believed to have committed an offence under this Act;

(j) Can seal or close any premises or facility utilised for purpose of upstream petroleum operations if the licensee, lesser or permit holder is found to be in breach of the relevant provisions of this Act; and

(j) Exercise any other power that may be conferred on it under any law or regulation.

Funding of the Commission.

Section 24 (1) of Petroleum Industry Act, 2021 states that the Commission shall maintain the Commission Fund, into which money accruing to the Commission shall be paid and all expenditures of the Commission shall be subject to appropriation by the National Assembly.

The source of the Commission Fund shall be as follows:

(a) money appropriated by the National Assembly for the Commission;
(b) fees charged by the Commission for services rendered to licensees, lessees, permit holders and other authorisations issued by the Commission;
(c) cost of collection by the Commission;
(d) income derived from publications made by the Commission and other related activities, including data sales;
(e) fees paid to the Commission for using facilities owned or managed by the Commission; and
(f) money accruing to the Commission by way of grants, aids, gifts, testamentary dispositions, endowments and contributions.

13.4.3 Nigerian Midstream and Downstream Petroleum Regulatory Authority(NMDPRA) (the Authority)

The Authority is the regulator for all midstream and downstream operations, including operational, technical and commercial activities. It is vested with assets, funds, rights and liabilities of the Department of Petroleum Resources (DPR), Petroleum Pricing and Product Regulatory Agency (PPPRA) and the Petroleum Equalisation Fund (PEF). The Authority is responsible for the grant, renewal and modification of licences for operations in the midstream and downstream sectors. However, for the establishment of refineries, the licence shall be issued by the Minister.

It has power to determine the domestic base price and the prices applicable to wholesale customers of the strategic sectors and gas distributors, and may develop and enforce a framework on tariff and pricing for natural gas and petroleum products, based on the fair market value (which is indicative of a gradual transition to a market-led pricing model). The Authority would also be responsible for setting the Domestic Supply Obligation (DSO) for gas and domestic crude oil supply obligations.

Administration of existing regulations and Codes such as the Natural Gas Transportation Network Code issued by the DPR (which provides for open and non-discriminatory access to gas pipeline infrastructure).

Objectives:

The objectives of the Authority are as follows:

(a) Regulate midstream and downstream petroleum operations including technical, operational and commercial activities;
(b) Ensure compliance with all applicable laws and regulations governing midstream and downstream petroleum operations;
(c) Promote a competitive market for midstream and downstream;

(d) Promote healthy, safe, efficient and effective conduct of midstream and downstream petroleum operations in an environmentally acceptable and sustainable manner;
(e) Ensure efficient, safe, effective and sustainable infrastructural development of midstream and downstream petroleum operations;
(f) determine, administer and ensure the implementation and maintenance of technical standards, codes, practices and specifications applicable to midstream and downstream petroleum operations, pursuant to good international petroleum industry practices;
(g) Implement government policies for midstream and downstream petroleum operations as directed by the Minister of Petroleum in accordance with the provisions of this Act;
(h) Promote the supply and distribution of natural gas and petroleum products in midstream and downstream and the security of natural gas supply for the domestic gas market;
(i) Ensure strict implementation of environmental policies, laws and regulations for midstream and downstream petroleum operations;
(j) Ensure crude oil supply for domestic refineries;
(k) Promote, establish and develop a positive environment for international and domestic investment in midstream and downstream;
(l) Develop and enforce a framework on tariff and pricing for natural gas and petroleum products; and
(m) Implement such other policies and objectives as are consistent with the provisions of this Act.

Functions of the Authority

For the NMDPRA, the PIA empowers the Authority, among other duties to:

(a) regulate midstream and petroleum operations, including technical, operational and commercial activities;
(b) regulate commercial midstream and downstream petroleum operations; including petroleum liquid operations, domestic natural gas operations and export natural gas operations;
(c) determine appropriate tariff methodology, including for processing of natural gas, transportation and transmission of natural gas, transportation of crude oil and bulk storage of crude oil;
(d) setting cost bench-marks for midstream and downstream petroleum operations;
(e) provide pricing and tariff frameworks for natural gas in midstream and downstream petroleum operations; and petroleum products based on the fair market value of the applicable petroleum products;
(f) advise the government, government agencies and other stakeholders on commercial matters relating to tariff and pricing frameworks;
(g) develop open access rules applicable to petroleum liquids and natural gas transportation pipelines, terminal facilities and bulk storage facilities;

(h) regulate the bulk storage, distribution, marketing and transportation pipelines of petroleum products;
(i) grant, issue, modify, extend, renew, review, suspend, cancel, reissue or terminate licences, permits and authorisations for midstream and downstream petroleum operations;
(j) monitor and enforce compliances with the terms and conditions of licences, permits and authorisation issued by the Authority;
(k) keep public registers of licences, permits and authorisation issued by the Authority and renewals, assignments, amendments, suspensions or revocations;
(l) set, define and enforce approved standards and regulations for design, construction, fabrication, operation and maintenance of plants, installations and facilities used or to be used in midstream and downstream petroleum operations;
(m) carry out enquiries, tests, audits or investigations and take other steps to monitor the midstream and downstream petroleum operations;
(n) ensure security of supply, development of the markets and competition in the markets for natural gas and petroleum products;
(o) ensure compliance with all applicable laws and regulations governing midstream and downstream petroleum operations;
(p) promote healthy, safe, efficient and effective conduct of midstream and downstream petroleum operations in an environmentally-acceptable and sustainable manner;
(q) promote a competitive market for midstream and downstream petroleum operations; and
(r) promote the supply and distribution of natural gas and petroleum products in midstream and downstream operations and the security of natural gas supply for the domestic gas market.

Special powers of the Authority:

The Authority, in performing its functions under this Act shall have the following special powers:

(a) Inquire, inspect, examine or investigate any business or activity relating to midstream and downstream petroleum operations under this Act, where it believes that illegal upstream petroleum operations are going on;
(b) Conduct surveillance on crude oil and natural gas installations, premises and vessels where it believes that illegal midstream and downstream petroleum operations are going on;
(c) Enter any midstream and downstream wellsite, plant, facility or place:
    (i) at which petroleum liquids oil or natural gas is refined, processed, stored, handled or treated, or
    (ii) that is used in connection with any midstream and downstream wellsite, plant, facility or place where crude oil or natural gas is refined, processed, stored, handled or treated;
(d) Enter at any reasonable time premises containing any records or property required to be maintained under this Act or related to the administration of

midstream and downstream petroleum operations under this Act for the purpose of inspecting those records or that property;

(e) Require any person or his agent, representative, partner, director, officer or employee engaged in midstream and downstream petroleum operations to:
   (i) answer any question that may be relevant to the inquiry, inspection, examination or investigation and
   (ii) provide any required information contained in a computer hardware or software or any other data storage, processing or retrieval device or system used in connection with the business or activities relating to midstream and downstream petroleum operations under this Act;

(f) Take any sample or carry out any test or examination as it may consider necessary in the performance of its functions;

(g) Use any midstream and downstream machinery, equipment, appliance or thing as it may consider necessary in the performance of its functions;

(h) Remove for examination and copy anything that may be relevant to the inquiry, inspection, examination or investigation, including removing any computer hardware or software or any other data storage, processing or retrieval device or system;

(i) In conjunction with Nigeria Police or other enforcement agencies, arrest with a warrant, any person reasonably believed to have committed an offence under this Act; and

(j) Exercise any other power that may be conferred on it under any law or regulation.

Funding of the Authority

Section 47 (1) of Petroleum Industry Act, 2021 states that the Authority shall maintain the Authority Fund, into which money accruing to the Authority shall be paid and all expenditures of the Authority shall be subject to appropriation by the National Assembly.

The source of the Authority Fund shall be as follows:

(a) money appropriated by the National Assembly for the Authority;
(b) fees charged by the Authority for services rendered to licensees, lessees, permit holders and other authorisations issued by the Authority;
(c) 0.5% of the wholesale price of petroleum products sold in Nigeria, which shall be collected from wholesale customers;
(d) income derived from publications made by the Authority and other related activities, including data sales;
(e) fees paid to the Authority for using facilities owned or managed by the Authority; and
(f) money accruing to the Authority by way of grants, aids, gifts, testamentary dispositions, endowments and contributions.

13.4.4 Nigeria Revenue Service (NRS) Nigeria Revenue Service (Establishment) Act, 2025 established Nigeria Revenue Service (NRS). The Service shall be a body

corporate with perpetual succession, and a common seal; may sue or be sued in its name; and may acquire, hold or dispose of any property, movable or immovable, for carrying out any of its functions under this Act.

Functions of the Service

The Service shall:

(a) assess persons including corporations, companies and individuals chargeable with tax, other than individuals, resident in any state of the Federation or the Federal Capital Territory;

(b) collect or recover tax assessed, enforce payment of taxes and remit tax collected, under the provisions of this Act or any other law, into designated accounts;

(c) account for all revenue accruing to the government;

(d) in collaboration with the relevant ministries and agencies of government, subject to the approval of the National Assembly, review the tax regimes and promote the use of taxation to develop, stimulate and grow economic activities;

(e) carry out examination and investigation exercises with a view to enforcing compliance with the provisions of this Act, and any other tax law;

(f) make a determination of the extent of financial loss and such other losses by government arising from tax fraud or evasion, and revenue foregone arising from tax waivers and other related matters;

(g) adopt measures to identify, trace, freeze, confiscate or seize proceeds derived from tax fraud or evasion, in line with the provisions of this Act;

(h) adopt measures which include compliance and regulatory actions, introduction and maintenance of investigative and control techniques on the detection and prevention of non-compliance with tax laws;

(i) collaborate and facilitate exchange of information with relevant national or international agencies or bodies on tax matters;

(j) undertake exchange of personnel or other experts with complementary agencies for purposes of comparative experience or capacity building;

(k) establish and maintain a system for monitoring international dynamics of taxation in order to identify suspicious transactions, and the perpetrators or other persons involved;

(l) provide and maintain access to up-to-date and adequate data and information on all taxable persons, individuals, corporate bodies or all agencies of government involved in the collection of revenue for the purpose of efficient, effective and correct tax administration and to prevent tax evasion or fraud;

(m) maintain database, statistics, records and reports on persons, organisations, proceeds, properties, documents or other items or assets relating to tax administration, including matters relating to tax waivers, fraud or evasion;

(n) undertake and support research or similar measures with a view to stimulating economic development and determine the manifestation, extent, and effects of

tax waivers, fraud, evasion and other matters that affect effective tax administration and make recommendations to the government on appropriate intervention and preventive measures;

(o) collate and continually review all policies of the government relating to taxation and revenue generation and undertake a systematic and progressive implementation of such policies;

(p) liaise with the office of the Attorney-General of the Federation, any government security and law enforcement agency, and such other financial supervisory institutions in the enforcement and eradication of tax-related offences;

q) issue taxpayer identification or any other equivalent identity to every relevant taxable person in collaboration with tax authorities of States or Local Governments, or the Joint Revenue Board;

(r) carry out and sustain public awareness and enlightenment campaigns on the benefits of tax compliance;

(s) carry out assigned administrative and oversight functions over all taxes and levies accruable to the Government of the Federation and, as it may be required, query, subpoena, sanction or reward any activity pertaining to the assessment, collection of and accounting for revenues accruable to the government; and

(t) provide or receive assistance in the collection of revenue claims or any other administrative assistance in tax matters with respect to any agreement or arrangement made between the government of the Federal Republic of Nigeria and the government of any country, person or body as may be deemed necessary.

Other functions

The Service shall:

(a) with the approval of the Minister of Finance, make rules and issue regulations as, in its opinion, are necessary or expedient for giving full effect to the provisions of this Act and for the due administration of its provisions; and such rules and regulations shall provide compliance requirements and may include consequences for non-compliance in line with relevant laws;

(b) carry out such other activities as are necessary or expedient for the full discharge of all or any of the functions under this Act including;

  (i) specifying the form of returns, claims, statements or notices necessary for the due administration of the powers conferred on it by this Act; and

  (ii) deploying appropriate technology or digital platforms to automate any of its tax administration processes or in carrying out any of its functions under this Act.

Assistance in tax collection

The Service may, on request, assist:

(a) Any Nigerian State or Local Government to collect or administer tax which the requesting government has the statutory right to collect or administer, and such assistance may include:
   (i) all the actions necessary for the proper assessment, collection, accounting or enforcement of the tax;
   (ii) administration of personal income tax on any class or group of individual taxpayers; or
   (iii)) collection or enforcement of revenue claims on a particular person.

   Any revenue collected on behalf of a State or Local Government, or another tax authority, under this section, shall be remitted directly to that State or Local Government, or relevant tax authority as may be agreed by the parties.

(b) A foreign country:
   (i) Where an agreement or arrangement between the government of Nigeria and the government of another country to avoid double taxation or provide administrative assistance in tax matters contains an obligation for the collection of revenue claim due to the government of that country or any other administrative assistance on tax, the Service shall carry out such obligation as may be prescribed in that agreement or arrangement.
   (ii) The Service may enter into agreement with the competent authority of a country with which the government of Nigeria entered into an agreement or arrangement for the avoidance of double taxation or administrative assistance in tax matters to prescribe the manner of the performance of the administrative assistance obligation contained in that agreement or arrangement.

The Accountant-General of the Federation shall open a designated account into which revenue claims collected by the Service on behalf of the government of any other country shall be paid pending the remittance of the amount so collected to that country.

The Service may charge a fee as may be agreed with the requesting authority to defray the cost of providing the assistance required under this section.

Fund of the Service

The Service shall establish and maintain a fund which shall consist of, and to which shall be credited

(a) 4% of the total revenue, less petroleum royalty, collected by the Service, which shall be appropriated by the National Assembly for the capital and recurrent expenditures of the Service;
(b) all sums of money accruing to the Service by way of grants-in-aid, gifts, testamentary dispositions, endowments and contributions from any source;
(c) such money as may be granted to the Service by the Federal, State or Local Governments or other donor agencies, provided such grants are not intended for purposes contrary to the objective of the Act or functions of the Service; and

(d) all other money which may accrue to the Service from other sources, including charges for assistance in tax collection, the disposal, lease or hire of, or any other dealing with, any property vested in or acquired by the Service

13.4.5 States Board of Internal Revenue Service (SBIRS)

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

(a) assessing, collecting and accounting for all taxes, fees, and levies in the State. The Commissioner of Finance is to prescribe the manner the Board is to account for the taxes, fees and levies collected;
(b) supervising the collection of all revenues due to the State Government with other ministries, extra Ministerial Department, Parastatals and government companies;
(c) revising all obsolete rates collectable by the Board and initiate review and advise the governor on it;
(d) liaising on tax and revenue matters with the Federal governments directly through the Joint Tax Board and make recommendations where appropriate to the Joint Tax Board on Tax policy, tax reform, tax registration, tax treaties and exemption as may be required from time to time;
(e) administering the provisions of the Personal Income Tax Act 1993 as amended and relevant tax laws in the State; and
(f) general control of the management of the service on matters of policy subject to the provisions of the edicts and imposing discipline on employees of the State Internal Revenue Service.

13.4.6 Local Government Revenue Authority (LGRA)

In Nigeria, the functions of a Local Government Revenue Authority (LGRA) include assessing, collecting, and accounting for all internally generated revenue to the local council, as well as ensuring prompt financial statement preparation and submission.

The key functions of a Local Government Revenue Authority in Nigeria

(a). **Revenue assessment and collection**

i. **Assessment**: The LGRA is responsible for assessing all taxes, fines, and rates within its jurisdiction.

ii. **Collection**: The LGRA collects all internally generated revenue (IGR) from various sources, including taxes, fees, and fines.

iii. **Accounting**: The LGRA is responsible for accounting for all revenues collected and ensuring proper financial management.

(b). **Financial management and reporting**

i. **Financial statements**: The LGRA ensures the prompt preparation of financial statements and their submission to the Auditor-General for Local Government within the prescribed period.

ii. **Budget preparation**: The LGRA plays a role in preparing the annual budget and submitting it to the legislature for consideration and passage.

(c). **Other functions**

i. **Policy communication**: The LGRA ensures that Federal and State Government policies are communicated to the masses.

ii. **Revenue mobilisation**: The LGRA is responsible for maximising revenue generation through various means, including improving tax compliance and identifying new revenue streams.

iii. **Enforcement**: The LGRA is responsible for enforcing tax laws and regulations within its jurisdiction.

iv. **Public enlightenment**: The LGRA engages in public enlightenment campaigns to raise awareness about the importance of tax payment and the benefits of local government services.

v. **Financial control**: The LGRA plays a role in strengthening financial control mechanisms to prevent mismanagement and misappropriation of funds.

vi. **Transparency and accountability**: The LGRA strives to ensure transparency and accountability in the management of local government finances.

13.4.7 Central Bank of Nigeria (CBN)

A central bank is deemed as the lender of the last resort, as per Hawtrey (a British economist). The central bank is the organ of the government which controls major financial operations of the government. Through its various operations, the objectives of the central bank include supporting the economic policy of a country by influencing the way financial institutions behave.

This role of the central bank is of a fiscal agent to the government where the CBN keeps the deposits of governments. It also makes payments on behalf of the government, along with buying and selling foreign currencies. The various functions of a reserve bank as an advisor is to tender useful suggestions to the government regarding monetary policies and other economic matters. The CBN provides gateway for the use of government and other stake holders through the introduction of “Remita” platform. CBN also maintains the Treasury Single Account (TSA) of the government.

13.4.8 Nigeria Customs Service (NCS)

Nigeria Custom Service Act 2023 repealed the Custom and Excise Management Act 2004 and the previsions of this Act shall apply to all matters connected with the management and administration of customs and excise.

Functions:

The functions of the Service are to:

(a) administer, direct, manage and enforce the provisions of this Act and the customs and excise laws;
(b) collect and account for revenue from customs duties, excise duties, charges, fees and special assessments as may be assigned to it by the Government;
(c) administer trade and fiscal policies of the Government as it relates to this Act;
(d) promote trade facilitation in line with international conventions and agreements as it relates to customs administration;
(e) prevent smuggling, customs fraud and all other violations under this Act;
(f) carry out all border enforcement and regulatory activities required by law in collaboration with relevant agencies; collate and publish accurate trade statistics and other relevant data as it relates to Customs and Excise;
(g) engage in regular consultations with individual traders, trade associations and other relevant stakeholders to promote industrial harmony;
(h) approve and license customs agents, who shall be citizens of Nigeria; and
(i) do such other things as are necessary for or incidental to the performance of its functions and discharge of its duties under this Act and the Laws of Nigeria.

Powers of the Service:

In the exercise of its functions under this Act, the Service shall subject to approval of the Board have the powers to:

(a) acquire, hold, purchase, mortgage and deal with property, whether movable or immovable, real or personal;
(b) enter into contracts or obligations;
(c) advise or develop regulations on the management and administration of customs and excise management; and
(d) issue operational guidelines for the efficient administration and operation of the provisions of this Act.

Funds of the Service:

Subject to extant laws and regulations, the Service shall keep and maintain bank accounts as may be approved by appropriate authority of the Government into which shall be paid:

(a) not less than 4% of the free-on-board value of imports according to international best practices;
(b) revenues derived from assessment and collection of cost based user fees;
(c) annual or supplementary budgetary provisions made by the Government to the Service; and
(d) grants, aids, or donations from local or international development partners.

13.5 Federation Accounts Allocation Committee (FAAC)

Federation Accounts Allocation Committee (FAAC) was set up by Allocation of Revenue (Federation Account, etc.) Act. Cap. A15, LFN 2004. The committee is to deliberate upon and allocate funds from the Federation Account to the three tiers of government (federal, state and local governments). The Federation Accounts Allocation Committee (FAAC) meeting is normally divided into two sessions, namely:

(a) technical session; and
(b) plenary session;

13.5.1 Membership of Federation Accounts Allocation Committee (FAAC) technical session

(a) Accountant General of the Federation-Chairman
(b) States' Accountant General
(c) Representatives of the following Agencies:
    (i) Nigeria National Petroleum Corporation (NNPC)
    (ii) Nigeria Revenue Service (NRS)
    (iii) Nigeria Custom Service (NCS)
    (iv) Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA)
    (v) Revenue Mobilisation, Allocation and Fiscal Commission
    (vi) Federal Ministry of Finance
    (vii) Central Bank of Nigeria (CBN)
    (viii) National Planning Commission
    (ix) Office of States and Local Government Affairs
    (x) Office of the Vice President
    (xi) Directorate of Military Pension
    (xii) Office of Head of Service of the Federation
    (xiii) Department of Civil Pension

13.5.2 Functions of technical session

a. To consider the accounting returns of revenue collecting agencies
b. To deliberate and consider the revenue available for distribution
c. To make recommendation to the plenary session for the adoption of the revenue to be shared to the three tiers of the government
d. To consider any other issues sent from the plenary session.

13.5.3 Membership of Federation Accounts Allocation Committee (FAAC) plenary session

(a) The Honourable Minister of Finance-Chairman
(b) The States' Commissioners of Finance
(c) The Accountant General of the Federation
(d) The States Accountant General
(e) Representatives of the thirteen Organisations mentioned under membership of Federation Accounts Allocation Committee (FAAC) technical session

(f) The Permanent Secretary of the Federal Ministry of Finance or such officer as may be designated by the said Minister shall be the Secretary to the Committee.

13.5.4 Functions of FAAC

(a) To ensure that allocations made to the states from the Federation account are promptly and fully paid into the treasury of each component, on such bases and terms prescribed by law.

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

13.6 State Joint Local Government Account Allocation Committee (SJLGAAC)

The committee was set up to ensure equitable distribution of the statutory allocations to local governments from the Federation account and 10% of the internally generated revenue of the appropriate state governments are shared to the local governments in the states, in accordance with the 1999 Constitution, using stipulated criteria which include equality, population, primary school enrolment and internally generated revenue. But through the Supreme Court judgement of 11th July 2024, allocations to local governments from federation account are now to be paid directly to local governments accounts.

13.6.1 Composition

(a) The commissioner charged with the responsibility for local government in the state to be the chairman thereof;
(b) The chairman of each local government council in the state;
(c) Two representatives of the Accountant General of the Federation;
(d) A representative of the Accountant General of the State;
(e) Two persons to be appointed by the Governor of the State; and
(f) The Permanent Secretary of the State Ministry charged with responsibility for local government or such officer as may be designated by the said Commissioner shall be the Secretary to the Committee.

13.6.2 Functions

The functions of the committee shall be to ensure that:

(a) allocations made to the local government councils in the state from the federation account and from the state concerned are promptly paid into the State Joint Local Government Account; and
(b) distributed to local government councils in accordance with the provisions of any law made in that behalf by the House of Assembly of the State.

13.7 Joint Revenue Board of Nigeria

The Joint Revenue Board of Nigeria Act, 2025 established the board.

The objectives of the Board are to:

(a) provide for a legal and institutional framework for the harmonisation and coordination of revenue administration in Nigeria;

(b) provide a mechanism for efficient dispute resolution; and promote the rights of the taxpayer.

13.7.1 Composition

The Board shall consist of

(a) the Chairman, who shall be the Executive Chairman of the Nigeria Revenue Service; and

(b) the Chairman of each State Internal Revenue Service and the Federal Capital Territory Internal Revenue Service.

(c) the following persons shall be ex-officio members of the Board

(i) a representative of the Minister of Finance not below the rank of a director;

(ii) the Director-General of the National Identity Management Commission or representative not below the rank of a director;

(iii) the Chairman of the Revenue Mobilisation, Allocation and Fiscal Commission or its representative not below the rank of a director,

(iv) the Comptroller-General of the Nigerian Immigration Service or a representative not below the rank of Assistant Comptroller-General;

(v) the Corps Marshall of the Federal Road Safety Corps or its representative not below the rank of an Assistant Corps Marshall;

(vi) the Comptroller-General of the Nigeria Customs Service or its representative not below the rank of an Assistant Comptroller-General; and

(vii) a representative of the Nigeria Revenue Service not below the rank of a director.

(d) The Board may co-opt any person, body or agency on a need basis not exceeding two persons.

(e) Members of the Board shall serve on a part-time basis.

13.7.2 Functions of the Board

The Board shall:

(a) integrate and maintain a database of Taxpayer Identification Numbers for every taxable person in Nigeria in collaboration with the Nigeria Revenue Service, State Internal Revenue Service, Local Government Revenue Committee and other relevant government agencies;

(b) resolve disputes between various tax authorities on the issue of determination of residency;

(c) advise government on double taxation matters within Nigeria, and in respect of double taxation arrangements concluded or under consideration with any other country, including other taxation matters having effect throughout Nigerians;

(d) resolve disputes between different tax authorities;

(e) maintain a platform for revenue data collection, integration and exchange of information among the various tax authorities in Nigeria;

(f) promote harmonisation of taxes, levies, rates, charges and other payments and ensure uniformity in revenue administration across Nigeria;

(g) advise the Federal and State Governments on introduction of new taxes and changes to existing ones;
(h) provide periodic impact analysis with recommendations on tax framework and capacity building for all tiers of government;
(i) collaborate with relevant agencies to carry out surveys, ascertain and publish relevant tax indices and statistics;
(j) recommend, participate, facilitate or initiate fiscal and tax policy reforms in collaboration with relevant bodies;
(k) receive, collate, analyse and publish periodic tax revenue collected by all tax authorities;
(l) receive, collate, analyse and publish tax expenditure on account of tax waivers, exemptions or incentives granted by each government;
(m) collaborate with tax authorities to undertake or support research or similar measures with a view to stimulating economic development and determine the manifestation, extent, magnitude and effects of tax fraud, evasion or other matters that affect effective tax administration and make recommendations to the government on appropriate intervention and preventive measures;
(n) provide guidance for the accreditation of tax agents by the relevant tax authorities in accordance with the relevant laws; and
(o) carry out any other functions as may be assigned to it by an Act of the National Assembly.

13.7.3 Powers of the Board:

The Board shall:
(a) provide general policy guidelines relating to its functions;
(b) manage and superintend the policies of the Board on matters relating to the administration of its functions under this Act or any other law;
(c) review and approve the strategic plans of the Board;
(d) employ and determine the terms and conditions of employment, including disciplinary measures of the employees of the Board;
(e) stipulate remuneration, allowances, benefits and pensions of the staff and employees; and
(f) do such other things which in its opinion are necessary to ensure the efficient performance of the functions of the Board under this Act.

13.7.4 Conflict of interest and corporate responsibility

In the discharge of their responsibilities, members of the Board shall:
a) act in utmost good faith, with care, skill and diligence;
b) have fiduciary obligations to the Board;
c) not act in any circumstance where their personal interests conflict with the interest of the Board;
d) not make secret profit in the course of discharging official duties;

e) not accept any gift or advantage in whatever form or manner, for anything done or likely to be done with respect to their responsibilities under this Act; and
f) adhere to all the duties and obligations specified for directors under the Companies and Allied Matters Act.

13.7.5 Fund of the Board

The Board shall establish and maintain a fund (in this Act referred to as "the Fund") for the performance of its functions under this Act.

There shall be paid and credited to the Fund established under this subsection, the subsection:

(a) annual membership fees or subscriptions payable by members of the Board;
(b) additional contributions from members to fund activities of the Board;
(c) donations, gifts of land or other property, loans, grants, aids, endowments and voluntary contributions upon such terms and conditions, as may be specified by the person or organisation, provided that the terms and conditions are not contrary to the functions and powers of the Board under this Act;
(d) returns on investments of the Board; and
(e) such other moneys or assets which may accrue to the Board from other sources, including charges for regulatory or statutory services, the disposal, lease or hire of, or any other dealing with any property vested in or acquired by the Board.

13.7.6 Establishment of Tax Appeal Tribunal

Section 23 of Joint Revenue Board of Nigeria Act, 2025 established the Tax Appeal Tribunal (in this Act referred to as "the Tribunal") to exercise the jurisdiction and powers to settle any tax dispute and controversy arising from the administration of this Act or any other tax laws made by the National Assembly.

The Tribunal shall have power to adjudicate on tax disputes, and controversies arising from Nigeria Tax Act, 2025 and Nigeria Tax Administration Act, 2025 or any other tax law made by the National Assembly or the House of Assembly of a State.

The Tax Appeal Tribunal shall be funded through appropriation by the National Assembly.

13.7.7 Establishment of the Office of the Tax Ombud

Section 36 of the Joint Revenue Board of Nigeria Act, 2025 established a body to be known as the Office of the Tax Ombud and shall have powers necessary or expedient for the performance of its functions under this Act, including power to:

(a) serve as an independent and impartial arbiter to review and resolve complaints relating to tax, levy, regulatory fee and charges, customs duty or excise matters;
(b) review complaint against tax officials and authorities and resolve it through mediation or conciliation by adopting informal, fair and cost-effective procedures;

(c) receive and investigate complaints lodged by taxpayers regarding the actions or decisions of the tax authorities, agencies or their officials;
(d) enter and inspect any premises or place where any tax authority, agency or official performs any function or duty under any law imposing taxes, levies, charges and fees for the purpose of carrying out investigation;
(e) invite and examine any person who may have information or evidence relating to a complaint or an investigation;
(f) make recommendations of its findings to the revenue authorities and other government agencies on matters relating to taxes, levies, charges and fees, for implementation;
(g) institute legal proceedings on behalf of the taxpayer;
(h) provide information and raise awareness of taxpayer rights and obligations, functions of the tax authorities and the role of the office of the Tax Ombud;
(i) identify and review systemic and emerging issues on fiscal policies and their impact on the tax system, in collaboration with the relevant agencies;
(j) serve as a watch-dog against any arbitrary fiscal policy of the Government or by any of its agency and report such policy to the National Assembly;
(k) issue guidelines, directives or orders for the resolution of complaints or the implementation of recommendations; and
(l) delegate any of the powers or functions to any officer of the Tax Ombud.

In the exercise of its functions under this Act, the Office of the Tax Ombud shall not charge a fee and the office shall be funded through appropriation by the National Assembly.

Conflict of interest

An officer of the Office of the Tax Ombud, in the exercise of the powers and performance of functions under this Act, shall:

(a) act in utmost good faith, with care, skill and diligence;
(b) maintain independence and impartiality at all times;
(c) not act in any circumstance where personal interests conflict with the functions of the Office of the Tax Ombud;
(d) disclose any conflict of interest in relation to any complaint or investigation and an officer so conflicted shall refrain him/herself from dealing with such complaint or investigation;
(e) not make secret profit in the course of discharging official duties;
(f) not accept any gift or advantage in whatever form or manner, for anything done or likely to be done with respect to their responsibilities under this Act; and
(g) not publish studies, research, findings, recommendations, insights or proposals concerning any matter under consideration by the Office of the Tax Ombud.

13.8 Revenue Mobilisation, Allocation and Fiscal Commission (RMAFC)

Revenue Mobilisation Allocation and Fiscal Commission Act 1989 established the Commission.

13.8.1 Composition of the Commission

The Commission shall consist of a chairman and one member from each State of the Federation and the Federal Capital Territory, Abuja, who are persons of unquestionable integrity with requisite qualifications and experience, to be appointed by the President.

13.8.2 Powers of the Commission

The Commission shall have power to:

(a). monitor the accruals to and disbursement of revenue from the Federation Account;

(b). review, from time to time, the revenue allocation formulae and principles in operation to ensure conformity with changing realities;

(c) advise the federal, state and local governments on fiscal efficiency and methods by which their revenue is to be increased;

(d) determine the remuneration appropriate to the holders of the offices as specified in Parts A and Bof the First Schedule to this Act;

(e) make recommendations and submit its finding by a report thereto to the government of the Federation or of the State, as the case may be, regarding the formula for the distribution of the Federation Accounts and the Local Government Accounts;

(f) discharge such other functions as maybe conferred on the Commission by the Constitution of the Federal Republic of Nigeria, this Act, or any other Act of the National Assembly;

(g) be a statutory member of each of the following government agencies:
- (i) the Federation Account Allocation Committee;
- (ii) the Local Government Joint Account Allocation Committee;
- (iii) the Joint Revenue Board;
- (iv) the Niger-Delta Development Commission; and
- (v). the Commission on Ecological Fund;

(h). have the power to demand and obtain regular and relevant information, data or returns from any government agencies including the following, that is:
- (i). the Nigerian National Petroleum Corporation;
- (ii). the Nigerian Customs Service;
- (iii). the Nigeria Revenue Service;
- (iv). the Central Bank of Nigeria; and
- (v). the Federal Ministry of Finance.

13.9 Sources and classifications of government revenue in Nigeria

The Federal Government derives its revenue from different sources, kept in the Consolidated Revenue Fund.

However, with the 1989 budget, the Federal Government revenue sources were classified into two groups, these are:
(a). Federation account revenue heads;
(b). Federal government account revenue heads; and
(c) Value Added Tax (VAT).

The above classification was again modified in 1994 fiscal year, as follows:
(a). Federation Account Revenue Heads;
(b). Value-Added Tax (VAT); and
(c) Federal Government Account Revenue Heads.

13.9.1 Federation account revenue heads

Section 162 of the 1999 Constitution of the Federal Republic of Nigeria established the Federation Account. The Federation account is one into which shall be paid all revenue collected by the Government of the Federation, except the proceeds from the PAYE of the personnel of the Armed Forces of the Federation, the Nigeria Police Force, Foreign Service Officers and Residents of the Federal Capital Territory, Abuja.

The Federation account is a distributable pool account from which allocations are made to the federal, state and local government councils on such terms and in a manner prescribed by the law. Currently, the figure in the pool is distributed, using the revenue allocation formulas over the years as shown in the table below.

13.9.2 Sources of revenue payable to the Federation Account

The revenue that accrues into the Federation account and Value-added tax (VAT) currently comes from the following oil and non-oil sources:

S/N	Collecting agency	Type of revenue
i.	NNPCL	Crude oil export; gas export; domestic crude oil and gas; PSC profit and sale of refined products
ii.	Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA)	Crude oil and gas royalties; penalties for gas flaring; rent of oil fields; and other miscellaneous oil and gas revenues
iii.	Nigeria Customs Service	Import duties, export duties, excise duties, penalty charges, CET Special levy, Auction sales and fees
iv.	Nigeria Revenue Service	Petroleum Profit/Hydrocarbon Taxes, Companies Income Taxes, Capital Gains Taxes and NRS Stamp duty
v.	Federal Ministry of Mines and Solid Mineral Development	Fees on mining fields, royalty and sales of solid minerals

13.9.3 Sharing of federation account revenue

The amount standing to the credit of the Federation Account, less the sum equivalent to 13% of the revenue accruing to the Federation Account directly from any natural resources as a first line charge for distribution to the beneficiaries of the derivation funds in accordance with the Constitution shall, be distributed among Federal, State Governments and Local Government Councils in each state of the Federation as follows:

(a). **Revenue allocation formula**

S/N	Tier	Sharing ratio
		%
i.	Federal government of Nigeria	52.68
ii.	State governments in Nigeria	26.72
iii.	Local governments in Nigeria	20.60
	Total	**100**

(b) **The Federal government 's share is further distributed as follows:**

Consolidated revenue fund (CRF)	48.50%
Federal Capital Territory (FCT)	1.00%
Development of natural resources	1.68%
Share of derivation and ecology	1.00%
Stabilisation	0.50%

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

Notes:

(a). 13% of revenue derived from natural resources / oil sources goes to the States from which it is obtained, in consonance with the principle of derivation.

(b). 7% and 4% of the gross revenue in the Federation account are allocated to the Customs service and Nigeria Revenue Service (NRS) respectively. Also, 4% is paid to Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA), which is under Ministry of Petroleum resources as cost of collection on, revenue derived from royalty on crude oil and gas, rentals, penalty on gas flared, signature bonuses and miscellaneous incomes.

(c) The rates stated above are "first line charges." That is, 13% derivation source is adjusted (deducted) in the oil sector revenue received from the total oil proceeds; and 11% (7% plus 4%) of other revenue receipts are taken out of the non-oil collections.

(i). The remaining balance in the Federation account distributable pool is shared between the three tiers of governments.
(ii). The allocations to the 36 states is distributable, net of the adjustments in the earlier three notes or bullets. Abuja is considered a State, to make 37 `States', which will share 26.72%.
(iii). The local government allocation from the net balance is shared between the 774 Local Governments in Nigeria.
(iv). The allocation to the 36 States and Abuja treated as a `State' for this purpose, is redistributed from 1990 till date, using the following criteria;

	%	%
On the equality of all States		40
On population		40
On independent revenue effort		10
On social development:		
a. Education	4	
b. Health	3	
c. Water	3	10
Total		**100**

13.10 Value-added tax (VAT)

VAT is a tax imposed on value which the supplier or seller of good/services add to the goods/services before selling it. The introduction of VAT was necessitated by the need to boost the revenue of the government from non-oil sources following the fluctuations in oil revenue due to the glut in the international market. VAT was introduced in 1994 fiscal year with the promulgation of VAT Decree No. 102 of 1993 at the rate of 5% and is being administered by Nigeria Revenue Service (NRS). The present rate is 7.5%.

Section 81 (1) of Nigeria Tax Administration Act 2025 states that "Notwithstanding any formula that may be prescribed by any other law, the net revenue accruing by virtue of the operation of Chapter Six of the Nigeria Tax Act, 2025, shall be distributed as follows:

(a) 10% to the Federal Government;
(b) 55% to the State Governments and the Federal Capital Territory; and
(c) 35% to the Local Governments.

Section 81 (2) of the same Act, further states that "The amount of the VAT revenue standing to the credit of states and local governments shall be distributed among them on the following basis:

(a) Equally - 50%;
(b) Population - 20%; and

(c) Consumption - 30%.

For the purpose of this section, consumption is determined by the place of consumption, irrespective of where the return is filed.

13.11 Federal government account or Consolidated Revenue Fund (CRF)

Section 80 of the Constitution of the Federal Republic of Nigeria, 1999, established the Consolidated Revenue Fund (CRF). Except those revenue items which are specifically designated to other funds, all others shall be paid into the Consolidated Revenue Fund.

Analysis of the various sources of revenue payable to CRF

a. **Direct allocation** from the Federation account at the prevailing rate.
b. **Direct taxes:** These include PAYE of the Armed Forces and Police
c. Personnel, Foreign Service Officers and Residents of the Federal Capital Territory, Abuja.
d. **Licence and internal revenue:** These are realised from the issues of licences, for example arms and ammunition licence fees, goldsmith licence fees, radio and
e. T.V Licence fees, gold dealer's licence fees.
f. **Mining:** These include mining fees, rent of crown lands, royalties on gold, tin, iron ore, and coal mines.
g. **Fees:** They are fees received on services rendered by government officials, for example, court fees, court fines and medical fees.
h. **Earnings and sales:** Earnings and sales are derived from the use and subsequent disposal of government property, for example sales of stores, publications and stamps, commission on money order and poundage on postal orders.
i. **Rent of government property:** The incomes include rent on government quarters, land and buildings.
j. **Interest and repayments (General):** These are interest and repayment of loans granted to individuals by the government, Corporations, and government companies. An example is the repayment of motor vehicle loans.
k. **Interest and repayments (State):** They are interest and repayment of loans granted to the state governments.
l. **Armed forces:** The sales of Armed Forces 'property such as old vehicles and stores constitute revenue.
m. **Reimbursements:** These are refunds for services rendered to the state and local government councils, Public Corporations and other Statutory Bodies by the Federal Government officers. Examples are reimbursements of audit fees and refunds of overpayments made to government workers.
n. **Miscellaneous:** These are other sources of revenue, apart from those stated above. Examples are overpayments refunded, lapsed deposits.

13.11.1. Charges to the Consolidated Revenue Fund

The charges to the consolidated revenue fund are grouped as follows:

(a). All recurrent expenditure heads in the approved estimates
Examples of recurrent expenditure heads are, personnel cost, overhead cost and servicing of national debts.

(b). Salaries and consolidated allowances of statutory officers
These are expenditure chargeable directly to the consolidated revenue fund, irrespective of budget approval. Statutory officers include:

(i) Commissioners of the following bodies:
- Police Service Commission;
- Public Complaints Commission;
- Public Service Commission;
- Nigerian Law Reform Commission; and
- Independent National Electoral Commission;

(ii) Auditor - General for the Federation;
(iii) President and Justices of the Federal Court of Appeal;
(iv) Chief Judge and Judges of the Federal High Court; and
(v) Chief Justice and Justices of the Supreme Court.

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

13.12 Development fund

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

(a). **contribution from the consolidated revenue fund:** These are yearly transfers of money from the consolidated revenue fund, in the Federal Government's wisdom, notwithstanding that the Constitution does not expressly stated this.

(b). external grants: These are usually received from foreign countries and non-financial institutions.

(c) external loans: These may come from such foreign bodies as the International Monetary fund (IMF).

(d) internal loans: These are loans raised and retired within the country. They maybe long-term loans, raised through development stocks, or short-term loans through treasury certificates, (which have a life span of two years,) and treasury bills, which mature in 91 days.

13.12.1 Charges from the development fund

The charges from the development fund may also be categorised into four main classes, as follows:

(a) **Summary of capital expenditure payments:** This is expenditure incurred for the provision and maintenance of infrastructural amenities such as the construction of bridges and dams;

(b). **General administration:** These are expenditure items made for the provision and maintenance of Army Barracks/Police Stations, staff houses, motor vehicles and hospitals;

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

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

13.13 Special funds account (Development levy)

Section 59 (i) of Nigeria Tax Act, 2025 created a development levy of 4% which is imposed on the assessable profits of all companies chargeable to tax under chapters two and three of this Act, other than small companies and non-resident companies.

The Nigeria Revenue Service (NRS) shall collect the levy and pay it into a special account created for that purpose.

The 4% revenue accruing from the levy shall be distributed as follows:

	Beneficiary	**%**
a.	Tertiary Education Trust Fund	50
b.	Nigerian Education Loan Fund	15
c.	National Information Technology Development Fund	8
d.	National Agency for Science and Engineering Infrastructure	8
e.	National Board for Technological Incubation	4
f.	Defence and Security Infrastructure Fund	10
g.	National Cybersecurity Fund	5
	Total	**100**

The tax imposed under this part shall not be levied on assessable profits computed for the purposes of hydrocarbon tax.

For the purpose of this section, every beneficiary agency and Fund in subsection (3) shall be required to prepare and submit their income and expenditure to the National Assembly for appropriation.

According to the fourteenth schedule to the Act, the Defence and Security Infrastructure Fund allocation of 10% from the development levy shall be divided and managed as follows:

S/N	Agency	%
i.	Defence Headquarters	8.0
ii.	Nigerian Army	20.0
iii.	Nigerian Navy	12.5
iv.	Nigerian Airforce	12.5
v.	Office of National Security Adviser (ONSA)/Counter-Terrorism Centre	6.0
vi.	Nigeria Police Force	10.0
vii.	Police Trust Fund	8.0
viii.	Department of State Security	9.0
ix.	Nigerian Security and Civil Defence Corps	5.0
x.	Nigerian Forest Security Service	5.0
xi.	Defence Intelligence Agency	4.0
	Total	**100**

13.13.1 The special funds and their objectives

(a) The Tertiary Education Trust Fund

The Tertiary Education Trust Fund in Nigeria is an intervention agency established by the Tertiary Education Trust Fund Act, 2011 to rehabilitate, restore, and consolidate public tertiary education (universities, polytechnics, and colleges of education). Its primary objectives include funding infrastructural development, enhancing research and innovation, supporting staff training, and ensuring the overall quality and improvement of higher education standards.

Objectives

Key objectives and functions of TETFund include:

(i) **Infrastructural development:** Rehabilitating, restoring, and consolidating infrastructure in public tertiary institutions, such as constructing modern lecture theatres, libraries, and laboratories;

(ii) **Funding and resource allocation:** Providing necessary funds through a 50% of 4% Development levy stated in Section 59(i) of Nigeria Tax Act, 2025 which is imposed on the assessable profits of all companies chargeable to tax under chapters two and three of this Act, other than small companies and non-resident companies;

(iii) **Academic staff training and development:** Promoting the quality of education by funding research grants, journal publications, manuscript development, and conference attendance for staff;

(iv) **Enhancing research and innovation:** Promoting cutting-edge technologies, research, and innovation in areas such as water safety, energy access, and occupational health;

(v) **Quality assurance:** Improving the standard and productivity of higher education through institutional strengthening;

(vi) **Monitoring and evaluation:** Ensuring the successful completion of projects and maintaining accountability and transparency in the use of funds; and

(vii) **Project Management:** Managing and disbursing funds to beneficiaries, ensuring that educational facilities are adequately maintained.

The disbursement formula for these funds is prioritised with 50% going to Universities, and 25% each to Polytechnics and Colleges of Education.

(b) The Nigerian Education Loan Fund (NELFUND)

The Nigerian Education Loan Fund (NELFUND), established under the Student Loan Act, 2024, aims to provide interest-free loans to eligible Nigerian students for tuition and maintenance in tertiary institutions and vocational centres. Its primary objectives are to ensure equal access to quality education, reduce financial barriers, and minimize dropout rates.

Objectives

Key objectives of the NELFUND include:

(i) **Enhancing access to higher education:** Ensuring that all qualified Nigerians can access tertiary education and vocational training, regardless of their financial background;

(ii) **Financial inclusion and support:** Offering interest-free loans to cover tuition, fees, and upkeep for students in public institutions;

(iii) **Reducing dropout rates:** Alleviating the financial burdens that cause students to abandon their studies;

(iv) **Promoting skill development:** Fostering a knowledgeable and skilled workforce to drive national economic growth;

(v) **Promoting socio-economic mobility**: Creating a level playing field to allow students from low-income backgrounds to improve their status; and

(vi) **Direct payment system:** Ensuring transparency by paying tuition fees directly to institutions and providing upkeep allowances directly to beneficiaries.

(c) The National Information Technology Development Fund (NITDA)

The National Information Technology Development Fund, managed by NITDA, aims to transform Nigeria into a knowledge-driven economy by driving IT regulation, fostering digital literacy, promoting local content development, and fostering indigenous innovation. It facilitates widespread access to IT, supports infrastructure, and encourages research to create a competitive digital ecosystem.

Objectives

Key objectives and functions are:

(i) **Regulate and develop the IT sector:** Create frameworks, standards, and guidelines for IT practices, including the enforcement of the NITDA Act;

(ii) **Promote digital inclusion and skills:** Drive the adoption of IT to ensure citizens are empowered with ICT skills, bridging the digital divide;

(iii) **Local content development:** Encourage the growth of local IT hardware original equipment manufacturers (OEMs) and software industries to reduce reliance on imports;

(iv) **Establish infrastructure:** Promote the establishment of IT parks, incubation centres, and innovation hubs to support startups;

(v) **Digital economy growth:** Accelerate the transition to a digital economy to improve, social-economic growth, job creation, and global competitiveness; and

(vi) **Research and advisory:** Advise government on IT policies, regulations, cybersecurity and identify critical areas for research.

(d) The National Agency for Science and Engineering Infrastructure (NASENI)

The National Agency for Science and Engineering Infrastructure aims to foster rapid industrialisation in Nigeria by developing indigenous technologies, capital goods, and research infrastructure. It facilitates technology transfer, promotes local manufacturing, creates jobs, and establishes essential engineering infrastructure to support sustainable economic growth.

Objectives

Key objectives of NASENI include:

(i) **Technological self-reliance:** Nurturing a homegrown, sustainable science and engineering infrastructure base to reduce reliance on foreign technologies;

(ii) **Industrialisation and manufacturing:** Developing, producing, and transferring manufacturing processes, capital goods, and equipment to industries;

(iii) **Research and innovation**: Conducting research in advanced technology, such as electronics, engineering materials, and renewable energy, to solve local industrial challenges;

(iv) **Capacity building:** Developing human resources and technical skills required for Nigeria's technological advancement;

(v) **Commercialisation:** Bridging the gap between research and industry by commercialising inventions and promoting local production; and

(vi) **Technology transfer**: Facilitating the acquisition of advanced technology through collaboration with local and international partners.

(e) The National Board for Technological Incubation

The National Board for Technological Incubation in Nigeria aims to foster industrialisation and economic diversification by nurturing technology-based startups, promoting indigenous technology, and commercialising research and development (R&D) results. It provides infrastructure, mentorship, and networking to create sustainable, innovative enterprises.

Objectives

Key objectives include:

(i) **Industrial and economic growth:** Accelerating the industrialisation of Nigeria by transforming R&D results, inventions, and innovative efforts into marketable products;

(ii) **Startup support:** Nurturing early-stage technology-related businesses to increase their success rate through mentoring, specialised training, and access to funding;

(iii) **Indigenous technology promotion:** Enhancing the application and utilisation of local technologies to reduce dependence on foreign products;

(iv) **Job creation and poverty alleviation:** Creating employment opportunities, particularly for youths, through entrepreneurship in technology sectors;

(v) **Capacity building and infrastructure:** Developing technology incubation centres (TICs) that provide necessary infrastructure and technical support for innovators; and

(vi) **Post-incubation support:** Assisting graduated entrepreneurs with networking, monitoring, and evaluation to ensure sustainable growth and commercial success.

The Board focuses on linking researchers, engineers, and inventors with the business community to foster a sustainable, knowledge-based economy.

(f) The Defence and Security Infrastructure Fund

The Defence and Security Infrastructure Fund, (often established through legislative or national tax acts, such as the Nigeria Tax Act, 2025) is designed as a dedicated financing mechanism to enhance the nation's security architecture.

Objectives

Key objectives and purposes are:

(i) **Modernisation of defence infrastructure:** Upgrading, building, and maintaining essential military and security infrastructure, including barracks, training grounds, hangars, and secure storage facilities;

(ii) **Operational readiness**: Enhancing the ability of the armed forces, police, and specialised security agencies (for example, intelligence agencies, forest guards, and special police units) to respond to threats like terrorism and banditry;

(iii) **Sustainable and predictable funding:** Moving away from erratic budget allocations by creating a dedicated, ring-fenced, or legally mandated source of funds (for example, via a Development Levy);

(iv) **Development of domestic defence industry:** Supporting local production of defence equipment, reducing reliance on imports, and promoting the growth of a domestic defense technology sector;
(v) **Security of strategic assets**: Protecting and strengthening critical infrastructure against both physical and cyber threats;
(vi) **Enhanced accountability and transparency:** Ensuring that funds are used exclusively for security-related operational purposes, with direct, tracked, and audited payments to the relevant security agencies; and
(vii) **Enhancing force welfare:** Improving the living and working conditions of personnel, including service family accommodation and other welfare facilities to boost morale.

In the context of the Nigeria Tax Act, 2025, this fund is specifically intended to support and secure peace and rebuilding prosperity through targeted investment in security infrastructure.

(g) The Cybersecurity Fund

The Cybersecurity Fund in Nigeria established under Section 44 of the Cybercrimes (Prohibition, Prevention, etc.) (Amendment) Act 2024 aims to provide a dedicated financial resource for strengthening the nation's digital defence, protecting critical infrastructure, and combating the rising tide of cyber-attacks. The fund, administered by the Office of the National Security Adviser (ONSA), is designed to boost the capabilities of government agencies and secure the digital economy.

Objectives

The key objectives of the National Cybersecurity Fund include:

(i) **Strengthening cybersecurity infrastructure:** To finance the upgrading of technology, enhancement of data security protocols, and investment in cyber defense tools across government Ministries, Departments, and Agencies (MDAs);
(ii) **Capacity building and training:** To enhance the skills of cybersecurity professionals, law enforcement agencies, and security personnel to effectively detect, prevent, and investigate cybercrimes;
(iii) **Public awareness and education:** To promote cyber safety and raise public awareness, educating individuals and businesses on how to identify and mitigate cyber threats;
(iv) **Protecting critical national information infrastructure:** To secure vital digital infrastructure, such as telecommunications, banking, and government networks from cyber-attacks and espionage;
(v) **Operationalising the National Cybersecurity Coordination Centre (NCCC):** To provide funding for the NCCC, which acts as the national focal point for managing cyber incidents and coordinating responses;

(vi) **Countering violent extremism:** To allocate up to 40% of the fund to programmes aimed at preventing the use of cyberspace for violent extremism and terrorism; and

(vii) **Supporting research and development:** To foster the development of local, indigenous cybersecurity technologies and solutions.

13.14 Contingency fund

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

13.14.1 Charges on the contingency fund

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

Illustration 13.1

(a). Distinguish between Federation account and consolidated revenue fund (CRF).

(b). Prepare Federation account and consolidated revenue fund from the following information:

Inflows	**₦'000**
Import duties	400,000
Export duties	300,000
Excise duties	200,000
Petroleum profits tax	80,000,000
Companies' income tax	71,000,000
PAYE: deductions from the emolument of the Armed Forces	400,000
Police personnel	30,000
Residents of Abuja	20,000
Dividend from Federal Government investments	120,000
Outflows:	
Remuneration of statutory officers	13,800,000
Recurrent expenditure	1,500,000
Transfer to: Development fund	2,500,000
Contingency fund	20,000
Note: The revenue allocation formula is: Federal Government	48.5%
State government	24.0%
Local government	20.0%
Special fund	7.5%

Suggested solutions 13-1

Federation account for the month ended 31/1/200x

Inflows	**₦'000**
Import duties	400,000
Export duties	300,000
Excise duties	200,000
Petroleum profits tax	80,000,000
Companies' income tax	71,000,000
Total income	**151,900,000**
Distribution:	**₦000**
Federal Government: 52.68% of 151,900,000	80,020,920
State Governments: 26.72% of151,900,000	40,587,680
Local Governments: 20.6% of 151,900,000	31,291,400
Total distribution	**151,900,000**

Consolidated revenue fund for the month ended 31/12/200X

Inflows PAYE tax deductions from the emoluments of the following:

	₦'000	₦'000
(i) Armed Forces Personnel	400,000	
(ii) Police personnel	30,000	
(iii) Residents of Abuja	20,000	450,000
Dividends from Federal		
Government investments		120,000
Share from Federation account		80,020,920
Total income		**80,590,920**
Less: Outflows:		
Remuneration of statutory officers	13,800,000	
Recurrent expenditure	1,500,000	
Transfers: Development fund	2,500,000	
Contingency fund	20,000	(17.820,000
Bal c/f		**62,770,920**

13.15 Chapter review

This chapter has discusses the general sources of revenue of various governments and the nature and classification of the specific sources of government revenue in Nigeria. Emphasis is on inflows and outflows of income to the Federation Account, the Consolidated Revenue Fund, the Development Fund and the Contingency Fund. The major revenue collection agencies of the Government of Nigeria are also discussed.

13.16 Worked examples

13.16.1 Examination type questions

1. Government requires revenue to perform its various functions, hence, government strives to generate enough revenue to finance its activities.

   Required:
   (a) Explain government revenue.
   (b) Discuss the general sources of revenue of various tiers of government.

2. Section 80 of the Constitution of the Federal Republic of Nigeria, 1999, established the Consolidated Revenue Fund (CRF). Except those revenue items which are specifically designated to other funds, all others shall be paid into the Consolidated Revenue Fund.

Required:
Identify the revenue heads which are payable into the Consolidated Fund Account, and explain which line of expenditure it is used to finance.

3. The existence of the development fund was reinforced by the 1999 Constitution of the Federal Republic of Nigeria, although created earlier by Section 25 of the Finance (Control and Management) Act of 1958.
   Required:
   (a) Explain the purpose of the Development Fund Account.
   (b) Identify the sources of money accruing into it and the main charges against the Fund.

13.16.2 Suggested solutions

1. (a). Government revenue refers to the income generated by the government through various incomes inside and outside the particular government. The general sources of revenue of governments include:

(b) Sources of revenue

i. Taxation: This is a compulsory levy imposed by the government for which citizens receive no direct benefits. The levy is usually payable at different rates depending on the nature of economic activity conducted by an individual or firm.

ii. Fees: these are payments made by users of public services on a cost-sharing basis.

iii. Fines: refer to the penalties imposed by government against law breaches, that is, any person or firm which has been proved guilty by law must be exposed to specific fines as compensation for the destruction made by the person or firm and the collected amount being revenue for the government.

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

v. Foreign investment: sometimes government may decide to invest beyond its boundary provided there is a proof for sustainable and profitability cash flow. The amount obtained from such investment constitutes revenue to the particular government.

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

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

2. The following revenue heads are payable into the Consolidated Fund Account:

Section 80 of the Constitution of the Federal Republic of Nigeria,1999, established the Consolidated Revenue Fund (CRF). All revenues not specifically designated to other funds go into the Consolidated Revenue Fund;

The revenue head payable into the Consolidated Fund Account include the following:

(a) **Direct allocation** from the Federation account at the prevailing rate.
(b) **Direct taxes:** These include PAYE of the Armed Forces and Police
(c) Personnel, Foreign Service Officers and Residents of the Federal Capital Territory, Abuja.
(d) **Licence and internal revenue:** These are realised from the issues of licences, for example arms and ammunition licence fees, goldsmith licence fees, radio and T.V Licence fees, gold dealer's licence fees.
(e) **Mining:** These include mining fees, rent of crow lands, royalties on gold, tin, iron ore, and coal mines.
(f) **Fees:** They are fees received on services rendered by government officials, for example, court fees, court fines and medical fees.
(g) **Earnings and sales:** Earnings and sales are derived from the use and subsequent disposal of government property, for example sales of stores, publications and stamps, commission on money order and poundage on postal orders.
(h) **Rent of government property:** The incomes include rent on government quarters, land and buildings.
(i) **Interest and repayments (General):** These are interest and repayment of loans granted to individuals by the government, Corporations, and government companies. An example is the repayment of motor vehicle loans.
(j) **Interest and repayments (State):** They are interest and repayment of loans granted to the state governments.

(k) **Armed forces:** The sales of Armed Forces 'property such as old vehicles and stores constitute revenue.

(l) **Reimbursements:** These are refunds for services rendered to the state and local government councils, Public Corporations and other Statutory Bodies by the Federal Government officers. Examples are reimbursements of audit fees and refunds of overpayments made to government workers.

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

The lines of expenditure that it is used to finance are:

a. pension and gratuities;
b. salaries and allowances of statutory officers; and
c. all Heads of recurrent expenditure.

3. (a) The fund was established for the purpose of facilitating the execution of capital development projects.

(b) The sources of money accruing to the development fund are:

i. **Contribution from the consolidated revenue fund:** These are yearly transfers of money from the consolidated revenue fund, in the Federal Government's wisdom, notwithstanding that the Constitution does not expressly state this.

ii. **External grants:** These are usually received from foreign countries and non-financial institutions.

iii. **External loans:** These may come from such foreign bodies as the International Monetary Fund (IMF).

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

While the charges from the development fund include:

i. **Capital expenditure payments:** This is expenditure incurred for the provision and maintenance of infrastructural amenities such as the construction of bridges and dams.

ii. **General administration:** These are expenditure items made for the provision and maintenance of Army Barracks/Police Stations, staff houses, motor vehicles and hospitals.

iii. **External financial obligations:** They are disbursements made for expenditure incurred to provide financial assistance to countries, which are in need. For example, donations, grants and aids, to neighbouring countries.

iv. **Loans made to state governments in Nigeria:** There are different types of loans, which the federal government grants to the States, for developmental purposes.

Skills Level
Public Sector Accounting and Finance

CHAPTER 14

AUTHORISATION OF GOVERNMENT EXPENDITURE AND FINANCIAL CONTROL OF PUBLIC SECTOR REVENUE

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14.1 Learning outcomes

14.2 Authorisation of government expenditure

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14. Authorisation of Government Expenditure and Financial Control of Public Sector Revenue

14.0 Learning objective

The objective of this chapter is to enhance readers' understanding of the various financial authorities in form of financial warrants used by the government to release funds in the public sector.

14.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

(a). identify and discuss the various financial authorities responsible for the efficient implementation of the budget;
(b) explain the importance of revenue control techniques and those of fund accounting, in the public sector;
(c) rationalise the need for expenditure control;
(e) identify the various types of control exercised over government expenditure; and
(f) describe the expenditure control processes of the government.

14.2 Authorisation of government expenditure

All expenditure of Government must be properly authorised and approved. The authority, which confers power on the officer controlling expenditure or a vote, to incur expenditure, is called "Warrants". All warrants should be issued and signed by the Minister of Finance.

Warrants can be divided into two groups:

(a). Recurrent expenditure warrants
(b) Capital expenditure warrants.

14.2.1 Recurrent expenditure warrants

Recurrent expenditure warrants are authorisations issued by the Minister of Finance to disburse from the Consolidated Revenue Fund.

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

(b) Provisional general warrant (P.G.W.): This is issued at the beginning of the financial year before the Appropriation Act comes into operation. It provides for the continuation of services of Government on a scale not exceeding the level of these services in the previous financial year. The Warrant will be in operation for a

maximum period of six months or until the Appropriation Act comes into effect, whichever is shorter.

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

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

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

(e) Supplementary (Contingencies) warrant:

(i) virement is not possible;

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

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

To be successful, applications for virement should:

(i). be in writing;

(ii) state that a particular sub-head is in deficit;

(iii) state that another sub-head is in surplus;

(iv). indicate that both sub-heads are within the same economic head;

(v) state that after the transfers, the other sub-heads will not be in deficit; and

(vi). state that virement warrants are not sought to create new sub-heads.

(g). **Supplementary (Statutory) expenditure warrants:** Supplementary (Statutory) Expenditure Warrants authorise additional expenditure over and above that included in the Annual General Warrant and Supplementary General Warrant,

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

14.2.2 Capital expenditure warrants:

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

(a). **Development fund annual general warrant (DFAGW):** This authorises the Accountant General of the Federation to issue funds for expenditure on capital projects, as contained in the approved Capital Estimate, and mandates the Officers controlling expenditure votes to disburse on the capital projects envisaged. The authority to incur expenditure will be conveyed after the National Assembly has approved the Capital Expenditure Budget.

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

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

(d) **Development fund reserved expenditure warrant:** A DFREW authorises the release of funds in the approved Annual or Supplementary Capital Estimates, but excluded from the DFAGW and DFSGW, i.e. it is the release of funds which the Honourable Minister of Finance (HMF) initially withheld in order to exercise special control.

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

(f) **Development fund special warrant (DFSW):** A DFSW is issued in exceptional cases where:

(i) virement is not possible; and

(ii) provision for the release of additional funds reveals such high degree of urgency that there lease of fund scan not be postponed until a Supplementary Capital Estimate is approved. If the issue of fund is postponed, it will cause serious injury to the public interest. The amount to be expended under this Warrant must not exceed the balance of the Development Fund remaining after all other expenditure provided for in the Capital Estimate has been incurred.

(g). **Development fund virement warrant:** The Warrant permits the issue of additional funds necessary for the completion of a capital project, for which money already allocated in the estimate is not enough to complete the project. There must however be sufficient off setting savings in the amounts appropriated for other projects in the same economic programmed section. The limitations imposed for the issuance of the Development Fund Virement Warrant include:

(i). re-allocation can be made only within the same head of expenditure in the capital estimates;

(ii). the re-allocation must not give rise to a new principle or policy; and

(iii). it cannot be used to provide funds for new projects.

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

14.3 Revenue control

Government should adopt are venue control and management policy over revenue as an integral component of their overall financial policies. The management must establish a formal manual that documents the entity's revenue control and management procedures that can facilitate policy implementation, as well as serve as an effective internal control system.

The term "Revenue Control" describes the various checks put in place to ensure that all moneys due are received and accounted for.

Elements of revenue control system in the public sector

(a). All aspects of cash receipting and accounts receivables should be subject to proper internal controls including:

(i). segregation of duties such as initiation and authorisation of transactions, execution of transactions (receipting and disbursement), recording transactions, reconciliation and maintaining custody;

(ii) daily processing and timely deposit of receipts. ideally, all funds should be deposited within the specified period;

(iii) physical security procedures. this is especially important for funds not deposited on the day of receipt; and

(iv). fraud reporting procedures. There should be timely issuance of all revenue documents to minimise fraudulent practices.

(b). Use of integrated receipt and accounting systems wherever practical and cost-effective.

(c) Policing the revenue administration system to ensure that services are not rendered without charges being levied. Accounts receivable should be established for services provided in advance of payment and terms for collection should be established. In accordance with established procedures, bills should be initiated, recorded in an accounts receivable system, and generated within an established timely manner after initial service delivery.

(d) Effort should be made to ensure that receivables are collected in a timely manner. A policy should be established to provide for 'write-offs' of accounts receivable, including timeframe, Naira thresholds and decision-making authority.

(e) Procedures for processing and collection of returned cheques should be established, including the assessment of fees to offset the costs associated with the returned cheques.

(f) Timely issuance of demand notices and follow-up action to track down debts;

(g) Treasury departments of the agencies should serve as the primary recipient for all revenue collection sites. There should be timely recognition and depositing of revenue collected into banks.

(h) An allowance for doubtful accounts and a write-off policy should be established. Bad debt expense should be estimated based upon a documented method of calculation. An allowance for doubtful accounts should be recorded. Write-offs should be performed periodically to ensure that accounts receivable and allowance balances are not overstated.

(i) Revenue collections and accounts receivable should be monitored in a timely manner. Both actual and budgeted or forecast revenues should be monitored. Any significant variance of actual from the forecast or budgeted revenues should be investigated thoroughly.

(j) Government should ensure that their revenue control and management policy and procedures are in full compliance with any federal, state, local or other applicable laws or requirements.

14.4 Expenditure control

Expenditure control could be defined as the strings of coordinated actions, which have to be taken to ensure that all expenditure are ‘wholly’, ‘necessarily’, ‘reasonably’ and ‘exclusively’ incurred for the purposes for which they are meant.

Basic controls exercised over government expenditure.

(a) **Executive control**

The Executive comprises the President and his cabinet members who have the responsibility for the efficient and effective control of the administration of the country - politically and economically. The Constitution created two other arms of government, called the Legislative and the Judiciary for purposes of checks and balances. All measures and policies taken by the President are subject to the approval of the Legislature within the ambit of the Constitution.

Consequently, in accordance with Section 81(1) of the Constitution, “The President shall cause to be prepared and laid before each House of the National

Assembly at any time in each financial year, estimates of revenue and expenditure of the Federation for the following financial year."

The President, in order to satisfy the provisions of the Constitution also appoints a cabinet committee on estimates, to advise him on the contemplated policy measures. The policy measures contemplated are then transmitted to the budget department in the presidency. This development in turn leads to the issuance of guidelines on the preparation of the budget. As a result, effective supervision is exercised on all the agencies involved in budget operation. Any unit of the Government, whose requirements are higher than the 'control figures' already issued, is invited to defend the excess request.

(b) Legislative control

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

(c) Auditor General for the Federation

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

(d) Ministry of finance control

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

(e) Controls by warrants

Although the Estimates and Appropriation Acts guide the disbursement of public funds, the release of money is subject to issuance of relevant Warrants by the finance minister, for the expenditure. The Warrant authorises the Accountant General to release fund from the Consolidated Revenue Fund or Development Fund. The system of Warrant gives the Executive greater control over the

issuance of funds than would be offered by a system, which relies solely on the provisions of the Appropriation Acts.

(f) Budget office of the Federation.

The Minister of Finance, through the Budget Office of the Federation, shall monitor and evaluate the implementation of the annual budget, assess the attainment of fiscal targets and report to the Fiscal Responsibility Commission and the Joint Finance Committee of the National Assembly. In implementing their annual budgets, state and local governments may adopt those provisions. For preparation of the Annual Estimates and the formulation of the fiscal, monetary and other policies which are needed to support the economy, the Ministry of Budget and Planning performs the following functions:

i. developing reasoned economic assumptions and forecasts;
ii. issuing budget guidelines to the ministries and extra-ministerial departments;
iii. acting as the liaison between the presidency, ministries and extra- ministerial departments during the budget preparation;
iv. compiling total revenue and expenditure estimates;
v. drafting the budget speech;
vi. supervising and controlling the implementation of the budget;
vii. monitoring and evaluating the performance of programmes funded through the government budget:
viii. assessing the impact of the budget on the economy;
ix. developing formats of returns aimed at ensuring cost effectiveness in the use of government resources; and
x. carrying out research on budget utilisation and the attainment of National or State objectives.

(g) Treasury control - Office of the Accountant General of the Federation (OAGF)

The responsibilities of the Accountant General are:

i. to ensure that government funds are used judiciously for the purposes for which they are earmarked;
ii. the accountant general has overall responsibility for the total expenditure of government;
iii. to keep necessary books of accounts to record all the receipts and expenditure of the various ministries and departments; and
iv. the treasury department exercises some measure of supervision and
v. checks over the accounting records of the non-self-accounting Units.

To ensure these responsibilities, the Chief Treasury Officer of the Federation (that is, Accountant General), moves round the various offices to ascertain compliance. The representatives of the Accountant General make use of Treasury Inspection Questionnaires and Reports, to perform the appraisal and control functions.

Treasury inspection questionnaires: A treasury inspection questionnaire is a set of standard questions to be answered and a list of documents to be made available during the time of visits to the different Accounts Departments. The advantages are:

(i). they assist the inspector to complete the assignment so that there will not be any omission;
(ii). they state clearly the standard of performance required;
(iv). questionnaires state the requirements to be met; and
(v). they show in details the level of assignments required.

(h) Inspectorate department

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

Functions:

i. inspection of the accounting records, documents and books of federal ministries, departments and agencies; to ensure compliance with rules and regulations as well as checks for internal controls;
ii. investigation of cases of fraud and losses of funds and stores in federal ministries, departments and agencies;
iii. Permanent Board of Survey and Enquiry into cash and stores and cases of loss of government funds and property in federal ministries; and
iv. Losses committee on cases and write-off of losses.

(i) Funds department

This is another department in the Office of Accountant General of the Federation that carries out the following control functions:

i. managing the Federation Account, the Consolidated Revenue Fund and other public funds;
ii. cash backing and cash management;
iii. loans servicing;
iv. regular reconciliation of Government accounts with banks, etc.;
v. fiscal Accounts; and
vi. maintenance of expenditure pattern of the federal government.

(j) Internal audit

This is another aspect of control exercised in any organisation. The Office of Accountant-General of the Federation dispatches Internal Auditors to the Ministries and Self-Accounting departments to appraise the effectiveness of the existing internal checks and report upon any inadequacy discovered. The department of audit monitoring in the Office of Accountant General of the Federation carries out the following duties on behalf of the Accountant General of the Federation:

i. control and supervision of the pool of internal auditors in federal ministries, departments and agencies;
ii. perform and monitor all the internal audit duties in federal ministries and federal pay offices; and
iii. collate and analyse the internal audit reports from all the ministries and agencies.

(k) Departmental control over the budgeted expenditure (expenditure unit)

A departmental Vote Expenditure Allocation Book (D.V.E.A. Book) is a record of payments made and liabilities incurred under the Votes or Funds approved for each ministry or extra-ministerial department. A Vote Book is maintained for each Head or sub-Head of expenditure. It is an integral part of the budgetary control system. The book is designed to facilitate vote watching to ensure that expenditure incurred are not in excess of appropriation. Over-expenditure of departmental vote amount to reckless use of public funds and is seriously frowned at by government.

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

(l) Public Accounts Committee (PAC)

The committee is a body established by law to study and examine the reports submitted by the Auditor-General, especially in the areas of fraud practices or embezzlement of public funds. The Body is also to expose waste, corruption or inefficiency in the handling of public funds or projects and make appropriate recommendations to the National/ State Assembly. It is empowered to examine the audited accounts of the Federation and those of public offices as well as the Auditor-General's report there on.

Roles of Public Accounts Committee

(a) To examine the accounts showing the appropriation of the sum granted by the Legislature to meet the public expenditure; together with the Auditor- General's report thereon.

(b) The committee not only ensures that ministries spend money in accordance with Legislature approval, it also brings to the notice of the Assembly instances of extravagance, loss, in fructuous expenditure and lack of financial integrity in public services.

(c) The committee shall, for the purposes of discharging that duty, have power to send for any person, papers and records and to report from time to time to the legislature and to sit notwithstanding the adjournment of the Assembly;

(d). To examine any accounts or report of statutory corporations and boards after they have been presented to the State House of Assembly and to report thereon from time to time to the Assembly.

(e) To enquire into the report of the Auditor General with respect to any pre-payment audit query which had been over ruled by the chief executive of the ministry, extra-ministerial department, agency or courts of the government and to report it to the Assembly.

(f) The committee has extended its scope of work in recent years to cover the examination of policy issues and accounts that are not part of the appropriation accounts.

14.5 Chapter review

This chapter discusses the various financial authorities, divided into recurrent and capital expenditure warrants. It also deals with revenue control techniques and expenditure control, with emphasis on the various forms of control over government expenditure. These include controls relating to the Executive, Legislature, Ministry of Finance, the Treasury and Departments.

14.6 Worked examples

14.6.1 Examination type questions

1. All expenditure of Government must be properly authorised and approved. All warrants should be issued and signed by the Minister of Finance.

   Required:
   (a) Explain a "Warrant".
   (b) (i) Explain Recurrent Expenditure Warrants.
   (ii) Explain **SEVEN** (7) types of Recurrent Expenditure Warrant.

2. The National Assembly plays a crucial role in the planning and monitoring of public expenditure.

   Required:
   Discuss the main roles of the National Assembly in planning and monitoring of public expenditure.

3. Expenditure control could be defined as the strings of coordinated actions, which have to be taken to ensure that all expenditure is 'wholly', 'necessarily', 'reasonably' and 'exclusively' incurred for the purposes for which they are meant.

   Required:
   In the light of the above statement, explain expenditure controls exercised by the following:
   a. Executive
   b. Budget Office of the Federation
   c. Legislature
   d. Departments

14.6.2. Suggested solutions

1. (a) **Warrant** is the authority issued by the Minister of Finance and directed to the Accountant General or to the Officer controlling expenditure to incur expenditure on items that have approved in the budget estimate.

(b)(i)**Recurrent expenditure warrants** are authorisations issued by theMinister of Finance to disburse from the Consolidated Revenue Fund to meet items of recurrent expenditure that have been approved in the estimate.

(ii) **Types of recurrent expenditure Warrant**

- Provisional General Warrant (PGW)
- Annual General Warrant of Recurrent Expenditure (AGW/RE)

- Supplementary General Warrant of Recurrent Expenditure (SGW/RE)
- Reserve Expenditure Warrant (REW)
- (Supplementary (Contingencies) Warrant (SCW)
- Supplementary (Statutory Expenditure) Warrant (SSEW)
- Virement Warrant (VW)

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

(ii) Types of capital Expenditure warrant

- Provisional Development Fund General Warrant (PDFGW);
- Development Fund Annual General Warrant (DFAGW);
- (Development Fund Supplementary General Warrant (DFSGW);
- Development Fund Reserved General Warrant (DFRGW);
- Development Fund Supplementary Warrant (DFSW);
- Development Fund Special Warrant (DFSW);
- Development Fund Virement Warrant (DFVW);

2. The main roles of the National Assembly in planning and monitoring of government expenditure are:
   (a). ratification of the monetary and fiscal policies adopted by the executive.
   (b) compilation and ultimate approval of the nation's budget.
   (c) ratification of the appointment of the auditor-general.
   (d). appointment of the public accounts committee.
   (e) monitoring of the implementation of the budget.
   (f) guiding against extra-budgetary spending, and ensuring that money is expended for which it is meant.

3. (a) Executive control

The Executive comprises the President and his cabinet members who have the responsibility for the efficient and effective control of the administration of the country politically and economically. The Constitution created two other arms of government, called the Legislative and the Judiciary for purposes of checks and balances. The President in order to satisfy the provisions of the Constitution also appoints a Cabinet Committee on Estimates, to advise him on contemplated policy measures. The policy measures contemplated are then transmitted to the Budget Department in the Presidency. This development in turn leads to the issuance of guidelines on the preparation of the Budget. As a result, effective supervision is exercised on all the agencies involved in budget operation. Any Unit of the Government whose requirements are higher than the 'control figures' already issued, is invited to defend the excess request.

(b) Budget office of the Federation.

The Minister of Finance, through the Budget Office of the Federation, shall monitor and evaluate the implementation of the annual budget, assess the attainment of fiscal targets and report to the Fiscal Responsibility Commission and the Joint Finance Committee of the National Assembly. In implementing their annual budgets, state and local governments may adopt those provisions. For preparation of the Annual Estimates and the formulation of the fiscal, monetary and other policies which are needed to support the economy, the Ministry of Budget and Planning performs the following functions:

i. developing reasoned economic assumptions and forecasts;
ii. issuing budget guidelines to the ministries and extra-ministerial departments;
iii. acting as the liaison between the presidency, ministries and extra-ministerial departments during the budget preparation;
iv. compiling total revenue and expenditure estimates;
v. drafting the budget speech;
vi. supervising and controlling the implementation of the budget;
vii. monitoring and evaluating the performance of programmes funded through the government budget;
viii. assessing the impact of the budget on the economy;
ix. developing formats of returns aimed at ensuring cost effectiveness in the use of government resources; and
x. carrying out research on budget utilisation and the attainment of National or State objectives.

(c) Legislative control

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

(d) Departmental control over the budgeted expenditure (expenditure unit)

A departmental Vote Expenditure Allocation Book (D.V.E.A. Book) is a record of payments made and liabilities incurred under the Votes or Funds approved for each ministry or extra-ministerial department. A Vote Book is maintained for each Head or sub-Head of expenditure. It is an integral part of the budgetary control system. The book is designed to facilitate vote watching to ensure that expenditure incurred are not in excess of appropriation. Over-expenditure of departmental vote amount to reckless use of public funds and is seriously frowned at by government.

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

Skills Level
Public Sector Accounting and Finance

CHAPTER 15

PREPARATION OF VOUCHERS AND THEIR USES

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15.3 Classification of vouchers

15.4 Payroll accounting in the public sector

15.5 Chapter review

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15 Preparation of Vouchers and their Uses

15.0 Learning objective

The objective of this chapter is to enhance readers' understanding of preparation of various vouchers in the public sector and the actions to be taken when there is loss of payment vouchers.

15.1 Learning outcomes

On successful completion of this chapter readers should be able to:

(a) identify the various types of vouchers in use;
(b) identify the essential features of a valid voucher;
(c) explain the duties of the accounting officers with respect to the use of payment vouchers;
(d) explain the procedure for approval of payroll by the Accountant-General; and
(e) discuss the action of salaries, cash office and internal audit section on payroll.

15.2 Introduction

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

15.3 Classification of vouchers

Vouchers may be classified into three as follows:

(a). Payment vouchers;
(b) Receipt vouchers; and
(c) Adjustment vouchers.

15.3.1 Payment vouchers

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

15.3.2. Essential features of a valid payment voucher

A valid payment voucher must contain the full particulars of such services rendered or goods purchased like date, serial number, quantity and price. It has to be supported by relevant documents such as invoices, local purchase orders and letter of authority. The following are the essential features of a well-prepared payment voucher:

a. date of the voucher, which indicates its life span;
b. classification code, i.e. head and sub-head of expenditure;
c. amount in words and figures;
d. voucher number;
e. description of payment; name and address of payee /beneficiary;
f. supporting documents, such as local purchase orders, invoices, store receipt vouchers and contract agreements;

g. authority, such as the signature of the officer controlling expenditure and the type of warrant which will release the money;
h. signature of the cashier;
i. signature of the payee
j. voucher certification, which indicates the following, in a box:

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

k. cheque number, where the payment is by cheque; and
l. cashier's stamp 'PAID' which prevents re-presentation of the voucher for payment.

Format of a payment voucher

NCOA.....Station:.....……..

Voucher serial no.....Amount N: .....

Name of beneficiary:.....

Address:.....……

Date	Description of payment	Rate	Amount payable
	-	₦	₦

Authorised:(i) Warrant.....

(ii) Officer Controlling Expenditure.....

- Amount in words.....
- Signature of payee.....
- Signature of cashier.....

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

.....

Signature of Officer Authorising Expenditure

15.3.3 Rules guiding issuance of payment vouchers

According to Financial regulations, a sub-accounting officer may not make payment against a voucher unless:

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

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

(i). vouchers shall be made in ink or ballpoint pens or indelible pencils or shall be typewritten. all copies must be legible;
(ii). no erasure of any kind, whether in typescript or manuscript. use of correcting fluid is not allowed; and
(iii). a single thick horizontal line shall be drawn immediately before and immediately after the Naira (₦) figure. Where it appears in words, space shall not be allowed.

Where a payment voucher is presented to the sub-treasury or cash office for the purpose of obtaining cash for payment to be made elsewhere, as in the case of payment of salaries, a cheque/cash order form has to be signed by the Officer authorising the voucher, bearing the signature of the Officer authorised to receive the cheque or cash. A separate cheque/cash order form is required for each voucher.

15.3.4 Loss of a payment voucher

Where a payment voucher is reported lost, the following procedures should be followed:

(a). prompt investigation should be carried out;
(b). it should be established whether payment has been made on it or not;
(c) it should be ascertained whether or not the cash drawn is still on hand; and
(d) a report should be made by the accounting officer to the Accountant General, stating the circumstances of the loss.

15.3.5 Receipt vouchers

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

Format of receipt voucher

NCOA---------- Receipt No----------
Service ---------- Date.....
Received from .....
The sum of ----------
Being Payment for:_____
Signature of Cashier:_____
Signature of the Payee:_____

15.3.6 Adjustment vouchers

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

(a) payment for inter-ministerial services;
(b) correction of accounting errors arising from misclassification;
(c) ultimate allocation of unallocated stores; and
(d) carrying out adjustments or transfers between accounts.

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

The following particulars are required on an adjustment voucher:

(a). reason for the transfer or adjustment, with full reference to the original debit or credit being adjusted;
(b). voucher number;
(c) month of account; and
(d). particulars of treasury or audit query, where the adjustment is as a result of such an investigation.

15.4 Payroll accounting in the public sector

15.4.1 Procedure for approval by Accountant-General

The Accountant General must approve the procedure and method to be employed by Federal Ministries, departments and units for the recording and the calculation of personal emoluments.

The standard payroll system to be applied in all offices, unless otherwise provided under FR 1518 shall be such as to ensure that maintenance of the following records will be made in a single operation:

(a). personal emolument record;
(b). payroll in duplicate together with a bank paying-in-advice slip; and
(c) pay statement to be issued to the individual officer.

The above provision shall be applied irrespective of whether the system is computerised or not. The officer controlling expenditure shall ensure that the standard personal emoluments records shall show the following:

(a) standard rate of pay of the officer;
(b) incremental rate;
(c) standard allowance;
(d) salary and other advances issued;
(e) tax, P.A.Y.E;
(f) gross emoluments;
(g) standard deductions from emoluments; and
(h) net emoluments payable.

15.4.2 Custody of personal emoluments records cards (PERC)

(a). Where the accounting system is manual, the head of finance and accounts shall ensure that the personal emoluments records cards are kept under strict security arrangements.

(b) The PERC shall always be kept under lock and key in a fire-resistant cabinet, safe or strong room when not in use.

(c) It is mandatory for every officer to complete the personal emolument record forth annually which must be certified by the head of department or other designated officer.

(d). he completed personal emolument form shall be the basis for opening the group registers, which must be audited before the inclusion of any officer in the payroll.

15.4.3 Action by salaries section on payroll

The payroll section shall ensure that the following actions are taken:

(a). effect necessary entries in the personnel emolument records of each employee in the payroll, for example basic salary for the month, deductions and net salary payable;

(b). aggregate all entries made in (a) above and raise treasury form 209 (advice of deduction from salary) to take care of deductions and TF 1 (Other charges payment vouchers) for the on-payment vouchers in favour of the relevant beneficiaries;

(c) the Treasury Form 209 and TF 1 raised shall be classified to the appropriate below – the-line classification code;

(d). a summary payment voucher treasury form shall be raised on pay point basis to capture the total basic salaries and allowances due to arrive at the gross amount due to all officers in a pay-point, the total deductions and the net amount payable;

(e) process cash-order form in accordance with the provision of financial regulations;

(f) effect necessary entries in the personnel emolument voucher, register and vote book;

(g). carry out internal check of payroll entries and vouchers to ensure accuracy of postings taking into consideration vacation in officers' salaries monthly;

(h) compare and reconcile the figures computed by the salaries and wages section with the figures in the variation sheet for a given month;

(i) the officer controlling expenditure after agreeing the figures therein with those in the variation control sheet shall sign all summary voucher and Treasury Form 209; and

(j) thereafter the payrolls supported with summary vouchers, TF 209 and on-payment vouchers shall be forwarded to the Internal Audit Unit.

15.4.4 Action by internal audit unit

On receipt of payrolls from the salary and wages section, the Internal Audit Unit shall carry out the following actions:

(a). ascertain the accuracy of entries in the personnel emolument records of officers and the payroll by examining them in details to ensure that variations if any in the emolument of staff are correctly stated;

(b). examine all summary vouchers, and other relevant supporting documents to ensure accuracy of all deductions and net salaries pay able to individual officers;
(c) ensure that gross salaries payable as reflected in the summary vouchers agree with the figures in the variation control sheets; and
(d). extract copies of summary vouchers and other supporting documents for record purpose.

15.4.5 Action by cash office

(a). Check payroll summary voucher and other supporting documents against entries in the forwarding schedules from the Internal Audit Unit to ensure that all relevant documents are complete.
(b). Sort and allocate treasury payment voucher number to summary vouchers and on-payment vouchers and treasury receipt vouchers in respect of TF209.
(c) Stamp all summary vouchers and on-payment vouchers with a "PAID" stamp for the month of account.
(d) Draw cheques for the net amount payable in the summary payment voucher in favour of the bank through which payment is to be made.
(e) Draw cheques due to various agencies as reflected in the on-payment vouchers.
(f) Post all payment vouchers and/treasury receipt vouchers separately in a salary cashbook, balance the cashbook and reconcile with bank statement monthly.

15.5 Chapter review

This chapter discusses payment vouchers, receipt vouchers and adjustment vouchers. Emphasis is on the essential features of valid vouchers and the duties of the accounting officers with respect to payment vouchers. The actions to be taken in the event of loss of payment vouchers is also discussed.

15.6 Worked examples

15.6.1 Examination type questions

1. Vouchers are important documents in the treasury function of a government. They should contain some information to be valid, and are to be approved by relevant officers of government.

   Required:
   a. Describe a payment voucher.
   b. Enumerate the essential features of a valid payment voucher.
   c. Explain **THREE** (3) uses of Adjustment Voucher.

2. Vouchers serve several purposes in the treasury function of government. Due to its varied uses, there are several types of vouchers.

   Required:
   a. Identify **ten** (10) types of vouchers used in Public Sector Accounting.
   b. Explain the procedures to be followed, in the event of loss of an already raised payment voucher.

c. Explain **five** (5) documents required to accompanyg a Contract Payment Voucher.

3. In accordance with FR 1519, the officer controlling expenditure shall ensure that the standard personal emoluments records contain certain information.

Required:

(a) Identify **SIX** (6) of such information.

(b) Discuss the statutory actions required by FR 1525 to be taken by the Internal Audit Department on receipt of payrolls from the salary and wages section.

15.6.1 Suggested solutions

1. (a) A payment voucher is the document prepared to serve as evidence that payments made for purchase of goods and services rendered are properly authorised and approved.

(b) Essential features of a valid payment voucher are:

(i). Date of the voucher, which indicates the life span
(ii). Classification code i.e. Head and subhead
(iii). Amount in words and figure
(iv). Voucher Number
(v). Description of payment
(vi). Name and address of beneficiary
(vii). Supporting documents such as local purchase orders, invoices store, receipt, vouchers and contract agreement
(viii) Authority for the release of the money paid
(ix). Signature of Cashier
(x) Signature of beneficiary
(xi). Voucher Certificate indicated in a box
(xii). Cheque number, where payment is by cheque
(xiii) Cashiers stamp "PAID" which prevents re-presentation of the voucher for a second time.

Voucher certificate
Prepared By…….....
Checked By……..
Entered into Vote Book By……
Passed By……
Paid By……
Authorised By……

(c) **Uses of adjustment vouchers**

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

(ii) Adjusting wrong postings of transactions

(iii) Re-classification of transaction

(iv) Allocation of unallocated stores

2. (a) Types of Vouchers used in government accounting

(i) Payment Voucher –Pensions
(ii) Pay-In-Voucher
(iii) Journal Voucher
(iv) Receipt Voucher
(v) Adjustment Voucher
(vi) Payment Voucher - Remittance
(vii) Transport Allowance Voucher
(viii) Travelling Allowance Voucher
(ix) Capital Expenditure payment Voucher
(x) Voucher for Non-Government Transport Services
(xi) Payroll Summary Voucher (Non-Pension Employee)
(xii) Payroll Summary Voucher (Senior Officers)
(xiii) Payroll Summary Voucher (Junior Officers)
(xiv) Store Issue Voucher
(xv) Store Receipt Voucher
(xvi) Other Charges Payment Voucher

(b) The following procedures should be followed when a raised payment voucher is confirmed lost:

(i) the accounting officer must be notified immediately.
(ii) the loss should be investigated, considering all circumstances leading to that effect.
(iii) the investigation should confirm whether payment has been effected against the voucher or not.
(iv) where payment has been made, it should be confirmed whether the cash withdrawn is still in possession of the payee or not.
(v) report should be made by the Accounting Officer to the Accountant General stating the circumstances of the loss.

(c) The following documents are required to accompany a contract payment voucher:

(i) the minutes of the meeting of the Tender Board that awards the contract;
(ii) the Certificate of completion of the contract issued by a competent site engineer or surveyor;

(iii) copy of the contract agreement to show that the terms are fully complied with;
(iv) letter of award of the contract;
(v) delivery Note or Stores Receipt Voucher (SRV) where the contract is supply of items and
(vi) a waybill or invoice or both issued by the contractor.

3. (a) Standard personal emoluments records shall show the following:
(i) standard rate of pay of the officer;
(ii) incremental rate;
(iii) standard allowance;
(iv) salary and other advances issued;
(v) tax, P.A.Y.E;
(vi) gross emoluments;
(vii) standard deductions from emoluments; and
(viii) net emoluments payable.

(b) On receipt of payrolls from the salary and wages section, the Internal Audit Unit shall affect the following:
i. ascertain the accuracy of entries in the personnel emolument records of officers and the payroll by examine them in details to ensure that variations if any in the emolument of staff is correct;
ii. examine all summary vouchers, and other relevant supporting documents to ensure accuracy of all deductions and net salaries payable to individual officers;
iii. ensure that gross salaries payable as reflected in the summary vouchers agree with the figures in the variation control sheets; and
iv. extract copies of summary vouchers and other supporting documents for record purposes.

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CHAPTER 16

FUNCTIONS OF THE CASH OFFICE AND SUBSIDIARY ACCOUNTS

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16.5 Security and custody of accounting books and documents

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16.7 Preparation of bank reconciliation statements

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16 Functions of the Cash Office and Subsidiary Accounts

16.0 Learning objective

The objective of this chapter is to enhance readers' understanding of the functions of cash office and preparation of bank reconciliation statements after the introduction of e-payment.

16.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

(a). explain the functions of the cash office;
(b). describe the procedures for the preparation of bank reconciliation statements;
(c). differentiate between types of government advances;
(d). itemise the conditions for granting the various advances;
(e) discuss the guidelines on operation of deposits Account in the public sector; and
(f). discuss Imprest, types and procedures for granting imprest.

16.2 Functions of the cash office

The duties of the cash office are receiving and paying cash, posting cash transactions into the cash book, opening a bank account on which cheques are drawn and providing information on the cash position at a given time. Security is essential in the management of the cash office. This includes the provision and partitioning of a cashier's cage to ensure that only authorised persons are allowed to move in and out. Effective internal check is also of utmost importance in the operations of the cash office, to minimise fraud and detect errors. Up-to-date recording of transactions and regular supervision are therefore required. Maintenance of adequate cash control with respect to establishment of cash limit, daily banking of all takings, periodic surprise cash count, installation of raid alarm and establishment of authority limit.

16.3 Cash book entries

Cash book entries in respect of cash/cheque payments and receipts are to be made and postings should be balanced each day. The ruling of the cash book provides columns for cash and bank transactions and total amount on the receipts (or debit) side. Gross amount, deductions and net amount payable appear on the payment (or credit) side. Receipts issued are to be posted on the left-hand side of the cash book. The particulars of the serial numbers, the payees and classifications are also to be entered. Amount received through bank tellers or advices should be entered in the bank column and extended to the total column. Where the amount received is in cash, it is entered in the cash column and extended to the total column. For payments, the voucher numbers, payees' names, nature of transactions and cheque details are entered, showing the gross amounts and deductions (if any). Cash balances are to be confirmed on a daily basis. The specification of physical cash retained in the safe must be checked and certified by the Head of the cash office, before 'lock up' at close of business each day. Numbering of vouchers in the cash book has to be properly controlled. Only one set of numbers is to be used in a month, for example 1 - 300.

16.3.1 Format of treasury cash book (TF153A) under cash basis

TRV NO./ DATE	From Whom Received	Classification Head/Sub Head	Treasury Receipt No.	Bank Credit Slip No.	Bank ₦	Cash ₦	Total ₦	Treasury P.V. No.	Department P.V. No.	To Whom Paid	Classification Head or Sub Head	Payee Bank	Cheque No.	Gross Amount ₦	Deduction or Cash ₦	Bank or Net ₦

16.3.2 Cash withdrawals from bank

Where cash is to be withdrawn from the bank, a cheque will be issued for the amount after due authorisation processes, but without raising a payment voucher. The amount is entered as a contra-entry. Where a substantial amount of cash is held above the authorised maximum, arrangement should be made to pay the excess into the bank through a teller or paying-in form. This will also be a contra entry. A contra entry shows the movement of cash between the office and the bank and vice-versa.

Where it is necessary to keep a reasonable amount of cash float in the office for urgent transactions, withdrawal from the bank follows the same procedure. The amount withdrawn is entered in a cash float register, in addition to the posting made in the cash book.

16.4 Cheque summary register

The cheque summary register serves as a useful record for the verification of bank transactions in the cash book. All cheques issued, money lodged into the bank account, vouchers raised to cover bank advices, teller particulars and other transactions, which are already recorded in the cash book, should be posted into the cheque summary register. The register is balanced daily. The balances in the register have to agree with those in the cash book. As an internal check, the person posting the summary register should not be the same person handling the cash book. The head of accounts should check the register daily before the cashier accepts any voucher for payment. He has to ensure that all the accounting regulations are kept.

16.5 Security and custody of accounting books and documents

Security documents carry monetary values. Such documents can be used to defraud the government if they fall into unauthorised hands or make government suffer loss if accidentally destroyed. Examples of security documents are:

(a). cheque book;
(b). treasury receipt books 6A and 6B;
(c). cheque summary register;
(d). cash book;
(e). payment voucher;
(f). local purchase order;
(g). postal order; and
(h) money order.

The security control of cheque books is important in the prevention of fraud. Issuing and handling of cheques should be limited to a sizeable number of staff of the pay office. Due check of unused leaves in a cheque book should be undertaken in order to ensure that none has been removed for fraudulent purposes. Unclaimed cheques which become stale after six months of issuance are written back.

Cash held in the office, cheque books and all unused control books are to be kept in a safe or strong room, the keys of which are to be kept under the dual responsibility of senior officers. Cash books, payment vouchers, cheque summary registers and all other vital pay office records are to be kept in fire proof security cabinets to ensure that unauthorised persons do not have access to them. Specifically, FR 1106 states that it is the duty of the accounting officer to ensure that departmental officers who are required to hold public money, stamps, etc. are provided with proper safe custody facilities.

Used security documents and other accounting records shall be retained for the following years after use:

S/N	Documents	Period of retention
(a).	Financial warrants, cash books, P/E records, etc.	Permanently
(b).	Revenue collector cash books, original payment vouchers, etc.	7 years
(c).	LPO, book copies of rail or other transport warrant, etc.	2 years

16.6 Maintenance of adequate cash control measures

Cash control relates to the co-coordinated actions which have to be taken in order to ensure that all incomes due to the government are collected on a timely basis, and that fraud is prevented. The cardinal objective is to ensure that funds are not mismanaged or misappropriated.

The following are the various cash control measures adopted in the ministries and parastatals:
(a). establishment of cash limits;
(b). daily banking of all takings;
(c). periodic surprise cash count (cash survey);
(d). provision of a safe that has to be under dual control;
(e). installation of 'raid alarm';
(f) installation of counting/sorting machines and mercury light;

(g). ensuring that sufficient and adequate insurance cover is taken over the cash limit;
(h) investment of idle funds;
(i). establishment of 'authority limit';
(j). balancing of cash book; and
(k). preparation of bank reconciliation statements.

16.7 Preparation of bank reconciliation statements

Every organisation has to keep close watch on its bank account transactions to guard against fraud or the infiltration of extraneous entries. It exerts the watch through regular preparation of bank reconciliation statements. In these days of fast and smart bank deals, the importance of preparing bank reconciliation statements at regular intervals cannot be over emphasised. Failure to do this may not only result in heavy loss of funds but sometimes in much more embarrassing situations.

Reconciliation is the process of resolving the difference between the balance as per cashbook and the balance as per bank statement on the same date and in respect of the same items of transactions. A bank reconciliation statement is prepared to reconcile the figures in the bank column of the cashbook with those on the bank statements for the period under review.

16.7.1 Documents required for the preparation of a bank reconciliation statement

(a). Cash book and cheque summary register;
(b). Bank statements;
(c). Cheque stubs;
(d). Paying-in-slips;
(e). Last bank reconciliation statement; and
(f). Debit and credit advices.

16.7.2 Procedures for carrying out bank reconciliation

The bank reconciliation is done by picking the balance of cash in the cash book to which are added the values of un-presented cheques and receipts in bank not in cash book. Payments made by bank not in cash book and "receipts in cash book not in bank" (that is, un-credited cheques) are deducted. The resultant balance should agree with the subsisting figure on the bank statement. The following activities are recommended:

(a). pick or extract the cash book balance at the end of the month;
(b). the previous month's bank reconciliation statement should be made available in order to treat the outstanding items such as un-presented cheques and un-credited lodgements;
(c) tick debit entries in the cash book against credit entries on the bank statements.
(d). conversely tick credit entries in the cash book against the debit entries on the bank statements;
(e). extract the un-ticked items into the following suggested schedules:
Schedule "A": Unpresented cheques.
Schedule "B": Credits in bank not in cash book.
Schedule "C": Uncredited lodgements.

Schedule "D": Debits in bank statement not in cash book

(f). Prepare the bank reconciliation statement based on the format suggested.

In summary, bank reconciliation is made up of four components namely:

(i). Unpresented cheques: These are cheques issued to payees but which have not been presented to the bank for payment.

(ii). Credits in the bank but not in the cash book: These are direct lodgements into the bank for which receipts have not been issued and which have not been entered in the cash book.

(iv). Uncredited cheques: These are lodgements not yet credited by the bank as at the end of the month when the bank statement was received.

(v). Debits in the bank but not in the cashbook: These are withdrawals, commissions and standing order payments in the bank statement that were not yet recorded in the cash book.

Format of a typical bank reconciliation statement			
Balance as per cash book			X
Add:	Unpresented cheques	X	
	Receipts in Bank not in cash book	X	XX
		XX	
Less	Uncredited cheques	X	
	Payments in bank not in cash book	X	XX
	Balance as per bank statement		X

16.7.3 Importance of bank reconciliation

(a). It discloses any unauthorised cheque issued and cashed

(b). It reveals any dishonoured cheques for which receipts have been issued and entered into the cash book;

(c). It discloses fraudulent/fake pay-in-slip purported to have been obtained for paying into government account;

(d). It reveals any lodgements not credited by the bank either by omission or commission.

Illustration 16-1

The cash book of Zolu Local Government showed a debit balance of ₦502,000 as at 30/9/200X. However, the bank account statement showed accredit balance of ₦505,000. On investigation, the following were discovered:

(a) Cheque numbers 51522 and 32552 for ₦2,000 and ₦3,000 respectively, have not been presented for payment.

(b). Interest on investment of ₦1,000 has not been posted into the cash book.

(c) A sum of ₦2,000 paid into the bank was credited only after the bank statement was issued.

(d). Bank charges of ₦1,000 have not been recorded in the treasury cash book.

You are required:
Prepare a bank reconciliation statement for the local government.

Suggested solutions 16-1

Zolu Local Government		
Bank reconciliation statement as at 30/09/200X		
	₦	₦
Balance as per cash book		502,000
Add: Unpresented cheques (2,000+3,000)	5,000	
Interest on investment not in the cash book	1,000	6,000
		508,000
Less: Uncredited deposit	2,000	
Bank charges	1,000	3,000
Balance as per bank statement		505,000

Tutorial note:
Most of the functions of the cash office described above have however been modified with the issuance of Treasury Circular TRY/A8 and B8/2008, OAGF/CAD/026/Vol.11/465 dated October 2008 one-payment which stipulates that all payments from all Federal government funds should henceforth be made electronically.

16 7.4 Suggested procedure for preparation of bank reconciliation statement

The current practice in preparing monthly bank reconciliation statement involves:
(a). Preparing adjusted cashbook where adjustment will be made for items, other than unpresented cheques and uncredited lodgements; and
(b). Preparing the bank reconciliation statement, which adjusts for unpresented cheques and uncredited lodgements.

This second procedure is commonly used in parastatals, boards and corporations.

Format adjusted cash book	₦
Balance as per cash book	XXX
Add: Credit items in the bank statement	XXX
but not in the cash book	XXX
Less: Debit items in the bank statement	XXX
but not in the cash book	
Balance as per adjusted cash book	XXX

Bank reconciliation statement	₦
Balance as per adjusted cash book	XXX

Add: Unpresented cheques (to be listed)	XXX
	XXX
Less: Uncredited lodgments (to be listed)	XXX
Balance as per bank statement	**XXX**

16.8 Advances

Advances are cash credits granted to individual officers in their respective ministries, parastatals and departments or cash given to an officer to carry out a specified task and to be retired later. Advances granted and authorised by the Minister of Finance are also employed to write off loss of government fund.

Advances are granted by the three-tiers of government, public and private enterprises. At the Federal Government level, Chapter 14 of the Financial Regulations of year 2009 guides granting of advances.

Basically, advances can be grouped into two categories. These are 'personal' and 'non-personal' advances, which are discussed as follows:

16.8.1 Non-personal advances

Advances of non-personal nature shall be authorised by the Minister of Finance, through the Accountant General of the Federation. They are chargeable to the non-personal account of the ministry or unit concerned; for example, an advance for training of staff outside headquarters. Advance granted under the authority of the financial regulations and those up to ₦50,000 in value are approved by the accounting officer. Specifically, a non-personal advance is one granted to an officer to carry out certain tasks for the organisation. This type of advance has to be retired within a reasonable time; otherwise, the total sum advanced shall be deducted from the officer's salary en-bloc. It is against the spirit of financial regulation to grant a non-personal advance to an officer when the initial ones are yet to be retired.

16.8.2 Personal advances

These are advances of cash to individual officers in the employment of the Federal Government of Nigeria for their personal benefits. These include:

Salary and rent advances

Salary and rent advances are granted to officers under the following conditions:

(a). if an officer is returning from leave of not less than 21 days duration, and/or he is to proceed on transfer and bear the cost of his transportation;

(b). if an officer is assuming first appointment and is not living in government residential quarters;

(c). if an officer is returning to Nigeria by sea and is to be stationed elsewhere other than in Lagos; and

(d). if an officer is on posting to an overseas office of the Ministry of External Affairs.

Correspondence advances

These are advances taken for correspondence courses. The conditions to be fulfilled for the grant of a correspondence advance are:

(a). that the ability and efficiency of the officer warrant his taking the course;
(b). that the subjects to be pursued in the course are related to his work;
(c). that the study is likely to increase his efficiency;
(d). that the course is with a reputable college or establishment;
(e). that its completion does not itself constitute grounds for advancement;
(f). that the officer will enter into agreement for repayment;
(g). that the advance shall be granted free of interest;
(h). that the officer produces receipts to show that the whole advance has been appropriately utilised;
(i). that the advance does not include an element for postage, stationery, examination or other fees; and.
(j). that the advance shall be recovered in twenty-four (24) consecutive instalments.

Advances for estacode for overseas tours

Cash advances may be granted to meet estacode allowance due to an officer travelling overseas. It will normally be drawn in Nigeria in the form of traveller's cheques made pay able to the officer travelling singly or to a designated officer travelling with a delegation. The traveller's cheques will be obtained from the Central Bank of Nigeria, against a cheque drawn on government account.

At the end of any duty tour, officers shall submit all the receipts and air tickets in order to account for the amount received as travelling expenses for the duty tour. This will serve as a proof that the journeys were undertaken for the number of days approved.

General rule on advances

As a general rule, an officer may be granted more than one type of advance at a time but care has to be taken to ensure that the total recoveries will not result in financial embarrassment to the officer or be more than two thirds (2/3) of his monthly salary. All advances will be recorded in total in the control ledger account while details of each individual advance will be reflected in the subsidiary ledger in the name of the officer to whom the advance has been granted.

Tutorial note:

Readers should please note that chapter 14 of the financial regulations which deals with advances on motor vehicles, motor cycles and bicycles has been modified with the circular on monetisation of fringe benefits. The monetisation policy states that car loans are to be provided by the banks on a single digit interest, to be guaranteed by the employer, Federal Government.

Car loans are at the following rates:

Officers on GL 01-05	-	100% of annual basic salary.
Officers on GL 06-07	-	150% of annual basic salary
Officers on GL 08 and above	-	200% of annual basic salary

16.9 Imprest account

An impress is defined as a small amount of money set aside to meet petty cash payments, the vouchers of which cannot be presented to a sub-accounting officer immediately. An imprest holder is therefore a petty cashier who handles such float and keeps necessary records for restoration to the earlier amount granted, at the appropriate time.

16.9.1 Types of imprests

There are two types of imprests, namely:

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

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

16.9.2 Conditions for operating an imprest

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

(b). The Accountant General of the Federation and the accounting officer of the ministry or extra- ministerial department will issue imprest after the Minister of Finance has conveyed the authority in the annual general imprest warrant.

Example of imprest Holder's cash book

Date	Reimbursement Details	No. Of Bank Credit Slip	Cash (N)	Bank (N)	Date	To Whom Payable	No.of Cheque Issued	Cash (N)	Bank (N)	Analysis

Source: Appendix 2, Financial Regulations (Revised to 31 December, 2009)

Illustration 16-2
The monthly float granted is ₦80,000. The main cashier reimburses any amount spent on the last day of each month. The following transactions took place in the month of November 2024:

		₦
November 1	Tea and sugar	4,000
" 3	Purchase of petrol	8,000
" 4	Postal services	2,000
" 5	Postage stamps	1,000
" 6	Envelopes	2,000
" 8	Purchase of petrol	1,000
" 12	Purchase of petrol	8,000
" 13	Postage stamps	2,000
" 17	Table water	6,000
" 18	Postages	4,000
" 19	Purchase of engine oil	1,000
" 19	Petrol	8,000
" 24	Honey	4,000
" 25	Biscuits	2,200
" 30	Engine oil	2,000
" 30	Petrol	3,000

16.9.3 Cash withdrawals from bank

Where cash is to be withdrawn from the bank, a cheque will be issued for the amount after due authorisation processes, but without raising a payment voucher. The amount is entered as a contra-entry. Where a substantial amount of cash is held above the authorised maximum, arrangement should be made to pay the excess into the bank through a teller or paying-in form. This will also be a contra entry. A contra entry shows the movement of cash between the office and the bank and vice-versa.

Where it is necessary to keep a reasonable amount of cash float in the office for urgent transactions, withdrawal from the bank follows the same procedure. The amount withdrawn is entered in a cash float register, in addition to the posting made in the cash book.

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

(b). Show the books of accounts to be credited and debited by the main and imprest cashiers at 1 December 2017, following fresh reimbursement.

Suggested solutions 16-2

Imprest holder cash book for the month of November 2024														
Date	Reimbursement Details	No. Of Bank Credit Slip	Cash	Bank	Date	Details	P.V No.	Classif ication	Cash	Bank	Analysis			
											Moto Exp	Office Exp	Postages	
			₦'000	₦'000					₦'000	₦'000	₦'000	₦'000	₦'000	
1/11	Reimburse Ment		80.00		1/11	Teaand Sugar			4.00			4.00		
					3/11	Petrol			8.00		8.00			
					4/11	Postage			2.00				2.00	
					5/11	Stamps			1.00				1.00	
					6/11	Envelopes			2.00				2.00	
					8/11	Petrol			1.00		1.00			
					12/11	Petrol			8.00		8.00			
					13/11	Stamps			2.00				2.00	
					17/11	Tab Water			6.00			6.00		
					18/11	Postages			4.00				4.00	
					19/11	Engine oil			1.00		1.00			
					19/11	Petrol			8.00		8.00			
					24/11	Honey			4.00			4.00		
					25/11	Biscuits			2.20			2.20		
					30/11	Engine oil			2.00		2.00			
30/11	Reimbursement		58.20		30/11	Petrol			3.00		3.00			
						Bal. c/f			80					
	Total		138.20						138.20		31.00	16.20	11.00	
1/12	Bal. b/d		80.00											

16.10 Deposit account

Deposits shall be accounted for under the Below-the-line classification list issued by the Accountant General. Unclaimed salaries, wages, unspent balances of allocation, sum due to Merchants or Contractors or any form of revenue shall not be placed on deposit.

16.10.1 Guidelines on operation of deposit account in the public sector

At the federal government level, Chapter 13 of the Financial Regulations of year 2009 guides the operation of deposit accounts.

(a) Accounting officers shall include in the accounting codes, special instruction for the operation of deposit accounts peculiar to their ministries/extra-ministerial offices and other arms of government.

These instructions shall be subject to approval of the Accountant General in consultation with the Auditor-General.

(b) Deposit register shall be maintained by the sub-accountant authorised to record all transactions in respect of the deposits. The register shall contain the name of the depositor, particulars of all deposits and withdrawal made. Deposits and withdrawals shall be posted promptly into the register. Sufficient details of each deposit should always be given to ensure recognition of the withdrawals.

(c) Receipt vouchers relating to deposits should clearly indicate the person or persons on whose behalf the deposit is made, the nature of the transaction and the necessity for placing the sum on deposit.

(d) The original receipt issued when the money was placed on deposit must support withdrawals from deposit. When the withdrawal is made the receipt will be marked "repaid" and attached to the withdrawal voucher.

(e) In cases where part only of a sum deposited is required, the payment voucher for the withdrawal must be for the whole of the sum deposited, and the amount not required shall be re-deposited using the Paying-in-Form. A separate receipt must be issued in respect of this new deposit.

(f) A deposit shall not be repaid at an office other than that at which it was received.

(g) The Director of finance and account shall at the close of every financial year compile a detailed list of all un-withdrawn deposit money duly certified by Internal Audit and forward to the Accountant General who shall make a refund at the commencement of a new financial year.

(h) Deposit of over two years, except prisoner's property, shall not be repaid without prior approval of the accounting officer of the ministry/extra-ministerial office and other arms of government.

(i) The officer responsible for the deposit account shall report deposits other than Prisoners' property, which have remained unclaimed for five years or more, to the Accountant General. Sufficient details should be furnished to enable a decision to be taken as to whether the deposits may be transferred to revenue. On receipt of authority to transfer, the officer responsible for the deposit shall effect the transaction by means of an adjustment voucher and record such transfer, quoting the adjustment voucher particulars.

(j) Refund of deposits made under the Immigration Restriction Act shall be made on the authority of the accounting officer of Ministry of Interior. This authority must be attached to the voucher and the reference quoted thereon.

(k) Accounting officers are required to effect a monthly reconciliation between the balances as shown in their deposit ledgers and the schedules provided by the Accountant General.

(l) Deposit ledgers must be balanced and ruled off at the end of each financial year and all outstanding balances brought down. All entries must be adequately cross-referenced.

16.11 Chapter review

This chapter deals with the functions of the cash office, the reasons as well as the procedures for the preparation of bank reconciliation statements. The modifications to the operations of the cash office by the introduction of e-payment have been captured in this chapter.

The chapter also deals with advances, which are cash granted by the government to employees.

16.12 Worked examples

16.12.1 Examination type questions

1 (a) Advances are cash credits granted to individual officers in their respective ministries, parastatals and departments, or cash given to an officer to carry out a specified task and to be retired later. Advances granted and authorised by the Minister of Finance are also employed to write off losses of government funds. There are conditions to be fulfilled before a correspondence advance is granted.

Required:
Identify SEVEN (7) conditions which have to be fulfilled for the grant of correspondence advances, as stipulated in the Financial Regulations of year 2009.

(b) Deposits shall be accounted for under the Below-the-line classification list issued by the Accountant General. Unclaimed salaries, wages, unspent balances of allocation, sum due to Merchants or Contractors or any form of revenue shall not be placed on deposit.

Required:
Outline the eight basic guidelines on operation of deposit account in the public sector.

2. The cash book of Igwe Local Government Council has a credit balance of ₦21,000 on June 30, 20xx. The bank statement showed a debit balance of ₦56,400.
An investigation into the difference in figures reveals the following information:
   i. The bank had paid ₦40,000 on 29 June by way of standing order.
   ii. A cheque for ₦103,700 sent to a supplier on 30 June was not paid by the bank until July 6, 20xx.
   iii. A cheque valued ₦168,000, paid into bank on 28/6/20xx was not credited until July 3, 20xx.
   iv. On June 20, a cheque for ₦11,400 received from an insurance company was posted in the cash book as ₦71,400.

v. ₦130, 000 drawn from the deposit account had been shown in the cash book as withdrawal from the current account.
vi. Bank charges of ₦1,100 shown in the bank statement had not been entered in the cash book.

Required:

(a) Prepare adjusted cashbook.
(b) Prepare a statement reconciling the amended balance with the one shown on the bank statement.

3. It has become a very important task for accounting officers of ministries, departments and agencies (MDAs) to pay more attention to and make regular checks on their corporation's cash books and bank accounts.

Internal control system is usually put in place to prevent the possibility of committing errors and fraud. This has been more challenging and requires all accounting officers to be more knowledge able in the act of keeping records. Every organisation has to keep close watch on its bank account transactions to guide against fraud or the infiltration of extraneous entries. This is done through regular preparation of bank reconciliation statements.

As a result of widespread internet fraud, the Accounting Officer of the Ministry of Land and Housing, Alhaji Maito Garba, has been concerned with the Ministry's banking transactions. In recent times there have been challenges reconciling the Ministry's banking transactions. There was no time the Ministry's bank balance agreed with the cash book balance. However, there was no adequate information to suggest that there was fraud or misappropriation of funds. Nonetheless, Alhaji Maito Garba invited you to his office for professional advice.

He informed you that the Director of Finance of the Ministry had been avoiding him on matters relating to the Ministry's bank and cash positions.

He also informed you that he was able to retrieve some of the finance documents at the department which he handed over to you as detailed below:

Transactions recorded in the books for the year ended December 31, 2024:

	₦000
Subvention received	55,000.00
Interest from investment	3,501.68
Rent on property	11,300.35
Ground rent	16,801.00
Saving deposits interest	6,281.00
Grants for construction of estates	51,301.50
Deposits for land	19,000.60

	₦000
Personnel costs	36,801.00
Travel and transport	7,000.40
Telephone services	2,401.50
Repairs of property	4,868.25
Stationery	901.86
Provision of water for estate	14,300.60
Consultancy services	3001.26
Training and staff development	1,001.56
Auditing and staff development	1,500.00
Entertainment and hospitality	500.00
Construction of estate	35,607.58
Construction of access roads	8,400.60
Cash book balance as at 1/1/2017	21,500.00

Preliminary investigations revealed the following information:

(i). 1,370 prospective land owners deposited ₦10,000 each, while 580 deposited ₦20,000 for high- and low-density areas of the estate respectively;

(ii). Included in the payments for the construction of estate were various duplicated vouchers amounting to ₦9million;

(iii). The bank balance as per the statement on December 31, 2017 was ₦39,560,600;

(iv). Uncredited cheques amounted to ₦6.9million while unpresented cheques stood at ₦4,337,800;

(v). There were some falsifications in the bills for items bought for the provision of water. The total discrepancies amounted to ₦3,561,800; and

(vi). Standing order for insurance premium was ₦201,500 while bank charges and commissions amounted to ₦144,250.

Required:

(a) Prepare an adjusted cash book.

(b) Prepare an appropriate reconciliation statement to show if any fraud was committed during the period.

16.12.2 Suggested solutions

1 (a) Correspondence advances are short-term loans made available to government officers to pay for correspondence courses. The following conditions have to be fulfilled before the advances are granted:

i. That the course is related to the officer's work;

ii. That the study is likely to increase his efficiency;
iii. That the course is with a reputable college or establishment;
iv. That the ability and efficiency of the officer warrants his taking the course;
v. That completion does not itself constitute grounds for advancement;
vi. That the officer will enter into agreement for repayment;
vii. That the advance shall be granted free of interest; and
viii. That the officer produces receipts to show that the whole advance has been appropriately utilised.

(b) Guidelines on operation of deposit account in the public sector
At the federal government level, chapter 13 of the Financial Regulations of year 2009 guides the operation of deposit accounts, as follows:

i. Accounting officers shall include in the accounting codes, special instruction for the operation of deposit accounts peculiar to their ministries/extra- ministerial offices and other arms of government. These instructions shall be subject to approval of the Accountant General in consultation with the Auditor-General;
ii. Deposit register shall be maintained by the sub-accountant authorised to record all transactions in respect of the deposits. The register shall contain the name of the depositor, particulars of all deposits and withdrawal made. Deposits and withdrawals shall be posted promptly into the register. Sufficient details of each deposit should always be given to ensure recognition of the withdrawals;
iii. Receipt vouchers relating to deposits should clearly indicate the person or persons on whose behalf the deposit is made, the nature of the transaction and the necessity for placing the sum on deposit;
iv. The original receipt issued when the money was placed on deposit must support withdrawals from deposit. When the withdrawal is made the receipt will be marked "repaid" and attached to the withdrawal voucher;
v. In cases where part only of a sum deposited is required, the payment voucher for the withdrawal must be for the whole of the sum deposited, and the amount not required shall be re-deposited using the Paying-in-Form. A separate receipt must be issued in respect of this new deposit;
vi. A deposit shall not be repaid at an office other than that at which it was received;
vii. The Director of Finance and Account shall at the close of every financial year compile a detailed list of all un-withdrawn deposit money duly certified by Internal Audit and forward to the Accountant General who shall make a refund at the commencement of a new financial year;
viii. Deposit of over two years, except prisoner's property, shall not be repaid without prior approval of the Accounting Officer of the ministry/extra-ministerial office and other arms of government;
ix. The officer responsible for the deposit account shall report deposits other than Prisoners' property, which have remained unclaimed for five years or more, to the Accountant General. Sufficient details should be furnished to

enable a decision to be taken as to whether the deposits may be transferred to revenue. On receipt of authority to transfer, the officer responsible for the deposit shall effect the transaction by means of an adjustment voucher and record such transfer, quoting the adjustment voucher particulars;

x. Refund of deposits made under the Immigration Restriction Act shall be made on the authority of the accounting officer of Ministry of Interior. This authority must be attached to the voucher and the reference quoted thereon;

xi. Accounting officers are required to effect a monthly reconciliation between the balances as shown in their deposit ledgers and the schedules provided by the Accountant General; and

xii. Deposit ledgers must be balanced and ruled off at the end of each financial year and all outstanding balances brought down. All entries must be adequately cross-referenced.

2. **Igwe Local Government Council**
Adjusted cashbook for the month ended June 30, 20xx

	₦		₦
		Balance B/F	21,000
Wrong posting of cash drawn	130,000	Standing order	40,000
		Insurance wrong posting	60,000
		Bank Charges	1,100
		Balance C/D	7,900
	130,000		130,000

Igwe Local Government Council
Bank reconciliation statement
For the month ended June 30, 20xx

	₦ Balance as per
Adjusted cash book	7,900
Add: Unpresented cheques	103,700
	111,600
Less: Uncredited cheques	(168,000)
Balance as per bank statement	(56,400)

3.a.

Ministry of Land and Housing
Preparation of adjusted cash book
For the period ended December 31, 2024

	₦'000	₦'000
Balance b/d		21,500.00
Receipts		
Subvention	55,000.00	
Interest from investment	3,501.68	
Rent on property	11,300.35	
Ground rent	16,801.00	
Saving deposits interest	6,281.00	
Grant from construction of estates	51,301.50	
Deposit for land	19,000.60	163,186.13
		184,686.13
Payments		
Personnel cost	36,801.00	
Travel and transport	7,000.40	
Telephone services	2,401.50	
Repairs of property	4,868.25	
Stationery	901.86	
Provision of water for sale	14,300.60	
Consultancy services	3,001.26	
Training and staff development	1,001.56	
Auditing and staff development	1,500.00	
Entertainment and hospitality	500.00	
Construction of estate	35,607.58	
Construction of access roads	8,400.60	116,284.61
Balance c/d		68,401.52
Standing Order for insurance premium	201.50	
Bank charges and commissions	144.25	345.75
Balance as per adjusted cash book		68,055.77

(b) **Bank reconciliation statement for the year ended December 31, 2024**

	₦"000	₦"000
Balance as per adjusted cash book		68,055.77
Add: Unpresented cheques		4,337.80
		72,393.57
Less: Uncredited cheques		6.900.00
Expected balance in the bank		65,493.57
Less: Balance as per bank statement		39,560.60
Cash shortage		25,932.97
Other losses		
Deposit on land - 1,370 x ₦10,000	13,700.00	
- 580 x ₦20,000	11,600.00	
	25,300.00	
Less: Amount accounted for	19,000.60	6,299.40
Duplicated vouchers on construction		9,000.00
Falsification of bills for provision of water		3,561.80
Total fraud committed		44,794.17

Skills Level
Public Sector Accounting and Finance

CHAPTER 17

PREPARATION OF MONTHLY TRANSCRIPTS OF A SELF-ACCOUNTING UNIT UNDER CASH BASIS

Contents

17.0 Learning objective

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17 Preparation of Monthly Transcripts of a Self-Accounting Unit under Cash Basis

17.0 Learning objective

The objective of this chapter is to enhance readers' understanding of the procedures for preparing the monthly transcripts of Ministries Departments and Agencies (MDAs) not on IPSAS accruals.

17.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

(a). explain the procedure for the preparation of transcripts;
(b). differentiate between self-accounting, sub self-accounting and the non-self-accounting units; and
(c). prepare a transcript.

17.2 Preparation of monthly transcript

A transcript can be defined as the summary of the total receipts and payments as posted in the cash book. The preparation of monthly transcripts is an important aspect of the functions of a self-accounting ministry. It is the only means by which the information on the cash transactions of a ministry is forwarded to the treasury. A transcript is the final accounts of a self-accounting unit or a sub-self-accounting unit.

17.3 Types/classes of transcript

Transcript can be classified into three, namely:

(a). Main transcript;
(b) Supplementary transcript; and
(c) Subsidiary transcript.

Main transcript is the transcript prepared by the self-accounting units and submitted to the Accountant General of the Federation on monthly basis. It is also referred to as cash transcript.

Supplementary transcript is the main adjustment to the main transcript prepared in conformity with the principle of double entry.
Subsidiary transcript is prepared to complement the main transcript. It is used to correct errors or omissions in the main transcript.

Transcript contains both above and below the line account items.

17.4 Documents required to accompany transcript

The transcript prepared by a self-accounting unit should be forwarded to the Treasury with the following documents:

(a). Certificate of cash and bank balances;
(b). Schedule of vouchers pre-listed;
(c). Bank reconciliation statement;
(d). Schedule of expenditure; and
(e). Schedule of outstanding vouchers.

17.5 Self-accounting unit

A Self-accounting unit is a ministry or extra-ministerial department, which has full control over all its accounting records. The unit relates to the treasury (i.e. the accountant general's office), through the preparation of transcripts.

Examples of self-accounting units are:

(a). Ministry of finance;
(b). Ministry of works; and
(c). Ministry of education.

17.5.1 Conditions to be fulfilled for a ministry to be self-accounting

In accordance with financial regulations, some conditions must be met before a Ministry can be recognised as a self-accounting unit, among which are:

(a) It should have adequate qualified personnel;
(b) It should be operating adequate and functional system of internal control; and
(c) It should have an internal audit department.

17.5.2 Advantages of a self-accounting unit

(a). It relieves top management of work over load;
(b) It speeds up operational decision-making;
(c). It increases flexibility and reduces communication problems;
(d). It increases motivation of the work force and encourages usage of initiative; and
(e). It provides better training for junior management.

17.5.3 Disadvantages of the operation of self-accounting units

(a). Co-ordination may be difficult to achieve;
(b). The extended lines of communication could lead to information over load;
(c) It may be difficult to achieve consistency;
(d) There may be duplication of certain services;
(e). There is the problem of sub-optimality. That is, the maximisation of ministerial goals could be at the expense of the overall objective of government;
(f) The operation of a self-accounting unit assumes the availability of adequate and well-qualified managers. This may be difficult to obtain in practice; and
(g). There may be friction or inter-departmental conflicts between the ministries where functions are inter-dependent.

17.6 Sub-self-accounting units

A sub-self-accounting unit performs the same functions as a self-accounting unit. However, the difference between the two is that the former forwards its transcripts to the treasury, with the following:

(a). original copy of cash book;
(b). duplicate copies of payment vouchers;
(c). certificate of cash and bank balances;
(d). schedule of vouchers pre-listed; and
(e). bank reconciliation statements.

An example of a sub-self-accounting unit is the federal pay office located in each state of the Federation.

17.7 Non-self-accounting unit

A non-self-accounting unit is a ministry or extra-ministerial department which has no control whatsoever over any of its accounting records. The unit prepares vouchers, but has to make payments through the treasury. Example of such unit is the Code of Conduct Bureau in a state. A non-self-accounting unit neither keeps the treasury cash book nor renders transcripts to the Accountant General.

17.8 Procedures for the preparation of a transcript

(a). Obtaining original cashbook folios

The first step in the preparation of a transcript is to obtain the cash book and all the receipt and payment vouchers, which have been posted in a particular month. The various vouchers have to be checked into the cashbook to ensure correct ness and proper treatment. This is necessary in order to eliminate errors and irregularities, which may later create problems in balancing the two sides of the transcript.

(b). Pre-listing of the vouchers

The vouchers should be sorted into their different classifications, i.e. Heads and Sub-heads, for the purpose of pre-listing, to obtain the totals of each classification on a daily basis.

(c). Posting into the analysis book

The totals are then entered into an analysis book with columns for each classification extended into the grand total column for all the transactions. The operation is done on a daily or weekly basis. At the end of each month, the total for each classification is obtained by casting the various figures. The figure of Unless there is a mistake somewhere, the two figures should agree.

(d). Scheduling

This involves recording the various vouchers according to the classifications, which show serial numbers and gross amounts.

(e). Generation of the monthly transaction

The monthly transcript is prepared from the figures in the analysis book and the voucher schedules. The balance brought forward from the previous month is the opening item. The transcript entries are closed with the balance carried down for the month. The balance should also agree with the cash book closing figure for the month.

Illustration 17-1

Format of a transcript
Federal Ministry of Jaicom and Leadways transcript
for the month ended January 31, 200x.

Head	Sub-Hd	Description	Amount	Sub-Total	Total
		Revenue	₦	₦	₦
		Balance B/F			xxxx
xx	Xx		xxxx		
xx	Xx		xxxx		
xx	Xx		xxxx	Xxxx	
		Below the line revenue			
xxxx	Xx		xxxx		
xxxx	Xx		xxxx	Xxxx	xxxx
		Total			xxxx
		Expenditure			
xxxx	Xx		xxxx		
xxxx	Xx		xxxx	Xxxx	
		Below the line expenditure			
xxxx			xxxx		
xxxx			xxxx	Xxxx	xxxx
		Balance C/F			xxxx

Illustration 17-2

The ministry of men's affairs has the following transactions in its financial records, for the month of June, 200X:

Revenues:	**₦'000**
8011 Licence to marry	600,000
8012 Licence for hunting	800,000
8013 Delivery licence	1,400,000
1001 Education fees	700,000
1002 Medical fees	1,640,000
1003 Registration fees	1,340,000
Below the line revenues:	
Codes	
1001 Refund of marriage advance	76,000
1005 Repayment of motor vehicle loan	260,000
1007 Repayment of correspondence advance	150,000
1009 Repayment of salary advance	26,000
Expenditure:	
Codes	
2001/01 Personnel costs – salaries	1,460,000
2001/02 Local transport and travelling	160,000
2001/03 Miscellaneous expenses	150,000
2001/04 Overhead costs	344,000
2001/05 Research expenses	66,000
2001/06 Enlightenment campaign	94,000
Below-the-line expenditure:	
Codes	
2001 Loans for wedding gowns	74,000
2002 Advances (Personal)	85,000
2003 Housing loans	294,000
2004 Beijing advance	166,000
The opening balance for the month is:	
Receipts side	1,894,000

Required:

Prepare the transcript for the month.

Suggested solutions 17-2

Federal Ministry of Men's Affairs:

Transcript for the month ended 30 June 200x.

Head	Sub-Hd	Description	Amount	Sub-Total	Total
		Revenue	₦	₦	₦
		Balance B/F			1,894,000
10	01	Education Fees	700,000		
10	02	Medical fees	1,640,000		
10	03	Registration Fees	1,340,000	3,640,000	
80	11	Licence to Marry	600,000		
80	12	Licence to Hunting	800,000		
80	13	Delivery Licence	1,400,000	2,800,000	
		Below the line revenue			
1001		Refund of Marriage Advance	76,000		
1005		Repayment of motor cycle loan	260,000		
1007		Repayment of correspondence advance	150,000		
1009		Repayment of salary advance	26,000	512,000	6,992,000
		Total			**8,886,000**
		Expenditure			
2001	01	Personnel costs- salaries	1,460,000		
2001	02	Local transport and travelling	160,000		
2001	03	Miscellaneous expenses	150,000		
2001	04	Overhead costs	344,000		
2001	05	Research expenses	66,000		
2001	06	Enlightenment campaign	94,000	2,274,000	
		Below the line expenditure			
2001		Loans for wedding gowns	74,000		
2002		Advances (Personal)	85,000		
2003		Housing loans	294,000		
2004		Beijing advance	166,000	619,000	2,893,000
		Balance C/F			**5,993,000**

17.9 Certificate of cash and bank balances

This is a confirmation statement that the cash and bank balances indicated in the cash book are correct. The certificate is usually issued by the officer supervising the cashier.

Monthly cash and bank balances as at January 31, 20xx

I hereby state the position of my cash book with regard to the cash and bank balances for the month of January 20xx

Cash balance:	
Opening balance as at 1/1/20xx	X
Add: Total receipts for the month	X
	XX
Less: Total payments for the month	(X)
Closing balance as at 31/1/20xx	XXX
Bank balance:	
Opening balance as at 1/1/20xx	X
Add: Total receipts for the month	X
	XX
Less: Total payments for the month	(X)
Closing balance as at 31/1/20xx	**XXX**

"I certify that at the end of January 20xx, my cash book had a cash balance of....., which was the same with the amount of physical cash available, and a bank balance of, which has subsequently been reconciled with the Central Bank of Nigeria balance".

17.10 Breakdown of expenditure

Only the totals of Heads of classifications in the recurrent expenditure are recorded. Consequently, a statement of expenditure by sub-heads should be prepared and transmitted along with the transcript. The monthly totals are to be shown along with the transactions (undertaken by other Ministries or Federal Pay Office) which have been incorporated into the accounts. The certificate of cash and bank balances, bank reconciliation statements of internal bank adjustment, breakdown of expenditure and vouchers are to accompany the transcript to the office of the Accountant General of the Federation (Treasury).

17.11 Posting of the main ledger

A main ledger is to be kept in a Self-Accounting Ministry or Extra-Ministerial Department to record transactions relating to 'below the line' accounts and other accounts controlled by the Accountant General of the Federation. The main ledger is another form of the Treasury general ledger. The totals of the transactions recorded in the main ledger are to be posted and balanced monthly. The accounts which are kept in the main ledger are: Cash Account, Imprest Account, Internal Bank Adjustment Account, Deposit Account, Personal Advances Account, Non-Personal Advances Account and Cash Transfer Accounts. Reconciliation of the main ledger with the Treasury general ledger is

done monthly and differences between the two ledgers are to be highlighted for follow-up action.

17.12 Chapter review

This chapter discusses the procedures for the preparation of transcripts, which are the final accounts of Self-Accounting and Sub-Self-Accounting Units.

17.13 Worked examples

17.13.1 Examination type questions

1.(a) A transcript can be defined as the summary of the total receipts and payments as posted in the cash book. The preparation of monthly transcripts is an important aspect of the functions of a self-accounting Ministry.

Required:

i. Outline the stages involved in the preparation of Transcripts.
ii. Explain the procedures for the preparation of a Transcript.
iii. Identify the documents that are required to be transmitted along with transcripts.

2. During the month of March 20XX, the following transactions took place in the Ministry of Transition of the Federal Republic of Nigeria: The expenditure head of the Ministry is 120.

March 1 Opening balances carried over from last month were ₦173,893 (Debit) and ₦57,982 (Credit).
March 1 P.V 0391 for ₦13,320 on sub-head 3 for general repairs.
March 7 P.V 0392 for ₦17,180 on sub-head 2 for stationery.
March 7 P.V 0393 for ₦9,329 on Sub-head 4 for utility.
March 9 R.V 003 amounting to ₦59,800 was received in respect of tender registration to be charged to Head 5 sub-head 1001.
March 21 P.V 0394 for ₦52,000 on salaries for junior staff on Sub-head 1.
March 25 P.V 0395 for ₦20,000 for motor vehicle maintenance on Sub-head 10.
March 27 P.V 0396 for ₦97,200 for salaries for senior staff on Sub-head 1.
March 29 R.V 005 for ₦17,300 was received as repayment of Motor Vehicle Advances on Sub-head 06428.
March 30 P.V 0397 for ₦37,800 for maintenance of motor vehicle on Sub-Head 10.
March 31 R.V 007 for ₦17,893 received for housing deposits on Head 5 Sub-head 1005.

Required:

Prepare a Transcript for the Ministry of Transition for the month ended 31 March 20XX.

3. A Self-accounting unit is a Ministry or extra-ministerial department, which has full control over all its accounting records. The unit relates to the treasury (that is, the Accountant-General's office), through the preparation of transcripts.

Required:
Give the conditions to be fulfilled for a Ministry to be classified as 'Self-accounting unit'.

17.13.2 Suggested solutions

1. (i) Stages in the preparation of transcripts
   - Collation of payment and receipt vouchers together with the main cash book.
   - Ticking of voucher content to the cashbook content to ensure completeness, corrections and accuracy of entries and postings into the cash book.
   - Sorting of vouchers into heads and sub-heads.
   - Pre-listing of vouchers sub-head by sub-head and agree total with the cashbook.
   - Posting into analysis book under heads and subheads.
   - Balancing of analysis book.
   - Compilation of transcript.
   - Preparation of voucher schedule.

   (ii) The following are the procedures to be followed when preparing a transcript:
   - Obtain original cash book folio: The first step is to obtain the cash book and all the receipt and payment vouchers posted in a given month. Such vouchers have to be checked side-by-side the cash book to ensure correctness and proper treatment. This will eliminate errors and irregularities, which may later create problems in balancing the two sides of the transcripts.
   - Pre-listing of vouchers: Vouchers should be sorted into their different classifications of 'heads' and 'sub-heads', for the purpose of pre-listing, to obtain the totals of each classification on a daily basis.
   - Posting into the analysis book: The next sequence is to enter the totals into an analysis book with columns for each classification extended into the grant total column for all the transactions. This operation is carried out routinely. At the end of each month, the total for each classification is obtained by re-checking the various figures. A comparison of the figure of the balance obtained against that of the cash book is then made to ascertain their correctness.
   - Scheduling: This involves the recording of various vouchers according to the classifications, showing serial numbers and gross amounts.

- Generation of monthly transcript: The monthly transcript is prepared from the figures in the analysis book and the vouchers schedules. The balance brought forward from the previous month is the opening item. The transcript entries are closed with the balance carried down for the month.

(iii) The following documents are required to be transmitted along with transcripts:

- bank reconciliation statement;
- cash and bank certificates – they are required to certify that actual cash and bank balances agree with the cash book and bank statement balances;
- original copies of cash book;
- breakdown of expenditure;
- in limited self-accounting unit, the duplicate copies of vouchers should also accompany the transcript; and
- list of outstanding vouchers.

2. **Ministry of Transition**

Transcript for the month ended March 31, 2016

Head	Sub-Hd	Description	Amount	Sub-Total	Total
		Revenue	₦	₦	₦
		Balance B/F			173,893
5	1001	Tenders registration fees	59,800		
5	1005	Housing deposits	17,893	77,693	
		Below the line revenue			
	06428	Repayment of motor vehicle advance	17,300	17,300	94,993
		Total			**268,886**
		Expenditure			
		Balance B/F			57,982
120	01	Salaries- Junior Staff	52,000		
120	01	Salaries- Senior Staff	97,200		
120	02	Stationery	17180		
120	03	General Repairs	13,320		
120	04	Utility	9,329		
120	10	Motor Vehicle Maintenance	57,800	246,829	246,829
					304,811
		Below the line expenditure			00
		Balance C/F			**(35,925)**

3. The following conditions are to be fulfilled by a Ministry for it to be classified as 'Self accounting' in accordance with Financial Regulations1202:

(a) such Ministry should have adequate qualified personnel;

(b) there should be adequate and functional system of internal control operating in the Ministry; and
(c) the Ministry should have a vibrant internal audit department.

Skills Level
Public Sector Accounting and Finance

CHAPTER 18

INVENTORY/STORES ACCOUNTING AND LOSS OF GOVERNMENT FUNDS

Contents

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18 Inventory/Stores Accounting and Loss of Government Funds

18.0 Learning objective

The objective of this chapter is to enhance readers' understanding of inventory accounting, procedures for loss of inventory and the functions of Federal Losses Committee; and the Board of Survey and Enquiries.

18.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

(a). explain the importance of store and store accounting;
(b). differentiate among different classes of stores;
(c). delineate the composition and functions of the board of survey and the board of enquiry.
(d). explain the concept of loss in the public sector;
(e). list types of losses;
(f). enumerate the responsibility of accounting officer in the event of loss of fund;
(g). discuss the function of the federal losses committee and board of enquiries as regards loss of fund;
(h). enumerate the conditions under which a board of enquiries is to be constituted in the event of loss of fund; and
(i). tabulate the accounting entries required to write off loss of government fund.

18.2 Introduction

According to Government Financial Regulations, "Stores include all moveable property purchased with public funds or otherwise acquired by Government."

Stores in public sector accounting simply refer to stock of materials purchased with government money for official use. All purchases of indents for stores have to be authorized by the officer controlling expenditure, and the local purchase orders or in dents signed by him.

The accounting officer is responsible for the loss of stores and other government property in his care. Stores control is an aspect of management. Therefore, the onus of putting necessary systems and procedures in place is for the ministries and extra-ministerial departments to decide. The treasury is only interested in the existence of an effective system of internal control. The accounting officer is therefore responsible for designing the measures to be adopted to ensure adequate stock control and store accounting procedures, which cover the receipts, custody, issues and disposals of stores.

Each ministry or extra-ministerial department should maintain a stores guide, which sets out in detail the approved procedures, and necessary instructions.

18.3 Stores classification

For accounting purposes, stores are classified into two. These are: 'Allocated Stores' and 'Unallocated Stores'.

18.3.1 Allocated stores

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

18.3.2 Unallocated stores

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

18.3.3 Purposes of unallocated stores

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

18.3.4 Further classification of allocated and allocated stores

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

18.4 Stock control and inventory

Stock control is the activity of making sure that an entity constantly has exact amount of goods available for use at any point in time

Effective stock control methods

There are several methods of controlling stock, all designed to provide an efficient system of deciding what, when and how much to order. You may opt for one method or a mixture of two or more if you have various types of stock.

(a). Maximum and minimum levels. The accounting officer has to fix the maximum and minimum levels of the unallocated store holdings. He has to work out the re-order level for each item of stores. Once fixed, the maximum limit of the value of the

stores, which may be held in stock at any one time, may not be exceeded without the authority of the Minister of Finance.

(b). Stock review –This is regular review of stock. At every review, order should be placed to put stock back to its predetermined level. Stock review may be inform of a continual review (where stock is replenished whenever the stock falls to some pre-determined level called re-order level or cyclic review (where stock is replenished at regular intervals called the periodic review system)

(c). Just in Time (JIT) aims to reduce costs by cutting stock to a minimum. Items are delivered when they are needed and used immediately. There is a risk of running out of stock, so you need to be confident that your suppliers can deliver on demand. This method is ideal for consumable items for example medical or chemical stores etc.

These methods can be used alongside other processes to refine the stock control system. For example:

(i). Re-order lead-time - allows for the time between placing an order and receiving it.

(ii). Economic order quantity (EOQ) - a standard formula used to arrive at a balance between holding too much or too little stock. It's quite a complex calculation, so you may find it easier to use stock control software.

(iii). Batch control - managing the use of your un-allocated stores of goods in batches. You need to make sure that you have the right number of components to cover your needs until the next batch.

(iv). First in, first out - a system to ensure that perishable stock is used efficiently so that it doesn't deteriorate. Stock is identified by date received and moves on through each stage of production in strict order.

If your needs are predictable, you may order a fixed quantity of stock every time you place an order, or order at a fixed interval - say every week or month. In effect, if you are placing a standing order, you need to keep the quantities and prices under review.

18.5 Cost of stores

The cost of unallocated stores for accounting purpose is obtained, as follows:

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

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

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

18.5.1 Fixed price method

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

18.5.2 Last known price method

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

18.6 Stores accounting

Store accounts are store ledger postings generated from store receipt vouchers. Unallocated stores should be recorded in the vouchers and ledgers both in quantities and values. Storekeepers should keep tally or bin cards only, since they have no business with the store ledgers.

A separate ledger has to be opened for each store item. Records of articles of the same group should be kept in one ledger and items arranged in alphabetical order. Store ledger items should be clearly indexed and properly kept. Receipts into and issues out of stores should be posted daily or at the earliest practicable time. Unserviceable and obsolete stores should be posted in separate ledgers.

Minimum records to be maintained by each ministry/extra-ministerial department and other arms of government

(a). Purchases journal or Stores cost book
(b). Issues journal or Stores Issues summary
(c). Stores ledger which must include an account for each category of store, and a separate account for:
(d). Shortfalls and excesses (or Price adjustments)
(e). Claims.

18.6.1 Annual balance statement

As soon as possible, after the end of a financial year, or not later than a date to be prescribed by the Accountant General, an annual balance statement and reconciliation Accounts, shall be prepared by the Accounting Officer and forwarded to the Accountant General and the Auditor-General.

(a). Unallocated stores annual balance statements

Store account

	₦		₦
Value of stores on hand at the beginning of the year as valued at the fixed prices	xx	Stores issued during the year at the fixed prices	Xx
Stores taken on charge during the year at the prices	xx	Stores written-off during the year: Against the Shortfalls and Excesses Accounts Against U/A Stores Deficiencies Sub-head	xx.
			xx.
Stores found surplus and taken on charge	xx	Stores revaluation on change on fixed price	xx.

Stores revaluation on change of fixed price	xx	Value of Stores on hand at the end of the year as valued at the fixed prices	xx.
	xxx.		xxx.

(b). **Shortfall and excess account**

	₦		₦
Total Price Deficiencies during the year	xx	Total Price Excesses during the year	xx.
Claims written-off	xx	Transfer to Unallocated Stores Deficiencies Sub-head	xx.
Stores written off	xx	Stores revaluation on change on fixed price	xx.
Revaluation of stores	xx	Revaluation of stores	xx.
Balance on hand at the end of the year (to be abandoned)	xx.		xx.
Reconciliation account (Issues)			
Value of Stores issued during the year as per Stores Account.	xx	Value of Stores issued during the year as per Abstract Issues.	xx
Adjustments, if any		Adjustments, if any	xx
	xxx		xxx

(c) **Payments**

	₦		₦
Payments as per Abstract	xx	Stores taken on charge at the fixed prices (as per Stores Account)	xx
Less Payments in respect of stores taken on charge in previous year.	xx	Total Price Deficiencies	xx.
Less Expenditure credits for Claims met	xx	Value of Claims raised during one year	xx.
Less Transfers to U/A Stores Deficiencies sub-head	xx	Adjustment, if any	xx.
Total price excesses during the year	xx.		
Adjustment if any	xx.		
	xxx.		xxx.

(d). **Store claim account**

	₦		₦
Value of Claims brought forward from previous year	xx	Claims met during the year	xx

Value of Claims raised during the current year	xx	Value of Claims abandoned and written-off to: (a)Shortfalls and Excesses (b)U/A Stores Deficiencies Sub-head	 xx xx
		Value of Claims carried forward	xx
	xx		xxx

Note that claims are settlements received for damaged items in the case of imported stores.

18.6.2 Use of short falls and excesses account or price adjustment account.

(a). To accommodate the differences between the total costs and the fixed prices of issues
(b). To accommodate the value of stores found surplus.
(c). To accommodate the value of minor discrepancies of stores and of goods short-landed or damaged when written-off.
(d). To accommodate the value of unserviceable stores written-off the store ledger.
(e). To accommodate increase or decrease in the valuation of stock on a change of fixed price.

18.7 Storekeeper's records

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

18.7.1 Receipt of stores

The sources of store items are from the following:
(a). acquisitions through local purchase orders;
(b). transfers from other stores;
(c). converted or manufactured goods;
(d). acquisitions through letters of awards;
(e). returned stores;
(f). excess taken on charge; and
(g). other avenues.

There must be efficient internal check in the ordering, collection of deliveries and payment procedures.

18.7.2 Payments for stores

The storekeeper has to certify that stores have been received and taken on charge in the appropriate ledger. A payment voucher has to be supported with a copy of the purchase order, invoice and a copy of stores receipt voucher issued by the storekeeper.

Expendable and consumable stores obtained in small quantities for immediate use (that is, not for stock) for example, soap, brooms and uniforms, should be taken on charge. A certificate should be inserted in the payment voucher to the effect that the stores were required for immediate use and not taken on charge. For some types of consumable stores, records of consumption may be necessary for purposes of control and to guide against misappropriation, for example, log books record the issues of liquid fuel for vehicles and the mileage covered.

18.7.3 Transfer of stores

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

18.7.4 Issues of stores

Requests for stores should be signed only by the officer authorised to incur expenditure, or so authorised in the departmental stores instruction to do so. The Officer has to ensure that funds are available. Demands must be made on the prescribed stores requisition forms.

Stores requisition sheets and issue vouchers support all issues of stores. The requisitions are made in the prescribed forms, in ink or indelible pencils. Stores Issue Vouchers are always prepared in duplicate. After issue, the storekeeper will post his tally card at the actual time of issue.

18.7.5 Stores issue for manufacture or conversion

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

18.7.6 Condemned stores

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

18.7.7 Issue of stores: On payment

Government property must not be sold, except where specifically authorised by the Minister of Finance. To arrive at the selling price, the cost of such stores is made up of the gross cost (allocated store) or current issue price (unallocated store) plus a ratable percentage to recharge approved by the Minister. Stores may be issued on the

payment only of the appropriate selling price when the Head of a ministry or extra-ministerial department is satisfied that such sales are in the public interest.

Store Issue Vouchers take care of stores-on-payment releases, but such stores will not be issued until the purchaser presents to the schedule officer, a treasury receipt, for the payment on the stores and all associated additional costs, including stores and transport charges. The treasury receipt number is entered on the Store Issue Voucher. Where credit facility has been authorised, the store issue voucher bears reference to the authority.

18.7.8 Functions of the storekeeper

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

18.8 Procedures for stores procurement

Upon receipt of the purchase requisition initiated by the store keeper or authorised department, the purchasing department will:

(a). obtain approval for the purchase of the items from the officer controlling the vote;
(b). carry out a market survey or obtain quotations/tenders from prospective suppliers;
(c). indicate a closing date for submission of tenders;
(d). constitute a contract tenders' board, after the closing date; and
(e) issue local purchase orders to the contractors for the supply of the goods within the time frame agreed.

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

18.9 Handing over of stores

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

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

18.10 Procedures for reporting loss of stores

Financial Regulation (2009 Edition) states that "the authority for the write-off of losses of stores is the prerogative of the Minister of Finance". A limited degree of power of write-off is available to Accounting Officers and the Accountant General of the Federation under the appropriate provision of FR 2602 which allows the accounting officer to write off loss of stores, plant, equipment, etc. provided that:

(a). the original cost or estimated value of each item is not more than N20,000 and the total sum of the value of the items does not exceed N100,000.
(a). there is no weakness in the internal control system.
(c) there is no evidence of fraud or theft.
(d). where negligence is involved, the offending officer has been disciplined according to the laid down rules and regulations.

18.10.1 Actions to be taken by the storekeeper (officer in-charge)

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

(a) report to the head of department;
(b). report to the nearest Police station, if there is any possibility of fraud or theft;
(c) initiate action on Treasury Form, 146 "Report on loss of funds or stores". The officer will complete part I of the form and forward it to the head of department; and
(d) ensure that if there are weaknesses in the internal control system, immediate action is taken to prevent a re-occurrence of the loss.

18.10.2 Actions to be taken by the head of department

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

(a) forward brief details of the loss to the accounting officer of the ministry;
(b) investigate the loss and complete parts II and III of Treasury Form146;
(c) recommend, to the accounting officer, the convening of a board of enquiry where the circumstances warrant an investigation;
(d) ensure that if there is weakness in the internal control system, measures are taken to strengthen the weakness; and
(e) obtain copies of police report or court proceeding and transmit them to the accounting officer of the ministry.

18.10.3 Actions to be effected by the accounting officer

Upon receipt of the report of the loss, the accounting officer will proceed, as follows:

(a) If the loss is not significant, complete part IV of the Treasury Form 146and transmits a copy each to the under listed officers:
    (i) the Accountant General;
    (ii) the Auditor-General; and

(iii) the head of the accounts department/section

(b) However, if the loss is material, the Accounting Officer will:
   (i) forward brief details of the loss to the Accountant General and the Auditor-General, for necessary follow-up;
   (ii) convene a board of survey, where the circumstances call for such an investigation;
   (iii) recommend the suspension of the officer concerned, where the circumstances call for a disciplinary action;
   (iv) examine critically the full details of the loss and inform the Accountant General, the Auditor General and the Federal Civil Service Commission, through a letter accompanied with the police report and Treasury Form 146;
   (v) review the internal control system and tighten loose ends; and.
   (vi) recoup the loss as stipulated by procedures.

18.10.4 Actions to be taken by the Accountant General

On receipt of the report of the loss, the Accountant General will ensure that:

(a) the accounting officer has followed full procedures;
(b) an accounts officer or internal auditor is a member of the board of enquiry setup to investigate the loss;
(c) adequate measures are taken to correct all lapses in the internal control system; and
(d) all practical measures are taken to recoup the loss.

18.10.5 Accounting treatment of loss of government stores or funds

Where it is confirmed or established that there has been loss of cash due to embezzlement, armed robbery, fraud or failure to receive an advance granted or collect revenue for service rendered, adjustment vouchers are not raised. Such losses are charged to non- personal advance account by preparing payment voucher.

The Accountant General prepares the non-personal advance account after authorisation by the Minister of Finance. The financial accounting entries required for the treatment of such losses however depend on the following:

(a) date of the transaction, which led to the loss;
(b) date the loss is discovered;
(c) date of passing the entries;
(d) nature of the loss; and
(e) type of fund involved.

The type of accounting entries required for the treatment of a loss will depend on its nature, the date of the transaction which resulted in the loss, the date on which it arose and the date of passing the necessary entries.

Illustration 18-1

The sum of ₦600,000 was fraudulently paid for the upkeep of government property, instead of ₦400,000, on 4th January, year 2023 The discovery of this over-payment was made on 6/6/2008.

The suggested adjusting entries are:

Date	Particulars	DR	CR
		₦	₦
4/1/2023	Upkeep of Govt. Property	600,000	
	Cash Account		600,000
	Being payment for the upkeep of govt. property		
6/6/2023	Advances non-personal	200,000	
	Upkeep of govt. property		200,000
	Being discovery of overpayment of N200,000.		

Note: The loss will be kept in the advances non-personal account, pending the outcome of the investigation by the board of enquiry. Readers should also note that the discovery of the loss on 6/6/2008 has not resulted in actual receipt of cash from the fraudsters.

18.11 Stocktaking (Inventory count)

The accounting officer has to ensure the periodic check of store account balances. A stock verifier could undertake this. However, if the services of a stock verifier are not available, the accounting officer will apply to the Federal Ministry of Finance for the appointment of a board of survey.

Stocktaking should be carried out at least once a year. A Board of Survey is required to inspect a minimum of 40 percent of stock categories, but if a serious discrepancy is found or suspected, a hundred per cent (100%) inspection should be made. The storekeeper should not be privy to the programme and the proposed dates for the stocktaking of items selected for verification. The items should include all categories of stock, especially those in general demand, or which are attractive in nature. The stock verifier appointed should vary the timing of the items.

Operational research has introduced a new device in stocktaking procedures which will determine by statistical sampling, out of the population of a range of stores, the number of items with contrary discrepancies. The acceptable level is based statistically on past experience. If the shortfalls revealed exceed the acceptable standard, the full range is subjected to thorough searchlight.

Closure of store during a survey

There will be store closure whenever a board of survey is in action. Issues will not be made without the sanction of the President of the Board of Survey who countersigns the store issue voucher. The auditor general has the power, where he has a reason, to call upon the extra-ministerial department or ministry to take stock, in the presence of his officers. Normal stock taking should be carried out by at least two officers, none of whom should be from the store keeping staff. Where the services of a stock verifier could be secured, another person should assist him. Both of them should be provided with the lists of ledger headings, on which to enter the quantities found. They should have no access to the ledger balances. It is the duty of the stores officer to enter the

ledger balances. Stock balances found on stocktaking should be compared with the corresponding store account balances at the earliest possible moment. Discrepancies should be investigated immediately to arrive at the correct stock figures

18.11.1 Procedures for store survey/stock-taking

The procedures are:

(a) instruct the storekeeper to update entries in the bin cards for all receipts and issues of materials up to the point of closure of the store.
(b) make physical count of the stock of sampled items of each category.
(c) note physical count on the survey sheet.
(d) compare the physical stock count with the tally card balance and the stock balance as shown in the store accounts.

18.12 Board of survey and its purpose

(a) What a survey is and justifications for existence.

The term "survey" can be defined as a "general view"; or the act of looking over something carefully. In government accounting," survey" refers to a situation where one officer or a group of officers are charged with the responsibility of making the examination of something and submitting a report on it thereafter. A board of survey on cash and bank is made up of members appointed by the accountant general to ascertain the balances to be surrendered by each ministry or extra- ministerial department at the end of each financial year. Boards of survey may carry out a surprise check on cash imprest and account.

(b) Classes of boards of survey

(i) Survey of cash and bank balance;
(ii) Survey of stamps balance; and
(iii) Survey of stores, plant, buildings and equipment.

18.12.1 The convener of a board of survey on cash/bank balances, stamps an imprest amount/account

A Board of survey is convened by the accountant general of the federation, mostly at the end of each financial year. It should be noted that where e-payment is adopted by the entity cash survey would not be relevant because you are not expected to have physical cash in the safe.

18.12.2 Composition of the board of survey

A Board shall consist of three officers, including the President and not less than two members. The President of each board should hold a post of grade level 08 or higher. Other members of the board should not be below Grade Level 06. Where it is not possible, one member of the board may be appointed, but reasons for this have to be clearly stated on the survey report.

18.12.3 Procedural activities for the conduct of surveys

It is very important for the board members to be punctual and be at the point of survey ahead of the official opening time, to ensure that no transaction takes place.

Each board should take the following procedures:

(a) check the cash and stamp register by casting the entries for the last month of the year and comparing the balance at hand with one disclosed by the record;
(b) ensure that for a bank account, a certificate of bank balance is obtained and reconciled with the one shown in the cash book;
(c) ensure that all currency notes and coins (if any) are counted and denominated;
(d) certify the cash and bank balances on both the original and duplicate copies of the cashbook;
(e) bring any surplus disclosed to account in the cash book as a credit to revenue head. Any shortage must be made good. A serious shortage should be reported to the accountant general; and
(f) on completion of the survey, a report is rendered in triplicate on treasury form 2 and the certificate signed by all members of the board. Copies of the report are transmitted to the auditor general and accountant general.

18.12.4 Contents of survey reports

The report of the board of survey on cash and stamps are usually embodied in Treasury Form 42. The report of survey on unserviceable stores, plant and buildings or equipment is embodied in Treasury Form 147.

18.13 Board of enquiry

18.13.1 Definition

A 'Board' can be defined as a group of one or more persons set up for a specific purpose. The word "enquiry" means a "question", an "investigation" as to make inquiries about something; to hold an official inquiry (into). These two separate definitions put together therefore, suggests a situation in which one or more persons are constituted into a board to conduct an investigation.

This is a board constituted by the accountant general after studying the report of the accounting officer, where there is a reported case of loss of government fund to carryout special investigation into the circumstances leading to loss.

18.13.2. Circumstances which warrant setting up a board of enquiry

In the public service, an enquiry may be set up to investigate the circumstances leading to an abnormality such as a loss of fund or stores. In considering whether a board of enquiry should be held, evaluation is always given to the following points:

(a) A Board of enquiry shall be constituted under the following conditions:
    (i) if fraud is probable;
    (ii) if the loss is substantial;
    (iii) if several officers are involved;
    (iv) if the responsibility of the officers are not clearly defined;
    (v) if the loss took place over a period of time; and
    (vi) if collusion is suspected.

The accountant general in convening the board shall incorporate terms of preference for the board as he may deem necessary.

The officer convening board of enquires shall forward a copy of the convening order with full terms of reference to:

(i) Accounting officer;
(ii) Accountant – General of the federation;
(iii) Auditor – General for the federation; and
(iv) Chairman, Federal civil service commission.

18.13.3 When is a board of enquiry not necessary?

A board of enquiry may not be necessary in the following developments:

(a) if the loss involves small amount of money;
(b) if it is peculiar and 'one-of' item; and
(c) if the officer responsible can be located and identified.

18.13.4 Terms of reference

Whenever a board of enquiry is set up, the agency, which constitutes it, should stipulate the relevant terms on which the board is to draw searchlight. This act is referred to as drawing "terms of reference", copies of which are to be made available to the permanent secretary of the ministry concerned or the head of the extra ministerial department as the case may be, the Accountant General, Federal ministry of finance, Secretary, Federal Civil Service Commission and the Auditor General for the Federation.

18.13.5 The convener of the board of enquiry

Whenever a loss of fund occurs, the head of the division, where the officer concerned is serving will:

(a) transmit brief information of the case to his Permanent Secretary or head of extra-ministerial department;
(b) carry out an investigation into the whole incident at the earliest possible moment and complete Parts II and III of Treasury form 146, forwarding one copy to each of the following officers:
    (i) the Permanent Secretary of his Ministry.
    (ii) the Accountant General of the Federation
    (iii) the Auditor General for the Federation, and
    (iv) the Secretary, Federal Civil Service Commission.
(c) evaluate whether or not a board of enquiry is necessary. If so, he will request the secretary, of the permanent board of survey and enquiry based in the federal ministry of finance, to convene a board.

Composition of the Board

The board of enquiry shall be made up of two or more members. From experience, three members may constitute the board. The President shall not be below grade level 08, while other members should not be below grade level 06. Where there is only one

person elected to serve as a 'board' the facts of this case have to be furnished in his report.

Procedure of Board of Enquiry

The board may meet at its earliest convenient time. Where the police personnel are involved, the final recommendations of the board will take into consideration the outcome of court proceedings or police investigation.

Although it is difficult for the board to examine any person against whom a criminal charge is outstanding. It is imperative for the Accountant General of the Federation to be apprised with the information relating to the loss urgently, so that any weakness in the accounting system may be plugged. Ideally, evidence admitted by the board, should be recorded verbatim. Where impracticable, the evidence is summarised by the board in such a way as to effectively communicate the facts of the case.

18.13.6 Contents of the board's report

The contents of the enquiry shall include the following:

a. a statement on the exact amount of loss incurred;
b. expression of idea as to whether or not the accounting system was faulty and suggestions as to any remedy which may be instituted in the peculiar circumstance;
c. recommendations for improving the physical security measures to remove current inadequacy; and
d. recommendations for the evaluation of the extent of negligence of the officers who are responsible for the loss.

18.13.7 Action taken on the board of enquiry's report

On the receipt of the board's report, the permanent secretary or head of extra-ministerial department concerned will collate all information and urgently submit his comments to the following persons:

(a) the Accountant General of the Federation;
(b) the Secretary, Federal Public Service Commission; and
(c) the Auditor General for the Federation.

His comments have to include the pinning down of responsibility for the loss and the amount if any, to be surcharged.

18.14 Loss of government fund

Loss or shortage of fund is a depletion of government fund at a given time

Types of losses

(a) Misappropriation of funds.
(b) Falsification of records.
(c) Conversion of funds to personal use.
(d) Fraudulent payments.
(e) Theft
(f) Negligence

(g) Abandonment of revenue receivable;
(h) Abandonment of advance granted from recurrent expenditure; and
(i) Loss of cash.

18.14.1 Responsibility of accounting officer in the event of loss of fund

Where a cash loss to the value of ₦50,000 or less has occurred without fraud being involved, accounting officers are personally empowered to surcharge the officers responsible up to the full amount of the loss.

Accounting officers are personally responsible for ensuring that all responsible officers for losses are surcharged.

For officers above G.L.10, the loss should be reported to the Accountant – General of the Federation.

Where a loss is treated under this regulation, accounting officer must immediately send a report of the circumstances in deciding the value of the loss to:
(a) the Chairman, Federal Civil Service Commission;
(b) the Auditor – General for the Federation;
(c) the Accountant – General of the Federation; and
(d) the Federal Ministry of Finance

The officer in charge of the office in which the loss occurs shall take the following actions:
(a) report immediately to the head of the unit or division by the fastest means if the loss occurs away from the headquarter;
(b) report to police if fraud or theft is suspected;
(c) initiate immediate action by completing Treasury form 146 part 2 and forward it in quintuplicate to head of units or division;
(d) ensure that if a weakness in the system of control or in security is established, measures have been taken to prevent a re-occurrence of the loss; and
(e) ensure that accounting entries have been made.

18.15 The federal losses committee

The federal losses committee is a standing committee responsible for considering all cases involving loss of cash, stores and vehicles.

18.15.1 Composition of the federal losses committee

(a) A Representative of the Auditor General as Chairman.
(b) A representative of the Accountant General.
(c) A representative of the administration department of the ministry/extra ministerial office and other arms of government concerned.
(d) A representative of the Inspector-General of police.
(e) A representative of the Economic and Financial Crimes Commission (EFCC).
(f) The Inspectorate Department of the office of the Accountant General shall provide the Secretariat.

18.15.2 Accounting entries loss of funds

S/N	Details	Debit	Credit
a.	Loss of cash	Non personal advance A/c	Cash A/c
b.	Fraudulent payment or overpayment made and discovered within the current financial year	Non personal advance A/c	Relevant sub-head
c.	Fraudulent payment or overpayment in previous financial year charged to consolidated revenue fund (CRF) or development fund (DF)	Non personal advance A/c	Relevant sub-head
d.	Fraudulent payment or overpayment made in previous financial year charged against public fund other than CRF or DF	Non personal advance A/c	Account originally debited
e.	Abandonment of the recovery of an amount or advance charged initially to an advance A/c	Loss of fund A/c	Advance A/c
f.	Recovery of an account earlier written off to non- personal advance	Cash / Bank A/c	Non personal advance a/c
g	Overpayment not involving fraud made in a previous financial year charged against CRF or DF Note: No. Adjustment Required, but the loss will be recognised by the Accountant-General	No adjustment	
h.	Abandonment of recovery of a bicycle advance Issued initially from recurrent expenditure Note: No. adjustment required, but the loss will be recognised by the Accountant-General	No adjustment	
i.	Abandoned of recovery of an unpaid revenue Note: No. adjustment required, but the loss will be recognised by the Accountant-General	No adjustment	

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18.16 Chapter review

This chapter discusses stores and store accounting, with clear distinctions between allocated and unallocated stores. It also explains expendable, non-expendable, consumable stores, and the responsibilities of the Board of Survey and Board of Enquiry.

The chapter concludes by examining the concept of loss of fund and types in the public sector. The treatment of losses and roles of accounting officers in the event of loss is also dealt with. The functions of the Federal Losses Committee and Board of Enquiries are highlighted. The specific conditions under which a Board of Enquiries may be constituted in the event of loss of fund is also discussed.

18.17 Worked examples

18.17.1 Examination type questions

1. The following information relates to the receipts of packets of stencils in the central store of Ogos State University, in the month of July, 20xx:

Date	Action	Supplier/Dept.	SIV/SRV No.	Qty	Price
1-Jul	Balance	—	—	1160	—
3-Jul	Issues	Health Education	371	112	—
3 "	Issues	Economics	373	220	—
5 "	Issues	French	285	72	—
6 "	Purchases	Ola Bookshop	778	200	56
10"	Issues	History	490	150	—
13"	Issues	Chemistry	497	240	—
16"	Purchases	Odus Bookshop	2840	600	58
18"	Issues	Yoruba	514	230	—
21"	Issues	Medicine	532	280	—
26"	Issues	Accounting	540	150	—
30"	Purchase	Olu Bookshop	2016	1000	60
31"	Issues	Sociology	570	360	—

Required:
Enter the information on the bin card.

2.(a) The Board of Survey of NEPAGAU Local Government Council has been directed to inspect its store.

Required:
Itemise the procedures of inspection to be adopted by the Board of Survey.

(b) Internal control comprises the plan of the organisation and all the co-ordinate measures and methods adopted to achieve certain objectives.

Required:
Explain **FOUR** (4) objectives which underlie the reasoning.

3. Financial Regulations define stores as all moveable property purchased with public funds or otherwise acquired by government.
Required:
a. Explain the **THREE** sub-divisions of allocated and unallocated stores.
b. Discuss the methods of arriving at the value at which stores are to be taken on charge.

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18.17.2 Suggested solutions to examination type questions

1. **Ogos State University**
Bin card for the month of July, 20xx

Date	Particulars	SIV,SRV & Other Invoices	Receipt QTY	Issue QTY	Balance QTY
July 1	Balance B/F				1160
" 3	Issue to Health Education	71		112	1048
" 3	Issue to Economics	73		220	828
" 5	Issue to French Class	85		72	756
" 6	Purchases from Olu bookshop.	778	200		956
" 10	Issue to History.	0490		150	806
" 13	Issue to Chemistry	0494		240	566
" 16	Purchases from Odus Bookshop.	2840	600		1166
" 18	Issue to Yoruba	0510		230	936
" 21	Issue to Medicine	0530		280	656
" 26	Issue to Accounting	0540		150	506
" 30	Purchases from Ola Bookshop	2016	1000		1,506
" 31	Issue to Sociology	0570		360	1146

2. (a) Procedures for Inspection by the board of survey:

(i) The books are to be closed up to the date of verification.
(ii) Physical count of the stock of each category of store.
(iii) Check whether each is still serviceable or not.
(iv) Check the result of the physical count with the balances on the bin cards and the stores ledger.
(v) Schedule those items that have deficiencies and those not serviceable.
(vi) Cross-check postings into the stores ledger.
(vii) Examine the records of payments for store purchases.
(viii) Cross-check the receipt vouchers used to bring store receipts on charge on tally cards.
(ix) Initial stores ledger entries.
(x) Prepare and submit report attaching all relevant forms as required by the financial memoranda

(b) Objectives of internal control

i. Safeguarding of an organisation's assets.
ii. Checking the accuracy and reliability of its accounting records.
iii. Promotion of operational efficiency.
iv. Encouraging adherence to prescribed managerial practice.
v. Prevention and detection of errors and frauds.

3 (a) The three sub-divisions of Allocated and Un-allocated.

(i) Non-expendable stores: These are stores of a permanent nature like plant and machinery, motor vehicles, furniture etc. which have a considerable number of serviceable lives.

(ii) Expendable stores: These stores are of a semi-permanent nature. Examples of expendable stores will include shovels, paint brushes and matches, which are of short period of serviceable life.

(iii) Consumable stores: are those stores with items, which, once used, cease to exist as store items. Examples of consumable stores are soap and stationery.

(b) The methods of arriving at the value at which stores are to be taken on charge are as follows:

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

(ii) Last known price method: The articles may be taken on charge at the last known price when details of the full landed cost are not immediately known.

ICAN 2025

Skills Level
Public Sector Accounting and Finance

19

CASH MANAGEMENT AND BORROWING GUIDELINES

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19 Cash Management and Borrowing Guidelines

19.0 Learning objective

The objective of this chapter is to enhance readers' understanding of the concept of cash management, borrowing guidelines and factors militating against financial management reforms in the public sector.

19.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

(a) explain the concept of cash management in the public sector;
(b) discuss the creation of enabling environment for effective cash management;
(c) enumerate the strategies initiated to enhance cash management and control;
(d) discuss the factors militating against effective cash management and other public sector financial management reforms;
(e) explain the concept of external and domestic borrowing guidelines for federal and state governments and their agencies;
(f) explain the role of national assembly on external and domestic borrowing;
(g) discuss the documentation/procedural requirements by the FGN and state governments borrowing;
(h) discuss the procedures to be followed when borrowing from the capital market; and
(i) discuss the procedures to be followed when borrowing from the commercial banks.

19.2 Cash management

Cash management is implemented by the budget office of the federation (BoF) to ensure that the right amount of money is made available to fund government expenditure in a timely manner, as well as meeting its obligations as they fall due.

Cash management is concerned with:

(a) managing cash flow effectively and efficiently;
(b) cash planning;
(c) realising inflows;
(d) controlling outflow;
(e) avoiding discretionary spending;
(f) minimising deficit;
(g) borrowing with limits; and
(h) investment of excess or idle cash.

19.2.1 Creating enabling environment for effective cash management

This is being pursued through:

(a) effective and efficient leadership and capacity building;
(b) implementation of Fiscal Responsibility Act (FRA) and public sector reform;
(c) performance-oriented environment in government; and

(d) use of medium-term sector strategy (MTSS) as an instrument to alter status quo of ineffective budgeting.
(e) fiscal responsibility can be described in various ways which are:
    (i) reducing debt;
    (ii) completely eliminating debt;
    (iii) balancing the budget;
    (iv) reducing the debt burden (growing the GDP faster than debt);
    (v) maintaining a constant debt burden; and
    (vi) keeping unemployment low and inflation under control.

19.2.2 Strategies initiated to enhance cash management control

These include:

(a) allocation of ministries, departments and agencies (MDAs) indicative envelopes;
(b) all costs for proposal for inclusion in the budget prepared by MDAs are require to be examined by the ministry of finance (MoF) before admission into the annual budget;
(c) all disbursements from the consolidated revenue fund (CRF) must be in line with the provision of the Constitution and the Appropriation Act;
(d) the authority to disburse funds is conveyed by the Honourable Minister of Finance after the budget has been approved through Financial Warrants as well as through instrument of authority to incur expenditure (AIE) where the need arises;
(e) recurrent warrants are issue monthly for personnel costs and quarterly for overhead and capital warrants;
(f) lump sum releases (100%) are not allowed however where such provision is admitted for exceptional reasons, proposals which are intended to be financed from the lump sum provision are examined and disposed of by BoF;
(g) the automation of budget data capture and computation templates enhance operational efficiency for expenditure control;
(h) application of embargo on releases to ministries, departments and agencies (MDAs) where necessary enhances cash management discipline;
(i) introduction of electronic movement of funds and information to provide more ease and accessibility to government services for citizens and tax payers;
(j) introduction of integrated payroll and personnel information system (IPPIS).

The initiative was to identify ghost employees and ghost pensioners and implement a computer-based IPPIS geared to ensuring efficient management of the wage bill. This is to:

(i) centralise payment and payroll system;
(ii) facilitate convenient staff remuneration payment with minimal wastage;
(iii) facilitate easy storage, updating and retrieval of personnel record for administrative and pension processing;
(iv) aid manpower planning and budgeting;
(v) ascertain actual personnel emolument of the government employees etc.; and

(vi) facilitate planning as well as assist in providing information for decision making.

(j) introduction of treasury single account (TSA) is an accounting system under which all government revenue receipts and income are collected into one single account maintained by Central Bank of Nigeria (CBN).
   (i) The system ensures that payments are made through this account as well; thus, promoting accountability for government revenue and institutionalising transparency and procedural systems.
   (ii) TSA will eliminate or reduce misapplication of public funds and underpin the concept of reconciliation of receipts and payments.
   (iii) The TSA eliminates the challenges of cash control and provide a framework for the avoidance of wrong presumptions and frail cash management systems.

(k) introduction of the medium –term expenditure framework (MTEF) is an integrated top-down and bottom-up system of public expenditure management designed to:
   (i) achieve macro-economic stability without compromising economic development;
   (ii) direct the bulk of public spending to the nation's strategic priorities;
   (iii) assure predictability of funding; and
   (iv) improve the value for money of government spending.

19.2.3 Factors militating against effective cash management and other public sector financial management reforms

(a) There has been total disregard for accountability on the part of many public enterprises over the years.

(b) A lot of public enterprises do not bother to produce promptly their annual reports and audited financial statements due to inefficiency, negligence and mal-administration.

(c) Funds are allocated yearly without getting the accountability reports of previous years. Accountant General should begin to request for submission of audited financial statements before subventions are released by the end of specified month of the year.

(d) One of the root causes of the ineffective management of the public sector finances is the poor quality of leadership provided by the management of government agencies and inadequate staffing.

(e) Lack of effective management information systems (MIS) powered by information and communication technology (ICT) infrastructure is a militating factor on effective financial management in the public sector.

(f) Public sector practitioners or operators seem to be more interested in expenditure/outflows believing that there will always be substantial revenue/inflow losing sight of revenue generation from various sources.

19.3 External and domestic borrowing guidelines for federal and state governments and their agencies

Following Nigeria's exit from the Paris and London Clubs debt obligations, the Debt Management Office (DMO) developed the external borrowing guidelines (2008 - 2012), as well as the sub-national borrowing guidelines to guide the Federal and State Governments, as well as their agencies towards external and domestic borrowings with a view to avoiding are lapse into debt unsustainability. The guidelines were contained in the National Debt Management Framework (NDMF), which was approved by the Federal Executive Council in 2008.

The relevant legislations guiding external and domestic borrowing by governments are:
(a) Constitution of the Federal Republic of Nigeria,1999;
(b) Debt Management Office (Establishment, etc) Act,2003;
(c) Investments and Securities Act, 2007;
(d) Fiscal Responsibility Act, 2007; and
(e) National Debt Management Framework (2008 — 2012), which contains the guidelines for external and domestic borrowing by all tiers of government.

19.3.1 The role of National Assembly (NASS)

The following approvals must be obtained from NASS, prior to consideration of requests for external borrowing by the Federal Government of Nigeria (FGN) and its agencies:

(a) approval of the annual borrowing programme;
(b) approval of the terms and conditions of external loans as contained in the annual borrowing program;
(c) approval of overall limits, for the amounts of consolidated debt of the federal, state and local governments, to be set by the President on the advice of the Honourable Minister of Finance (HMF); and
(e) prior authorisation in the appropriation or other Act or Law for the purpose for which the borrowing is to be utilised.

19.3.2 Documentation/procedural requirements by the Federal Government of Nigeria (FGN)

Having obtained the approvals above, the FGN is expected to further comply with the following documentation and procedural requirements:

(a) preparation of annual borrowing plan, which contains: Terms and conditions of the external loans; Overall limits for the amounts of consolidated debt of the Federal, State and Local governments; 3-yr medium-term borrowing plan, loan repayment schedules and overall government borrowing limit as part of MTEF; Project documents to be funded with the loan, in line with national development priorities;
(b) MDAs' borrowing proposal and project documents are appraised by the DMO, to ascertain conformity with Borrowing guidelines and national developmental priorities and submit appropriate recommendation to the HMF;
(c) annual borrowing proposal presented by the HMF to the Federal Executive Council (FEC) for approval; and

(d) Mr. President to NASS then submits the annual borrowing plan as an integral part of the proposed annual budget for approval.

19.3.3 Documentation requirements for states' borrowing

In processing their loan requests, states are further required to provide the following:

(a) evidence of approval of the loan proposal by the executive council of the state;

(b) a resolution of the state's House of Assembly approving the proposed borrowing;

(c) States are to submit to the honourable minister of finance (HMF) their external borrowing proposals for the next fiscal year not later than 90 days preceding that year, for incorporation into the public sector external borrowing programme for the coming year;

(d) the borrowing proposal should include the following information:

  (i) the purpose for which the borrowing is intended and its link to the developmental priorities of government; the proceeds of such borrowing shall solely be applied towards long-term capital expenditure and human capital development.

  (ii) cost-benefit analysis showing the economic and social benefits to which the intended borrowing is to be applied.

  (iii) copies of the State's Executive Council's approval and the resolution of the State House of Assembly.

19.3.4 Procedural requirements for states' borrowing

(a) The Honourable Minister of Finance (HMF) forwards such borrowing proposals to the DMO to ascertain the state governments'/MDAs' debt sustainability, so as to ensure that they have not over-borrowed externally.

(b) Based on the recommendation of the DMO, and subject to HMF's final approval, such proposal is then incorporated into the annual budget for Federal Executive Council (FEC') approval.

(c) Following FEC's approval, the annual budget containing the details of the borrowing plan is subsequently forwarded to the National Assembly (NASS) for approval.

19.3.5 External loan negotiation and signing of agreement

The HMF or his appointee leads the negotiation:

(a) upon NASS approval of the annual budget, a negotiation team led by HMF Is formally constituted, comprising HMF, DMO, Federal Ministry of Justice and the beneficiary state/MDAs, to mutually agree with the prospective creditor(s) on the financing terms of the Loans;

(b) upon approval of the terms and conditions of the loan by the NASS, the HMF signs all loan agreements on behalf of the Federal Government of Nigeria; and

(c) beneficiary States are expected to execute a subsidiary loan agreement (SLA) with the Federal Government. It should be noted that Federal or states governments and their agencies can only obtain external loans with the

approval of the Honourable Minister of Finance and such loans must be supported by Federal Government's Guarantee.

19.3.6 Domestic borrowing by the federal government

Details of the domestic borrowing by the federal government shall be specified in the annual borrowing plan and presented to the NASS, as part of the proposed annual budget for approval.

19.3.7 Domestic borrowing by the states and their agencies

In addition to the stated statutes/borrowing guidelines above, the provisions of the Investments and Securities Act (ISA), 2007, also guide borrowing from the domestic capital market.

19.3.8 Borrowing from the capital market

Any loan to be raised from the domestic capital market must conform to the requirements of the ISA, 2007, which include:

(a) approval of the State's executive council and resolution of the House of Assembly;
(b) the total amount of loans outstanding at any particular time including the proposed loan shall not exceed 50% of the actual revenue of the body concerned for the preceding 12 months;
(c) applications to Securities and Exchange Commission (SEC) shall, amongst other documents, be accompanied by an original copy of an irrevocable letter of authority giving the Accountant General of the Federation the authority to deduct at source from the statutory allocation due to the body, in the event of default by the body in meeting its payment obligations under the terms of the loan and the relevant Deed.
(d) request for approval for issuance of such irrevocable standing payment order (ISPO) is forwarded to HMF and would contain the following:
    (i) the purpose for which the borrowing is intended and its link to the developmental priorities of the government;
    (ii) cost-benefit analysis showing the economic and social benefits to which the intended borrowing is to be applied;
    (iii) cash flow Statements of the state and their agencies, to ascertain their viability and sustainability; and
    (iv) copies of the State's Executive Council's approval and the resolution of the State House of Assembly.
(e) the HMF forwards the requests for issuance of ISPO to the DMO to conduct a debt sustainability analysis to ascertain that the monthly debt service ratio of the sub-national, including the servicing of the proposed borrowing, does not exceed 40% of its actual monthly revenue of the preceding 12 months, and recommends to the HMF as appropriate.
(f) the states are to further satisfy other requirements of ISA, 2007, and the issuance requirements of SEC.

19.3.9 Borrowing from the commercial banks

(a) All banks and financial institutions required to lend money to the Federal, State and Local governments or any of their agencies, shall obtain the prior approval of the HMF and shall state the purpose of the borrowing and the tenor.

(b) Upon contracting a commercial bank loan, states are to furnish the DMO with the details of such loans. The lending bank is also required to furnish the DMO and State's Debt Management Departments (DMDs) with periodic reports on the drawdown and utilisation of loan by the borrower.

19.4 Chapter review

The chapter discusses the:

(a) concept of cash management in the public sector;
(b) creation of enabling environment for effective cash management;
(c) strategies initiated to enhance cash management control;
(d) factors militating against effective cash management and other public sector financial management reforms;
(e) concept of external and domestic borrowing guidelines for federal and state governments and their agencies;
(f) role of National Assembly on external and domestic borrowing;
(g) documentation/procedural requirements by the federal and state governments borrowing;
(h) procedures to be followed when borrowing from the capital market; and
(i) procedures to be followed when borrowing from the commercial banks.

19.5 Worked examples

19.5.1 Examination type questions

1. Cash management is implemented by the budget office of the federation (BoF) to ensure that the right amount of money is made available to fund government expenditure in a timely manner, as well as meeting its obligations as they fall due.

   Required:
   Discuss the strategies initiated to enhance cash management control in Nigeria.

2. The National Assembly plays a prominent role in the process of external borrowing by the Federal Government of Nigeria (FGN) and its agencies.

   Required:
   Explain the roles of National Assembly on external and domestic borrowings in Nigeria.

3. Despite the importance of effective cash management in the Public Sector, there are many factors militating against it.

   Required:
   Discuss factors militating against effective cash management and other public sector financial management reforms.

19.5.2 Suggested solutions

1. Strategies initiated to enhance cash management control.
   (a) Allocation of MDAs indicative Envelopes;
   (b) All costs for proposal for inclusion in the budget prepared by MDAs are required to be examined by the MOF before admission into the annual budget;
   (c) All disbursements from the consolidated revenue fund (CRF) must be in line with the provision of the Constitution and the Appropriation Act,
   (d) The authority to disburse funds is conveyed by the Honourable Minister of Finance after the budget has been approved through Financial Warrants as well as through instrument of authority to incur expenditure (AIE) where the need arises;
   (e) Recurrent warrants are issue monthly for personnel costs and quarterly for overhead, capital warrants are also issue on quarterly basis;
   (f) Lump sum releases (100%) are not allowed however where such provision is admitted for exceptional reasons proposals which are intended to be financed from the lump sum provision are examined and disposed of by BOF.
   (g) The automation of budget data capture and computation templates enhance operational efficiency for expenditure control;
   (h) Application of embargo on releases to MDAs where necessary enhances cash management discipline;
   (i) Introduction of electronic movement of funds and information to provide more ease and accessibility to government services for citizens and taxpayers;
   (j) Introduction of integrated payroll and personnel information system (IPPIS) The initiatives were to identify ghost employees and ghost pensioners and implement computer-based IPPIS geared to ensuring efficient management of the wage bill. This is to:
      (i) centralise payment and payroll system;
      (ii) facilitate convenient staff remuneration payment with minimal wastage;
      (iii) facilitate easy storage, updating and retrieval of personnel record for administrative and pension processing;
      (iv) aid manpower planning and budgeting;
      (v) ascertain actual personnel emolument of the government employees etc.; and
      (vi) facilitate planning as well as assist in providing information for decision making;
   (k) Introduction of treasury single account (TSA) is an accounting system under which all government revenue receipts and income are collected into one single account maintained by Central Bank of Nigeria (CBN).

(i) the system ensures that payments are made through this account as well thus, promoting accountability for government revenue and institutionalising transparency and procedural systems.
(ii) TSA will eliminate or reduce misapplication of public funds and underpin the concept of reconciliation of receipts and payments.
(iii) the TSA eliminates the challenges of cash control and provide a framework for the avoidance of wrong presumptions and frail cash management systems and

(l) Introduction of the medium –term expenditure framework is an integrated top-down and bottom- up system of public expenditure management designed to:
(i) achieve macro-economic stability without compromising economic development;
(ii) direct the bulk of public spending to the nation's strategic priorities;
(iii) assure predictability of funding; and
(iv) improve the value for money of government spending.

2 The roles of National Assembly

The following approvals must be obtained from NASS, prior to consideration of requests for external borrowing by the Federal Government of Nigeria (FGN) and its agencies:

(a) approval of the annual borrowing programme.
(b) approval of the terms and conditions of external loans as contained in the annual borrowing programme.
(c) approval of overall limits, for the amounts of consolidated debt of the Federal, State and Local Governments, to be set by the President on the advice of the Honourable Minister of Finance (HMF).
(d) prior authorisation in the appropriation or other Actor Law for the purpose for which the borrowing is to be utilised.

3 Factors militating against effective cash management and other public sector financial management reforms

(a) There has been total disregard for accountability on the part of many public enterprises over the years.
(b) A lot of public enterprises do not bother to produce promptly their annual reports and audited financial statements due to inefficiency, negligence and mal-administration.
(c) Funds are allocated yearly without getting the accountability reports of previous years. Accountant General should begin to request for submission of audited financial statements before subventions are released by the end of specified month of the year.
(d) One of the root causes of the ineffective management of the public sector finances is the poor quality of leadership provided by the management of government agencies and inadequate staffing.

(e) Lack of effective management information systems (MIS) powered by information and communication technology (ICT) infrastructure is a militating factor on effective financial management in the public sector.

(f) Public sector practitioners or operators seem to be more interested in expenditure/outflows believing that there will always be substantial revenue/inflow losing sight of revenue generation from various sources.

ICAN 2026

Skills Level
Public Sector Accounting and Finance

CHAPTER 20

PREPARATION OF STATUTORY FINANCIAL STATEMENTS FOR GOVERNMENT IN ACCORDANCE WITH CASH BASIS IPSAS

Contents

20.0 Learning objectives

20.1 Learning outcomes

20.2 Introduction

20.3 Documents required for the preparation of federal government accounts

20.4 Components of financial statements

20.5 Chapter review

20.6 Worked examples

ICAN 2019

20 Preparation of Statutory Financial Statements for Government in Accordance with Cash Basis IPSAS

20.0 Learning objective

The objective of this chapter is to enhance readers' understanding of the preparation of statutory financial statements for government, in accordance with cash basis IPSAS.

20.1 Learning outcomes

On successful completion of this chapter, the readers should be able to:

(a) identify the rules and regulations guiding the preparation of financial statements as contained in the International Public Sector Accounting Standards (IPSAS); and

(b) prepare the financial statements of government.

20.2 Introduction

The office of the Accountant General of the Federation is an extra-ministerial agency under the Federal Ministry of Finance. The office is charged with the responsibility of preparing and publishing the accounts of the Federal Government of Nigeria, in such a manner that will show a true and fair view of the financial position of the government and its relationship with the states and local government councils.

20.3 Documents required for the preparation of federal government accounts

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

(a) transcripts from the ministries and extra-ministerial departments;

(b) accounts from the federal pay offices, states and local government councils; and

(c) accounts from the Nigeria foreign missions.

20.4 Components of financial statements

Section 24 of the Finance (Control and Management) Act 1958 requires the Accountant– General of the Federation to prepare and submit to the Auditor – General for the Federation the following annual General Purpose Financial Statements (GPFS):

(a) Cash flow Statement- No 1.0;

(b) Statement of assets and liabilities - Statement No 2.0;

(c) Statement of Consolidated Revenue Fund- No 3.0;

(d) Statement of Capital Development Fund- No 4.0;

(e) Notes to the accounts;

(f) Performance reports;

(g) Statistical reports; and

(h) Accounting policies.

The above four statements are very important. However, the following notes are also relevant:

(i) Note on Treasury Bills;

(ii) Note on Special and Trust Funds; and

(iii) Note on Other Loans and Investments.

20.4.1 Note on national (or public) debts

The note on national debt is divided into 'internal' and 'external' components. Internal debts are made up of treasury bills, treasury certificates and loan stocks raised and retired within the country. External debts comprise purchase of bills in the form of letters of credit certified by the Federal Government. They constitute the bulk of the debts owed to London and Paris Clubs. External debts also include money borrowed from the IMF, World Bank, ADB and other foreign countries.

20.4.2 Cash flow statement; No 1.0

Cash flow Statement (Statement of Receipts and Payments) is one of the Statements required by Cash IPSAS.

(a) The cash flow statement identifies the sources of cash inflows, the items on which cash was expended during the reporting period, and the cash balance as at the reporting date.

(b) Cash flows are basically reported under three (3) separate activities as follows:
   (i) Operating activities;
   (ii) Investing activities; and
   (iii) Financing activities.

(c) Cash flow of an entity must fall within the above three activities.

Statement No. 1
Government of Nigeria
Cash Flow Statement for the Year ended 31st December, 20xx

Annual Budget 20xx	Cash Flows from Operating Activities:	Notes	Actual Year 20xx	Previous Year 20xx-1
₦			₦	₦
	Receipts:			
XX	Statutory Allocations: FAAC	1	XX	XX
XX	Value Added Tax Allocation	1	XX	XX
	Sub-total - Statutory Allocation		XX	XX
XX	Direct Taxes	2	XX	XX
XX	Licences	2	XX	XX
XX	Mining Rents:	2	XX	XX
XX	Royalties	2	XX	XX
XX	Fees:	2	XX	XX
XX	Fines	2	XX	XX
XX	Sales	2	XX	XX
XX	Earnings:	2	XX	XX
XX	Sales/Rent of Government Buildings:	2	XX	XX
XX	Sale/Rent on Lands and Others:	2	XX	XX
XX	Repayments-General:	2	XX	XX

Annual Budget 20xx	Cash Flows from Operating Activities:	Notes	Actual Year 20xx	Previous Year 20xx-1
XX	Investment Income	2	XX	XX
XX	Interest Earned	2	XX	XX
XX	Re-imbursement	2	XX	XX
	Sub-total - Independent Revenue		XX	XX
XX	Other Revenue Sources of the Government	3	XX	XX
0.00	**Total Receipts**		**0.00**	**0.00**
	Payments:			
XX	Personnel Costs (Including Salaries on CRF Charges):	4	XX	XX
XX	Federal/ States/ LGC Govt. Contribution to Pension:	5	XX	XX
XX	Overhead Charges:	6	XX	XX
XX	Consolidated Revenue Fund Charges			
	(Incl. Service Wide Votes)	7	XX	XX
XX	Subvention to Parastatals:	8	XX	XX
XX	Other Operating Activities		XX	XX
XX	Other Transfers		XX	XX
0.00	**Total Payments**		**0.00**	**0.00**
0.00	**Net Cash Flow from Operating Activities**		**0.00**	**0.00**
	Cash Flows from Investment Activities:			
XX	Capital Expenditure: Administrative Sector:	11	XX	XX
XX	Capital Expenditure: Economic Sector:	11	XX	XX
XX	Capital Expenditure: Law and Justice:	11	XX	XX
XX	Capital Expenditure: Regional Development	11	XX	XX
XX	capital expenditure: Social Service Sector:	11	XX	XX
XX	Capital Expenditure: Funded from Aid and Grants:	10	XX	XX
0.00	**Net Cash Flow from Investment Activities:**		**0.00**	**0.00**
	Cash Flows from Financing Activities:			
XX	Proceeds from Aid and Grants	10	XX	XX
XX	Proceeds from External Loan:	19	XX	XX
XX	Proceeds from Internal Loans: FGN/Treasury Bonds :	20	XX	XX
XX	Proceeds from Internal Loan: NTBs etc.	21	XX	XX
XX	Proceeds from Development of Nat Resources	23	XX	XX
	Proceeds of Loans from Other Funds	24	XX	XX
-XX	Repayment of External Loans (Including Servicing)	19	-XX	-XX
-XX	Repayment of FGN/Treasury Bonds:	20	-XX	-XX
-XX	Repayment of Internal Loan-NTBs	21	-XX	-XX

Annual Budget 20xx	Cash Flows from Operating Activities:	Notes	Actual Year 20xx	Previous Year 20xx-1
-XX	Repayment of Loans from Development of			
	Nat Resources	23	-XX	-XX
	Repayment of Loans from Other Funds	24	-XX	-XX
0.00	**Net Cash Flow from Financing Activities:**		**0.00**	**0.00**
	Movement in Other Cash Equivalent Accounts			
XX	(Increase)/ Decrease in Investments		XX	XX
XX	Net (Increase)/Decrease in Other Cash Equivalents:		XX	XX
0.00	**Total Cash flow from other Cash equivalent Accounts**		**0.00**	**0.00**
XX	Net Cash for the year		XX	XX
XX	Cash and Its Equivalent as at 1st January, 20XX		XX	XX
XX	**Cash and Its Equivalent as at 31st December, 20xx******		**XX**	**XX**

The accompanying notes form part of these statements

Name and Signature of ——————————————————————

Accountant General of the Federation/ Accountant General of the State/ Local Government Treasurer

Note that the Cash and its Equivalent must agree with Cash and Cash

Equivalent in Statement 2

Source: Federation Account Allocation Committee (FAAC) Sub-Committee on the Road Map for Adoption of International Public sector accounting Standards (IPSAS.

20.4.3 Statement No. 2 - Statement of assets and liabilities

The statement is the statement of financial position (balance sheet) of the Federal Government. It highlights the various funds on the liability side, while investments and cash held against the funds are shown on the asset side. Comparative figures for the previous year are placed side-by-side. The format of the statement of financial position of Government prepared under the cash basis is shown thus:

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Statement No. 2
Government of Nigeria
Statement of Assets and Liabilities as at 31st December, 20xx

	Notes	Current Year 20xx	Previous Year 20xx-1
		₦	₦
Assets:			
Liquid assets: -			
Cash Held by AGF:			
- CRF Bank Balance (CBN/ CRF Bank):		XX	XX
- Pension Account (CBN/ Bank):		XX	XX
- Other Bank of the Treasury		XX	XX
- Cash Balances of Trust and Other Funds of the			
FGN/ States/LGC:	12	XX	XX
Cash Balances with Federal Pay Offices / Sub-Treasury:	13	XX	XX
Cash Held by Ministries, Department and Agencies: -	14	XX	XX
Total liquid assets		**0.00**	**0.00**
Investments and other cash assets:			
Federal/ State/ Local Government Investments	15	XX	XX
Imprests: -	16	XX	XX
Advances: -	17	XX	XX
Revolving Loans Granted: -	18	XX	XX
Intangible Assets		XX	XX
total investments and other cash assets		0.00	0.00
Total assets		**0.00**	**0.00**
Liabilities:			
Public funds			
Consolidated Revenue Fund:		XX	XX
Capital Development Fund:		XX	XX
Trust and Other Public Funds:		XX	XX
Police Reward Fund		XX	XX
Total public funds		**0.00**	**0.00**
External and internal loans			
External Loans: FGN/States/ LGC	19	XX	XX
FGN/ States/LGC Bonds and Treasury Bonds.	20	XX	XX
Nigerian Treasury Bills (NTB)	21	XX	XX
Development Loan Stock	22	XX	XX
Other Internal Loans (Promissory Notes)	23	XX	XX
Internal Loans from Other Funds	24	XX	XX
Total external and internal loans		0.00	0.00
Other liabilities			
Deposits: -	25	XX	XX
Total liabilities		**0.00**	**0.00**

SAN 2025

The Accompanying Notes form part of these Statements

Name and Signature of ————————————————————————-

Accountant General of the Federation/ Accountant General of the State/ Local Government Treasurer

Source: Federation Account Allocation Committee (FAAC) Sub-Committee on the Road Map for Adoption of International Public sector accounting Standards (IPSAS)

20.4.4 Statement No. 3.0 - Statement of consolidated revenue fund

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

(a) recurrent expenditure;
(b) transfers to contingency fund;
(c) redemption of treasury bills;
(d) transfers to development fund; and
(e) consolidated revenue fund charges.

Note on recurrent revenue

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

Note on recurrent expenditure

The Statement contains the actual cumulative figures of recurrent expenditure incurred to date, with comparative figures for the previous year. Recurrent expenditure relates to the day-to-day disbursements to run the administration of local government councils, state and federal governments. Examples are the salaries of government workers, electricity bills and maintenance of vehicles.

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Statement No. 3
Government of Nigeria
Statement of Consolidated Revenue Fund for the year ended 31st December, 20xx

Actual Previous Year		Notes	Actual Year	Final Budget	Initial/ Original Budget	Supp. Budget	Variance Budget on
(20xx-1)			2oxx	20xx	20xx20xx	Final	
					Budget		
			₦	₦	₦	₦	%
xx	Opening balance:		xx				
	Add: Revenue						
xx	Statutory Allocations: FAAC	1	xx	xx	xx	xx	xx
xx	Value Added Tax Allocation	1	xx	xx	xx	xx	xx
Sub-Total - Statutory Allocation			**xx**	**xx**	**xx**	**xx**	**xx**
xx	Direct Taxes	2	xx	xx	xx	xx	xx
xx	Licences	2	xx	xx	xx	xx	xx
xx	Mining Rents:	2	xx	xx	xx	xx	xx
xx	Royalties	2	xx	xx	xx	xx	xx
xx	Fees:	2	xx	xx	xx	xx	xx
xx	Fines	2	xx	xx	xx	xx	xx
xx	Sales	2	xx	xx	xx	xx	xx
xx	Earnings	2	xx	xx	xx	xx	xx
xx	Sales/Rent of Government Buildings:	2	xx	xx	xx	xx	xx
xx	Sale/Rent on Lands and Others:	2	xx	xx	xx	xx	xx
xx	Repayment: General:	2	xx	xx	xx	xx	xx
xx	Investment Income	2	xx	xx	xx	xx	xx
xx	Interest Earned	2	xx	xx	xx	xx	xx
xx	Re-Imbursements	2	xx	xx	xx	xx	xx
Sub-total- Independent revenue				**xx**	**xx**		
xx.	Other revenue sources of the government	3	xx.	xx.	xx.	xx.	xx.
0.00	**Total revenue**		**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
	Less: Expenditure						
xx.	Personnel costs (including salaries on CRF charges	4	xx.	xx.	xx..	xx.	xx.
xx.	Federal/ States/LGC govts contribution to pension	5	xx.	xx.	xx.	xx.	xx.
xx.	Overheads charges	6	xx.	xx.	xx.	xx.	xx.
xx.	CRF charges (including Service	7	xx.	xx.	xx.	xx.	xx.

Actual Previous Year		Notes	Actual Year	Final Budget	Initial/ Original Budget	Supp. Budget	Variance Budget on
	Wide Votes)						
xx.	Subvention to parastatals	8	xx.	xx.	xx.	xx.	xx.
	Other recurrent payments/expenditure:		xx.	xx.	xx.	xx.	xx.
xx.	Repayment: External loans FGN/States/LGC Bonds and Treasury Bills	19	xx.	xx.	xx.	xx.	xx.
xx.	Repayment: FGN/States/LGC Bonds and Treasury Bonds	20					
xx.	Repayment Nigerian Treasury Bills (NTB)	21	xx.	xx.	xx.	xx.	xx.
xx.	Repayments: Development loan stock	22	xx.	xx.	xx.	xx.	xx.
xx.	Repayments: Other Internal Loans (Promissory Notes)	23					
xx.	Repayments: Internal Loans from Other Funds	24					
0.00	**Total Expenditure**		**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
xx.	Operating Balance		xx	xx	xx	xx	xx
	Appropriations/Transfers						
xx.	Transfers to Capital Development Fund (CDF)	9	xx.	xx.	xx.	xx.	xx.
xx.	**Closing Balance**		**xx**				

The Accompanying Notes form part of these Statements

Name and Signature of ——————————————————————————

Accountant General of the Federation / Accountant General of the State/ Local Government Treasurer.

Source: Federation Account Allocation Committee (FAAC) Sub-Committee on the Road Map for Adoption of International Public sector accounting Standards (IPSAS)

20.4.5 Statement No.4 - Statement of development fund (or capital expenditure)

The fund is meant to finance general capital projects such as the construction of government hospitals. The inflows into the fund include loans, grants from foreign countries and releases from the consolidated revenue fund.

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Statement No. 4
Government of Nigeria
Statement of Capital Development Fund for the year ended 31st December, 20xx

Actual Previous Year		Notes	Total Capital Expenditure	Final Budget	Initial / Original Budget	Supplementary Budget	Performance
(20xx-1)			2oxx	20xx	20xx	20xx	On total
			₦	₦	₦	₦	%
xx	Opening balance:		xx				
	Add: Revenue						
xx	Transfer from Consolidated						
	Revenue Fund:	9	xx	xx	xx	xx	xx
xx	Aid and Grants	10	xx	xx	xx	xx	xx
xx	External Loans: FGN/States / LGC	19	xx	xx	xx	xx	xx
xx	FGN/ States/LGC Bonds and Treasury Bonds.	20	xx	xx	xx	xx	xx
xx	Nigerian Treasury Bills (NTB)	21	xx	xx	xx	xx	xx
xx	Development Loan Stock	22	xx	xx	xx	xx	xx
xx	Other Internal Loans (Promissory Notes)	23	xx	xx	xx	xx	xx
xx	Internal Loans from Other Funds	24	xx	xx	xx	xx	xx
0.00 Total revenue available:			0.00	0.00	0.00	0.00	xx
	Less: Capital expenditure						
xx	Capital Expenditure:						
	Administrative Sector:	11	xx	xx	xx	xx	xx
xx	Capital Expenditure:						
	Economic Sector:	11	xx	xx	xx	xx	xx
xx	Capital Expenditure:						
	Law and Justice:	11	xx	xx	xx	xx	xx
xx	Capital Expenditure: Regional						
	Development	11	xx	xx	xx	xx	xx
xx	Capital Expenditure:						
	Social Service Sector:	11	xx	xx	xx	xx	xx
xx	Capital Expenditure: Funded from						
	Aid and Grants:	10	xx	xx	xx	xx	xx
0.00 Total capital expenditure:			0.00	0.00	0.00	0.00	0.00
	Intangible assets		xx				
	Closing balance:		xx				

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The Accompanying notes form part of these Statements

Name and Signature of ——————————————————————

Accountant General of the Federation/ Accountant General of the State/ Local Government Treasurer

Source: Federation Account Allocation Committee (FAAC) Sub-Committee on the Road Map for Adoption of International Public sector accounting Standards (IPSAS)

20.5 Chapter review

This chapter deals with the final accounts prepared by the Accountant-General of the Federation.

The final accounts are usually divided into:

(a) Statement Number 1 - Statement of Cash Flows;
(b) Statement Number 2 - Statement of Assets and Liabilities;
(c) Statement Number 3 - Statement of Consolidated Revenue Fund; and
(d) Statement Number 4 - Statement of Capital Development Fund.

Also discussed in this chapter, are the rules and regulations guiding the preparation of financial statements as contained in the International Public sector accounting Standards (IPSAS).

20.6 Worked examples

20.6.1 Examination type questions

1. ILUDUN Polytechnic had the following ledger balances in respect of Egu-Awori Memorial Loan Fund as at December 31, 2022:

	Dr	Cr
	₦'000	₦'000
Cash	8,400	
Loan Receivable	316,000	
Investments	202,000	
Fund Balance		526,400
	526,400	526,400

During year 2008, the following transactions took place:

(i) Investments costing ₦61,600,000 were sold for ₦63,800,000.
(ii) ₦61,400,000 cash was received from the repayment of loans.
(iii) ₦5,000,000 was received from the family of a former student in full payment of a loan which had earlier been written off.
(iv) ₦83,600,000 was issued out as loan during the year.
(v) A loan of ₦1,500,000 was written off as un-collectable.
(vi) A contribution of ₦6,000,000 in cash was received as gift from a former borrower.

Required:

(a) Open the ledger accounts and record the year 2008 transactions.
(b) Extract a trial balance and prepare the balance sheet of the Fund as at 31/12/2023.

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

2. The following balances were extracted from the books of Denge Pose State Government of Manna as at December 31, 2024:

2023		2024
₦'000		₦'000
644,997	Statutory allocation	4,841,017
119,102	Value Added Tax Collection	160,133
403,020	Internally Generated Revenue	498,843
58,256	Other Revenue	79,397
490,110	Personnel Cost	1,170,666
280,095	Overhead Cost	739,646
137,081	Consolidated Revenue Fund Charges	382,936
246,400	Other Capital Receipts	379,237
394,969	Capital Expenditure	2,753,553
591	Other Fund Deposits	591
28,288	Cash at Bank	69,604
67,799	Deposit with Banks	740,352
62,772	Investments	27,987
11,252	Advances	74,474

Additional Information provided:

The following amounts expended on unfunded internal debt servicing have been included in the consolidated revenue fund charges

	₦'000
2023	36,970
2024	45,364

Any surplus/deficit on Revenue Account is transferred to the Capital Account as appropriate.

Required:

Prepare:

(a) Recurrent and capital accounts

(b) Statement of assets and liabilities for the year ended December 31, 2024

3. The following information was obtained from the records of the Office of the Accountant General for the Federal Republic of Legacy for the year ended December 31, 2023:

	2023	2022
	₦ million	₦ million
Value added receipts	2,295,000	2,196,000
Miscellaneous revenue	375,000	425,000
PIT- direct tax	10,500,000	7,200,000
Allocation for collection costs		
(FIRS and customs)	3,075,000	3,305,000
Personnel costs	7,200,000	9,600,000
Share of statutory allocation	13,500,000	8,450,000
CRF charges	2,250,000	3,750,000
Grants and subvention from foreign donors	75,000	87,000
Rent of Federal government properties	285,000	295,000
Overhead charges	1,500,000	1,200,000
Subvention to parastatals	1,800,000	1,900,000
Sales of Federal government properties	375,000	485,000
Repayment of loans	870,000	243,000
Purchases and construction of		
Non-current assets	2,500,000	2,700,000
Proceeds from sales of Federal		
government properties in Yenagoa	1,050,000	
Purchases of marketable securities	500,000	300,000
Cash and cash equivalent Jan. 1, 2013	3,750,000	-
Proceeds from loans and other borrowings	3,000,000	1,000,000
Cash and cash equivalent Dec. 31, 2023	21,660,000	3,750,000

Required:

Prepare a cash flow statement for the year ended December 31, 2023, using direct method (show comparative figures).

20.6.2 Suggested solutions

(1) Iludun Polytechnic Memorial Loan Fund

(a) (i) **Cash account**

	₦'000		₦'000
Balance b/f	8,400	Loan receivable A/C	83,600
Investment disposal A/C	63,800		-
Loan receivable A/C	61,400		
Bad debt recovered A/C	5,000		
Gift: fund balance	6,000	Balance c/d	61,000
	144,600		144,600
		Balance b/d	61,000

(ii) **Loan receivable account**

	₦'000		₦'000
Balance b/f	316,000	Cash Account	61,400
Cash A/C	83,600	Bad Debt recovered	1,500
	-	Balance C/D	336,700
	399,600		399,600
Balance b/d	336,700		

(iii) **Investment account**

	₦'000		₦'000
Balance b/f	202,000	Investment disposal A/c	61,600
	-	Bal. c/d	140,400
	202,000		202,000
Balance b/d	₦140,400		

(iv) **Fund balance account**

		₦'000		₦'000
			Balance b/f	526,400
			Cash account	6,000
			Investment disposal A/C	2,200
Bal. c/d		538,100	Bad debt recovered A/c	3,500
		538,100		538,100
	Balance b/d	538,100		

Workings

(i) Investment disposal account

	₦'000		₦'000
Investment account	61,600	Cash account	63,800
Fund balance			
(Profit on disposal)	2,200		-
	63,800		**63,800**

(ii) **Bad debt recovered account**

	₦'000		₦'000
Loan receivable account	1,500	Cash account	5,000
Transfer to fund balance	3,500		
	5,000		5,000

(b) **Trial balance as at 31/12/2008**

	Dr	Cr
	₦'000	₦'000
Cash	61,000	
Loan receivable	336,700	
Investment	140,400	
Fund balance	-	538,100
	538,100	**538,100**

(c) **Statement of changes in the fund balance**

	₦'000	₦'000
Balance b/f		526,400
Add: Gift received	6,000	
Bad debt recovered	5,000	
Profit on disposal of investment	2,200	13,200
		539,600
Less: Bad debt written off		1,500
Balance carried forward		**538,100**

2. Denge-Pose state government of manna consolidated financial statements for the year ended December 31, 2023

Consolidated financial statements recurrent account		
	2022	**2023**
Recurrent revenue	**₦'000**	**₦'000**
Statutory allocation	644,997	4,841,017
Value added tax	119,102	160,133
Internally generated revenue	403,020	498,843
Other revenue	58,256	79,397
(A)	**1,225,375**	**5,579,390**
Recurrent expenditure		
Personnel cost	490,110	1,170,666
Overhead cost	280,095	739,646
Consolidated revenue fund charges	137,081	382,936
(B)	**907,286**	**2,293,248**
Surplus/Deficit to Capital a/c. (A - B)	318,089	3,286,142

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Capital account:		
Transfer from recurrent account	318,089	3,286,142
Other capital receipts	246,400	379,237
	564,489	3,665,379
Capital expenditure	(394,969)	(2,753,553)
Capital development fund c/f	169,520	911,826
Internal debt servicing component of the consolidated, revenue und charges	36,970	45,364
Statement of assets and liabilities for the year ended 31 December 2008		
	2022	**2023**
Liabilities	**₦'000**	**₦'000**
Public Funds – C.R.F	169,520	911,826
Other Funds Deposit	591	591
	170,111	912,417
Assets		
Cash at bank	28,288	69,604
Deposit with banks	67,799	740,352
Investments	62,772	27.987
Advance	11,252	74,474

3

Federal republic of legacy		
Cash flow statement for the year ended December 31, 2023		
Receipt	**2023**	**2022**
	₦	**₦**
Share of statutory allocation	13,500,000	8,450,000
Value added tax	2,295,000	2,196,000
Personal income tax - Direct tax	10,500,000	7,200,000
Allocation for collection cost	3,075,000	3,305,000
Grants and subvention received	75,000	87,000
Miscellaneous revenue	375,000	425,000
Total receipts	**29,820,000**	**21,663,000**
Payments		
Personnel costs	7,200,000	9,600,000
Consolidated revenue charges	2,250,000	3,750,000
Overhead charges	1,500,000	1,200,000
Subvention to parastatals	1,800,000	1,900,000
Total payments	12,750,000	16,450,000
Net Cash inflow from		
Operating activities	**17,070,000**	**5,213,000**

Cash flow from investing		
Activities		
Sales of Federal Govt. Properties		
Yenagoa	1,050,000	
Purchases and Construction of		
Non-current assets	(2,500,000)	(2,700,000)
Purchases of marketable securities	(500,000)	(300,000)
Sales of government property	375,000	485,000
Rent of government property	285,000	295,000
Net cash outflow from investing activities	**(1,290,000)**	**(2,220,000)**
Cash flow from financing activities		
Proceeds from loans and other borrowing	3,000,000	1,000,000
Repayment of loan	(870,000)	(243,000)
Net cash outflow from		
Financing activities	**2,130,000**	**757,000**
Net increase in cash and cash equivalent	17,910,000	3,750,000
Cash and cash equivalent January 1	3,750,000	-
Cash and cash equivalent December 31	**21,660,000**	**3,750,000**

ICAN 2016

Skills Level
Public Sector Accounting and Finance

CHAPTER 21

ACCOUNTING FOR LOCAL GOVERNMENT

Contents

21.0 Learning objective

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21 Accounting for Local Government

21.0 Learning objective

The objective of this chapter is to enhance readers' understanding of the constitutional functions, sources of revenue and types of expenditure of local government in Nigeria.

21.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

(a) discuss the functions and sources of revenue;
(b) explain the roles and functions of the principal officers;
(c) identify the control measures in the expenditure of local government; and
(d) explain the financial control processes.

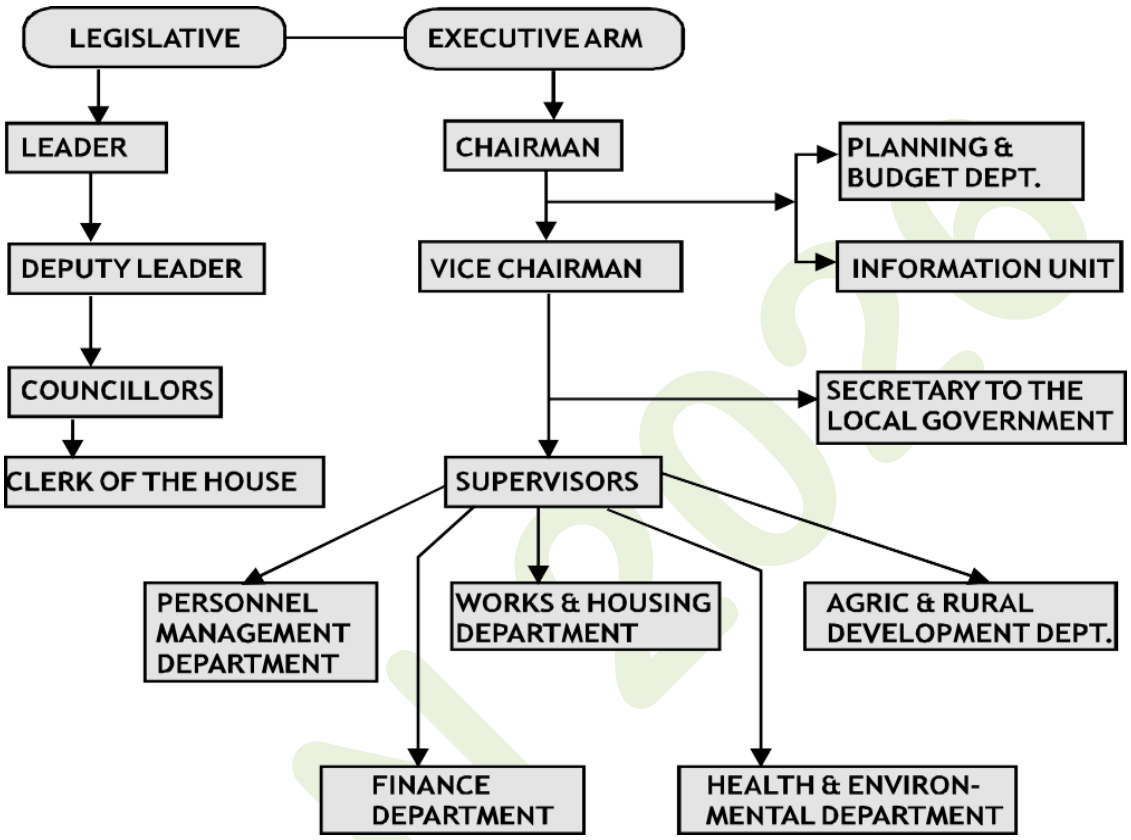
21.2 Introduction

A local government is the 'third-tier' of governance in Nigeria. However, state governments have considerable influence over the local government councils whose functions are stated in the Fourth Schedule of the 1999 Constitution, as detailed below:

i. The consideration of economic planning and the making of recommendations to state commission on the development of the local government areas;
ii. Establishment and maintenance of cemeteries, burial grounds and homes for destitute or the infirmed;
iii. Licensing of bicycles, trucks, motor cars; etc.
iv. Establishment and maintenance of markets, car parks and public conveniences;
v. Construction and maintenance of roads, streets, drain, parks and other public facilities prescribed by the State Legislature;
vi. Naming of roads and numbering of houses;
vii. Provision and maintenance of public conveniences and facilities for refuse disposal;
viii. Registration of deaths, births and marriages;
ix. Control and regulation of outdoor advertising, movement and keeping of pets, shops, kiosks, restaurants and other places for sale of food to the public and laundries;
x. Licensing regulation and control of sale of liquor;
xi. In addition, Local Government Councils in conjunction with the state governments, make:
    (i) Provision for primary education;
    (ii) Provision for primary health care services;
    (iii) Provision for rural water supply; and
    (iv) Provision for rural feeder roads.
xii. Any such other functions as may be conferred on a local government council by the House of Assembly of the state.

21.3 Local government organisational set-up

Organogram of a typical local government council



21.4 Sources of revenue of a local government council

The sources of revenue of a Local Government Council can be classified into three groups as follows:

i. statutory sources of revenue;
ii. permissive sources of revenue; and
iii. incidental sources of revenue.

21.4.1 Statutory sources of revenue

(a) Statutory allocations from the Federation Account. 20.60% of the federally collected revenue accrues to the local government councils, paid directly by the Federal Government.
(b) 10% of the State's internally generated revenue.
(c) Fees and other charges imposed by the Council under its instrument of creation and Acts of the legislative promulgated from time-to-time.

21.4.2 Permissive sources of revenue according to Taxes and Levies (Approved list for collection) Act No. 21 of 1998

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

21.4.3 Incidental sources of revenue

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

21.5 Assessment of tenement rates

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

a. annual value method
b. capital value approach.

21.5.1 Annual value method

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

21.5.2 Capital value method

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

21.6 Statutory allocation

The Revenue Allocation Act of 1982 covers the statutory allocation of money to the Local Government Councils by the Federal and State Governments. This Act was amended in 1986, 1988 and 1989. Paragraph 162(3)(5) of the 1999 Constitution lends weight to the extant laws earlier cited.

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

(a)	Federal Government	52.68%
(b)	State Governments	26.72%
(c)	Local Government Councils	20.60%
		100.0%

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

21.7 Administration of local government councils

The local government councils are administered by both the executive and legislative arms of government.

Executive arm

(a) The Chairman;
(b) The Vice -Chairman;
(c) Supervisors;
(d) Treasurer;
(e) Secretary; and
(f) Head of Personnel Management.

21.7.1 Chairman as accounting officer

The guidelines on civil service reforms describe a local government council Chairman as the chief executive and accounting officer. As such, he alone initiates all decisions relating to finance and accounts. He presides over Council meetings and is entitled to cast a vote in the event of an election.

An ambitious and authoritarian chairman could use his influence and political party councillors to get through his financial decisions, whether or not such decisions are in the interest of the citizenry. The basis, rationale, and logic of separating the executive from the legislative arms, according to the Federal Government, is to enhance the system of checks and balances in the presidential system. By the promulgation of the Basic Constitutional and Transitional Provisions (Amendment) Decree Number 3 of 1991, all the elected Councillors are constituted into the legislature and could choose a leader of the Council Assembly whose role is synonymous with that of the Speaker of the State House of Assembly.

The major functions of a local government chairman are:

(a) management of the local government council for proper development;
(b) preparation and execution of the budget; and
(c) managing the community efforts on development.

21.7.2 Vice-chairman and supervisors

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

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

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

a) as the political heads of departments, they are Vote Controllers and are accountable to the Council Chairman;
b) they are members of the Cabinet of the Local Government Council and automatic members of the Finance and General Purposes Committee;
c) supervisors give directives to the executive Heads of Departments on general policy issues. They do not interfere in the day-to-day running of the departmental affairs; and
d) they assist the Chairman in supervising the execution of Local Government Council projects under their purview.

21.7.3 Treasurer

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

(a) rendering financial advice to the council;

(b) serve as the secretary to the budget committee;
(c) receiving and disbursing money for the authorised ends;
(d) keeping proper accounting records of money collected or utilised;
(e) verifying the accuracy and integrity of all accounting records;
(f) ensuring compliance with all financial instructions or laws for safe custody of the council money;
(g) ensuring that vouchers are correctly made out and that funds are available in the appropriate vote of charge;
(h) rendering necessary contemplated statutory returns to the state and federal governments;
(i) ensuring that all revenues belonging to the council are collected as at when due;
(j) ensuring that fiscal policies are executed and expenditure incurred with due diligence;
(k) maintaining effective run and staffed financial operations;
(l) keeping up to date statistical information in such a form as will enhance the submission of prompt and accurate reports;
(m) submitting recommendations to the council's in his capacity as the financial adviser;
(n) serving as a signatory to the council's bank account and other disbursements; and
(o) offering expert opinions on short, medium and long-term bases.

21.7.4 Secretary to the local government

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

(a) liaises with the Secretary to the State Government and other important dignitaries on matters of interest to Local Government Councils;
(b) co-ordinates the operations of the various departments and represents the chairman, as directed, at high-level meetings;
(c) is the secretary to the executive arm of the local government and maintains the records of proceedings of meetings; and
(d) performs other assignments as may be delegated by the chairman, from time to time.

21.7.5 Director of general services - administration

The Director of General Services - Administration who is Head of Personnel Management has assumed the position of dominance as a result of the Federal Government's Circular of 20th May, 1991. The circular listed the following duties/ functions of Head of Personnel Management:

(a) all the vouchers and cheques shall be signed by the Head of Personnel Management;

(b) all contractual agreements, local purchase orders, works and such other documents relating to contracts and supplies shall be signed by the Head of Personnel Management, subject to the approval of the Council Chairman;
(c) the Head of Personnel Management is a facilitator to the Audit Alarm Committee of the Local Government Council;
(d) he is the recognised second signatory to all the disbursements of the Council;
(e) based on Federal Government circular of May, 1991, he assumes the position of the Clerk of the Council Legislature, even if temporarily;
(f) he implements audit reports on the weakness areas identified in the administration procedures;
(g) he is the Head of the Junior Staff Management Committee; and
(h) he is also the Secretary and Chief Administrative Officer of the Council.

21.7.6 Act No. 3 of 1991: Basic constitutional and transitional provisions (Amendment) Act No.3 of 1991

With the promulgation of Act No. 23 of 1991, the functions of the Finance and General Purposes Committee (FGPC) were transferred to the Legislative Arm of local government councils.

However, the fact is that the management of the funds of the Local Government Council is that of the Executive arm. Consequently, the Executive arm runs a Funds Allocation Committee (FAC), comprising the Council Chairman, the Vice-Chairman,

All Supervisory Councillors, the Secretary to the Local Government, the Treasurer and the Head of Personnel Management. The functions of the Funds Allocation Committee include, *inter alia*:

(a) receiving and considering monthly expenditure proposals of all Departments as collated by the Treasurer;
(b) arranging the payment of contractors' fees and approving all disbursements from the coffers of the Council, especially for the settlement of personnel emolument; and
(c) deliberating on the monthly financial statements prepared by the Treasurer.

21.8 Council legislature

The legislature consists of the leader of the House, his deputy and the elected Councillors. The Local Government Council is the Legislative Arm of the Local Government. Members of the House perform the following functions:

a) debating and passing of Local Government Legislations;
b) debating, approving and possibly amending the Local Government Council's annual budget, subject to the Chairman's veto, which could be over-ridden by two-thirds majority of the Council members;
c) vetting and monitoring the implementation of projects and programmes in the Local Government Council's annual budget;
d) examining and debating monthly statements of income and expenditure rendered to it by the Executive Arm of the Local Government Council;

e) consulting with the Local Government Council Chairman, who is the Head of the Executive Arm of the Local Government; and
f) performing such other functions as may be assigned to it from time to time, by the State House of Assembly in which the Local Government Council is situated.

21.8.1 Election of leaders in the Council

The Councillors shall elect from among themselves one person as the Leader. The role of the Council Leader shall be synonymous with that of the Speaker of the State House of Assembly.

21.8.2 Meetings of the Local Government Council

Councillors are part-time legislators. However, the Council shall meet at least once a month.

21.9 Council Clerk

The Head of Personnel Management department is designated as the Council Clerk, in addition to his other normal duties. The Council Clerk provides normal secretary al services to the meetings of the Legislature. He liaises with the Secretary for the smooth-running of the administration of the Local Government Council.

21.10 Appointment of Supervisors

All supervisory councillors shall henceforth cease to exist. In their place, the local government council chairman shall appoint, from either within or outside the council, supervisors who shall not be fewer than three or more than five in number, depending on the size, revenue base and complexity of the area. The supervisors, who are in charge of specific portfolios or responsibilities, shall be appointed in consultation with the Legislative Arm of the Local Government Council. However, in the event of an elected Councillor being appointed as Supervisor, such Councillor shall immediately vacate his Council seat. The State Independent Electoral Commission (SIEC) later conducts a by-election for the Councillors in the affected ward. The Council Chairman shall promptly report all such cases to the State Independent Electoral Commission, which shall arrange by-elections in accordance with the law. In the interest of progress, stability and orderly development, Supervisors shall, in all cases, be persons of outstanding merit with relevant educational and cognate experience in matters relating to their assigned portfolios. In addition, their appointments shall reflect the geographical character of the Local Government Council areas:

21.11 Types of expenditure incurred by the local government council

These may be discussed as follows:

(a) A local government council incurs expenditure on a day-to-day running of its affairs. Examples are:
   i. personnel costs;
   ii. Maintenance and repairs, petrol costs, rents, electricity and water bills; and

(b) capital expenditure is incurred in constructing roads, motor parks, toilet facilities, etc.

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

21.11.1 Highlights of the accounting procedures

(a) The sum total of the amounts disbursed under the sub-heads of a particular Head is aggregated at the end of the financial year. The numbering of the sub- heads under a particular Head varies from expenditure head to another. In some cases, they may be over twenty.

(b) The capital expenditure of a local government council are written off in the years they are incurred. Memorandum entries are only kept for expenditure incurred on tangible assets. Consequently, the balance sheet (statement of financial position) of a local government council will not disclose any information on the tangible assets acquired.

(c) Capital or proprietorship interest as in the case of private organisations is not shown.

(d) The differences between receipts and payments are referred to as general revenue balance or surplus, rather than profit or loss. The reserve or excess of income over expenditure is transferred to the statement of assets and liabilities.

(e) What we have in the statement of assets and liabilities is an array of current assets and liabilities.

21.12 Typical local government council final accounts under cash IPSAS.

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

The typical final accounts are made up of:

(a) a statement of financial performance (income and expenditure), for the year ended December 31,200X; and

(b) a statement of financial position (assets and liabilities) as at the year ended December 31,200X.

21.12.1 Typical format of a statement of financial performance (revenue and expenditure)

Jibowu Local Government Council

	Note	Approved estimates	Actual
		₦	₦
Revenue			
Local rates	(1)	X	X
Local licence fees and fines	(2)	X	X
Earning from commercial undertakings	(3)	X	X

Rent on local government property	(4)	X	X
Interest payment and dividend	(5)	X	X
Grant	(6)	X	X
Statutory allocation	(7)	X	X
A		**X**	**X**
Less expenditure			
The council	(8)	X	X
Office of the secretary	(9)	X	X
Finance department	(10)	X	X
Education department	(11)	X	X
Works housing	(12)	X	X
Traditional office	(13)	X	X
Education	(14)	X	X
Environmental sewage	(15)	X	X
Agricultural and rural development	(16)	X	X
Transportation	(17)	X	X
Workshop	(18)	X	X
B		**X**	**X**
General revenue balance. (A - B)		**X**	**X**

21.12.2 Format of statement of financial position (assets and liabilities) as at December 31, 200X

	₦
Advances / debtors	X
Cash and bank	X
	X
Cash and bank	X
General revenue	X
	X

The new statutory financial statements to be prepared and published by each local government council are made up of:

(i) Declaration of responsibility for the financial statements by the treasurer of the local government council stating, among other matters, that the financial statements have been prepared in accordance with the provisions of the Finance (Control and Management) Act Cap 144LFN 1990 and that they comply with the general accepted accounting practice.

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

(iii) Statement No 1: Cash Flow Statement

(iv) Statement No 2: Statement of financial position (assets and liabilities)

(v) Statement No 3: Statement of financial position (revenue and expenditure)

Statement No 1 Local Government Council Cash flow statement for the Year ended 31st Dec., 2xxx			
		Current Year	Previous Year
	Note	₦m	₦m
Cash flow from operating activities			
Receipts		X	X
Internal generated revenue	3	X	X
Grants/ subventions	4	X	X
VAT	5	X	X
Statutory revenue allocation	6	X	X
Miscellaneous	7	X	X
Total receipts		X	X
Payments			
Personal emoluments	8	(X)	(X)
Pensions and gratuities		(X)	(X)
Consolidated revenue fund charge		(X)	(X)
Overhead costs		(X)	(X)
Public debt charges		(X)	(X)
Recurrent grants and subventions		(X)	(X)
Subsidies		(X)	(X)
Miscellaneous expenses	9	(X)	(X)
Total payments		(X)	(X)
Net cash flow from operating activities		X	X
Cash flow from investing activities			
Purchase/ consolidation of assets	10	(X)	(X)
Purchase of financial market			
Instruments		(X)	(X)
Proceeds from sale of assets			
		X	X
Net cash flow from investing activities		X	X
Cash flow from financing activities			
Proceeds from loans and others			
Borrowings	11	X	X
Dividends received	12	X	X
Repayment of loans	13	(X)	(X)
Net cash flow from financial activities		X	X
Movement in other cash equivalent accounts			
(Increase)/ decrease in investments			
Net increase (decrease) in other			
Cash equivalent			
Total cash flow from other		X	X
Cash equivalent accounts		X	X
Net cash for the Year			

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Cash and its equivalent at 1/1/2xxx		X	X
Cash and Its equivalent at 31/12/2xxx		X	X
Accompanying notes are an integral part of these statements.			

Statement No 2 **Local Government Council** **Statement of financial position (assets and liabilities) for the year ended December 31, 2xxx**			
Actual		**Current**	**Previous**
		Year	**Year**
	Note	**₦m**	**₦m**
Assets			
Liquid assets			
Cash and bank balances	14	xx	xx
Total liquid assets		xx	xx
Investments and other cash assets			
Investments	15	xx	xx
Advances	16	xx	xx
Others	17	xx	xx
Total investments and other cash assets		xx	xx
Liabilities			
Public funds			
General revenue balance		xx	xx
External and internal loans			
External and internal loans	18	xx	xx
Deposits	19	xx	xx
Loans	20	xx	xx
Total liabilities		xx	xx
Accompanying notes are an integral part of these statements.			

Statement No 3 **Statement of financial performance (revenue and expenditure) for the year ended December 31, 2xxx**					
Actual previous Year			**Budget current Year**	**Actual current Year**	**Variance**
₦m		**Note**	**₦m**	**₦m**	**%**
xx	Opening balance		xx	xx	xx
	Add: Revenue				
xx	Rates	21	xx	xx	xx
xx	Fines, fees and licenses	22	xx	xx	xx
xx	Earning and sales	23	xx	xx	xx

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xx	Rent on government property		xx	xx	xx
xx	Interest and dividend	24	xx	xx	xx
xx	Taxes	25	xx	xx	xx
xx	Statutory revenue allocation	26	xx	xx	xx
xx	Miscellaneous	27	xx	xx	xx
xxx	Total revenue (a)		xxx	xxx	Xxx
	Less: Expenditure				
xx	General administration	28	xx	xx	xx
xx	Health and environment	29	xx	xx	xx
xx	Works and housing	30	xx	xx	xx
xx	Education	31	xx	xx	xx
xx	Agric. and social development	32	xx	xx	xx
xx	Grants and subsides	33	xx	xx	xx
xx	Capital projects	34	xx	xx	xx
xx	Miscellaneous expenses	35	xx	xx	xx
xxx	Total expenditure (b)		xxx	xxx	xxx
xxx	Operating balance (a-b)		xxx	xxx	Xxx
The accompanying notes are an integral part of these statements.					

21.12.3 Financial control of local government councils

The financial control of the local government councils can be appreciated in two realms, namely 'internal control' and 'external control.'

21.12.4 Internal controls

The internal control measures are:

(a) issuance of financial authorities, for example supplementary warrants;
(b) appointment of committees for different services;
(c) centralisation of all payments;
(d) preparation of standing orders and instructions on the signing of cheques issued, payments on accounts, etc;
(e) establishment and maintenance of internal audit;
(f) preparation of estimates of income and expenditure for the year; and
(g) budgetary control and feedback processes.

21.12.5 External controls

The following are the external control measures:

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

21.12.6 Problems/limitations of local government councils

(a) Local government councils are not allowed to raise tax or introduce a new form of tax without express permission from the state government;
(b) They have limited revenue sources;
(c) They cannot raise loans or maintain loan funds without permission;
(d) Because they cannot raise loans, councils find it difficult to execute essential capital development projects;
(e) Poor revenue collections may cause delay in the payment of staff salaries and difficulty in executing essential capital development projects;
(f) The non-payment or delay in payment of Federal/state government grants or shares of oil revenues to the local authorities;
(g) The non-viability of certain local authorities, especially those whose areas have small population figures;
(h) Rising cost and increasing demand for improved services; and
(i) Ineffective financial and management controls, internally and externally.

21.12.7 Local government council's spending limit

In order to curtail wasteful spending, the regulation pegs the expenditure approval ceilings of each principal officer of local government council, as follows:

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

21.12.8 Conditions/procedures for disbursing money

(a) All expenditure approvals by an official shall be reported within a week to a higher officer.
(b) Every officer authorising expenditure will be personally liable for expenditure approved by him.
(c) Approval of expenditure is subject to the normal budgetary appropriation.
(d) Contracts above local government council limit should be approved by the Ministry of Local Government.

21.12.9 Objectives of grants-in-aid system

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

21.12.10 Fee charging policies in local government councils

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

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

21.12.11 Budgeting and budgetary control

The executive arm of government prepares the budget for the approval of the Legislature, which is assented to by the council chairman. The following are the budgetary control procedures:

(a) Approval: Payments must be approved before spending;
(b) Monthly reports: These are prepared to compare actual figures with the budgets and extract variations;
(c) Actual actions are taken to correct the errors or reflect variations;
(d) Internal audit: From time to time, the internal auditors verify the integrity of the accounts and write reports appropriately;
(e) External audit: The Auditor General for Local Government verifies the records of all local government councils in the state; and
(f) Limit of expenditure: Individual local government officers have limits of expenditure payments which they must not exceed.

21.13 Chapter review

This chapter discusses the functions of local governments as stated in the Fourth Schedule, Part I of the 1999 Constitution, their sources of income and types of expenditure that are recognised statutorily. The Local Government Councils prepare yearly budgets and are required to adhere strictly to them.

21.14 Worked examples

21.14.1 Examination type questions

(1) The Lagum Island Local Government Council maintains a staff restaurant at Ibara Hospital. The following information is available for the year ended December 31, 2024:

	₦'million
Stocks - Provisions	3,345
Cleaning materials: Stock	985
Creditors:	
- Provisions	4,086
- Gas	2,323
Creditors for cleaning materials	880

Insurance	968
Printing	98
Miscellaneous debtors	146
Cash float	30
Receipts and payments for the period were as follows:	
Receipts	
	₦' million
Sales	239,410
Miscellaneous receipts	1,932
Payments:	
Provision	171,356
Salaries	7,654
Wages:	
Kitchen	55,865
Cashier	5,065
Dining room	11,384
Insurance	13,985
Electricity	2,388
Gas	26,946
Laundry	3,441
Cleaning materials	1,064
Printing and stationery	460
Miscellaneous expenses	566
Wages:	
The following amounts due to creditors as at December 31, 2024 are yet to be accounted for:	
	₦million
Provisions	3,978
Gas	4,340
Electricity	780
Printing	28
Insurance	1,578

The following information are also relevant:

a. The laundry services are provided by the hospital and recharged through the year. The charge for the final quarter of 2008 is still outstanding and is expected to be at the same level as for the remainder of the year;

b. As at December 31, 2024, stock of provisions amounted to ₦3,498 million while that of cleaning materials was ₦324 million. Stock of provisions of ₦425 million is to be written off as unsalable;

c. Miscellaneous debtors amounted to ₦248 million as at December 31, 2024. It is anticipated that a debt of ₦27million is uncollectable.

d. The cost of the maintenance of the cooling system in the hospital is recharged at the year-end on the basis of floor area. The following additional information are available:

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- Maintenance cost of cooling system ₦87,555 million.
- Hospital floor area 17,511 square meters.
- Restaurant floor area 400 square meters.

e. The hospital charges the restaurant administration fee of ₦2,860 million.

f. As at December 31, 2024, the imprest float amounted to ₦18 million.

g. The restaurant is not expected to break even. However, the local government council lays down clear guidelines, as follows:
   - Price should be set to cover the cost of provision consumed plus 50% thereof.
   - The deficit for the year must not exceed ₦50,000 million

h. The insurance is in respect of the staff restaurant building.

Required:

(a) Prepare an income and expenditure account for the year ended December 31, 2024.

(b) Comment on the performance of the restaurant in view of the guidelines laid down by the local government.

(2) The following balances were extracted from the accounting books and records of YOWARI Local Government of ZAKI State of Nigeria, for the year ended December 31, 2023:

	Dr	Cr
	₦	₦
Cash-in-hand	100,000	
Cash-at-bank	10,000,000	
Fixed deposit	4,000,000	
Contribution to local government loan fund	1,200,000	
Stabilisation account	5,000,000	
Advances	900,000	
General revenue balance		9,800,000
Renewal funds		2,400,000
Stabilization fund		5,000,000
Deposits		4,000,000
	21,200,000	21,200,000

During the year, the following transactions, which were omitted from the accounting books and records, took place:

	₦
(i) Investment in the ordinary shares of ZNB Plc	40,000
(ii) Investment in the ordinary shares of ZIDC Plc	600,000
(iii) Investment in the ordinary shares of Zaki Oil Palm Plc	300,000
(iv) Purchase of treasury bills	160,000

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(v) 15% ZAKI State loan stock 80,000

(vi) Recruitment expenses of ₦1,300,000, incurred by the local government chairman had been omitted.

Required:

Prepare:

a. The adjusted cash book (bank column only), reflecting the omitted transactions as at December 31, 2023; assuming that all omitted transactions were bank transactions

b. The statement of financial performance (assets and liabilities) of Yowari Local Government as at December 31, 2023, after the various omissions have been incorporated

(3) The Treasurer plays a key role on financial management in the local government council as the Chief Accounting Officer and head of finance department.

Required:

Enumerate **TEN** (10) functions of a local government treasurer.

21.14.2 Suggested solutions to examination type questions

(1)

Lagum Island Local Government Council
Staff Restaurant at the Abiye Hospital
Statement of financial performance (income and expenditure)
For the year ended December 31, 2008

	₦	₦
Sales		239,410
Opening stock of provisions	3,345	
Purchases (working 1)	171,248	
	174,593	
Deduct: closing stock of Provisions N(425 – 3,498)	(3,073)	171,520
Gross profit		67,890
Miscellaneous receipt (Wk. 2)		2,034
		69,924
Expenditure		
Salaries		7,654
Wages N(55,865+5,065+11,384)		72,314
Insurance (wk. 3)		14,595
Electricity (wk. 4)		3,168
Gas (wk. 5)		28,963
Cleaning (wk. 7)		845
Laundry (wk.10)		4,588

Printing statement (wk. 8)		390
Miscellaneous expenses		566
Maintenance cost of the cooling system (wk. 9)		2,000
Provision for bad debt		27
Stock loss		425
Administration		2,860
	(b)	(138,395)
Net loss	(c) = (a) - (b)	(68,471)

(b) The guidelines handed down by the local government council indicate that the deficit should not exceed ₦50,000 for that year and that prices in the restaurant should be set to cover the cost of food plus 50%. In both instances, the performance of the restaurant has breached the guidelines. There is deficit of ₦68,471. At 'mark-up' of 50%, anticipated sales of 150% of cost should have been the cost of provision of food, resulting in sales of ₦257,280. However, actual sales amounted to ₦239,410, giving a short fall of ₦17,870. It appears that prices are either too low or that control of wastage is not tight enough,
with the result that income is not being maximised. Some forms of regular monitoring of costs and income need to be introduced so that the size of the deficit at the yearend can be kept within the policy guidelines. On the other hand, the restaurant services may be cancelled.

Workings

(i) Creditors (for provisions)

	₦		₦
Bank	171,356	Balance b/f	4,086
Balance c/d	3,978	Purchase	171,248
	175,334		175,334

(ii) Miscellaneous receipts

	₦		₦
Balance b/d	146	Bank	1,932
Income	2,034	Balance c/d	248
	2,180		2,180

(iii) Creditors for insurance

	₦		₦
Bank	13,985	Balance b/f	968
Balance c/d	1,578	Expenditure	14,595
	15,563		15,563

(iv) Creditors for electricity

	₦		₦
Bank	2,388		
Balance c/d	780	Profit or loss	3,168

	3,168		3,168

(v) Creditors for gas

	₦		₦
Bank	26,946	Balance b/f	2,323
Balance c/d	4,340	Profit and Loss	28,963
	31,286		31,286

(vi) Creditors for cleaning materials

	₦		₦
		Balance b/f	880
Bank	1,064	Purchases, transferred to cleaning stock account	184
	1,064		1,064

(vii) Cleaning stock

	₦		₦
Balance b/f	985	Balance c/d	324
Credit purchase transferred from creditors for cleaning materials	184	Profit or loss	845
	1,169		1,169

(vii) Printing and stationery

	₦		₦
Bank	460	Balance b/f	98
Balance c/d	28	Profit or loss	390
	488		488

(ix) Computation of maintenance cost of the cooling system:

400 x ₦87,555 = ₦2,000
17,511

(x) Computation of laundry expenses:

N3,441 X 4/3 = ₦4,588

(2) YOWARI Local Government

Adjusted cash book for the year ended 31/12/2023

	₦		₦

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Bal. b/d/	10,000,000	Investment In:	
		ZBN PLC	40,000
		ZIDC PLC	600,000
		ZAKI PLC	300,000
		Fed. treasury bills	160,000
		Zaki Steve loan stock	80,000
		GRB (recruitment exp.)	1,300,000
		Balance c/d.	7,520,000
	10,000,000		10,000,000
Balance b/d	7,520,000		

Yowari Local Government

(b) Statement of financial performance (assets and liabilities) as at December 31,2008

Liabilities	**(₦'000)**	**Assets**	**(₦'000)**	**(₦'000)**
GRB	8,500	Liquid assets		
Renewal funds	2,400	Cash-in-hand	100	
Stabilisation fund	5,000	Cash-at-bank	7,520	7,620
Deposits	4,000	Funds		
		Contr. two local govt.		
		Loan fund	1,200	
		Stabilisation a/c	5,000	6,200
		Investments		
		Fixed deposits	4,000	
		ZNB Plc	40	
		ZIDC Plc	600	
		ZAKI Plc	300	
		Fed. treasury bills	160	
		ZAKI shares loan		
		Stock	80	5,180
		Advances		900
	19,900			19,900

Workings

ZNB Plc ordinary shares

(i)	ZNB Plc ordinary shares cash book	₦40,000
(ii)	ZIOC Plc Ordinary shares cash book	₦600,000
(iii)	ZAKI, Oil Palm Plc ord. shares cash book	₦300,000
(iv)	Federal treasury bills cash book	₦160,000
(v)	15% ZAKI State loan stock cash book	₦80,000

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General revenue balance

	₦		₦
Cash Book	1,300,000	Balance b/d.	9,800,000
Bal. c/d	8,500,000		
	9,800,000		9,800,000
		Balance b/d	8,500,000

(3) The functions of a LG Treasurer.

(i) He is responsible for the administrative control of the finance department;
(ii) He facilitates the work of the audit alarm committee;
(iii) Giving financial advice to the council;
(iv) Keeping proper accounting records of money received or disbursed;
(v) Verifying the accuracy of all accounting records;
(vi) Receiving and disbursing money;
(vii) Ensuring that all regulatory instructions essential for safe custody of funds are strictly adhered to;
(viii) Seeing that vouchers are correctly prepared;
(ix) Making necessary returns to the state and Federal Government when the situation demands;
(x) Ensuring that all revenues belonging to the council are collected;
(xi) Maintaining an efficiently run and staffed financial operation;
(xii) Ensuring that records and statistical information are maintained;
(xiii) Ensuring that there is a strict compliance with the financial memoranda in the finance department; and
(xiv) Ensuring that all instructions relating to expenditure of public funds by the accounting officer are in written form.

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Skills Level
Public Sector Accounting and Finance

CHAPTER 22

PREPARATION OF STATUTORY FINANCIAL STATEMENTS FOR GOVERNMENT IN ACCORDANCE WITH ACCRUAL BASIS IPSAS

Contents

22.0 Learning objective

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22 Preparation of Statutory Financial Statements for Government in Accordance with Accrual Basis IPSAS

22.0 Learning objective

The objective of this chapter is to enhance reader's understanding the process of preparing statutory financial statements for government in accordance with accrual basis IPSAS.

22.1 Learning outcomes

On successful completion of this chapter, readers should be able to discuss:

(a) the provisions of IPSAS 1 on preparation of financial statements;
(b) the provisions of IPSAS 2 on the preparation of cash flow statement;
(c) the provisions of IPSAS 3 on accounting policies, changing in accounting estimates and errors;
(d) the qualitative characteristics of financial reporting; and
(e) the provisions of IPSAS 24 on presentation of budget information in financial statement.

22.2 Introduction

This chapter discusses IPSAS 1, 2, 3, and 24 as regards to definitions, applications, recognition, measurement and disclosures on the preparation of Statutory Financial Statements for Government in accordance with Accrual Basis IPSAS.

22.3 IPSAS 1 – Presentation of financial statements.

22.3.1 Introduction

The aim of this standard is to prescribe the format in which General Purpose Financial Statements (GPFS) should be presented so that it can be compared with the entity's financial statements of previous periods and with the financial statements of other entities in the same sector.

22.3.2 Components of financial statements

a) A statement of financial position;
b) A statement of financial performance;
c) A statement of changes in net assets/equity;
d) A cash flow statement;
e) Statement of accounting policies and notes to the financial statements; and
f) Statement of comparison of budget and actual amount.

22.3.3 Information to be presented on the face of the statement of financial position

According to the standard the following information should be presented on the face of the statement of financial position:

a) Property, plants and equipment;
b) Investment property;

c) Intangible assets;
d) Financial assets (excluding amount shown under (e), (g), (h), and(i);
e) Investment accounted for using the equity methods;
f) Inventories;
g) Recoverable from non-exchange transactions (taxes and transfers);
h) Receivables from exchange transactions;
i) Cash and cash equivalents;
j) Taxes and transfers payable;
k) Payables under exchange transactions;
l) Provisions;
m) Financial liabilities (excluding amounts shown under (j), (k),(l);
n) Non-controlling Interest, presented within net assets/equity; and
o) Net assets/equity attributable to owners of the controlling entity.

Below are the statement of financial position and statement of financial performance of the Ministry of Works, Obudu State for the years 2024 and 2023:

Ministry of Works **Statement of financial position as of 31 December**				
	2024	**2024**	**2023**	**2023**
	₦'000	**₦'000**	**₦'000**	**₦'000**
Assets				
Current assets				
Cash and cash equivalents	180		120	
Receivables	170		130	
Inventories	150		80	
Prepayments	185		90	
Investments	145	830	400	820
Non-current assets				
Receivable	130		60	
Investments	140		56	
Other financial assets	130		48	
Infrastructure, plant and equipment	260		200	
Land and buildings	120		110	
Property, Plant and Equipment (PPE)	80		70	
Intangible assets	60		80	
Other non-financial assets	84	1,004	96	720
Total assets		**1,834**		**1,540**
Liabilities				
Current liabilities				
Payables	20		30	
Short-term borrowings	18		25	
Current portions of borrowing	22		18	

Provisions	40		22	
Employee benefits	60		41	
Superannuation	70	230	36	172
Non-current liabilities				
Payables	30		80	
Borrowings	34		60	
Provisions	48		45	
Employee benefits	70		36	
Super annuation	82	264	87	308
Total liabilities		**494**		**480**
Net assets		**1,340**		**1,060**

Net assets/equity		
Capital contributed by other		
Government entities	482.49	400.00
Reserves	40.00	84.49
Accumulated surpluses/(deficits	542.00	375.51
	1064.49	860.00
Minority interest	257.51	200.00
Total net assets/equity	1,340.00	1,060.00

22.3.4 Information to be presented on the face of the statement of financial performance

As a minimum, the statement shall include line items that present the following amounts for the period:

(a) Revenue;
(b) Finance costs;
(c) Share of the surplus or deficit of associates and joint ventures accounted for using the equity method;
(d) Pre-tax gain and loss recognised on the disposal of assets or settlement of liabilities attributable to discontinuing operations; and
(e) Surplus or deficit.

Ministry of Works **Statement of Financial Performance for the year ending 31 December** **(Using Classification of Expenses by function)**		
	2024	**2023**
Operating revenue	**₦'000**	**₦'000**
Taxes	200	400
Fees, fines, penalties and licences	40	140
Revenue from exchange transactions	85	100
Transfer from other government entities	55	50
Other operating revenue	210	300

Total operating revenue	**600**	**1,000**
Operating expenses		
General public services	40	60
Defence	60	80
Public order and safety	80	70
Education	20	90
Health	10	70
Social services	30	30
Housing and community amenities	20	25
Recreational, cultural and religion	8	80
Economic affairs	12	75
Environment protection	20	20
Total operating expenses	**300**	**600**
Surplus/(deficit) from operating activities	**300**	**400**
Finance costs	(80)	(40)
Gains on sale of property, plant and equipment	120	20
Total non-operating revenue /(expenses)	40	(20)
Surplus/(deficit) from ordinary activities	340	380.00
Minority interest share of surplus/(deficit)*	132	75.51
Net surplus/(Deficit) before extraordinary items	472	455.51
Extraordinary items	70	(80.00)
Net Surplus/(deficit for the period	**542**	**375.51**

The minority interest share of the surplus/(deficit) from ordinary activities includes the minority interest share of extraordinary items. The presentation of extraordinary items net of minority interest is permitted by paragraph 57(c) of IPSAS 1. Disclosure of the minority interest share of extraordinary items is shown in the "Notes to the Financial Statements".

22.4 IPSAS 2: Cash flow statement

22.4.1 Introduction

This standard requires the presentation of information regarding the historical changes in cash and cash equivalents of an entity by preparing a cash flow statement. The statement classifies periodic cash flows into operating, investing and financing activities. The IFRS on which the standard is based is IAS 7 on Cash Flow Statement. Neither the Statement of Financial Performance nor the Statement of Financial Position gives a satisfactory explanation of how a business obtains and uses its cash. The cash flow statement is very revealing of the core operations of a Government, Parastatal or Board on the affordability or otherwise of adequate liquid resources.

22.4.2 Data required in prepare cash flow statements

To prepare a cash flow statement, the following accounting documents are required:

(a) Statement of Financial Position at the beginning and at the end of the year.

(b) Statement of Financial Performance for the year

22.4.3 Key terms in cash flow statements

Cash: This comprises cash on hand and demand deposits in the bank.

Cash Equivalents: Cash equivalents are short-term, highly liquid investments that are readily convertible to cash and which are subject to insignificant risk of changes in value.

Cash flows: These are inflows and outflows of cash and cash equivalents.

22.4.4 Classification of cash flows by activities

(a) **Operating activities**

Cash flow from operating activities in a public sector entity, are indicators of the extent to which such entity is financed by taxes or sale of goods or services. Examples of such cash flows are as follows:

(i) Cash receipts from taxes, levies and fines;
(ii) Cash receipts from sale of goods and provision of services by the entity;
(iii) Cash receipts from grants or transfers and other appropriations or other budget authority made by a central government or other public sector entities;
(iv) Cash payments to suppliers for goods and services;
(v) Cash payments to other public sector entities;
(vi) Cash receipts from royalties, fees, commissions and other revenue;
(vii) Cash payments to and on behalf of employees;
(viii) Cash receipts and payments of an insurance entity for premiums and claims, annuities and other public benefits;
(ix) Cash payments of local property taxes or income tax (where appropriate);
(x) Cash receipts and payments from contract held for dealing or trading purposes;
(xi) Cash receipts or payments in relation to litigation settlements; and
(xii) Cash receipts or payments from discontinued operations.

It should be noted however, that IPSAS 2.27 directs that cash flows from operating activities are reported using either the direct method recommended by IPSAS Board or the indirect method.

IPSASB recommends direct method so as to provide a reconciliation of the surplus/deficit from ordinary activities (i.e. statement of financial performance) with the net cash flow from operating activities (i.e. cash flow statement) either within the cash flow statement or the notes.

(b) **Investing activities**

Cash flow from investing activities is cash receipts or payments disbursed to acquire resources that are intended to contribute to the entity's future public

service delivery. IPSAS 2.25 gives the following as likely items that could be classified as such activities:

(i) Cash payments to acquire property, plant and equipment, intangibles and other long-term assets. Payments relating to capitalised development costs and self-constructed property, plant and equipment are also included;

(ii) Cash receipts from sale of property plant and equipment, intangibles and other long-term assets;

(iii) Cash payments to acquire equity or debt instruments of other entities and interest in joint ventures (other than payments for those instruments considered to be cash equivalents and those held for dealing or trading purposes);

(iv) Cash receipts from sale of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to the cash equivalents and those held for dealing or trading purposes);

(v) Cash advances and loans made to other parties (other than advances and loans made by a public financial institution);

(vi) Cash receipts from the repayment of advances and loans made to other parties (other than advances and loans made by a public financial institution);

(vii) Cash payments for future contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes or the payments are classified as financing activities; and

(viii) Cash receipts from future contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities.

(c) Financing activities

Cash flow from financing activities shows future claims by providers of capital to the entity. Examples of such valuable information as contained in IPSAS 2.26 are as follows:

(i) Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings;

(ii) Cash repayments of amounts borrowed; and

(iii) Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

Note that:

(a) Public sector entities are required to report separately all major classes of gross cash receipts and gross cash payments arising from investing and financing activities unless the Standard expressly permits reporting cash flows on a net basis in accordance with IPSAS 2.32 –35;

(b) Cash flows arising from transactions in a foreign currency are recorded in the entity's functional currency by applying to the foreign currency amount, the exchange rate between the functional currency and the foreign currency at the date of the cash flow;

(c) Cash flows from interests and dividends received and paid are disclosed separately and classified in a consistent manner from period to period as either operating, investing or financing activities;
(d) Cash flows arising from taxes on net surplus are classified as cash flows from operating activities unless they can be allocated to specific investing or financial activities;
(e) The aggregate cash flows arising from acquisitions/disposals of subsidiaries or other entities are presented separately and classified as investing activities; and
(f) IPSAS 2.56 requires that entities disclose the components of cash and cash equivalent and to present a reconciliation of the amounts in their cash flow statement with the equivalent items reported in the statement of financial position.

22.4.5 Methods of preparing cash flow statement

The methods used in preparing cash flow statements are:
(a) The direct method, whereby major classes of gross cash receipts and payments are disclosed; and
(b) The indirect method, whereby net profit or loss is adjusted for the effect of transactions of non-cash nature, depreciation or accruals of past or future operating cash receipts, payments and items of income or expenses associated with investing or financing cash flows.

22.4.6 Formats for cash flow statement

(a) **Direct method**

Statement No. 1
Federal Republic of Wazobia
Cash flow statement for the year ended 31 December 2024

	2024	2023
Cash flows from operating activities:	**₦'000**	**₦'000**
Receipts	**200**	**400**
Statutory allocations: FAAC	x	x
Statutory allocations: Other Agencies	x	x
Value added allocation	x	x
Direct taxes	x	x
Licences and internal revenue:	x	x
Mining	x	x
Fees	x	x
Earnings and sales	x	x
Sale/rent of government properties	x	x
Interest and repayment: general	x	x
Re-imbursements	x	x
Miscellaneous expenditure including plea bargain	x	x
Share of special accounts	x	x
Total receipts	xx	xx

Payments		
Personnel costs	x	x
Federal Republic contribution to pension	x	x
Overhead charges	x	x
Consolidated revenue fund charges	x	x
Service wide vote expenditure	x	x
Subvention to parastatals	x	x
Total payments	**xx**	**xx**
Net cash flow from operating activities	**xx**	**xx**
Cash flows from investing activities:		
Capital expenditure – economic sector	x	x
Capital expenditure – social service sector	x	x
Capital expenditure – law and justice	x	x
Purchase of foreign currency securities	(x)	(x)
Capital expenditure – regional development	x	x
Capital expenditure – administrative sector	x	x
Net cash flow from investing activities	**xx**	**xx**
Cash flows from financing activities:		
Proceeds from external loans	x	X
Proceeds from internal loans	x	x
Proceeds from development of natural resources	x	x
Repayment of external loans	(x)	(x)
Repayment of Internal loans	(x)	(x)
Net cash flow from financing activities	xx	xx
Movement in other cash equivalent accounts		
Increase / (decrease) in investments	x	x
Net increase / (decrease)in below – the- line items	(x)	(x)
Total cash flow from other cash equivalent accounts	xx	xx
Net cash flows for the year	xx	xx
Cash and cash equivalent at the beginning of year	x	x
Cash and cash equivalent at the end of year	**xx**	**xx**

Reconciliation of net cash flows from operating activities to net surplus/(deficit) from ordinary activities

	2024	**2023**
	₦'000	**₦'000**
Surplus/(deficit) from ordinary activities	x	x
Adjustments for non-cash items:		
Depreciation	x	x
Amortisation	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

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(Gains)/losses on sales of property, plant and Equipment	(x)	(x)
(Gains)/losses on sale of investments	(x)	(x)
Increase in other current assets	(x)	(x)
Increase in investment due to revaluation	(x)	(x)
Increase in receivables	(x)	(x)
Net cash flows from operating activities	**xx**	**xx**

(b) Indirect method

Ministry of Inter-Governmental Affairs
Cash flow statement for the year ended 31 December 2024

	2024	2023
	₦'000	₦'000
Surplus/(deficit) from ordinary activities	x	x
Non-cash movements		
Depreciation	x	x
Amortization	x	x
Increase in provision for doubtful debts	x	x
Increase in payables	x	x
Increase in borrowings	x	x
Increase in provisions relating to employee costs	x	x
(Gains)/losses on sale of property, plant and Equipment	(x)	(x)
(Gains)/losses on sale of investments	(x)	(x)
Increase in other current assets	(x)	(x)
Increase in investments due to revaluation	(x)	(x)
Increase in receivables	(x)	(x)
Net cash flow from operating activities	**xx**	**xx**
Cash Flows from investing activities		
Purchase of plant and equipment	(x)	(x)
Proceeds from sale of plant and equipment	x	x
Proceeds from sale of investment	x	x
Purchase of foreign currency securities	(x)	(x)
Net cash flows from investing activities	**xx**	**xx**
Cash flows from financing activities		
Proceeds from borrowings	x	x
Repayment of borrowings	(x)	(x)
Distribution/dividend to government	x	x
Net cash flows from financing activities	xx	xx
Net increase/(decrease) in cash and cash equivalents	x	x
Cash and cash equivalents at the beginning of year	x	x
Cash and cash equivalents at the end of year	xx	xx

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22.5 IPSAS 3-Accounting policies, changes in accounting estimates and errors

22.5.1 Introduction

The standard is designed to set out the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors.

The standard gives the following definitions among others:

(a) Accounting policies: are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

(b) Change in accounting estimates: is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present stations of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not correction of errors.

(c) Prior period errors: are omissions from and misstatements in the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

  (i) Was available when financial statements for those periods were authorised for issue; and

  (ii) Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Such errors include the effects of arithmetical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts and fraud.

(d) Material omissions or misstatements items are material if they could, individually or collectively, influence the decisions or assessments of users made on the bases of the financial statements. Materiality depends on the nature or size of the omission or misstatement judge in the surrounding circumstances. The nature or size of the items, or a combination of both, could be a determining factor.

22 5.2 Changes in accounting policies:

According to the standard:

(a) A change from one basis of accounting to another basis of accounting is a change in accounting policy; and

(b) A change in the accounting treatment, recognition or measurement of a transaction, event or condition within a basis of accounting is regarded as a change in accounting policy.

The following are not changes in accounting policies:

(a) An application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and
(b) An application of a new accounting policy for transactions, other events or conditions that did not occur previously or that were immaterial.

22.5.3 Disclosure:

The standard requires the following disclosure:

(a) When initial application of IPSAS is made and has effects on current, prior or future periods:
   (i) The title of the standard;
   (ii) When applicable, an event of transitional provision;
   (iii) The nature of the change in accounting policy;
   (iv) When applicable, a description of transitional provision; and
   (v) When applicable, the transitional provisions that might have an effect on future periods.

   Others are the amount of adjustments by line item affected and if retrospective application is impracticable, the circumstances for that, how and from when the change applied.

(b) When a voluntary change in accounting policy is made and has effects on current, prior or future periods:
   (i) The nature of the change in accounting policy;
   (ii) The reasons why applying the new accounting policy provides reliable and more relevant information;
   (iii) For current and prior period present to the extent practicable, the amount of the adjustment for each financial statement line item affected; and (iv) The amount of the adjustment relating to periods before those presented to the extent practicable.

   If retrospective application is impracticable, the circumstance for the application, how and from when the change applied.

22.6 Notes to the financial statements

Each component of the financial statements should be clearly identified. In addition, the following information should be prominently displayed, and repeated when it is necessary for a proper understanding of the information presented:

(a) the name of the reporting entity or other means of identification;
(b) disclosure of the domicile and legal form of the entity;
(c) a description of the nature of the entity's operations;
(d) disclosure of the extent to which transitional provisions have been used;
(e) whether the financial statements cover the individual entity or the economic entity;
(f) provide additional information which is not presented on the face of the financial statements but is necessary for a fair presentation;
(g) the reporting date or the period covered by the financial statements, whichever is appropriate to the related component of the financial statements;

(h) the reporting currency;
(i) a reference to the relevant legislation governing the entity's operations;
(j) the level of precision used in the presentation of figures in the financial statements;
(k) disclose the information required by international public sector accounting standards that is not presented elsewhere in the financial statements;
(l) statement of the measurement basis (bases) and accounting policies applied; statement of compliance with international public sector accounting standards (see paragraph 26);
(m) supporting information for items presented on the face of each financial statement in the order in which each line item and each financial statement is presented; and
(n) other disclosures, including:
    (i) contingencies, commitments and other financial disclosures; and
    (ii) non-financial disclosures.

22.7 Qualitative characteristics of financial reporting

Paragraph 37 of this Standard requires the development of accounting policies to ensure that the financial statements provide information that meets a number of qualitative characteristics. This appendix summarises the qualitative characteristics of financial reporting.

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. The four principal qualitative characteristics are understandability, relevance, reliability and comparability.

(a) Understandability

Information is understandable when users might reasonably be expected to comprehend its meaning. For this purpose, users are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, and to be willing to study the information. Information about complex matters should not be excluded from the financial statements merely on the grounds that it may be too difficult for certain users to understand.

(b) Relevance

Information is relevant to users if it can be used to assist in evaluating past, present or future events or in confirming, or correcting, past evaluations. In order to be relevant, information must also be timely.

(c) Materiality

The relevance of information is affected by its nature and materiality. Information is material if its omission or misstatement could influence the decisions of users or assessments made on the basis of the financial statements. Materiality depends on the nature or size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.

(d) Reliability

Reliable information is free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent.

(e) Faithful representation

For information to represent faithful transactions and other events, it should be presented in accordance with the substance of the transactions and other events, and not merely their legal form.

(f) Substance over form

If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. The substance of transactions or other events is not always consistent with their legal form.

(g) Neutrality

Information is neutral if it is free from bias. Financial statements are not neutral if the information they contain has been selected or presented in a manner designed to influence the making of a decision or judgment in order to achieve a predetermined result or outcome.

(h) Prudence

Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or revenue are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow, for example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or revenue, or the deliberate overstatement of liabilities or expenses, because the financial statements would not be neutral and, therefore, not have the quality of reliability.

(i) Completeness

The information in financial statements should be complete within the bounds of materiality and cost.

(j) Comparability

Information in financial statements is comparable when users are able to identify similarities and differences between that information and information in other reports.

Comparability applies to the:

(i) comparison of financial statements of different entities; and

(ii) comparison of the financial statements of the same entity over periods of time.

An important implication of the characteristic of comparability is that users need to be informed of the policies employed in the preparation of financial statements, changes to those policies and the effects of those changes. Because users wish to compare the performance of an entity over time, it is important that financial statements show corresponding information for preceding periods.

(k) Timeliness

If there is an undue delay in the reporting of information it may lose its relevance. To provide information on a timely basis it may often be necessary to report before all aspects of a transaction are known, thus impairing reliability. Conversely, if reporting is delayed until all aspects are known, the information may be highly reliable but of little use to users who have had to make decisions in the interim. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the decision-making needs of users.

(l) Balance between cost and benefit

The balance between cost and benefit is a pervasive constraint. The benefits derived from information should exceed the cost of providing it. The evaluation of cost and benefits is, however, substantially a matter of judgment. Furthermore, the costs do not always fall on those users who enjoy the benefits. Users other than those for whom the information was prepared may also enjoy benefits. For these reasons, it is difficult to apply a cost-benefit test in any particular case. Nevertheless, standard-setters, as well as those responsible for the preparation of financial statements and users of financial statements, should be aware of this constraint.

22.8 IPSAS 24- Presentation of budget information in financial statement

22.8.1 Introduction

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

22.8.2 Definitions

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

a) Accounting basis means the accrual or cash basis of accounting as defined in the accrual basis IPSASs and Cash basis IPSAS.
b) Annual budget means an approved budget for one year. It does not include published forward estimates or projections for periods beyond the budget period.
c) Appropriation is an authorisation granted by a legislative body to allocate funds for purpose specified by the legislature or similar authority.
d) Approved budget means the expenditure authority derived from laws, appropriation bills, government ordinances and other decisions related to the anticipated revenue or receipts for the budgetary period.
e) Budgetary basis means the accrual, cash or other basis of accounting adopted in the budget that has been approved by the legislative body.
f) Comparable basis means the actual amounts presented on the same entities and for the same accounting basis, same classification basis, for the same entities and for the same period as the approved budget.
g) Final budget is the original budget adjusted for all reserves, carry over amounts, transfer, allocations, supplemental appropriations, and other authorised legislative, or similar authority, changes applicable to the budget period. Published forward estimates or projections for periods beyond the budget period.
h) Original budget is the initial approved budget for the budget period.

22.8.3 Presentation of a comparison of budget and actual amounts

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

a) The original and final budget amounts;
b) The actual amounts on a comparable basis; and
c) By way of the note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements and a cross reference to those documents is made in the notes.

22.8.4 Presentation and disclosure

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

22.8.5 Changes from original to final budget

An entity shall present an explanation of whether changes between the original and final budget are a consequence reallocation within the budget, or other factors:
By way of note disclosure in the financial statements; or

In a report issued before, at the same time as, or in conjunction with the financial statements, and shall include a cross reference to the report in the notes to the financial statements.

22.8.6 Note disclosure of budgetary basis, period and scope

(a) An entity shall explain in notes to the financial statements the budgetary and classification basis adopted in a budget.

(b) An entity shall disclose notes to the financial statements the period of the approved budget

(c) An entity shall identify in notes to the financial statements the entities included in the approved budget.

22.8.7 Reconciliation of actual amounts on a comparable basis and actual amounts in the financial statements

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

(a) if the actual basis is adopted for the budget, total revenues, total expenses and net cash flows from operating activities, investing activities and financing activities; or

(b) if a basis other than the accrual basis is adopted for the budget, net cash flows from operating activities, investing activities and financing activities

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

22.9 Chapter review

This chapter discusses IPSAS 1, 2, 3, and 24 in relation to definitions, applications, recognition, measurement and disclosures as they relate to the preparation of statutory financial statements for government in accordance with Accrual Basis IPSAS. A cash flow statement gives the details of all cash received and paid by the organisation, during the year. It is a good reporting statement for cash management.

22.10 Worked examples

22.10.1 Examination type questions

(1) The following information have been extracted from the records of Welfare State of Nigeria, for the year ended December 31, 2024.

	₦'000
Personal emolument	2,000,000
Consolidated revenue fund charges	1,000,000
Statutory revenue allocation	20,000,000
Proceeds from the sale of tangible assets	100,000

Purchase of marketable securities	50,000
Purchase and construction of tangible assets	500,000
Share of value added tax	200,000
Share of excess crude oil	100,000
Internally generated revenue	10,000,000
Gratuities and pensions	15,000,000
Miscellaneous income	50,000
Overhead expenses	36,000
Recurrent grants made	20,000
Miscellaneous expenses	10,000
Servicing and repayment of public debts	100,000
Grants and subventions from non-governmental organisations	200,000
Proceeds from loan and other borrowings	300,000
Dividends received	100,000

Required:
Prepare the state's cash flow statement for the year ended December 31, 2024, using the direct method approach.

(2) In line with IPSAS 1, financial statements must be identified clearly and distinguished from other forms of information.

Required:
(a) Identify the information that must be clearly displayed in the financial statements.
(b) Identify **FOUR** (4) persons charged with the responsibility of preparing and presenting financial statements.
(c) Enumerate the factors that will make financial statements to be reliable documents.

(3) The following information relate to the accounts of Maiko State Government for the year ended December 31, 2024:

	DR	**CR**
	₦'m	**₦'m**
Land and buildings (cost)	155,000	
Long-term investments	75,000	
Equipment and furniture	27,000	
Accumulated depreciation:		
- Land and building		16,000
- Motor vehicles		12,000
- Equipment and furniture		8,500

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Motor vehicles (cost)	58,000	
Federation account allocation		115,000
Vat allocation		35,000
Grants from Federal Government		13,500
Internally generated fund		39,000
Grant from donor agency		10,000
Personal emolument	50,000	
Maintenance of premises	2,000	
Consolidated revenue fund charges	13,000	
Overhead expenses	10,000	
Miscellaneous expenditure/income	15,000	24,500
Long-term loans		100,000
Current assets/liabilities	15,500	14,500
Consolidated revenue fund		32,500
Total	420,500	420,500

The following additional information are also relevant:

(i) Loan interest outstanding at the end of the year was ₦5 billion.

(ii) Depreciation on tangible assets is charged at the following rates on cost:
- Building is 5% (cost of land is ₦100 billion)
- Motor vehicles is 20%
- Equipment and furniture is15%

(iii) A building costing ₦5 billion with accumulated depreciation of ₦2 billion was sold for ₦4.5 billion. This transaction has not been adjusted in the accounts.

(iv) Interest on receivable amounted to ₦4 billion

Required:

Prepare:

a. The statement of financial performance of the state for the year ended December 31, 2024
b. The statement of financial position as at that date.

22.10.2 Suggested solutions

(1) **Welfare State of Nigeria**

Statement of Cash flows for the year ended December 31, 2024

	₦million	**₦million**
Operating activities		
Statutory revenue allocation		20,000
Share of excess crude oil		100
Internally generated revenue		10,000
Share of value added tax		200
Grant and subventions received		200

Miscellaneous income		50
Personal emoluments		(2,000)
Consolidated revenue fund charges		(1,000)
Gratuities and pensions		(15,000)
Overhead expenses		(36)
Recurrent grants made		(20)
Miscellaneous expenses		(10)
Servicing and repayment of public debts		(100)
Net cash flow from operating activities		12,384
Investing activities		
Proceeds from sales of tangible assets	100	
Purchase of marketable securities	(50)	
Purchase and construction of tangible assets	(500)	
Net cash flow from investing		(450)
Financing activities		
Proceeds from loans and other borrowings	300	
Dividends received	100	400
Cash and equivalents at 31/12/2024		12,334

2 (a). The information that must be clearly displayed in the financial statements is as follows:
(i) The name of the reporting entity;
(ii) The reporting date and the period covered by the financial statements;
(iii) The presentation currency; and
(iv) The level of rounding.

(b) Four persons charged with the responsibility for preparing and presenting financial statements are:
(i) The Accountant General of the Federation (for Federal accounts);
(ii) Accountant General of the State (for state accounts);
(iii) Local government treasurer/head of finance and accounts; and
(iv) Head of finance and accounts of ministries, department and agencies (MDAs).

(c) The following are the factors that will make financial statements to be reliable documents:
(i) Representing faithfully, the financial performance and the financial position of the entity being reported on;
(ii) Reflect the economic substance of events and transactions (other than in their legal form);
(iii) Free from material misstatement and bias;
(iv) Prudent in nature of preparation; and

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(v) Show completeness in all material respect.

(3)a. Maiko State Government

Statement of financial performance for the year ended December 31, 2024

Revenue	**₦'m**	**₦'m**
Federation account allocation		115,000
VAT allocation		35,000
Grants from Federal Government		13,500
Internally generated revenue		39,000
Grant from donor agency		10,000
Miscellaneous income		24,500
Interest on investment		4,000
Profit on sale of building		1,500
		242,500
Expenditure		
Personal emolument	50,000	
Maintenance of premises	2,000	
Consolidated revenue charges	13,000	
Overhead expenses	10,000	
Interest on loans	5,000	
Depreciation		
- Buildings	2,750	
- Motor vehicle	11,600	
- Equipment and furniture	4,050	
Miscellaneous expenses	15,000	
		113,400
Surplus for the year		129,100
CRF b/f		32,500
Consolidated revenue c/f		161,600

b. Maiko State Government

Statement of financial position as at December 31, 2024

Tangible assets	**Cost**	**Accum. dep.**	**Carrying amount**
Non-current assets	**₦'000**	**₦'000**	**₦'000**
Land and buildings	150,000	16,750	133,250
Equipment and furniture	27,000	12,550	14,450
Motor vehicles	58,000	23,600	34,400
	235,000	52,900	182,100

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Long term investments		75,000
Current assets		
Current assets (working 1)	24,000	
Current liabilities		
Current liabilities (working 2)	(19,500)	
Net current assets		4,500
Total net assets		**261,600**
Financed by:		
Non-current liabilities		
Consolidated revenue fund		161,600
Long-term loan		100,000
		261,600

Workings

	₦'000
(i) Current assets b/f	15,500
Add: Proceeds from sale of building	4,500
Interest received	4,000
	24,000
(ii) Current liabilities b/f	14,500
Loan interest	5,000
	19,500

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Skills level
Public Sector Accounting and Finance

CHAPTER 23

IPSAS 33 - FIRST-TIME ADOPTION OF ACCRUAL BASIS

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23 IPSAS 33 - First-time Adoption of Accrual Basis

23.1 Learning objective

The objective of this chapter is to enhance readers' understanding of the relevant provisions when public sector entities intend to prepare and present financial statements following the adoption of accrual basis IPSASs.

23.2 Learning outcomes

On successful completion of this chapter, readers should be able to prepare and present financial statements following the adoption of accrual basis IPSASs, in order to present high quality information:

(a) that provides transparent reporting about a first-time adopter's transition to accrual basis IPSASs;
(b) that provides a suitable starting point for accounting in accordance with accrual basis IPSASs irrespective of the basis of accounting the first-time adopter had used prior to the date of adoption; and
(c) where the benefits are expected to exceed the costs.

23.3 Introduction

An entity shall apply the IPSAS when it prepares and presents its annual financial statements on the adoption of, and during the transition to, accrual basis IPSASs. The IPSAS applies when an entity first adopts accrual basis IPSASs and during the transitional period allowed. It does not apply when, for example, a first-time adopter:

a) stops presenting financial statements in accordance with prescribed requirements, having previously presented them as well as another set of financial statements that contained an explicit and unreserved statement of compliance with accrual basis IPSASs;
b) presented financial statements in the previous reporting period in accordance with prescribed requirements and those financial statements contained an explicit and unreserved statement of compliance with accrual basis IPSASs; or
c) presented financial statements in the previous reporting period that contained an explicit and unreserved statement of compliance with accrual basis IPSASs, even if the auditors modified their audit report on those financial statements.

This standard shall be applied from the date on which a first-time adopter adopts accrual basis IPSASs and during the period of transition. It permits a first-time adopter to apply transitional exemptions and provisions that may impact fair presentation.
Where these transitional exemptions and provisions are applied, a first-time adopter is required to disclose information about the transitional exemptions and provisions adopted, and progress towards fair presentation and compliance with accrual basis IPSASs.

At the end of the transitional period, a first-time adopter must comply with the recognition, measurement, presentation and disclosure requirements in the other accrual basis IPSAS in order to assert compliance with accrual basis IPSASs as required in IPSAS 1, Presentation of Financial Statements.

23.4 Definitions of terms

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

a) **Date of adoption of IPSASs** is the date an entity adopts accrual basis IPSASs for the first time, and is the start of the reporting period in which the first-time adopter adopts accrual basis IPSASs and for which the entity presents its first transitional IPSAS financial statements or its first IPSAS financial statements;

b) **Deemed cos**t is an amount used as a surrogate for acquisition cost or depreciated cost at a given date;

c) **First IPSAS financial statements** are the first annual financial statements in which an entity complies with the accrual basis IPSASs and can make an explicit and unreserved statement of compliance with those IPSASs because it adopted one or more of the transitional exemptions in this IPSAS that do not affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSASs;

(d) **First-time adopter** is an entity that adopts accrual basis IPSASs for the first time and presents its first transitional IPSAS financial statements or its first IPSAS financial statements;

(e) **Opening statement of financial position** is a first-time adopter's statement of financial position at the date of adoption of IPSASs;

(f) **Period of transition** is the period during which a first-time adopter applies one or more of the exemptions in this IPSAS before it complies with the accrual basis IPSASs, and before it is able to make an explicit and unreserved statement of such compliance with IPSASs;

(g) **Previous basis of accounting** is the basis of accounting that a first-time adopter used immediately before adopting accrual basis IPSASs; and

(h) **Transitional IPSAS financial statements** are the financial statements prepared in accordance with this IPSAS where a first-time adopter cannot make an explicit and unreserved statement of compliance with other IPSASs because it adopted one or more of the transitional exemptions in this IPSAS that affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSASs.

23.5 Guidelines for first time adoption of IPSAS accrual by January 1, 2016 issued May 2015 by FAAC Sub-committee on IPSAS implementation

23.5.1 Introduction

In line with the policy of the Federation, all Public Sector Entities (PSE) in Nigeria are to adopt the provisions of IPSAS accrual by January 1, 2016 (i.e. the date of adoption of IPSAS accrual basis for the first time in Nigeria). The policy covers the whole of

Government (Federal, States and Local Governments) and PSEs that were hitherto on either cash or accrual basis of accounting.

In the light of the foregoing, Federation Account Allocation Committee (FAAC) Sub-Committee issue guidelines in May 2015 that would assist PSEs. This Guideline is designed to address the transition from either cash or accrual basis of accounting to IPSAS accrual in line with the provisions of IPSAS 33 on first time adoption.

A PSE is expected to upon adoption of accrual IPSAS to apply the full provision of the applicable IPSASs. However, the provisions of IPSAS 33 allows first-time adopters three years relief (exemption) from the date of first adoption (i.e. January 1, 2016 for Nigeria) to recognise specific elements of financial statements in order to give PSEs sufficient time to develop reliable models for recognition and measurement during the transition period.

23.5.2 Disclosures

A first-time adopter that took advantage of the transitional exemption and provisions that affect fair presentation and its ability to assert compliance with IPSAS accrual basis in the notes to the financial statements shall:

(i) make an explicit and unreserved statement of compliance with this IPSAS 33;

(ii) disclose that the financial statements do not fully comply with IPSAS accrual basis;

(iii) disclose the transitional exemption adopted that affects the fair presentation and the ability to assert compliance with IPSASs; and/or

(iv) disclose the transition exemption adopted that do not affect the fair presentation and the ability to assert compliance with IPSASs;

(v) disclose progress made towards meeting IPSASs' requirements;

(vi) state transactions that have been treated under an accounting policy that is not consistent with the requirements of the applicable IPSASs;

(vii) State the transactions not recognised and disclosed in previous reporting but which are now recognised and disclosed;

(viii) the nature and amount of any adjustments recognised during the reporting period;

(ix) disclose how and when it intends to comply in full with IPSASs requirements;

(x) disclose the date of adoption of IPSASs (January 1,2016);

(xi) disclose information and explanations on how the transition from previous basis of accounting to IPSASs affected its reported financial position, and where appropriate, its reported financial performance and cash flows;

(xii) disclose if an entity did not present financial statements for previous periods, its transitional IPSAS financial statements or its first IPSAS financial statements shall disclose that fact; and

(xiii) prepare the following reconciliation statements:

- a reconciliation of its net assets/equity from its previous basis of accounting to its opening balance of net assets/equity at the date of adoption of IPSASs;

- a reconciliation of its surplus or deficits under previous basis of accounting to surplus or deficit under IPSASs;
- A first-time adopter that has applied a cash basis of accounting in its previous financial statements is not required to present such reconciliations;
- if an entity becomes aware of errors made under its previous basis of accounting, the reconciliations required shall distinguish the correction of those errors from changes in accounting policies; and

  Where a first-time adopter takes advantage of the transitional exemptions which allow a three-year transitional relief period to not recognise and/or measure items, it shall present as part of the notes, a reconciliation of items that have been recognised and/or measured during the reporting period when these items were not included in the previous reported financial statements. The reconciliation shall be presented in each period when new items are recognised and/or measured in accordance with this IPSAS.

(xiii) Where deemed cost is used, the PSE disclose:

- the aggregate of fair value and other measurement alternatives considered in determining deemed cost;
- the aggregate adjustment to the previous carrying amount;
- whether the deemed cost was determined on the date of adoption of IPSASs or during the period of transition;
- aggregate deemed cost for investments which deemed costs is fair value; and
- aggregate adjustment to the carrying amounts reported under the previous basis of accounting.

23.6 Opening statement of financial position for public sector entities (PSEs) in Nigeria

According to the guideline issued by FAAC sub- committee, all PSEs on the adoption of IPSAS accrual accounting are to prepare an opening statement of financial position. Opening statement of financial is first-time adopter's statement of financial position at the date of adoption of IPSASs. In this regard, the existing statement of assets and liabilities of PSEs on cash basis of accounting, existing balance sheet (statement of financial position) of PSEs on accrual basis of accounting and those that have not been preparing complete financial statements are to convert their respective statement of December 31, 2015 to IPSAS accrual basis opening statements of financial position as at January 1, 2016. The converted statement becomes the opening statement of financial position of PSE.

23.6.1 Current financial statements of PSEs in Nigeria

Presently, the financial statements prepared by PSEs depend on the basis of accounting adopted:

(a) **Cash basis of accounting** - the following statements are prepared up to December 31, 2015:
Statement 1: Cash flow statement
Statement 2: Statement of assets and liabilities
Statement 3: Statement of consolidated revenue fund
Statement 4: Statement of capital development fund

These statements are prepared by whole of government (that it, federal government, 36 state governments, Federal Capital Territory administration and 774 local governments) and core Ministries and Departments not established by Act of the legislative.

(b) **Accrual basis of accounting** -the following statements are prepared up to December 31, 2015:
(a) Statement of income and expenditure
(b) Balance sheet
(c) Cash flow statement
(d) Value added statement

The PSEs in this group are set up by Acts of the legislative and are expected to submit their annual financial statements to their boards or governing councils.

23.6.2 Existing statement of financial position of PSEs in Nigeria

(a) **Cash basis of accounting:** The statement of financial position of the above is as in the format of the statement of assets and liabilities chapter 21; and
(b) **Accrual basis of accounting:** The statement of financial position as in the format attached in chapter 23.
Irrespective of whether it is statement of assets and liabilities or balance sheet (statement of financial position), the two statements has ceased to exist from January 1, 2016.

23.6.3 IPSAS-33 Provisions on opening statement of financial position

In line with the provisions of IPSAS 33 – First Time Adoption of Accrual Basis IPSAS, PSEs are required to prepare an opening statement of financial position at the date of adoption of IPSAS accrual. Adjustments arising in the opening statement of financial position shall be recognised in accumulated surplus or deficit.
Generally, the first annual financial statements include the opening statement of financial position in which a PSE complies with the IPSAS Accrual and can make an explicit and unreserved statement of compliance with IPSASs.
All PSEs in Nigeria are first-time adopters, which is defined as an entity that adopts IPSASs accrual for the first time and presents its first IPSAS financial statements. Other provisions to note: A first-time adopter shall, in its opening statement of financial position:
(a) recognise all assets and liabilities whose recognition is required by IPSASs;

(b) not recognise items as assets or liabilities if IPSASs do not permit such recognition;
(c) reclassify items that it recognised in accordance with the previous basis of accounting as one type of asset, liability or component of net assets/equity, but are a different type of asset, liability or component of net assets/equity in accordance with IPSASs; and
(d) apply IPSASs in measuring all recognised assets and liabilities.

The accounting policies that a first-time adopter uses in financial statements may differ from those that it used at the end of its comparative period under its previous basis of accounting. The resulting adjustments arise from transactions, other events or conditions before the date of adoption of IPSASs shall be recognised as adjustments to the opening balance of accumulated surplus or deficit in the period in which the items are recognised and/or measured (or, if appropriate, another category of net assets/ equity).

23.6.4 Practical steps for the preparation of opening statement of financial position (January 1, 2016)

A. Cash basis of accounting for whole of government

(i) Preparation of draft annual financial statement of whole of government (PSE) up to December 31, 2015 in line with IPSAS cash basis by head of respective treasury
(ii) Audit of whole of government financial statements by offices of the respective Auditor-General
(iii) Submission of audited financial statements to the legislature by offices of the respective Auditor-General
(iv) Ascertain values of asset (for example Inventory report) of all PSEs under the control of whole of government as well as other confirmed liabilities as at December 31, 2015 by head of respective treasury
(v) Restatement of the existing Statement 2 (statement of assets and liabilities) as at December 31, 2015 to the opening statement of financial position as at January 1, 2016 by head of respective treasury
(vi) Conversion of statement of assets and liabilities of whole of government to the opening statement of financial position as at January 1, 2016

B. PSEs already on accrual accounting but not in line with the provisions of IPSAS

(i) Preparation of draft annual financial statement of PSE in line with IPSAS accrual basis of accounting by head of respective treasury as at December 31,2015
(ii) Audit of annual financial statements of PSE by external auditors appointed from list approved by the offices of the respective Auditor-General
(iii) Submission of audited financial statements to board/governing council by accounting officers of respective PSEs.

(iv) Ascertain values of confirmed assets and liabilities that are not in the financial statements by accounting officers of respective PSEs.
(v) Restatement of the existing balance sheet (statement of financial position) as at December 31, 2015 to the opening statement of financial position as at January 1, 2016 by accounting officers of respective PSEs.
(vi) Conversion of balance sheet (statement of financial position) of PSE on accrual accounting to the opening statement of financial position as at January 1, 2016.

C. PSE on cash basis of accounting that prepares incomplete set of financial statements (Transcript of accounts) as at December 31, 2015

(i) Submit December, 2015 transcript of accounts of the PSE to the respective treasury;
(ii) Undertake stock taking of all the stores of the PSE in line with the treasury circular on stock taking on December 31, 2015;
(iii) Value stock taking report using the FIFO or other method as would be issued by the FAAC sub-committee on IPSAS Implementation or the respective treasury;
(iv) Extract balances of cash assets and liabilities from the statement of assets and liabilities attributable to the PSE from the respective treasury in addition to the stock report; Also, ascertain values of other assets and liabilities under the control of the PSE as at December 31, 2015;
(v) Restate the present balances of assets and liabilities of the PSE to the opening statement of financial position; and
(vi) Convert of balance sheet (statement of financial position) of PSE that prepares incomplete financial statements (Transcript of Accounts) to the opening statement of financial position as at January 1, 2016.

23.7 IPSAS 33 provisions on revenue

IPSAS 33 gives a transition relief (exemption) of up to three years within which to develop models for transiting to IPSAS accrual. However, the Government of Nigeria adopted accrual IPSAS for revenue from exchange transactions effective January 1, 2016. In a similar vein, revenue from non-exchange transactions would be recognised on line-by-line basis.

23.7.1 Revenue from exchange transactions

(a) **Government share of FAAC (Statutory revenue)**

FAAC allocation shall be recognised by PSE (head of respective treasury – AGF, AGS and LGA Treasurer) at the end of each monthly FAAC / JAAC meeting using the FAAC/JAAC distribution schedule as a source document.

(b) **Aid and grants receivable as at December 31, 2015**

If on or before December 31, 2015, a Public Sector Entity is entitled to an un-conditional aid/ grant and funds have not been received as at January 1, 2016,

the amount due to that entity and not yet received shall be recognised as receivable in the opening statement of financial position. (See chapter 2)

(c) **Aid and grants approved on or after January 1, 2016**

Aid/grants approved on or after January 1, 2016 shall be immediately recognised (accrued) in the books of the PSE if such aid/grant has been approved by both the grantor and recipient and an agreement or memorandum of understanding (MoU) has been signed and no conditions are attached.

Where aid/grant is conditional, the entity will not recognise such aid/ grant as revenue until the attached conditions are fulfilled. Where conditions have been fulfilled for just a portion of the aid/grant, which portion of the aid / grant whose conditions have been met will be recognised and the balance will be recognised as conditions continue to be fulfilled. Otherwise, the portion with conditions will be accounted for as a liability (See chapter 6 - accounting for liabilities).

(d) **Debt forgiveness approved on or after January 1, 2016**

(i) Debt forgiven on or after January 1, 2016 shall be immediately recognised as revenue in the books of the recipient when a debt forgiveness agreement/MoU have been approved by both the grantor and recipient and no conditions are attached.

(ii) Where there are conditions attached to the debt forgiven to the extent that if not met the amount will be repayable, and there is a possibility of failure to meet such condition (s), the amount forgiven (or portion with conditions) will remain a liability until such conditions are met.

(e) Other transfers revenue

Any other revenue from non-tax (transfers) transactions will be recognised if it meets the definition and conditions for revenue recognition in accordance with IPSAS 23 (revenue from non-exchange transactions). Where there are conditions attached to the revenue category to the extent that if not met the amount will be repayable, and there is a possibility of failure to meet such condition (s), the amount (or portion with conditions) will remain a liability until such conditions are met.

(f) Personal income on or after January1, 2016

The personal income tax is recognised at the point when the taxpayer has earned assessable income. In Nigeria, the recognition of personal income tax is to be considered in two-fold:

(i) At the point of collection in the books of relevant tax authority (RTA), personal income tax is recognised when taxpayer or employer has submitted returns; and

(ii) In the books of the whole of government (federal/state treasury), personal income tax is recognised upon remittance of tax by relevant tax authority to consolidated revenue fund of the respective treasury.

(g) Licences, fees and fines on or after January 1, 2016

Revenue from licences, fees and fines are recognised when the application for the respective licences, fees and fines has been approved. Subsequently, recognition will be made on approval of application for renewal.

23.7.2 Revenue from non-exchange transactions

(a) **Sales of goods and services**

The sale of goods shall be recognised when an order is placed, title to goods has passed to the purchaser and an invoice has been issued.

(b) **Earnings, investment income, interest earned and re-imbursement** These are recognised based on the conditions specified in the agreement Contract. For dividend, it is recognised when dividends have been declared. Interest is recognised on a time basis and takes into account the yield for that period.

(c) **Rent of government buildings and rent of land**

The terms specified in the tenancy agreement determines the recognition of rent of government buildings and land. Where the rent is payable in advance, rent is due at the beginning of the rental period while on the other hand, rent is payable in arrears, revenue is recognised at the end of the rental period.

23.7.3 Accounting for revenue under IPSAS 33

S/N	Item of revenue	Source documents	Books of account and journal entries
A	**Revenue from exchange transactions**		
i.	Government share of FAAC (statutory revenue)	FAAC / JAAC allocation schedule	Books of accounts FAAC / JAAC allocation register Journal Entries Dr. Accounts receivables Cr. Government share of FAAC
ii.	Government share of VAT	FAAC / JAAC allocation schedule	Books of Accounts FAAC / JAAC allocation register Journal Entries Dr. Accounts receivables Cr. Government share of VAT
iii.	Government share of excess crude oil account	FAAC / JAAC Allocation schedule	Books of Accounts FAAC / JAAC allocation register Journal Entries Dr. Accounts receivables Cr. Government share of excess crude oil account
iv.	Aids and grants	Aids and grant agreement/MoU	Books of Accounts: Aid/Grants register and respective subsidiary ledgers Journal Entries Dr. Accounts receivable Cr. Aid / grants
v.	Debt forgiveness	Debt forgiveness agreement/MoU	Books of Accounts: Loans register Journal Entries: Dr. Liability (loans) Cr. Revenue (debt forgiveness)

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vi.	Personal income tax	PAYE Tax return forms, bank credit advice, receipt voucher.	Books of accounts: Revenue register Journal entries Dr. Accounts receivable Cr. Personal income tax
vii	Licences, fees and fines	Licences- Approved application / renewal forms, bank pay-in-slips, receipt vouchers Fees- assessment forms, approved application / renewal forms, bank pay-in-slips, receipt vouchers Fines-bank pay-in-slips, receipt vouchers, court judgement, penalty forms, etc.	Books of accounts: revenue register journal entries: Dr. Accounts receivable Cr. Licences / fees / fines
B	**Revenue from non-exchange transactions**		
i.	Sales of goods and services	Invoice, purchase order, and goods received note (store receipt voucher).	Books of account: Revenue register, delivery note, sales ledger, returns inward ledger Journal entries: when accrued Dr. Account receivables Cr. Relevant revenue account
ii.	Earnings, investment income, interest earned and re-imbursement	Contract agreement, dividend warrant, invoice and receipt voucher	Books of account: revenue register and revenue ledger Journal entries: Dr. Account receivables Cr. Relevant revenue account
iii.	Rent of government buildings and rent of land	Tenancy agreement, invoice and receipt voucher	Books of account: rent register, cash book Journal entries: when accrued Dr. Account receivables Cr. Revenue item

23.8 IPSAS 33 on expenditure

In migrating to IPSAS Accrual due care must be taken in the identification, measurement and disclosure of relevant expenditure. With effect from January 1, 2016, capital expenditure of PSEs shall be capitalized and shall not form part of statement of financial performance (statement of consolidated revenue fund or statement of income and expenditure).

An entity should present, either on the face of the statement of financial performance or in the notes to the statement of financial performance, an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, as appropriate.

S/N	Item	IPSAS requirement / condition	Action	Books of accounts

i	Salaries and wages	Unpaid sw as at 31/12/2015	Recognise accounts payable by: Dr Reserves Cr Accounts payable (salaries and wages) With outstanding salaries	Journal voucher
		Upon adoption of IPSAS effective 1/1/2016	Recognise salaries and wages as expenses when it is due by: Dr Salaries and wages Cr Accounts payable (salaries and wages)	Salaries and wages register
ii	Allowances and social contribution	Unpaid allowances and social contribution as at 31/12/2015	Recognise accounts payable by: Dr Reserves Cr Accounts payable (allowances and social contribution With outstanding allowances and social contribution	Journal voucher
		Upon adoption of IPSAS effective 1/1/2016	Recognise allowances and social contribution as expenses when it is due by: Dr Allowances and social contribution Cr Accounts payable (allowances and social contribution)	Salaries and wages register
iii	Overhead cost	Unpaid overhead cost as at 31/12/2015	Recognise accounts payable by: Dr Reserves Cr accounts payable (overhead cost) With outstanding overhead cost	Journal voucher
		Upon adoption of IPSAS effective 1/1/2016 i. Direct procurement	Recognise overhead cost as expenses when it is due by: Dr Overhead cost Cr Accounts payable (overhead cost)	Payables register
		Upon adoption of IPSAS effective 1/1/2016 ii. Issue from store	Recognise overhead cost as items are issued from store by: Dr Overhead cost Cr Inventory accounts	Inventory register
		Upon adoption of IPSAS effective 1/1/2016 iii. Prepayments (for example due rent)	Recognise overhead cost as prepayments is due by: Dr Overhead cost Cr Prepayments	Journal voucher
iv	Grants and contributions	Unpaid Grants and Contributions as at 31/12/2015	Recognise Accounts Payable by: Dr Reserves Cr Accounts Payable (Grants and Contributions) With outstanding Grants and Contributions	Journal Voucher

	– payable			
		Upon adoption of IPSAS effective 1/1/2016	Recognise grants and contributions as expenses when it is due by: Dr Grants and contributions Cr Accounts payable (grants and contributions)	Payables register
v	Subsidies	Unpaid subsidies as at 31/12/2015	Recognise accounts payable by: Dr Reserves Cr Accounts payable (subsidies) With outstanding grants and contributions	Journal voucher
		Upon adoption of IPSAS effective 1/1/2016	Recognise subsidies as expenses when it is due by: Dr Subsidies Cr Accounts payable (subsidies)	Payables register
vi	Depreciation, impairment and amortisation charges	Upon adoption of IPSAS effective 1/1/2016	Recognise depreciation, impairment and amortisation as expenses when it is due by: Dr Depreciation, impairment and amortisation charges Cr Accumulated depreciation, impairment and amortisation	PPE schedule and journal voucher
vii	Bad debts charges	Upon adoption of IPSAS effective 1/1/2016	Recognise bad debts charges as expenses when it is proved unrecoverable: Dr Bad debts charges Cr Provision for bad debts	Journal voucher

23.9 IPSAS 33 provisions on assets

Assets are tangible and intangible economic resources owned and controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity.

Assets constitute a major part of the IPSAS Accrual financial statements, and understanding its recognition and measurement in the first-time adoption is essential to a successful migration to IPSAS accrual basis.

In recognising and measuring assets effective January 1, 2016, it is essential to first have a proper perspective of the operating basis of accounting up to December 31,

2015 as this would determine how assets are to be recognised and measured subsequently.

Basis of accounting	Assets recognition and measurement
Cash	Assets such as inventories, PPE, investment properties, investments, prepayments, receivables etc. are not recognised in the accounts, though memorandum records are often times kept for items of stock, PPE, etc.
Accrual	Assets are recognised but not properly classified and treated in line with IPSAS

IPSAS 33 gives a transition relief (exemptions) period of up to three years from the date of adoption within which PSEs are to not recognise and/or measure certain assets and their associated liabilities (i.e. where it is evidently and practically impossible to do so) but allowed to take advantage of the relief period to develop models for the recognition and measurement of such assets while in the process of transiting to IPSAS Accrual.

With effect from January1, 2016, all Assets acquired/constructed shall be recognised in the books of the accounts of the PSE. However, Assets not recognised as at December 31, 2015 shall be brought into the accounts of the PSE upon identification and valuation on or before December 31, 2018 (3 years) using deemed cost in line with the national treasury circular reference number TRY/A5 and B5/2014 dated October 23, 2014and the provisions of IPSAS33.

Note that the process of bringing the assets not recognised as at December 31, 2015 into accounts should be completed on or before December 31, 2018 (3 years) in line with the provisions of IPSAS 33.

23.9.1 Criteria for recognition of assets

Generally, assets are recognised where:

(a) it is probable that future economic benefits or service potential associated with the item will flow to the entity;
(b) the cost/deemed cost (fair value) of the item can be measured reliably; and
(c) the entity has control over the asset.

23.9.2 The basic steps for recognising and measuring existing assets as at December 31, 2015

(a) Verify all the entity's assets and ascertain that the asset fulfils the recognition requirements.
(b) Prepare a schedule of all the verified assets of the PSE taking note of the appropriate classifications.
(c) Obtain relevant source documents to ascertain other details of the assets such as its historical cost, etc.

(d) Where the costs cannot be established, engage the services of professional valuers and estimators to assist in getting the fair values (deemed costs) of such assets.

(e) Bring the values of the assets into the books by passing the relevant journals by Debiting the relevant asset and crediting the accumulated reserves.

23.9.3 Accounting treatment for assets

The accounting treatment for all the assets is as follows:

(a) Where a PSE recognised PPE up to December 31, 2015, it is only required to re-classify the assets in line with the requirements of IPSAS as per the format of GPFS; and

(b) Where a PSE does not recognise PPE up to December 31, 2015, the PSE should debit the relevant asset and credit the accumulated Reserves with the cost or deemed cost as the case may be to recognise the assets.

23.9.4 Source documents and books of accounts for assets

S/N	Class of asset	Source documents	Books of account and journal entries
A	**Class of asset**		
i.	Cash and cash equivalents	Bank statements, tellers, cheque stubs, cheque books, payment vouchers, imprest notes etc.	Cash book, petty cashbook, cheque /e-transfers register, bank reconciliation statements
ii.	Receivables	Contract agreement/MoU, general receipts, invoice, bills, payment vouchers, etc.	Accounts receivable register
iii.	Prepayments	Contract agreement/MoU, general receipts, invoice, bills, payment vouchers	Payables ledger
iv.	Inventories	a. Stores issue voucher (SIV) b. Stores receive Voucher/goods receive notes (GRN) c. Bin card d. Stock ledger e. Material requisition note (MRN) f. Stores requisition note (SRN) g. Purchase order h. Invoices i. Vouchers j. Way bills, etc.	Inventory register
B	**Non-current assets**		
	Long-term loans granted	Loan certificates, MoU/agreements, bank debit advice, bilateral/multilateral agreements, payments voucher.	Loans register

	Investments in financial instruments	Share certificates, dividend warrants, treasury bills and bonds, notes/ certificates, tenured deposit certificates, promissory notes bills of exchange and price/stock quotations	Investment registers
	Investments in joint ventures/ arrangements	Contract/joint venture agreement, minutes of meeting	Investment registers
	Investments in associates	Share certificates, minutes of board meetings, dividend warrants, stock quotations	Investment registers
	Property, plant and equipment (PPE)	Purchase voucher, receipts, invoices, credit notes, purchase order, store/ goods received notes.	PPE register, PPE transaction register,
	Investment property	Purchase voucher, receipts, invoices, credit notes, tenancy agreement, invoice and receipt voucher, etc.	Investment property register, rent register
	Intangible assets	Purchase voucher, receipts, invoices, credit notes, software licences, trademarks/copyrights/broadcast/ sundry rights certificates, MoU/ agreement, franchise agreements, etc.	Intangible asset register, intangible asset transaction register

23.10 IPSAS 33 - Provisions on liabilities

Liabilities generally constitute one of the items that affect fair presentation and compliance with accrual basis IPSAS during the period of transition if exempted. When an entity chooses to exempt assets for reporting periods beginning on a date within three years following the date of adoption of IPSASs, it shall as well exempt its associated liabilities. For example, concession assets and concession liabilities, lease assets and lease liabilities, PPE and accounts payable if acquired on credit, etc.

23.10.1 Accounting treatment for liabilities

Details	As at January 1, 2016	Upon adoption of accrual basis IPSAS
A	**Current liabilities**	
Deposits	Adjust the opening statement of financial position by Dr. Accumulated surplus\deficit Cr. Deposit if not recognised as at December 31, 2015	Deposit should be recognised in line with the guidelines with effect from January 1, 2016

Details	As at January 1, 2016	Upon adoption of accrual basis IPSAS
Accounts payable	Accounts payable not recognised in the accounts as at December 31, 2015 should be adjusted in the opening statement of financial position by: Dr. Accumulated surplus\ deficit Cr. Accounts payable	All expenditure incurred but not paid for should be recognised in the accounts with effect from January 1, 2016 (date of adoption).
Short-term provisions	Confirmed short term provisions not recognised in the accounts of the PSE as at December 31, 2015 should be adjusted in the opening statement of financial position: Dr. Accumulated surplus\ deficit Cr. Short-term provisions	PSEs should recognise provisions in the accounts in line with accrual basis of accounting principles with effect from the date of adoption.
Current portion of borrowing	Current portion of borrowings represents the portion of the long-term loans that are due for repayment. The portion if not recognised as December 31, 2015 should be adjusted in the opening statement of financial position	
Unremitted deductions	Confirmed unremitted deduction not recognised as at December 31, 2015 should be adjusted in the opening statement of financial position	Upon adoption of accrual basis IPSAS, recognition of unremitted deductions should commence on the date of adoption.
B	Non-current liabilities	
Long -term borrowings	If outstanding long-term borrowings are not recognised as at December 31, 2015, they should be adjusted in the opening balance: Dr. Accumulated surplus\ deficit Cr. Long-term borrowings	PSEs are to recognise long term borrowings in the first year of adoption of IPSAS accrual basis.

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Details	As at January 1, 2016	Upon adoption of accrual basis IPSAS
Public funds	If the balances of the funds have not been recognised in the accounts of the economic entity (Federal, State and Local Governments) as at December 31, 2015, an adjustment has to made in the opening statement of financial position by adjusting the assets and liabilities of the funds on the fund account. Dr. Assets (bank, PPE, investments, etc.). Cr. Accumulated fund	The activities of the funds (revenue and expenditure) should be incorporated in the statement of financial performance of the economic entity (federal, state and local governments) in line with guidelines for accounting for trust accounts in the accrual basis.

23.10.2 Source documents and books of accounts

Details	Source documents	Books of accounts
Current liabilities		
Deposits	Deposit slips, receipt voucher, etc.	
Accounts payable	Purchase orders, statement of bills invoices, contract agreements, inspection reports, store receipt vouchers, job completion certificates, etc.	Payables register
Short-term provisions	Court proceedings and legal correspondence, professional opinion reports, minutes of management meetings, claim documents, etc.	Journal voucher
Current portion of borrowing	Loan amortisation schedules, loan agreements	Loan register
Unremitted deductions	Salary payroll summaries (including TF 209) and schedules, TF 15 (Pay-in Form) etc.	Journal voucher
Non-Current Liabilities		
Long -term borrowings	Loan agreements, loan amortisation schedule	Loans registers and subsidiary ledgers

23.11 IPSAS 33 - Provisions on related accounting issues on first time adoption.

The related accounting issues treated hereunder may not directly be disclosed on the face of the financial statements but are required for effective disclosures. They

constitute the exemptions that affect and those that do not affect fair presentation of financial statements and compliance with IPSASs.
These related accounting issues are categorised as follows:

Group A – Those affecting fair presentation:
(i) Disclosure of provisions, contingent liabilities and contingent assets;
(ii) Capitalisation of borrowing costs;
(iii) Recognition and measurement of finance lease assets and/or liabilities;
(iv) Related party disclosures; and
(v) Disclosure of investments in associates and joint ventures.

Group B – Those not affecting fair presentation:
(i) Basis of measuring existing assets and/or liabilities: deemed cost;
(ii) IPSAS comparative information (December 31,2015);
(iii) Non-IPSAS comparative information (December 31, 2015); and
(iv) Segment reporting.

23.11.1 Accounting treatment

S/N	Item	IPSAS requirement/condition	Action
A	**Provisions, estimates and contingencies**		
i.	Provisions (for example estimated cost of dismantling a constructed PPE	When assets are recognised as at 1/1/2016	Provide for the cost of dismantling, removing and restoring by: Dr PPE Cr Provision
		When exemption is taken i.e. assets not recognised as at 1/1/2016	Do not provide for the cost of dismantling, removing and restoring on the1/1/2016. However, within the 3-year period, recognised PPE by: Dr. PPE Cr. Accumulated reserves (with fair value) Cr. Provision (with cost of dismantling)
ii.	Contingent liabilities (for example pending litigations that are likely to be against an entity)	Where a PSE adopts the policy of recognising contingent liabilities as at 1/1/2016	Disclose the contingent liabilities as notes to financial statements

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S/N	Item	IPSAS requirement/condition	Action
iii.	Contingent Assets (for example pending litigations that are likely to be in favour of an entity and benefit will flow to the entity)	Where a PSE adopts the policy of recognising contingent assets as at 1/1/2016	PSE not required to disclose the contingent assets as notes to financial statements
B	**Capitalisation of borrowing cost**		
i.	Borrowing cost	Where a PSE recognised PPE (Up to December 31, 2015)	Recognise the borrowing cost by: Dr. PPE/investment property Cr. Loan account with the borrowing costs
		Where a PSE does not recognise PPE (Up to December 31, 2015)	It is not required to capitalise any borrowing costs on qualifying assets until for instance, PPE are brought into accounts
C	**Finance lease assets and/or liabilities**		
i	Finance lease (lessee's book)	Where a PSE recognizes lease assets (Up to December 31, 2015)	Recognise the lease rentals by: Dr. Lease assets Cr. Lease liability With the lease rental
		Where a PSE does not recognize lease assets (up to December 31, 2015)	It is not required to recognise any lease assets and liabilities until these are brought into accounts
D	**Investments in associates and joint ventures**		
i.	Investments in associates and joint ventures	Where a PSE recognised investments in associates and joint ventures (up to December 31, 2015)	Recognise the investments in associates and joint ventures using the equity method by: Dr. Investment Cr. Accumulated Surplus/deficit with the value of investment
		Where a PSE does not recognise investments in associates and joint ventures (Up to December 31, 2015)	It is not required to recognise any value of investment until these are brought into accounts
E	**Measurement of assets at deemed cost**		
i.	Inventory	No reliable cost information	Deemed cost
		There is reliable cost information	Lower of: cost and net realisable value
ii.	Investment property (use the cost model)	No reliable cost information	Deemed cost
		There is reliable cost information	Historical cost
iii.	PPE	No reliable cost information	Deemed cost
		There is reliable cost information	Historical cost
iv.	Intangible assets, other	No reliable cost information	Deemed cost

S/N	Item	IPSAS requirement/condition	Action
	than internally generated intangible assets	There is reliable cost information	Historical cost
v.	Financial Instruments	No reliable cost information	Deemed cost
		There is reliable cost information	Fair value
vi.	Service concession assets	No reliable cost information	Deemed cost
		There is reliable cost information	Historical cost
vi.	Assets acquired through a non-exchange transactions	There is reliable cost information	Use that fair value as its deemed cost
vii.	Investments in controlled entities, joint ventures and associates	On the date of adoption of IPSASs	The PSE can elect to measure that investment at one of the following amounts in its separate opening statement of financial position: i. Cost; or ii. Deemed cost.
vii.	IPSAS comparative information	On the date of adoption of IPSASs	A first-time adopter is encouraged, but not required, to present comparative information in its first transitional IPSAS financial statements or its first IPSAS financial statements presented in accordance with this IPSAS.
ix.	Non-IPSAS comparative information	On the date of adoption of IPSASs	The first-time adopter is allowed to make a comparison of the financial statements before the adoption of IPSAS with that prepared after the adoption of IPSAS.
x.	Segment reporting	On the date of adoption of IPSASs	The first-time adopter is not required to present segment information for reporting periods beginning on a date within three years following the date of adoption of IPSASs. But in Nigeria, PSEs are required to disclose information about segment reporting effective from January 1, 2016

23.12 Federal Treasury circular Reference No. TRV A7 and B7 and OAGF/ CAD/026/V.111/188 dated July 3, 2018 accrual basis IPSAS books of accounts and other records.

In line with the ongoing transformation of treasury service for greater efficiency, transparency and accountability the Accountant General of the federation issued a Federal Treasury circular Reference No. TRV A7 and B7 and

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OAGF/CAD/026/V.111/188 dated July 3, 2018 accrual basis IPSAS books of accounts and other records. This circular is to ensure standardisation and uniformity in the discharge of the finance functions in respect of budgeting, accounting and financial reporting across all ministries, departments and agencies (MDAs).

23.12.1 Duties and functions of department of finance and accounts

The Director/Head of Finance and Accounts of MDA shall perform the following duties.

(a) Ensuring compliance with Financial Regulations and the accounting code/manual by all staff under his control and supervision;

(b) Organising and supervising the finance and accounting functions in a manner that facilitates:

  (i) adequate financial control, efficiency and smooth operations of the financial management function;

  (ii) the observance of due diligence, economy and cost effectiveness in the MDA administration; and

  (iii) ensuring conformance of the MDA to due process.

(c) Advising the accounting officer on all financial matters as well as the technical provisions of Financial Regulations, other Treasury and Finance Circulars;

(d) Managing funds in a manner that assures smooth operations of the MDA;

(e) Maintaining proper accounting records such as books of accounts, Main and Subsidiary Ledgers;

(f) Ensuring adequate control and management of the Property, Plant and Equipment Register and reconciling the schedule thereto to the General Ledger on monthly basis;

(g) Ensuring the existence of effective and adequate internal control system to safeguard the assets of the MDA;

(h) Ensuring prompt disbursement to contractors/suppliers and staff using the Government approved payment mode;

(i) Ensuring the timely preparation, payment of salaries and remittance of Third-Party deductions simultaneously.

(j) Ensuring the preparation and updating of the information needed for Medium Term Revenue Framework (MTRF), Medium Term Expenditure Framework (MTEF) and Medium-Term Sector Strategy (MTSS);

(k) Compiling and defending of the budget proposals and ensuring effective budgeting control by matching/comparing budgeted figures with actual expenditure or revenue as the case may be. These financial management reports should be submitted to the Accounting Officer on or before 5th of the following month to facilitate efficient financial management decisions;

(l) Ensuring monthly preparation and submission of Trial Balance and other Financial Statements in line with International Public sector accounting Standards to the Office of the Accountant General of the Federation on or before 10th of the following month;

(m) Ensuring that all staff under his control are exposed to regular training programmes to equip them with relevant skills for the efficient performance of their duties;
(n) Liaising with the office of the Accountant General of the Federation from time to time when in doubt in the interpretation of the provisions of the financial regulations and other Treasury Circulars or when confronted with difficulties in the performance of his duties;
(o) Ensuring the existence of an effective Audit Query Branch to promptly deal with all queries from Internal Audit Department, Office of the Accountant General, Office of the Auditor General and Public Accounts Committee, etc. and
(p) The Accountant General of the federation may delegate to the Accounting Officer any other responsibility/duty as may be necessary.

23.12.2 Duties and functions of head of revenue division

The head revenue division of any MDA is responsible to the Head of department of finance and accounts and other arms of government shall perform the following duties.

(a) Identification of all revenue sources accruable to the MDA;
(b) Maintaining and updating the database of MDA revenue generating properties/ assets in terms of their locations, type and the nature of revenue each generates;
(c) Providing information for revenue budget of the MDA;
(d) Organising the revenue accounting functions in a manner that facilitates the keeping of complete and adequate financial/statistical records of revenue;
(e) Ensuring that all revenue accruable to the MDA are received and accounted for;
(f) Identifying revenue due but not yet paid to the MDA and accrue for them;
(g) Ensuring that all staff under his control are exposed to regular training programmes to equip them with the relevant skills (on-the-job) efficient performance of their duties;
(h) Ensuring regular monitoring of revenue collection;
(i) Ensuring that revenue received/receivables are properly journalised;
(j) Ensuring revenue reports are forwarded to Head of Financial Reporting Division for consolidation;
(k) Collating and reviewing revenue charges and rates of the MDA;
(l) Ensuring the preparation and display of monthly revenue charts;
(m) Ensuring comparison of budgeted revenues with actual collection and analysing and reporting the variances and submit report to the Director Finance and Accounts on or before the 10th of the following month;
(n) Ensuring regular joint revenue reconciliation with the Treasury, Federation Account Allocation Committee, Revenue Mobilisation Allocation and Fiscal Commission, Fiscal Responsibility Commission, Central Bank of Nigeria and any other relevant authorities;
(o) Ensuring preparation and submission of monthly, quarterly and annual revenue reports to the office of the Accountant General of the Federation on or before the 10 of the following month;

(p) Carrying out monthly reconciliation of investment register, individual subsidiary ledgers and general ledger and submit a schedule of up-to-date investments to the director/head, finance and accounts on monthly basis on or before the 10th of the following month;
(q) Carrying out investment appraisal of the MDA; and
(r) Perform any other duty/function assigned to him by the head of department of finance and accounts.

23.12.3 Duties and functions of revenue mobilisation and receivables unit

The revenue mobilisation and receivables unit of any MDA shall perform the following duties.

(a) Documentation of all revenue sources accruing to the MDA;
(b) Preparation of revenue budget of the MDA;
(c) Ensuring that approved rates are assigned to revenue sources;
(d) Collating revenue budget of the MDA;
(e) Preparation of medium-term revenue framework;
(f) Liaising with budget office of the federation on revenue budget of the MDA;
(g) Preparation of monthly revenue analysis report and submit same to budget division on or before 10th of the following month;
(h) Issuing debit notes for revenue due;
(i) Updating of revenue receivables register;
(j) Maintenance and updating of individual ledger for each receivable (debtors);
(k) Reconciliation of individual receivable ledger with control balance in the general ledger on a monthly basis and on or before 10th of the following month;
(l) Monthly reconciliation of individual ledger accounts with each debtor;
(m) Raising journal entry of receivables register at the end of each month and pass it to Final Accounts on or before 5th of the following month;
(n) Sending of reminder notes to the debtors of revenue due but not yet paid;
(o) Obtaining data and information of revenue receivable by the MDA;
(p) Collecting revenue due to the MDA;
(q) Maintaining a revenue Cash Book;
(r) Ensuring effective monitoring of revenue sources of the MDA;
(s) Keeping adequate records of revenue received and receivables by the MDA;
(t) Raising journal voucher of revenue collected;
(u) Advising the revenue division on issues that affect revenue mobilisation and receivable of the MDA;
(v) Ensuring that all staff under his control are exposed to regular training programmes to equip them with the relevant skills (on-the-job) for the efficient performance of their duties; and
(w) Performing any other duty that may be assigned to him by the revenue division.

23.12.4 Duties and functions of aid and grants unit

The aid and grants unit of any MDA shall perform the following duties.

(a) Prepare the aids and grants budget of the MDA using the National Chart of Accounts;
(b) Ensure the MDA meets the requirements for accessing aid and grants;
(c) Ensure payment of Counterpart Fund for accessing aid and grants;
(d) Maintain proper Books of Accounts for each source of funding for Aid and Grants;
(e) Ensure the effective utilisation of aid and grants in line with the requirement of each source of funding;
(f) Maintain a schedule of receipts for each source of funding;
(g) Monthly reconciliation of accounts with funding organisations;
(h) Carry out monthly reconciliation of aid and grants with the general ledger balances;
(i) Ensure that all staff under his control are exposed to regular training programmes to equip them with relevant skills (on- the-job) for the efficient performance of their duties; and
(j) Perform any other duty that may be assigned to him by the revenue division.

23.12.5 Books of accounts and accounting records under the revenue

(i) **Revenue cash book**

Format

TRY No. 0001

Name of MDA--------
Source of fund code-------
Cashbook (to be used for revenue, recurrent expenditure, capital expenditure and other bank accounts

Receipt side of cash book							Payment side of cash book					
Date	Received from	Details of receipts	NCOA code	RV No.	Amount received		Date	Received from	Details of receipts	NCOA code	RV No.	Amount received
					₦							₦

Note: At period end (for example month end) raise a journal entry for receipts and payment side of the cash book each

(ii) Revenue receivable register

Format

TRY No.0002

Name of MDA--------
Source of fund code-------

Revenue receivable register

Date	Name (receivable from)	Details of revenue	NCOA code	Debit note	Customer ledger ref. number	Amount receivable
						₦

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(iii) Revenue journal voucher

Format

Journal voucher

TRY No.0003

Name of MDA--------

Source of fund code-------

(v)

Date	Details	NCOA code	Debit	Credit
			₦	₦
Narration----------				
Prepared by ----------	Signature----------	Date----------		
Checked by	Signature----------	Date----------		
Approved by	Signature----------	Date----------		

Investment register

Format

(iv) **Individual subsidiary ledger – Accounts receivable format**

TRY No.0004

Name of MDA--------

Individual subsidiary ledger (for all accounts receivable)

Name----------

Contact details:----------

TIN: ----------

Other details----------

NCOA (Economic and Fund code----------

TRY

Date	Details	Authority Document Ref No.	Debit	Credit	Balance
			₦	₦	₦

No.0005

Name of MDA--------

Source of fund code----------

Investment Register

Date	Investee	Details of investment	NCOA Code (Economic Code)	Authority document Ref No.	Balance	Remarks
					₦	

(vi) **Investment Individual subsidiary ledger (TRY006)**

Format – Same as 24.11.5.iv. above.

23.12.6 Duties and functions of expenditure division of MDA

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(a) Ensuring proper preparation of monthly staff payroll.
(b) Ensuring the existence of variation control on personnel emoluments.
(c) Ensuring preparation of monthly payroll journal and forwarding same to financial and fiscal reporting division.
(d) Ensuring maintenance of subsidiary ledger of payroll deductions.
(e) Processing approval for salaries, overhead and capital expenditure.
(f) Ensuring the identification and recording of accounts payable and record same.
(g) Organising the expenditure functions in a manner that facilitates the keeping of complete and adequate financial/statistical records.
(h) Ensuring proper disbursement of funds.
(i) Ensuring posting of payments in the relevant cash books on a daily basis.
(j) Ensuring effective cash management.
(k) Ensuring proper accounting for Third Party deductions.
(l) Ensuring that all staff under his control are exposed to regular training programmes to equip them with relevant skills (on- the-job) for the efficient performance of their duties.
(m) Ensuring proper maintenance of Mandate Register.
(n) Ensuring weekly reconciliation of the mandate registers, cash books and vote books and submit same to the director/head of finance and accounts.
(o) Ensuring the reconciliation of the mandate registers, cash books and vote books with the electronic payment platform printout (where applicable) and the report submitted to the director of finance and accounts on a weekly basis.
(p) Ensuring the reconciliation of control accounts (for example accounts payable) with the general ledger.
(q) Ensuring the preparation of cash book journals and submit same to financial and fiscal reporting division on or before the 4th of the following month.
(r) Ensuring that all payments are duly authorised and supported with relevant documents.
(s) Perform any other duty assigned to him from time to time by the head of department of finance and accounts.

23.12.7 Duties and functions of recurrent expenditure unit of MDA

(a) Processing recurrent expenditure payments.
(b) Preparation of monthly salaries and related Journals.
(c) Maintain ledger accounts for various deductions.
(d) Carry out monthly reconciliation of ledger accounts with general ledger balances
(e) Ensures effective variation control to explain differences of monthly salary payment.
(f) Maintenance of individual emolument form for each staff of the MDA.
(g) Maintain vote books for salaries and overhead.
(h) Responsible for issuance of AIE for recurrent expenditure.
(i) Processes payment of advances, imprest and deposits.
(j) Make entries into subsidiary books of accounts.
(k) Draws up and update subsidiary accounts.

(l) reconciles subsidiary accounts with the control balances in the general ledger.
(m) Ensures retirement of outstanding advances and imprest accounts.
(n) Ensures proper classification of advances payment vouchers and retirement of same advances in accordance with NCOA.
(o) Prepares monthly financial monitoring report for recurrent expenditure on or before 4th of the following month.
(p) Maintains contract ledger for each contractor.
(q) Ensures proper classification of all payment vouchers and Journals in accordance with NCOA.
(r) Ensures that all staff under his control are exposed to regular training programmes to equip them with relevant skills (on- the-job) for the efficient performance of their duties.
(s) Perform any other duty that may be assigned to him by the head of expenditure division.

23.12.8 Duties and functions of capital expenditure unit of MDA

(a) Processing capital expenditure payments.
(b) Maintains vote book for capital expenditure.
(c) Responsible for issuance of Authority to incur expenditure (AIE) for capital expenditure.
(d) Ensures that all staff under his control are exposed to regular training programmes to equip them with relevant skills (on-the-job) for the efficient performance of their duties.
(e) Ensures proper classification of all capital payment vouchers and journals in accordance with NCOA.
(f) Prepares monthly financial monitoring report for all capital expenditure on or before 4th of the following month.
(g) Maintain contract ledger for each contractor.
(h) Maintain ledger accounts for retention fees, value added tax, withholding tax and stamp duty.
(i) Perform any other duty that may be assigned to him by the head of expenditure division.

24.12.9 Duties and functions of central pay office of MDA

(a) Raise mandate (manual/electronic) on processed payment vouchers;
(b) Posts paid payment vouchers into relevant Cash Books;
(c) Raise monthly journals of each cashbook and submit same to financial and fiscal reporting division on or before 4th of the following month;
(d) Ensure safe custody of documents;
(e) Maintain mandate register for each class of cashbook maintained;
(f) Reconcile mandate register with cashbook on daily basis;
(g) Ensures that all staff under his control are exposed to regular training programmes to equip them with relevant skills (on- the-job) for the efficient performance of their duties; and

(h) Perform any other duty assigned to him by the head of expenditure division

23.12.10 Books of accounts and records under the expenditure division:

(i) Salaries and wages register

Format

TRY No.0007

Name of MDA--------
Salaries and wages register

S/N	Pay point	Consolidated salary	Non-regular allowance	Employee cont. pension deducted	Gross pay	Deductions					Net pay
						PAYE	Sal. Advance	Union dues	Etc.	Total Deductions	Bank
		₦	₦	₦	₦	₦	₦	₦	₦	₦	₦

Journal 1			
Details	NCOA	Dr.	Cr.
		₦	₦
Consolidated salary		xxx	
Non-regular allowance		xxx	
PAYE			xxx
Pension deduction***			xxx
Motor vehicle loan			xxx
Union dues			xxx
Co-operative dues			xxx
Other deductions			xxx
Total		xxxxx	xxxxx

Journal 2			
Details	NCOA	Dr.	Cr.
		₦	₦
Pension deducted		xxxx	
Allocation to fund recurrent expenditure			xxxx
Total		xxxxx	xxxxx

(ii) Accounts payable register TRY008

Name of MDA--------
Salaries and wages register

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Accounts payable register (credit purchases/valuations yet to be paid)

Date	Nameof supplier	Details of expenditure / Assets	NCOA code	Debit note and LPO	Customer ledger ref.no.	Gross amount payable	Analysis of gross amount payable				
							Net Payable	WHT	VAT	Stamp Duty	Other deductions
						Code	Code	Code	Code	Code	Code
						₦					

Note: At period end (for example month end) raise journal entry debit the relevant expenses/assets accounts and credit accounts payable

(iii) Subsidiary ledger-accounts payable (TRY009)
Format – Same as 24.10.5.iv above but replace receivable with payable.

(iv) Cashbook (TRY 010) Format: Same as 24.10.5.i above

(v) Monthly Financial Monitoring Report-Personnel cost (TRY011)

(vi Monthly Financial Monitoring Report-Overhead cost (TRY012)

Format
Name of MDA--------

Monthly financial monitoring report: personnel/overhead cost and capital expenditure (i.e. TRY 011,012 and 013)

S/N.	NCOA code	Description of budget item	A	B	C	D = B - C	E = A - B	F = (C/B) * 100
			Appropriation	Total released/ allocation to date	Actual expenditure to date	Balances based on allocation	Balances based on appropriation	Performance in percentage (%) basedon fundreleased
			N	N	N	N	N	%

Note: The report should be prepared for all the funding segments:

(a) National budget,
(b) Retained IGR,
(c) Aid and grants,
(d) Other sources

23.12.11 Duties and functions of budget division of MDA

(a) Ensuring the preparation of Medium-Term Revenue Framework (MTRF)and Medium-term Expenditure Framework (MTEF).

(b) Ensuring the preparation of Medium-Term Sector Strategy (MTSS).

(c) Ensuring the preparation of budget (Revenue, expenditure, aid and grants and capital expenditure) for the MDA.

(d) Ensuring proper maintenance of budget books and records;

(e) Ensuring proper preparation of budget reports.

(f) Ensuring that all staff under his control are exposed to regular training programmes to equip them with relevant skills (on- the-job) for the efficient performance of their duties.
(g) Perform any other duty/function assigned to him from time to time by the head of department of finance and accounts.

23.12.12 Duties and functions of recurrent expenditure budget unit of MDA

(a) Collates recurrent expenditure budget of the MDA.
(b) Prepares medium term recurrent expenditure framework.
(c) Prepares medium term sector strategy.
(d) Liaises with budget office of the federation on recurrent budget of the MDA.
(e) Prepares monthly recurrent expenditure analysis report.
(f) Ensures that all staff under his control are exposed to regular training programmes to equip them with relevant skills (on-the-job) for the efficient performance of their duties.
(g) Perform any other duty assigned to him by the head of budget division.

23.12.13 Duties and functions of capital, monitoring and evaluation budget unit of MDA

(a) Collates the capital expenditure budget of the MDA.
(b) Advises on capital expenditure limits for vote controllers in accordance with appropriation.
(c) Prepares Medium Term Capital Expenditure Framework (MTCEF).
(d) Prepares medium term sector strategy.
(e) Liaises with budget office of the federation on capital budget.
(f) Prepares capital expenditure analysis report.
(g) Ensures that all staff under his control are exposed to regular training programmes to equip them with relevant skills (on- the-job) for the efficient performance of their duties.
(h) Perform any other duty assigned to him by the head of budget division.

23.12.14 Books of accounts and records under the budget division

(a) Consolidated budget summary-programme based budget (TRY014)
(b) Consolidated budget summary-functional based budget (TRY015)
(c) Consolidated budget summary-sector based budget (TRY016)
(d) Detailed Budget-Programme Based Budget by Funds (TRY017)
(e) Detailed Budget-Functional Based Budget by Funds (TRY018)
(f) Detailed Budget-Sector Based Budget by Funds (TRY019)

Note: For option A (programme based), C (sector based), use the same format below but replace capital expenditure and fund segments based on programme or sector based with the following:

Programme based	Sector based
TRY 14	**TRY 16**
Economic empowerment through agriculture (general)	Administrative sector
Societal re-orientation (general)	Economic sector
Poverty alleviation	Law and justice sector
Improvement to human health (general)	Regional sector
Enhancing skills and knowledge (general)	Social sector
Housing and urban development (general)	
Gender (general)	
Youth (general)	
Environmental improvement (general)	
Water resources and rural development	
Information communication and technology (general)	
Growing the private sector	
Reform of government and governance (general)	
Power (general)	
Rail (general)	
Water ways (general)	
Road (general)	
Airways (general)	
Sea ports(general)	
Shipping (general)	
Oil and gas infrastructure (general)	

S/N	NCOA	Description	Budget 2018	CRF	Retained IGR	Other public fund	Aids and grants	Other fund
			₦	₦	₦	₦	₦	₦
1		Opening Balance	xx	xx	xx	xx	xx	xx
		Receipts:						
2		Statutory allocation	xx	xx	xx	xx	xx	xx
3		Value added tax	xx	xx	xx	xx	xx	xx
4		Independent revenue	xx	xx	xx	xx	xx	xx
5		Retained (IGR)	xx	xx	xx	xx	xx	xx
6		Aids and grants	xx	xx	xx	xx	xx	xx
7		Direct capital receipts	xx	xx	xx	xx	xx	xx
		Total current year receipts	xxx.	xxx.	xxx.	xxx.	xxx.	xxx.
9		Total projected funds available	xxx.	xxx.	xxx.	xxx.	xxx.	xxx.
10		Expenditure						
		A: Recurrent debt						
11		Public debt charges on CRF	xx	xx	xx	xx	xx	xx
12		Int. on internal loan repayment	xx	xx	xx	xx	xx	Xx
13		Int. on external loan repayment	xx	xx	xx	xx	xx	Xx
		Total recurrent debt	xxx.	xxx.	xxx.	xxx.	xxx.	xxx.
		B: Recurrent non-debt						

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14		Personnel cost	xx	xx	xx	xx	xx	Xx
15		Salaries and statutory office holders	xx	xx	xx	xx	xx	Xx
16		Pensions and gratuities	xx	xx	xx	xx	xx	Xx
17		Overhead cost	xx	xx	xx	xx	xx	Xx
		Total recurrent non-debt	xxx.	xxx.	xxx.	xxx.	xxx.	xxx.
		Total recurrent expenditure	xxx.	xxx.	xxx.	xxx.	xxx.	xxx.
		C: Capital expenditure based on functions						
18		General public services	xx	xx	xx	xx	xx	Xx
19		Defense	xx	xx	xx	xx	xx	Xx
20		Public order and safety	xx	xx	xx	xx	xx	Xx
21		Economic affairs	xx	xx	xx	xx	xx	Xx
22		Environmental protection	xx	xx	xx	xx	xx	Xx
23		Housing and community amenities	xx	xx	xx	xx	xx	Xx
24		Health	xx	xx	xx	xx	xx	Xx
25		Education	xx	xx	xx	xx	xx	Xx
26		Social protection	xx	xx	xx	xx	xx	Xx
		Total capital expenditure	xxx	xxx	xxx	xxx	xxx	xxx
		Total budget expenditure (A+B+C)	xxx	xxx	xxx	xxx	xxx	xxx
		Budget surplus/(deficit)	xxx	xxx	xxx	xxx	xxx	xxx
		Financing of deficit by borrowing						
27		Internal loans	xx	xx	xx	xx	xx	xx
28		External loans	xx	xx	xx	xx	xx	xx
		Total loans	xxx	xxx	xxx	xxx	xxx	xxx
		Closing balance	xxx	xxx	xxx	xxx	xxx	Xxx

S/N	NCOA	Description	Budget 2018	Budget 2019	Budget 2020	Total 3 Years Budget	Budget 2017	Actual (to Period 2017)	Actual 2016
			₦	₦	₦	₦	₦	₦	₦
1		Opening Balance	xx	xx	xx	xx	xx	xx	xx
		Receipts:							
2		Statutory allocation	xx	xx	xx	xx	xx	xx	
3		Value added tax	xx	xx	xx	xx	xx	xx	xx
4		Independent revenue	xx	xx	xx	xx	xx	xx	xx
5		Retained (IGR)	xx	xx	xx	xx	xx	xx	xx
6		Aids and grants	xx	xx	xx	xx	xx	xx	xx
7		Direct capital receipts	xx	xx	xx	xx	xx	xx	xx
		Total current year receipts	xxx.	xxx.	xxx.	xxx.	xxx.	xxx.	xxx.

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9		Total projected funds available	xxx.	xxx.	xxx.	xxx.	xxx.	xxx.	xxx.
10		Expenditure							
		A: Recurrent debt							
11		Public debt charges on CRF	xx	xx	xx	xx	xx	xx	xx
12		Int. on internal loan repayment	xx	xx	xx	xx	xx	xx	xx
13		Int. on external loan repayment	xx	xx	xx	xx	xx	xx	xx
		Total recurrent debt	xxx.	xx.	xxx.	xxx.	xxx.	xxx.	xxx.
		B: Recurrent non-debt							
14		Personnel cost	xx	xx	xx	xx	xx	xx	xx
15		Salaries and statutory office holders	xx	xx	xx	xx	xx	xx	xx
16		Pensions and gratuities	xx	xx	xx	xx	xx	xx	xx
17		Overhead cost	xx	xx	xx	xx	xx	xx	xx
		Total recurrent non-debt	xxx.	xxx.	xxx.	xxx.	xxx.	xxx.	xxx.
		Total recurrent expenditure	xxx.	xxx.	xxx.	xxx.	xxx.	xxx.	xxx.
		C: Capital expenditure based on functions							
18		General public services	xx	xx	xx	xx	xx	xx	xx
19		Defense	xx	xx	xx	xx	xx	xx	xx
20		Public order and safety	xx	xx	xx	xx	xx	xx	xx
21		Economic affairs	xx	xx	xx	xx	xx	xx	xx
22		Environmental protection	xx	xx	xx	xx	xx	xx	xx
23		Housing and community amenities	xx	xx	xx	xx	xx	xx	xx
24		Health	xx	xx	xx	xx	xx	xx	xx
25		Education	xx	xx	xx	xx	xx	xx	xx
26		Social protection	xx	xx	xx	xx	xx	xx	xx
		Total capital expenditure	xxx	x	xxx	xxx	xxx	xxx	xxx

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				xx					
		Total budget expenditure (A+B+C)	xxx	xxx	xxx	xxx	xxx	xxx	xxx
		Budget surplus/(deficit)	xxx	xxx	xxx	xxx	xxx	xxx	xxx
		Financing of deficit by borrowing							
27		Internal loans	xx	xx	xx	xx	xx	xx	xx
28		External loans	xx	xx	xx	xx	xx	xx	xx
		Total loans	xxx	xxx	xxx	xxx	xxx	xxx	xxx
		Closing balance	xxx	xxx	xxx	xxx	xxx	xxx	xxx

Option B: Based on function (TRY No. 0015)

Consolidated budget summary (Master budget) (i.e. TRY 014,015 and 016)

Consolidated budget summary (Master budget) (TRY 017,018 and 019)

Consolidated budget summary (Master budget) according to fund segment (based on function)

23.12.15 Duties and functions of financial and fiscal reporting division

The financial and fiscal reporting division of MDA shall perform the following duties:

(a) Ensuring proper maintenance of general ledger;
(b) Ensuring the balancing of the general ledger and extraction of trial balance on or before 10th of the following month;
(c) Ensuring the preparation and presentation of general-purpose financial statements on or before 10th of the following month;
(d) Ensuring analysis, interpretation and reporting of general-purpose financial statement on or before 15th of the following month;
(e) Ensuring the preparation of annual financial report of the MDA on or before 21st January the following year and submit to the office of the Accountant General of the federation;
(f) Ensuring proper inventory accounting;
(g) Ensuring proper maintenance of property, plant and equipment register;
(h) Ensuring reconciliation of bank accounts on a weekly basis;
(i) Supporting quarterly, half yearly and annual stock taking/valuation. The stock valuation report should be sent to the head of finance and accounts, accounting officer and Accountant General of the federation on quarterly basis with explanation of variances, if any.
(j) Ensuring prompt response to audit query;

(k) Organising the financial reporting functions in a manner that facilitates the keeping of complete and adequate financial/statistical records;
(l) Ensures that all staff under his control are exposed to regular training programmes to equip them with relevant skills (on- the-job) for the efficient performance of their duties; and
(m) Perform any other duty/function assigned to him from time to time by the head of department of finance and accounts.

23.12.16 Duties and functions of assets management and accounting unit

The assets management and accounting unit of MDA shall perform the following duties:
(a) ensures posting of store issue notes into store register;
(b) maintenance of PPE register;
(c) raises store issue expense journal;
(d) reconciles store records with the control balances in the general ledger;
(e) prepares PPE Schedule and notes and reconcile with the general ledger balances for each class of asset;
(f) supports quarterly, half yearly and annual stock taking and report on variances (if any) to the head of Financial and Fiscal Reporting division;
(g) registers and numbers all PPE acquired by the MDA;
(h) ensures that all staff under his control are exposed to regular training programmes to equip them with relevant skills (on- the-job) for the efficient performance of their duties; and
(i) perform any other duty assigned to him by the head of financial and fiscal reporting division.

23.12.17 Duties and functions of final and fiscal accounts unit

The final and fiscal accounts unit of MDA shall perform the following duties:
(a) Receives journal vouchers from all sources;
(b) Posts all journal vouchers into the general ledger;
(c) Balances the general ledger;
(d) Draws up monthly and cumulative trial balances;
(e) Prepares and presents General Purpose Financial Statements (GPFS) of the MDA and other disclosures;
(f) Ensures that all control accounts in the general ledger are reconciled with the schedules on a monthly basis, report on variances (if any) should be made to head of financial and fiscal reporting division on or before 7th of the following month;
(g) Prepares annual report of the MDA together with GPFS of the MDA;
(h) Posts books and records to generate fiscal report of the MDA;
(i) Prepares monthly and annual fiscal operations report on recurrent revenue and expenditure;
(j) Prepares monthly and annual fiscal operations report on capital receipts and expenditure;
(k) Prepares ad-hoc management reports of the MDA;

(l) Prepares financial and statistical reports of the MDA;
(m) Analyse financial and statistical report for the attention of the management;
(n) Ensures that all staff under his control are exposed to regular training programmes to equip them with relevant skills (on- the-job) for the efficient performance of their duties; and
(o) Perform any other duty assigned to him by the head of financial and fiscal reporting division.

23.12.18 Duties and functions of audit query unit

The audit query unit of MDA shall perform the following duties:

(a) respond to audit queries promptly and adequately;
(b) liaise with other relevant Departments for response and collates same for submission to Public Accounts Committee (PAC) of the National Assembly (NASS) and the treasury;
(c) attends meetings of PAC, OAGF and relevant agencies of the government with the accounting officer, head of finance and accounts and any other relevant officer;
(d) ensures that all staff under his control are exposed to regular training programmes to equip them with relevant skills (on- the-job) for the efficient performance of their duties; and
(e) perform any other duty assigned to him by the head of financial and fiscal reporting division.

23.12.19 Books of accounts and accounting records under the financial and fiscal reporting division:

(a) Fiscal operations report - recurrent revenue and expenditure performance report (TRY020)
Name of MDA:……
TRY (020) Fiscal operations report 1: Aggregate recurrent revenue and expenditure budget
performance for the period ended---

Previous year actual	Description	NCOA code	Notes	Aggregate actual	Aggregate budget	Variance	
				A	B	C=B-A	D=(B-A/B)
				₦	₦	₦	%
	Revenue information						
	Statutory revenue						
	Statutory allocations from FAAC						
	Value added tax allocation from FAAC						
	Excess crude from FAAC						
	Sub-total: Statutory allocation						

	Internally generated revenue						
	Tax revenue						
	Non-tax revenue						
	Sub-total: Independent revenue						
	Revenue from aid and grants						
	Aid						
	Grants						
	Sub-total: Aid and grants						
	Revenue from debt forgiveness						
	Debt forgiveness						
	Sub-Total: Debt forgiveness						
	Revenue from extra ordinary items						
	Recoveries						
	Others						
	Sub-total: Extra-ordinary items						
	Total revenue						
	Recurrent expenditure						
	Personnel costs/Employee benefits						
	Overhead cost (excluding public debt charges)						
	Grants and contributions						
	Subsidies						
	Public debt charges						
	Research and development - Expense						
	Total recurrent expenditure						

(b) Fiscal operations report - capital revenue and expenditure performance report (TRY021)

Name of MDA:…… TRY (021)

Fiscal operations report 2: Aggregate capital budget performance for the period ended ---

Previous year actual	Description	NCOA code	Notes	Aggregate actual	Aggregate budget	Variance	
				A	B	C=B-A	D=(B-A/B)
				₦	₦	₦	%
	Option A: Basic budget information						

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	Receipts for capital expenditure						
	Allocation for Capital Expenditure	4301					
	Retained IGR for capital expenditure						
	Loans for capital expenditure	4203					
	Aid and grants for capital expenditure	13					
	Total receipts for capital expenditure						
	Capital expenditure based on sectors						
	Administration	01					
	Economic	02					
	Law and Justice	03					
	Regional	04					
	Social	05					
	Total capital expenditure based on sectors						
	Option B: Advanced budget information						
	Receipts for capital expenditure						
	Allocation for capital expenditure	4301					
	Retained IGR for capital expenditure						
	Loans for capital expenditure	4203					
	Aid and grants for capital expenditure	13					
	Total receipts for capital expenditure						
	Capital expenditure based on policies and programmes						
	Economic empowerment through agriculture (General)	01					
	Societal re-orientation (general)	02					
	Poverty alleviation	03					
	Improvement to human health (general)	04					
	Enhancing skills and knowledge (general)	05					
	Housing and urban development (general)	06					
	Gender (general)	07					
	Youth (general)	08					
	Environmental Improvement (general)	09					
	Water resources and rural development	10					

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	Information communication and technology (general)	11					
	Growing the private sector	12					
	Reform of government and governance (general)	13					
	Power (general)	14					
	Rail (general)	15					
	Water ways (general)	16					
	Road (general)	17					
	Airways (general)	18					
	Sea ports (general)	19					
	Shipping (general)	20					
	Oil and gas infrastructure (general)	21					
	Total capital expenditure based on programmes						

(c) **Property plant and equipment register (TRY022)**

Name of MDA:…… TRY (022)

	Property, plant and equipment (PPE) register		NCOA code (fund and economic code)-----
Description	Location-------	Type of PPE----------	
Supplier-----	Manufacturer----------		Disposal data
Name and Address------	Serial No----------		Name and address of purchaser---
	Chasses number---------		Amount realised------
	Engine No.----------		Receipt No.-----
	Identification or registration No----------		Effective date of disposal------

Year	Detailed of payment voucher no and date	Initial cost	Additional cost	Total cost	Depreciation rates	Annual depreciation	Aggregate depreciation	Carrying amount (NBV)	Disposal proceed	Gain / loss on disposal

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		₦	₦	₦	%	₦	₦	₦	₦	₦

(d) **Property plant and equipment schedule (TRY023)**

Format

Name of MDA:…… TRY (023)

Property, plant and equipment schedule as at-------

	Land and building	Infrastructure	Plant and machinery	Transportation equipment	Office equipment	Furniture and fittings	Specialised assets	Others	Total
Cost/revaluation:	₦	₦	₦	₦	₦	₦	₦	₦	₦
	XX	XX	XX	X	XX	XX	XX	XX	
Balance b/forward (1/Jan/20xx)	XX	XX	XX	XX	XX	XX	XX	XX	XXX
Additions during the year	X	X	X	X	X	X	X	X	XXX
Disposal during the year	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(XXX)
Balance c/forward (31/December 20xx)	XX	XX	XX	XX	XX	XX	XX	XX	XXX
Accumulated depreciation:									
Balance b/forward (1/Jan/20xx)	XX	XX	XX	XX	XX	XX	XX	XX	XXX
Additions during the year	X	X	X	X	X	X	X	X	XXX
Disposal during the year	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(XXX)
Balance c/forward (31/December 20xx)	XX	XX	XX	XX	XX	XX	XX	XX	XXX
Accumulated impairment:									
Balance b/forward (1/Jan/20xx)	XX	XX	XX	XX	XX	XX	XX	XX	XXX
Additions during the year	X	X	X	X	X	X	X	X	XXX
Disposal during the	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(XXX)

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year									
Balance c/forward (31/December 20xx)	XX	XX	XX	XX	XX	XX	XX	XX	XXX
Net book value or carrying amount									
As at 31/12/20xx	XX	XX	XX	XX	XX	XX	XX	XX	XXX
As at 31/12/20xx-1	XX	XX	XX	XX	XX	XX	XX	XX	XXX

Note: The value of land is not depreciated

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(e) **Inventory (stores) issues note register (TRY024)**

Format

Name of MDA:…… TRY(024)

Inventory issue note register

Date	User name	Store issue note number	Store item	NCOA (economic code)	Quantity	Rate	Amount ₦	Remarks

Note: First in first out (FIFO) is used the management and accounting of inventory.

(f) **Monthly bank (sub-account) reconciliation statement (TRY025)**

Format

Name of MDA:…… TRY (025)

Monthly bank reconciliation statements (all sub-TSA bank accounts)

Bank reconciliation statements as at ……

Details	Notes	₦	₦
Cash book balance as at…		xx.	
Add: unpaid mandates (list attached)	i.	xx.	
Add: credits in banks not in cash book (list attached)	ii.	xx.	
Sub-Total		xxx.	
Less: receipts in cash book not in bank (list attached)	iii.	xx.	
Less: debits in bank not in cash book (list attached)	iv.	xx.	
Sub-Total		xxx	
Balance as per reconciliation (bank balance) - (A)			xxx.
Check balance			
Balance as per bank statements as at..... (B)			xxx.
Variance (A- B)			xxx.

Other notes:

(i) Bank charges of previous months should be posted into the cash book in the current month

(ii) Bank credits should also be posted into the cashbook to reduce un-reconciled item

(iii) In summary debits and credits items in the bank statement should be brought into cash book as soon as they become available;

(iv) All un-reconciled items must be dealt with.

(g) **Monthly advances/imprest report**

Format

Name of MDA:…… TRY (026)

Monthly cash advances and imprest report

Details	Ref.	Amount
		₦
Opening balance as at beginning of the month		
Add total advances granted during the month		
Less total advances retired during the month		
Balance of outstanding advances at month end	List attached	
Analysis of outstanding cash advances:		
1 month old		
2 months old		
3 months old		
4 months old		
5 months old		
6 months old		
7 months old		
8 months old		
9 months old		
10 months old		
11 months old		
12 months old		
More than 12 months old		
Total (agree with balance)		

Note:

- Total outstanding advances agree with figure in the general ledger
- Officers with outstanding un-retired advances be sanctioned as provided by extant rules

(h) Monthly IPSAS accrual basis compliant trial balance:

Trial balance is a list of closing balances of ledger accounts at reporting date and is the first step towards the preparation of the GPFS. It is usually prepared at reporting date to assist in the drafting of Financial Statements

The following differences between transcripts of accounts prepared under IPSAS cash basis and trial balance prepared under IPSAS accrual

Item	Transcript of accounts (TA)	Trial balance (TB)
Balances	Shows closing balances on monthly balances on monthly basis	Shows both opening and closing basis only

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Source of information	Only cashbook	All the ledger balances including cashbook balance
Basis of accounting	Cash basis	Accrual basis
Transaction recognition	Only cash related transactions	Both cash and non-cash related transactions
Report generation	Only statement of cash flow can be prepared with transcript of accounts.	Statement of financial performance and position can be prepared with TB
Fair presentation	Affect fair presentation	Aid fair presentation

Format

Name of MDA:……. TRY (027)

Monthly IPSAS accrual basis compliant trial balance for the month ended …

Administrative code		xxxxxxxxxxxx.								
Economic code	Description	Dr.	Cr.	Analysis of economic items according to sources of funds						
		N	N	Budget	Service wide vote	Capital supplementation	Aid and grants	Loans	Other funds	Others-Specify
				02101	02202	02203	08	09	06	xx
	Revenue									
	Statutory									
1101 0101	Federal government share of FAAC									
1101 0102	FAAC direct allocation to FIRS									
1101 0103	FAAC direct allocation to customs									
1101 0104	FAAC - special allocations									
1101 0201	Federal government share of VAT									
1101 0301	Federal government share of excess crude account									
	Independent revenue									
	Tax revenue									
1201 0101	Personal income tax - FCT residents									
1201	Personal income tax									

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0102	- armed forces, police									
1201 0103	Personal income tax - foreign affairs officers									
1201 0104	Stamp duty									
1201 0105	Pool betting tax									
1201 0106	Development tax/levy									
1201 0107	Capital gain tax									
1201 0108	Livestock tax									
1201 0109	Other service taxes									
	Non-tax revenue									
1202 0101	Diamond dealers licence									
1202 0102	Goldsmiths and gold dealer licences									
1202 0103	Silver dealers licences									
1202 0104	Platinum dealers licences									
1202 0105	Radio station licences									
1202 0106	Arms and ammunition licences									
1202 0107	Boats and canoe (small craft) licence									
	Etc.									

(a) Statement of financial performance (discussed in chapter 23)

(b) Statement of financial position (discussed in chapter 23)

(c) Cash flow statement (discussed in chapter 23)

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23.13 Chapter review

This chapter examines the provisions of IPSAS 33 to be followed by Public Sector Entities (PSEs) on the adoption of accrual IPSAS and to apply full provisions of the applicable IPSASs. The chapter also examines the guidelines issued by the office of the Accountant-General of the Federation on first time adoption of accrual basis IPSAS and books of accounts to be maintained.

23.14 Worked examples

23.14.1 Examination type questions

(1) IPSAS 33 gives a transition relief (exemption) of up to three years within which to develop models for transiting to IPSAS accrual. However, the government of Nigeria adopted accrual IPSAS for revenue from exchange transactions, effective January 1, 2016. Similarly, revenue from non-exchange transactions is recognised on line-by-line basis.

Required:

Explain how the following revenue items from exchange transactions would be recognised:

(a) Government share of FAAC (statutory revenue)

(b) Aids and grants receivable as at December 31, 2015 and approved on or after January 1, 2016

(c) Debt forgiveness approved on or after January 1, 2016

(d) Other transfers revenue

(e) Personal income on or after January 1, 2016

(f) Licences, fees and fines on or after January 1, 2016

(2) In line with the policy of the Federation, all Public Sector Entities (PSEs) in Nigeria are to adopt the provisions of IPSAS accrual basis by January 1, 2016 (that is, the date of adoption of IPSAS accrual basis for the first time in Nigeria). The policy covers all the tiers of Government (Federal, States and Local) and PSEs that were hitherto on either cash or accrual basis of accounting.

Required:

Explain the practical steps to be followed during the preparation of opening statement of financial position (January 1, 2016) under the following conditions:

(a) Cash basis of accounting for whole of government

(b) Public sector entities (PSEs) already on accrual accounting but not in line with the provisions of IPSAS

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(c) Public sector entities (PSE) on cash basis of accounting that prepares incomplete set of financial statements (transcript of accounts) as at December 31, 2015

(3) Assets are tangible and intangible economic resources owned and controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity. IPSAS 33 gives a transition relief (exemptions) period of up to three years from the date of adoption within which PSEs are to not recognise and/or measure certain assets and their associated liabilities (i.e. where it is evidently and practically impossible to do so) but allowed to take advantage of the relief period to develop models for the recognition and measurement of such assets while in the process of transiting to IPSAS accrual.

Required:

Explain the:

(a) Criteria for recognition of assets

(b) basic steps for recognising and measuring existing assets as at December 31, 2015

23.14.2 Suggested solutions

Revenue from exchange transactions

1. (a) Governments share of FAAC (statutory revenue)

FAAC allocation shall be recognised by PSE (head of respective treasury AGF, AGS and LGA treasurer) at the end of each monthly FAAC/ JAAC meeting using the FAAC/JAAC distribution schedule as a source document.

(b) Aid and grants receivable as at December 31, 2015

If on or before December 31, 2015, a public sector entity is entitled to an un-conditional aid/grant and funds have not been received as at January 1, 2016, the amount due to that entity and not yet received shall be recognised as receivable in the opening statement of financial position. (See chapter 2).

Aid and grants approved on or after January 1, 2016

Aid/grants approved on or after January 1, 2016 shall be immediately recognised (accrued) in the books of the PSE if such aid/grant has been approved by both the grantor and recipient and an agreement or memorandum of understanding (MoU) has been signed and no conditions are attached.

Where aid/grant is conditional, the entity will not recognise such aid/grant as revenue until the attached conditions are fulfilled. Where conditions have been

fulfilled for just a portion of the aid/grant, which portion of the aid/grant whose conditions have been met will be recognised and the balance will be recognised as conditions continue to be fulfilled. Otherwise, the portion with conditions will be accounted for as a liability (See chapter 6 - accounting for liabilities).

(c) Debt forgiveness approved on or after January 1, 2016

Debt for given on or after January 1, 2016 shall be immediately recognised as revenue in the books of the recipient when a debt forgiveness agreement/MoU have been approved by both the grantor and recipient and no conditions are attached.

Where there are conditions attached to the debt forgiven to the extent that if not met the amount will be repayable, and there is a possibility of failure to meet such condition (s), the amount forgiven (or portion with conditions) will remain a liability until such conditions are met.

(d) Other transfers revenue

Any other revenue from non-tax (transfers) transactions will be recognised if it meets the definition and conditions for revenue recognition in accordance with IPSAS 23 (revenue from non-exchange transactions). Where there are conditions attached to the revenue category to the extent that if not met the amount will be repayable, and there is a possibility of failure to meet such condition(s), the amount (or portion with conditions) will remain a liability until such conditions are met.

(e) Personal income on or after January 1, 2016

The personal income tax is recognised at the point when the tax payer has earned assessable income. In Nigeria the recognition of personal income tax is to be considered in two-folds:

(i) At the point of collection in the books of relevant tax authority (RTA), personal income tax is recognised when taxpayer or employer has submitted returns; and

(ii) In the books of the Whole of Government (Federal/State Treasury, personal income tax is recognised upon remittance of tax by RTA to Consolidated Revenue Fund of the respective treasury.

(f) Licences, fees and fines on or after January 1, 2016

Revenue from licences, fees and fines are recognised when the application for the respective licences, fees and fines has been approved. Subsequently, recognition will be made on approval of application for renewal.

2. Practical steps for the preparation of opening statement of financial position (January 1, 2016)

(a) Cash basis of accounting for whole of government

(i) Preparation of draft annual financial statements of Whole of Government (PSE) up to December 31, 2015 in line with IPSAS cash basis by head of respective treasury

(ii) Audit of Whole of Government financial statements by offices of the respective Auditor-General

(iii) Submission of audited financial statements to the Parliament by offices of the respective Auditor-General

(iv) Ascertain values of asset (for example stock report) of all PSEs under the control of Whole of Government as well as other confirmed liabilities as at December 31, 2015 by head of respective treasury.

(v) Restatement of the existing statement 2 (statement of assets and liabilities) as at December 31, 2015 to the opening statement of financial position as at January 1, 2016 by head of respective treasury

(vi) Conversion of statement of assets and liabilities of Whole of Government to the opening statement of financial position as at January 1, 2016

(b) PSEs already on accrual accounting but not in line with the provisions of IPSAS

(i) Preparation of draft annual financial statements of PSE in line with IPSAS accrual basis of accounting by head of respective treasury as at December 31, 2015

(ii) Audit of annual financial statements of PSE by external auditors appointed from list approved by the offices of the respective auditor-generals

(iii) Submission of audited financial statements to board/governing council by accounting officers of respective PSEs

(iv) Ascertain values of confirmed assets and liabilities that are not in the financial statements by accounting officers of respective PSEs

(v) Restatement of the existing balance sheet as at December 31, 2015 to the opening statement of financial position as at January 1, 2016 by accounting officers of respective PSEs

(vi) Conversion of balance sheet (statement of financial position) of PSE on accrual accounting to the opening statement of financial position as at January 1, 2016

(c) PSE on cash basis of accounting that prepares incomplete set of financial statements (transcript of accounts) as at December 31, 2015

The accounting officers of respective PSEs should:

(i) Submit December, 2015 transcript of accounts of the PSE to the respective treasury;

(ii) Undertake stock taking of all the stores of the PSE in line with the Treasury Circular on inventory count on December 31, 2015;
(iii) Value stock taking report using the FIFO or other method as would

Be issued by the FAAC sub-committee on IPSAS implementation or the respective treasury;
(iv) Extract balances of cash assets and liabilities from the statement of assets and liabilities attributable to the PSE from the respective treasury in addition to the stock report; Also, ascertain values of other assets and liabilities under the control of the PSE as at December 31, 2015;
(v) Restate the present balances of assets and liabilities of the PSE to the opening statement of financial position; and
(vi) Convert of balance sheet (statement of financial position) of PSE that prepares incomplete financial statements (transcript of accounts) to the opening statement of financial position as at January 1, 2016.

3. (a) Criteria for recognition of assets

Generally, assets are recognised where:

(i) It is probable that future economic benefits or service potential associated with the item will flow to the entity;
(ii) The cost/deemed cost (fair value) of the item can be measured reliably; and
(iii) The entity has control over the asset.

(b) The basic steps for recognising and measuring existing assets as at December 31, 2015

(i) Verify all the entity's assets and ascertain that the assets fulfil the recognition requirements.
(II) Prepare a schedule of all the verified assets of the PSE taking note of the appropriate classifications.
(iii) Obtain relevant source documents to ascertain other details of the assets such as its historical cost.
(iv) Where the costs cannot be established, engage the services of professional valuers and estimators to assist in getting the fair values (deemed costs) of such assets.
(v) Bring the values of the assets into the books by passing the relevant journals and debiting the relevant asset and crediting the accumulated reserves.

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CHAPTER 24

IPSAS 34 - SEPARATE FINANCIAL STATEMENTS (REPLACEMENT FOR IPSAS 6)

Contents

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24.7 Components of audited financial statements of MDAs under IPSAS 34
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24 IPSAS 34- Separate financial Statements

24.0 Learning objective

The objective of this chapter is to enhance readers' understanding of the procedures to be followed when public sector entities prepare and present separate financial statements following the adoption of accrual basis IPSASs.

24.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

(a) prepare and present separate financial statements in accordance with accrual basis IPSAS; and

(b) discuss the components of the financial statements to be jointly signed by the Accounting Officer and Director of Finance and Account.

24.2 Introduction

The standard prescribes the accounting and disclosure requirements for investments in controlled entities, joint ventures, and associates when an entity prepares separate financial statements. The standard does not prescribe which entities produce separate financial statements. It applies when an entity prepares separate financial statements that comply with International Public Sector Accounting Standards (IPSASs). This is one of the two standards issued to replace IPSAS 6, on Consolidated and Separate Financial Statements.

24.3 Definition of terms

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

(a) **Consolidated financial statements** are the financial statements of an economic entity in which the assets, liabilities, net assets/equity, revenue, expenses and cash flows of the controlling entity and its controlled entities are presented as those of a single economic entity.

(b) **Separate financial statements** are those presented by an entity, in which the entity could elect, subject to the requirements of this Standard, to account for its investments in controlled entities, joint ventures or associates, either at cost, in accordance with IPSAS 41 - Financial Instruments: or using the equity method as described in IPSAS 36 - Investments in Associates and Joint Ventures.

24.4 Preparation of separate financial statements

(a) When an entity prepares separate financial statements, it shall account for similar investments in controlled entities, joint ventures or associates either:

  (i) at cost;

  (ii) in accordance with IPSAS 41 on Financial Instruments (Recognition and measurement); or

  (iii) using the equity method as described in IPSAS 36.

(b) If an entity elects, in accordance with paragraph 24 of IPSAS 36, to measure its investments in associates or joint ventures at fair value through surplus or deficit in accordance with IPSAS 41, it shall also account for those investments in the same way in its separate financial statements.

(c) If a controlling entity is required, in accordance with paragraph 56 of IPSAS 35, to measure its investment in a controlled entity at fair value through surplus or deficit, in accordance with IPSAS 41, it shall also account for that investment in the same way in its separate financial statements.

(d) If a controlling entity that is not itself an investment entity is required, in accordance with paragraph 58 of IPSAS 35, to measure the investments of a controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 41 and consolidate the other assets and liabilities, and revenue and expenses of the controlled investment entity, it shall also account for that investment in the controlled investment entity in the same way in its separate financial statements.

(e) When a controlling entity ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred, as follows:

(i) When an entity ceases to be an investment entity, the entity shall account for an investment in a controlled entity in accordance with paragraph 12. The date of the change of status shall be the deemed acquisition date. The fair value of the controlled entity at the deemed acquisition date shall represent the transferred deemed consideration when accounting for the investment in accordance with paragraph 12.

(ii) When an entity becomes an investment entity, it shall account for an investment in a controlled entity at fair value through surplus or deficit in accordance with IPSAS 41.

(f) The difference between the previous carrying amount of the controlled entity and its fair value at the date of the change of status of the investor, shall be recognised as a gain or loss in surplus or deficit. The cumulative amount of any gain or loss previously recognised directly in net assets/equity in respect of those controlled entities, shall be treated as if the investment entity had disposed of those controlled entities at the date of change in status.

(g) When a controlling entity re-organises the structure of its economic entity by establishing a new entity, the new controlling entity shall measure cost at the carrying amount of its share of the net assets/equity items shown in the separate financial statements of the original controlling entity at the date of the re-organisation, provided the following criteria are met:

(i) The new controlling entity obtains control of the original controlling entity, either by:

- issuing equity instruments in exchange for existing equity instruments of the original controlling entity; or

- some other mechanism which results in the new controlling entity having a controlling ownership interest in the original controlling entity;

(ii) The assets and liabilities of the new economic entity and the original economic entity are the same immediately before and after the re-organisation; and

(iii) The owners of the original controlling entity before the re-organisation have the same absolute and relative interests in the net assets of the original economic entity and the new economic entity immediately before and after the re-organisation; and

(iv) The new controlling entity accounts for its investment in the original controlling entity at cost in its separate financial statements.

24.5 Disclosures

When a controlling entity, in accordance with paragraph 5 of IPSAS 35, elects not to prepare consolidated financial statements and instead prepares separate financial statements, it shall make some disclosures in those separate financial statements.

Disclosures to be made in the separate financial statements

(a) The fact that the financial statements are separate financial statements, that the exemption from consolidation has been used, the name of the entity whose consolidated financial statements that comply with IPSASs, have been produced for public use, and the address where those consolidated financial statements are obtainable.

(b) A list of significant investments in controlled entities, joint ventures and associates, including:
   (i) the name of those controlled entities, joint ventures and associates;
   (ii) the jurisdiction in which those controlled entities, joint ventures and associates operate (if it is different from that of the controlling entity); and
   (iii) its proportion of the ownership interest held in those entities and a description of how that ownership interest has been determined.

(c) A description of the method used to account for the controlled entities, joint ventures and associates listed under (b) above.

(d) The controlling entity or investor shall also disclose in its separate financial statements:
   (i) The fact that the statements are separate financial statements and the reasons why those statements are prepared, if not required by legislation or other authority;
   (ii) A list of significant controlled entities, joint ventures and associates, including:
      - the names of those controlled entities, joint ventures and associates;
      - the jurisdiction in which those controlled entities, joint ventures and associates operate (if different from that of the controlling entity); and
      - its proportion of the ownership interest held in those entities and a description of how that ownership interest has been determined.

(iii) A description of the method used to account for the controlled entities, joint ventures and associates listed under (ii).

24.6 Transitional provisions

(a) At the date of initial application, an investment entity that previously measured its investment in a controlled entity at cost shall instead measure that investment at fair value through surplus or deficit as if the requirements of the standard had always been effective.

(b) The investment entity shall adjust retrospectively the annual period immediately preceding the date of initial application and shall adjust accumulated surplus/deficit at the beginning of the immediately preceding period for any difference between:
   (i) the previous carrying amount of the investment; and
   (ii) the fair value of the investor's investment in the controlled entity.

(c) At the date of initial application, an investment entity that previously measured its investment in a controlled entity at fair value directly to net assets/equity, shall continue to measure that investment at fair value. The cumulative amount of any fair value adjustment previously recognised in net assets/equity shall be transferred to accumulated surplus/deficit at the beginning of the annual period immediately preceding the date of initial application.

(d) At the date of initial application, an investment entity shall not make adjustments to the previous accounting for an interest in a controlled entity that it had previously elected to measure at fair value through surplus or deficit in accordance with IPSAS 41, as permitted in paragraph 12 of this standard.

(e) If an investment entity has disposed of, or lost control of, an investment in a controlled entity before the date of initial application of this Standard, the investment entity is not required to make adjustments to the previous accounting for that investment.

24.7 Components of audited financial statements of MDAs under IPSAS 34

According to the *Treasury circular Ref. TRY A3 & B3/2024/OAGF/CAD/026/V.1V/855 dated 4th April 2024 and Auditor-General for the Federation circular Ref 928/99/CONF/VOL. II/44 dated 14th June, 2024,* the financial statements to be prepared, audited and jointly signed by the Accounting Officer and Director of Finance and Accounts, should comprise the following:

(a) **Preliminary components**
   (i) Background information
   (ii) Statements of responsibility for the financial statements based on the standardised template issued by the Accountant-General of the Federation

(b) **Main components**
   (i) Statement of financial performance
   (ii) Statement of financial position
   (iii) Cash flow statement
   (iv) Statements of changes in net assets/equity

(v) Statements of comparison of actual and budget
(vi) Notes comprising a summary of significant accounting policies and explanatory notes
(vii) Comparative information in respect of the preceding period

(c) Two copies of the financial statements (both hard and soft) shall be submitted to the Auditor-General for the Federation by the MDA for audit, while the audited financial statements and management letter thereon, shall be forwarded to the Accountant-General by the MDA on receipt of the AuGf's Audit Certificate. Also, it shall be the responsibility of the MDA to publish the audited financial statements and place it in the public domain (website, publications, etc.) in accordance with the requirements of paragraph 5.3 of the Treasury circular Ref. OAGF/CAD/026/Vol. III/108 dated 1st December 2016.

24.8 Chapter review

This chapter examines the provisions of IPSAS 34 to be followed by PSEs on the preparation of separate financial statements and the application of the provisions of the relevant IPSASs.

24.9 Worked examples

24.9.1 Examination type questions

1. IPSAS 34 - Separate financial Statements, prescribes the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

Required:
Explain how an entity shall account for its investments when preparing separate financial statements.

2. When a controlling entity, in accordance with paragraph 5 of IPSAS 35, elects not to prepare consolidated financial statements and instead prepares separate financial statements, it shall, make some disclosures in those separate financial statements.

Required:
Identify the disclosure requirements when a controlling entity, in accordance with paragraph 5 of IPSAS 35, elects not to prepare consolidated financial statements and instead prepares separate financial statements.

3. According to the *Treasury circular Ref. TRY A3 & B3/2024/OAGF/CAD/026/V.1V/855 dated 4th April 2024 and Auditor-General for the Federation circular Ref 928/99/CONF/VOL. II/44 dated 14th June, 2024,* the financial statements to be prepared, audited and jointly signed by the Accounting Officer and Director of Finance and Accounts, should comprise some components.
Required:

Identify the components of audited financial statements of MDAs based on the circulars issued by the Accountant-General of the Federation and Auditor-General for the Federation.

24.9.2 Suggested solutions to examination type questions

1. Preparation of separate financial statements
   (a) When an entity prepares separate financial statements, it shall account for similar investments in controlled entities, joint ventures and associates either:
      (i) at cost;
      (ii) in accordance with IPSAS 29 on Financial Instruments (Recognition and Measurement); or
      (iii) using the equity method as described in IPSAS 36.
   (b) If an entity elects, in accordance with paragraph 24 of IPSAS 36, to measure its investments in associates or joint ventures at fair value through surplus or deficit in accordance with IPSAS 41 it shall also account for those investments in the same way in its separate financial statements.
   (c) If a controlling entity is required, in accordance with paragraph 56 of IPSAS 35, to measure its investment in a controlled entity at fair value through surplus or deficit in accordance with IPSAS 29, it shall also account for that investment in the same way in its separate financial statements.
   (d) If a controlling entity that is not itself an investment entity is required, in accordance with paragraph 58 of IPSAS 35, to measure the investments of a controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 41 and consolidate the other assets and liabilities and revenue and expenses of the controlled investment entity, it shall also account for that investment in the controlled investment entity in the same way in its separate financial statements.
   (e) When a controlling entity ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred, as follows:
      (i) When an entity ceases to be an investment entity, the entity shall account for an investment in a controlled entity in accordance with paragraph 12. The date of the change of status shall be the deemed acquisition date. The fair value of the controlled entity at the deemed acquisition date shall represent the transferred deemed consideration when accounting for the investment in accordance with paragraph 12.
      (ii) When an entity becomes an investment entity, it shall account for an investment in a controlled entity at fair value through surplus or deficit in accordance with IPSAS 41.

(f) The difference between the previous carrying amount of the controlled entity and its fair value at the date of the change of status of the investor shall be recognised as a gain or loss in surplus or deficit. The cumulative amount of any gain or loss previously recognised directly in net assets/equity in respect of those controlled entities shall be treated as if the investment entity had disposed of those controlled entities at the date of change in status.

(g) When a controlling entity re-organises the structure of its economic entity by establishing a new entity, the new controlling entity shall measure cost at the carrying amount of its share of the net assets/equity items shown in the separate financial statements of the original controlling entity at the date of there-organisation provided the following criteria are met:

(i) The new controlling entity obtains control of the original controlling entity either:

- by issuing equity instruments in exchange for existing equity instruments of the original controlling entity; or
- by some other mechanism which results in the new controlling entity having a controlling ownership interest in the original controlling entity;

(ii) The assets and liabilities of the new economic entity and the original economic entity are the same immediately before and after there-organisation; and

(iii) The owners of the original controlling entity before the re-organisation have the same absolute and relative interests in the net assets of the original economic entity and the new economic entity immediately before and after there-organisation; and

(iv) The new controlling entity accounts for its investment in the original controlling entity at cost in its separate financial statements.

2. When a controlling entity, in accordance with paragraph 5 of IPSAS 35, elects not to prepare consolidated financial statements and instead prepares separate financial statements, it shall disclose in those separate financial statements:

(a) The fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name of the entity whose consolidated financial statements, that comply with IPSASs, have been produced for public use; and the address where those consolidated financial statements are obtainable.

(b) A list of significant investments in controlled entities, joint ventures and associates, including:

(i) the name of those controlled entities, joint ventures and associates;

(ii) the jurisdiction in which those controlled entities, joint ventures and associates operate (if it is different from that of the controlling entity); and

(ii) its proportion of the ownership interest held in those entities and a description of how that ownership interest has been determined.

(c) A description of the method used to account for the controlled entities, joint ventures and associates listed under (b) above.

(d) The controlling entity or investor shall also disclose in its separate financial statements:

(i) The fact that the statements are separates financial statements and the reasons why those statements are prepared, if not required by legislation or other authority;

(ii) A list of significant controlled entities, joint ventures and associates, including

- the name of those controlled entities, joint ventures and associates;
- the jurisdiction in which those controlled entities, joint ventures and associates operate (if different from that of the controlling entity); and
- its proportion of the ownership interest held in those entities and a description of how that ownership interest has been determined.

(e) A description of the method used to account for the controlled entities, joint ventures and associates listed under (ii).

3 **Components of audited financial statements of all MDAs under IPSAS 34**

According to the *Treasury circular Ref. TRY A3 & B3/2024/OAGF/CAD/026/V.1V/855 dated 4th April 2024 and Auditor-General for the Federation circular Ref 928/99/CONF/VOL. II/44 dated 14th June, 2024,* the financial statements to be prepared, audited and jointly signed by the Accounting Officer and Director of finance and accounts, should comprise the following

(a) **Preliminary components**

(i) Background information

(ii) Statements of responsibility for the financial statements based on the standardised template issued by the Accountant- General of the Federation

(b) **Main components**

(i) Statement of financial performance.

(ii) Statement of financial position.

(iii) Cash flow statement.

(iv) Statements of changes in net assets/equity.

(v) Statements of comparison of actual and budget.

(vi) Notes comprising a summary of significant accounting policies and explanatory notes.

(vii) Comparative information in respect of the preceding period.

(c) Two copies of the financial statements (both hard and soft), shall be submitted to the Auditor-General for the Federation by the MDA for audit while the audited financial statements and management letter thereon shall be forwarded to the Accountant-General by the MDA on receipt of the AuGF's Audit Certificate. Also, it shall be the responsibility of the

MDA to publish the audited financial statements and place it in the public domain (Website, publications, etc.) in accordance with the requirement of paragraph 5.3 of the Treasury circular Ref. OAGF/CAD/026/Vol. III/108 dated 1st December, 2016.

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CHAPTER 25

ACCOUNTING FOR PUBLIC SECTOR ORGANISATIONS AND GOVERNMENT BUSINESS ENTITIES (GBES)

Contents

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25 Accounting for Public Sector Organisations and Government Business Entities (GBES)

25.0 Learning objective

The objective of this chapter is to enhance readers' understanding of sources of revenue, expenditure, their various objectives as entrenched in their various enabling Acts.

25.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

(a) discuss the enabling act that establishes a parastatal or a public company;
(b) itemise the objectives of setting up public enterprises;
(c) explain the accounting requirements of public enterprises; and
(d) discuss the sources of income and types of expenditure of public enterprises.

25.2 Introduction

Parastatals and public companies are agencies established by government for specific purposes. Examples are corporations, boards and authorities. The characteristics of parastatals or corporations are as detailed below.

(a) Corporations are special organisations set up by government with the aim of carrying out certain projects or performing beneficial services to the nation. Examples are the River Basin Authority which was set up to harness the agricultural benefits of the river basins, and the Federal Environmental Protection Agency (FEPA) aimed at safeguarding Nigeria's environment. Most of the corporations are not-for-profit organisations. However, some of them are to recover their operating costs and make some margin or surplus.

(b) Each corporation or parastatal has its own enabling Act. This is the law setting it up, and will state in detail the following:
   (i) the name of the corporation, its functions and objectives;
   (ii) the principal officers of the board, their functions and mode of appointment;
   (iii) the supervising ministry;
   (iv) the place where the head office and branches of the parastatal will be sited;
   (v) the organogram of the organisation; and
   (vi) the source of fund to the parastatal and the type of accounts they are expected to keep.

   Parastatals or corporations are usually not governed by the provisions of the Companies and Allied Matters Act, 2020. Hence, a corporation's name will not end with the word 'Limited' or 'public limited company.'

(c) State and Federal Governments are free to set up their own corporations after due processes. Such parastatals, boards or corporations are quite different from the ministries. Ministries and extra-ministerial departments have the same accounting system, unlike the boards and corporations. Government regulations, which apply to the ministries, may not be applicable to government agencies. The term 'parastatal' also refers to a government company, board, corporation or a tertiary

institution such as the Lagos State Polytechnic, University of Nigeria, Nsukka or Ahmadu Bello University.

(d) All corporations have supervising ministries. Regulations passed by a corporation are called 'bye-laws'. The supervising ministry and government approve the following for a corporation, before they become operative:
   (i) increases in the prices of goods and services delivered. For example, the Federal Ministry of Health would approve any price increase by the Federal Medical Centres before it is implemented;
   (ii) all the bye-laws;
   (iii) the corporation's annual budget; and
   (iv) any major foreign agreement.

   The supervising ministry recommends the appointments of the managing director or general manager, executive director and key officers of the corporations to the President through the Secretary to the Federal Government.

25.3 Sources of income of parastatals

Although corporations are set up mainly to render social services to the public at the least possible costs and are principally self-financing, the appropriate government makes funds available to them inform of subventions. The money given to a corporation by the government is income to the corporation and is usually classified into recurrent and capital grant or subvention.

25.4 Expenditure of parastatals

All corporations incur expenses such as the payment of staff salaries and maintenance of facilities. The expenditure incurred is either revenue or capital in nature. Most corporations depreciate their assets using appropriate policies.

25.5 Main objectives of setting up corporations/ parastatals/public enterprises

The main objectives of setting up parastatals are to:

(a) bring the means of production under public ownership;
(b) avoid high prices of goods normally charged by the private sector;
(c) avoid duplication of facilities;
(d) ensure close government control over certain 'key' sectors of the economy;
(e) ensure the survival of the industries;
(f) avoid imitation of goods; and
(g) enhance the standard of living of the people.

25.6 Accounting in the public enterprises

The nature and structure of accounting in the public enterprises depend largely on their scopes and objectives.

The accounting structure will thus vary from one enterprise to another. Despite the differences in their structure and objectives, any accounting system set up for a public enterprise should be able to:

(a) provide detailed financial information adequate for policy formulation;

(b) facilitate extraction of relevant financial statements, which comply, not only with the requirements of the enabling law but also the needs of the information users;
(c) accommodate changes that become necessary; and
(d) facilitate the work of the auditors appointed to examine the books of the enterprises.

25.6.1 Financial statements

The financial statements of an enterprise are expected to comply with the normal accounting standards in operation and requirements of the laws regulating the activities of the enterprise. For profit-making public enterprises, the financial statements will include:

(a) statement of financial position;
(b) statement of financial performance;
(c) statement of changes in net assets/equity;
(d) cash flow statement;
(e) accounting policies; and
(f) notes to the financial statements and other disclosures.

However, for the not-for-profit making public enterprises, the financial statements are expected to include:

(a) Statement of financial position

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

Current assets include:

(i) cash and its equivalents;
(ii) receivables;
(iii) inventories;
(iv) prepayments; and
(v) other current assets.

Non- current assets include:

(i) loans granted (receivables);
(ii) investments;
(iii) infrastructure, plant and equipment;
(iv) investment property, plant and equipment; and
(v) intangible asset

Current liabilities include:

(i) deposits;
(ii) short term loans and advances;
(iii) unremitted deductions; and
(iv) accrued expenses

Non- current liabilities are made up of:

(i) public funds; and
(ii) long term borrowings.

All the above sub groupings as a minimum requirement must be disclosed at the face of the statement of financial position.

Assets are however treated in the financial position net of all provisions while details are disclosed in the notes to the financial statements.

(b) Statement of financial performance

Statement of financial performance (Income and expenditure accounts) shows income accrued to the entity from all sources and expenditure incurred during the period.

As a minimum requirement, the face of the statement of financial performance should include the following line items:

(i) revenue from operating activities;
(ii) surplus or deficit from operating activities;
(iii) finance costs;
(iv) share of net surpluses or deficits of associates and joint ventures accounted for using the equity method;
(v) surplus or deficit from ordinary activities;
(vi) extra ordinary items;
(vii) minority interest share of net surplus or deficit; and
(viii) net surplus or deficit for the period.

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

(c) Statement of changes in net assets/equity

Net assets/equity simply refers to assets less liability. Net assets/equity is financed by reserves, accumulated surpluses/deficit and minority interest. The statement is important in general purpose financial statement (GPFS) because it enables users to ascertain causes for movement in net equity of an entity.

Changes in net assets/equity are normally caused by:

(i) significant changes in accounting policies;
(ii) correction of prior years' errors;
(iii) revaluation of the assets;
(iv) surplus or deficit for the period; and
(v) changes in currency translation.

(d) Cash flow statement

Statement of cash flow is one of the Statements required by IPSAS 1 to be presented in the GPFS.

The cash flow statement identifies the sources of cash inflows, the items on which cash was expended during the reporting period, and the cash balance as at the reporting date. IPSAS 2 covers the preparation and presentation of cash flow. Cash flows are basically reported under three (3) separate activities as follows: Operating activities - Activities of the entity that are not investing or financing activities. These are day to activities of an entity.

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

Financial activities - Activities that result in changes in the size and composition of the contributed capital and borrowings.

(e) Accounting policies

Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements. They are part of the financial statements.

Entities should select and apply accounting policies so that the financial statements comply with all the requirements of each applicable International Public Sector Accounting standards.

(f) Notes to the financial statements and other disclosures

Notes and other disclosures to GPFS are additional information presented in the GPFS to enable users understand the financial statements better and compare them with those of other entities.

Notes include narrative descriptions or more detailed schedules or analyses of amounts shown on the face of the statement of financial performance, statement of financial position, cash flow statement and statement of changes in net assets/equity, as well as additional information such as contingent liabilities and commitments.

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

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

Non- financial disclosures include:

(i) domicile and legal form of the entity;
(ii) nature of the entity's operations and principal activities;
(iii) reference to relevant legislation governing the entity' operations; and
(iv) the name of the controlling and the ultimate controlling entity of the economic entity (where applicable).

Illustration 25 - 1
A typical format of statement of financial performance of the Federal Airport Authority of Nigeria for the year ended December 31, 2024 is shown below:

	2023		2024	
	₦	₦	₦	₦
Income				
Government subventions	x		x	
Licence fees	x		x	
Parking fees	x		x	
FAAN citizen tax	x		x	
Staff school income	x		x	
Guest house income	x		x	
Sundry income	x	x	x	x
Expenditure				
Salary and allowances	(x)		(x)	
Postage, cable and telephone	(x)		(x)	
Airport maintenance	(x)		(x)	
Printing and stationery	(x)		(x)	
Books and periodicals	(x)		(x)	
Training	(x)	(x)	(x)	(x)
(Deficit)/surplus for the year			x	x
Add/ (deduct) balance brought forward	x		x	
(Deficit)/surplus carried forward		**x**		**x**

Illustration 25-2

Federal Airport Authority of Nigeria
A typical format of statement of financial position
as at December 31, 2024

	2023		2024	
Non-current assets		xx		xx
Current assets:				
Inventory	x		x	
Trade receivables	x		x	
Bank	x		x	
Cash	x		x	
	x		x	
Less: Current liabilities:				
Trade payables	(x)		(x)	
Other payables	(x)	x	(x)	x
Total net assets		xx		xx
Financed by:				
Capital fund		x		x
Other funds		x		x
Reserves		x		x
		xx		xx

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25.7 Classes of government enterprises

Public enterprises are establishments owned and controlled partially or wholly by government. They come into existence through the promulgation of appropriate Federal or State laws. Government enterprises may take the following forms:

a) **Public utilities:** These are parastatals providing essential services to the citizens either at 'nil' cost or at subsidised rates. This is to bring about proper balance between social and economic objectives.

b) **Regulatory agencies:** These are government agencies or partially autonomous establishments executing general policies of the government within specified areas. Examples are National Communication Commission (NCC) and Nigeria Copyright Commission. They may be fully or partially commercial, in nature, although they still look forward to government's financial assistance in meeting their obligations.

c) **Commercial enterprises:** They are bodies established by government in line with the appropriate laws of the country, to create competitive environment and make profit from their operations. Government-owned companies are usually in different sectors of the economy, such as mining, banking, insurance, manufacturing, trading and transportation.

Such companies are autonomous in structure and operations. They are incorporated and must comply with the existing laws. The laws governing their operations include the Companies and Allied Matters Act, Cap C20, LFN 2004, Insurance Act of 2000 (as amended), the Banks and Other Financial Institutions Act 1990 (as amended) and Bankruptcy Act of 1979 (as updated).

(g) Government business enterprises (GBEs) mean an entity that has all the following characteristics:

- it is an entity with the power to contract in its own name;
- has been assigned the financial and operational authority to carry on a business;
- sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;
- it is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and
- it is controlled by a public sector entity.

Government business enterprises (GBEs) include both trading enterprises, such as utilities, and financial enterprises, such as financial institutions. GBEs are, in substance, no different from entities conducting similar activities in the private sector. GBEs generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organisations in the community with goods and services at either no charge or a significantly reduced charge.

25.8 Audit of government enterprises

The laws setting up most of the federal corporations' state that:

(a) an internal audit department should be established. The department should audit the corporation and copies of reports forwarded to the Auditor General for the Federation, for information only; and

(b) the annual accounts of the corporations must be audited by an external auditor; According to section 85 (125) sub-section 3 (b) the Auditor General has the power to comment on the annual accounts and external auditor's reports thereon and report to the legislature. Furthermore, Section 85 (125) sub-section 4 gives the Auditor General the power to conduct periodic checks of all government statutory corporations, commissions, authorities, agencies, including all persons and bodies establish by an Act of the National (State) Assembly.

25.9 Hospital accounting

Hospitals undertake functions such as caring for the sick, conducting research, and medical training. A major purpose of hospital accounting is to assist hospital administrators in the efficient and effective management of resources.

Government hospital accounting has the following features:

(a) fund accounting system is operated;

(b) the financial activities of hospitals are covered by budgeting and budgetary control procedures;

(c) subsidiary and principal books of accounts are kept to facilitate the extraction of information. Such books include ledger accounts, journal and DVEA book; and

(d) an autonomous government hospital is required to prepare financial statements, to determine proper stewardship in fund disbursements and general resource management, as follows:

(i) **Statement of financial performance:** These are prepared to show the surplus or deficit of the organisation during a specified period of time, usually one year. They are extracted showing the comparative figures for the preceding year.

(ii) **Statement of financial position:** This is prepared to ascertain the financial strength of the hospital, as at the end of that period. The balance sheet is extracted with the comparative figures for the preceding year.

(iii) **Cash flow statement:** A cash flow statement is prepared to establish the hospital's sources of cash inflows and directions of outflows. The cash flow statement is very revealing of the liquidity preparedness in meeting short-term obligations. Preceding year's figures are disclosed as well, for comparative analysis.

(iv) **Notes to the accounts:** These are modifiers or amplifiers, accompanying the financial statements. They disclose information such as the hospital's accounting policy and method of depreciation, which the final accounts do not supply.

(v) **Memorandum statement of account of capital fund:** The statement shows the financial information of all the tangible assets and capital projects in progress as at a particular period. The standard accounting practice is to transfer any portion of the project completed in any financial year to the

tangible assets account. 'Capital Work in Progress' is determined based on valuer's certificates.

The statement of capital fund contains only the financial information in respect of capital projects. Funds are transferred to augment the balance available in the capital fund.

(vi) **Memorandum statement of account of recurrent funds:** The statement highlights the financial information of all the recurrent items. These include unutilised grants for research, stocks, and debtors.

25.9.1 Sources of revenue

Hospitals generate revenue from various sources, which include:

(a) **Capital subvention:** This is in the nature of contributions made by government, at intervals, for the execution of capital projects of the hospital.

(b) **Recurrent subvention:** This is the amount contributed by the government at intervals for meeting recurrent expenditure. Examples are the personnel cost of staff, overhead costs covering repairs of the facilities of the hospital and purchase of drugs.

(c) **Charges:** These represent fees realised from the services rendered by the hospital. The charges include fees realized from the school of nursing, X-Ray and laboratory facilities.

(d) **Miscellaneous revenue:** These include revenue generated from sundry sources, examples of which are income from investments, reimbursements, disposal of assets, rent on property and do nations from philanthropic organisations and individuals.

25.10 Development and property corporations

Some parastatals are established for the following aims and objectives:

(a) construction and sales of buildings;
(b) upgrading land for sale;
(c) property ownership;
(d) managing facilities on government estate; and
(e) maintenance of industrial estates.

An example of such a corporation is the Lagos State Property Development Corporation.

25.10.1 Main sources of income of corporations

These include:

(a) sale and rent of houses;
(b) sale of land;
(c) miscellaneous income (dividends, interests on fixed deposit accounts);
(d) surplus from property management;
(e) professional service income, for example survey fees for private land;
(f) government grants; and
(g) gifts and donations.

25.10.2 The expenditure incurred by corporations includes:

(a) payment of salaries;
(b) cost of construction, for example drainage, building;
(c) cost of land clearing;
(d) interest on loan; and
(e) compensations made to those who are dispossessed of their landed property.

25.10.3 Development and property accounting

Corporations, which engage in the development of property, prepare the following final accounts:

(a) **General revenue account**. It is in this account that the expenses relating to general development and estate management as well as transfers to the various reserves are consolidated.
(b) **Property and permanent works capital accounts.** The accounts are meant for transactions relating to capital projects like land and buildings under construction and for ultimate sale to the public.

Illustration 25-3

Iludun State Development Corporation
Typical format of general revenue account for the year ended December 31, 2024

Details	₦	₦
Revenue		
Surplus from gen. dev.	xxx	
Surplus from estate from management accounts	xxx	
Rent on properties	xxx	
Other income	xxx	
Total		xxx
Expenditure		
Interest on loan	xxx	
Expenses account	xxx	
Total		**xxx**
Excess (deficit) of revenue over expenditure		xxx
Loan repayment	xxx	
Transfer to capital reserve	xxx	xxx
Un-appropriated balance C/F		**xxx**

Illustration 25-4

Iludun State Development Corporation
Typical format of property and permanent works capital accounts for the year ended December 31, 2024

	Expenditure			Income		
Details	**B.F**	**Additions**	**Total**	**B.F**	**Additions**	**Total**
	N	**N**	**N**	**N**	**N**	**N**
	xxx.	xxx.	xxx.	xxx.	xxx.	xxx.
Land development	xxx.	xxx.	xxx.	xxx.	xxx.	xxx.
Construction of drainage	xxx.	xxx.	xxx.	xxx.	xxx.	xxx.
Construction of nursery/ primary schools	xxx.	xxx.	xxx.	xxx.	xxx.	xxx.
Total	xxx.	xxx.	xxx.	xxx.	xxx.	xxx.

(c) **Capital works-in-progress account**

The account shows the projects of the corporation, which are under construction and as valued by the professionals.

(d) **General development expenses account**

The account records the levies made on capital works carried out on the agency's project executed by the corporation or as agent of government to cover overheads incurred. On the expenditure side of the account are recorded such items as "net expenditure from general income and expenditure account" and "repayment of general-purpose loan." Whatever balance is left in this account is transferred to "general revenue account."

Illustration 25-5 **Iludun State Development** **Typical format of general development expenses account for the year ended December 31, 2024**		
Details	**₦**	**₦**
Revenue		
Charges on capital projects	xxx	
Total		xxx
Expenditure		
Repayment of general-purpose loan	xxx	
Net expenditure from general income and expenditure account chargeable	xxx	
Total		**xxx**
Balance transferred to general revenue account		**xxx**

(e) **General income and expenditure account**

This account shows the surplus or deficit from development and administration, architects' and surveyors' services, fees, and such other income accruing from

housing property sale ground rent, improvements for sale and other sources of income.

The account is classified into two, namely:

(i) Estate management account is to accommodate all relevant and incidental expenses.
(ii) Services on capital works account is for services rendered on capital works for which general development expenses are charged.

The general revenue expenditure, after the direct charges to the relevant capital projects, is apportioned between the general development expenses and income and expenditure accounts. Other direct expenses are allocated to the two accounts. With these, the profitability of each of the projects can be determined.

Revenue items are treated on the same basis.

The items identified in the income and expenditure account.

(i) Net rent income receivable (that is, rents and service charges, less bad or doubtful debts);
(ii) Housing grants from government;
(iii) Investment income;
(iv) Amounts appropriated to the grant redemption fund;
(v) Gross surplus or deficit for the period, before grants receivable and taxation;
(vl) Net surplus after taxation and deficit grants; and
(vii) Transfers to, or from, reserves.

Notes to the accounts have to reveal additional information on items such as depreciation, and taxation.

Illustration 25-6

Iludun State Development Corporation
Format of recurrent expenditure for the year ended December 31, 2024

Details	Total	Chargeable to capital works	Chargeable to estate mgt.
	₦	₦	₦
Staff expenses	x	x	x
Office maintenance	x	x	x
Quarters	x	x	x
Office expenses	x	x	x
Transport	x	x	x
Miscellaneous	x	x	x
Interest on loan	x	x	x
Preliminary survey fees	x	x	x
Total	x	x	x

Format of recurrent income for the year ended December 31, 2024			
Details	**Total**	**Chargeable to capital works**	**Chargeable to estate mgt.**
	₦	₦	₦
General rent	xxx.	xxx.	xxx.
Int. on investment	xxx.	xxx.	xxx.
Fees	xxx.	xxx.	xxx.
Net expenditure carried to general dev. exp. and estate mgt. account	xxx.	xxx.	xxx.

(f) **Property management account**

The account records rent generated from operations, miscellaneous income received and expenses incurred.

Illustration 25-7

Iludun Development Corporation
Typical format of property management accounts for the year ended December 31, 2024

Income:	**Total**	**Scheme**	**Scheme**	**Scheme**
Miscellaneous				
Rent on property items	x	x	x	x
Cost recovered	x	x	x	x
Reduction in provision				
for irrecoverable rent	x	x	x	x
Total income (a)	xx	xx	xx	xx
Expenditure:				
Estate mgt. expenses	x	x	x	x
Rent and rates	x	x	x	x
Interest on loan	x	x	x	x
Repairs	x	x	x	x
Insurance	x	x	x	x
Legal charges	x	x	x	x
(Loss of rent on				
Unoccupied flats)	x	x	x	x
Depreciation	x	x	x	x
Total expenditure (b)	xx	xx	xx	xx
Net rental income transferred to				
Gen. revenue account	x	x	x	xx
[That is, (a) – (b)]				

(g) **Statement of financial position**

This shows the financial strength of the corporation as at a particular date. It reports all items, which are unique to the property and development sector, with corresponding figures of the preceding year.

A property development corporation's statement of financial position should disclose the following items:

(i) Movements on the grant redemption fund;
(ii) Deficit grants receivable;
(iii) Particulars of investments held;
(iv) Information on loans granted; and
(v) Information on loans made to the members of the management committee.

Illustration 25-8

Iludun Development Corporation
Typical format of statement of financial position as at December 31, 2024

Details	₦	₦
Assets		
Non-current assets		
Plants and machinery	xxx.	
Motor vehicles	xxx.	
Factory building	xxx.	xxx.
Treasury bills	xxx.	
Fed. govt. stocks	xxx.	xxx.
Property and permanent works		
Capital account	xxx.	
Capital work-in-progress	xxx.	xxx.
Current assets		
Inventory	xxx.	
Trade receivables	xxx.	
Bank	xxx.	xxx.
Total assets		xxx.
Liabilities		
Non-current liabilities		
Capital revenue	xxx.	
General reserve	xxx.	
Long term liabilities	xxx.	xxx.
Property and investments permanent works		
Capital income	xxx.	
Others	xxx.	

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Deposits for plots	xxx.	xxx.
Current liabilities		
Trade payables	xxx.	
Other payables	xxx.	xxx.
Total liabilities		xxx.

25.11 Chapter review

This chapter discusses the establishment of different types of corporations, the accounting policies, income receivable, expenditure incurred and the peculiar reporting system.

25.12 Worked examples

25.12.1 Examination type questions

(1) The following information have been extracted from the books of Bolus Electricity Board, for the year ending December 31,2023:

	₦'000
Accumulated depreciation, 01/01/2023	45,224
Sale of electricity	114,392
Purchase of electricity	95,784
Meter reading, billing and collection of electricity	1,624
Non-current assets expenditure	84,102
Debtors for electricity consumption read in the year and other sales	12,006
Training and welfare	692
Stock and work in progress	1,234
Rents, rates and Insurance	2,126
Electricity estimated unread consumption	7,222
Administration and general expenses	1,476
Electricity council grant	21,556
Preparation of electricity council's expenses	362
Bank and cash balance	1,284
Depreciation for the year	3,634
Hire purchase and deferred payment installations not yet due	2,672
Interest and financing expenses	2,434
Creditors and accrued liabilities	13,926
Profits on contracting and sale of appliance poles A/c	534
Reserves	23,116
Rental of meters application, etc.	556
Distribution cost	4,476
Customer service	1,810

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You are further informed that depreciation for year 2016 was ₦3,634,000.

Required:
Prepare in vertical form the statement of financial performance and statement of financial position of the Bolus Electricity Board, for the year ended December 31, 2023.

(2) The following information relate to the accounts of Okokomaiko State University for the year ended December 31,2024:

	Dr. ₦'000	Cr. ₦'000
Land and buildings (cost)	55,000	
Long-term investments	25,000	
Accumulated depreciation:		
- Land and building		6,000
- Motor vehicles		2,000
- Equipment and furniture		1,500
Motor vehicles (cost)	28,000	
Grants from central government		15,000
Grants from state government		5,000
Grants from local governments		3,500
Endowment, donations and subventions		39,000
Computer board grant		10,000
Residences and catering operations	5,000	7,500
Academic fees and support grant		9,000
Maintenance of premises	2,000	
Academic services	3,000	
Academic departments	10,000	
General education expenditure	9,000	
Equipment and furniture	17,000	
Miscellaneous expenditure/income	5,000	4,500
Research grant and contracts	3,500	4,000
Long-term loans		50,000
Current assets/liabilities	15,500	4,500
Appeal funds		5,000
General fund		10,500
Reserves		1,000
	178,000	178,000

The following additional information are also relevant:

(i) Loan interest outstanding at the end of the year was ₦5million.

(ii) Depreciation on tangible assets is charged at the following rates on cost:
- Building is 5% (cost of land is ₦25million)
- Motor vehicles is 20%
- Equipment and furniture is15%

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(iii) A building costing ₦5million with accumulated depreciation of ₦1million was sold for ₦8 million. This transaction has not been adjusted in the accounts.

(iv) Interest receivable amounted to ₦6 million while ₦5 million should be transferred to reserves.

Required:

Prepare the statement of financial performance of the University for the year ended December 31, 2024 and statement of financial position as at that date.

(3) Parastatals and public companies are agencies established by government for specific purposes.

Required:

(a) Discuss the most common accounting policies adopted by parastatals and public companies.

(b) Explain the main objectives of setting up parastatals, departments and agencies.

(4) Development and property corporation/companies are owned and established by governments to own properties and/or manage facilities on government estates among other functions.

Required:

Identify the accounts usually prepared by such companies or corporation.

(5) The National Railway Corporation handles both passenger and Freight traffic. The following information relates to its financial transaction for the year 2023:

	₦'000
Balances at 1/1/2023	
Capital outlays:	
Freight wagons	8,442
Loco workshops	624
Buildings	6,146
Passenger coaches	208
Capital discharged:	
Loans redeemed	14,048
Capital receipt applied	254
Appropriation account balances:	
Freight traffic	1,274
Passenger traffic	84
Loan outstanding	1,209

Transactions during the year 2023

Salaries	4,016
Fuel and oil	512
Electricity	300
Rate	3,580
Establishment exp.	1,300
Wages:	
Passenger traffic	640
Freight	800
Loco workshop	300
Maintenance of wagons	1,300
Transportation of passengers to stations	128
Revenue:	
Passenger income	6,400
Freight income	9,000

(i) The above costs are to be allocated as follows between passenger, freight and loco workshop.

Salaries on the basis of staff numbers:	
Passengers	72
Freight	88
Loco workshop	40
Rates are to be apportioned as follows:	
Passengers	20%
Freight	50%
Loco workshop	30%
Fuel and oil are apportioned as follows;	
passenger coaches	25%
heating of Loco workshop	75%
Electricity costs are to be apportioned as follows	
Loco workshop	1/3
Passenger waiting room	2/3
Establishment expenses are apportioned as follows:	
Passenger	572,000
Freight	260,000
Loco workshop	468,000

(ii) The total Loco workshop cost is collected in a holding account and then apportioned between passenger and freight in the ratio of 10:15

(iii) Freight debtors at December 31, 2023 amounted to ₦420,000

(iv) Information on loans outstanding is as follows:

	Passenger	Freight
	₦'000	₦'000
Loans outstanding 1/1/20x3	400	809
Repayment of principal	60	110
On 30th June 2023		

(v) All loans financing is through the loans fund, the rate of interest for the year ended December 31, 2023 is 10%. Interest is being charged on the average amount outstanding during the year.

(vi) The Bank balance at December 31, 2023 amounted to ₦3,270,600 of which ₦30,000 belonging to freight traffic is in one of the distressed banks and is to be written off.

(vii) The railway management require separate performance figures for passenger and freight.

Required:

(a) Prepare Loco workshop holding account and appropriate revenue account for the year ended December 31, 2023 indicating clearly the result of both passenger and freight traffic.

(b) Prepare the statement of financial position as at December 31, 2023.

(c) Explain what is meant by capital discharged and distinguish between Loans redeemed, RCCO and capital receipt applied.

25.12.2 Suggested solutions to examination type questions

(1) Bolus Electricity Board
Statement of financial performance for the year ended December 31, 2023

Details	₦'000	₦'000
Sales of electricity		114,392
Less: Purchases of electricity		95,784
Gross profit		18,608
Profit on contracting and sale of appliance poles		534
Rental of meter applications		556
Total profit (A)		19,698
Less:		
Meter reading billing and collection of electricity	1,624	
Training and welfare	692	
Rent, rates and insurance	2,126	
Administration and general expenses	1,476	
Preparation of electricity council's expenses	362	
Depreciation	3,634	
Interest and financing expenses	2,434	
Distribution cost	4,476	
Customer services	1,810	

(B)		(18,634)
Net income (A – B)		**1,064**

Statement of financial position as at December 31, 2023		
	₦'000	**₦'000**
Non-current asset		
At cost	84,102	
Less: Accumulated depreciation		
₦(45,224,000 + 3,634,000)	48,858	
Net book value		35,244
Current assets:		
Inventory and work-in-progress	1,234	
Trade receivables	12,006	
Electricity estimated unread consumption	7,222	
Hire purchase and deferred payment		
Instalments	2,672	
Bank balance and cash	1,284	
	24,418	
Current liabilities:		
Trade and other payables	(13,926)	
Working capital		10,492
Net total assets		₦45,736
Financed by:		₦'000
Electricity council grant		21,556
Reserves brought forward		23,116
Retained profit for the year		1,064
		₦45,736

(2) Okokomaiko State University Statement of financial performance For the year ended December 31, 2024		
Income	**₦'000**	**₦'000**
Grants from central government		15,000
Grants from state government		5,000
Grants from local government		3,500
Endowment; donations and subvention		39,000
Computer board grant		10,000
Residents and catering operation		7,500
Academic fees and support grant		9,000
Research grants and contracts		4,000
Miscellaneous income		4,500

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Profit on sale of building		4,000
Interest on investments		6,000
		107,500
Expenditure		
Residence and catering operations	5,000	
Maintenance of premises	2,000	
Academic services	3,000	
Academic department	10,000	
General education expenditure	9,000	
Research grant and contract	3,500	
Interest on loans	5,000	
Depreciation - Buildings	1,250	
- Motor vehicle	5,600	
- Equipment and furniture	2,550	
Miscellaneous expenses	5,000	
		51,900
Surplus for the year		55,600
Transfer to reserves		(5,000)
Surplus after transfer		50,600

Okokomaiko State University **Statement of financial position as at December 31, 2024**			
Non-current assets	**Cost**	**Accum. Dep.**	**CV**
	₦'000	**₦'000**	**₦'000**
Land and buildings	50,000	6,250	43,750
Equipment and furniture	17,000	4,050	12,950
Motor vehicles	28,000	7,600	20,400
	95,000	17,900	77,100
Long term investments			25,000
Current assets (working 1)		29,500	
Current liabilities (working 2)		(9,500)	
Net current assets			20,000
Total net assets			122,100
Financed by:			
General funds			61,100
Appeal fund			5,000
Reserves			6,000
Long-term loan			50,000
			122,100

	Workings	
		₦'000
(i)	Current assets b/f	15,500
	Add: Proceeds from sale of building	8,000
	Interest received	6,000
		29,500
(ii)	Current liabilities b/f	4,500
	Loan interest	5,000
		9,500

(3) (a) Most common accounting policies adopted by parastatals, departments and public companies are as follows:

(i) Accrual basis of accounting: The basis stipulates that the income relating to a particular period should be recognised in that period, whether or not cash has been received. Conversely, expenses have to be charged against profits when they occur, even if they have not been paid for.

(ii) Some corporations and parastatals prepare Income and expenditure accounts while others prepare statement of financial performance to show profit or loss. From the information available in the accounting books of corporation, it is easy to ascertain the type of accounts prepared. Where income and expenditure account is prepared, the net result is normally described as surplus or deficit, whereas if it is a profit-oriented entity, statement of financial performance is prepared at the end of the financial year.

(iii) The capital or proprietorship of the organisation is represented by 'fund account'.

(iv) Parastatals, unlike the three-tiers of government, show non-current assets with their historical costs, accumulated depreciation to date and net book values.

(v) Government subventions and grants are stated as the amounts received during the year, on cash basis. Some corporations, however, credit their income and expenditure account with the amount as current assets in the balance sheet (statement of financial position), using accrual basis.

(vi) Interests' receivable on fixed deposit accounts are usually accounted for, on cash basis. However, some corporations use the accrual methods.

(vii) Foreign currency transactions are translated as follows:

- Income and expenditure items are translated at the average rate of conversion;
- Non-current assets translations are made at the historical costs basis.

- Other assets and liabilities are translated at the rate ruling on the statement of financial position date. Profits or loss on translation is shown in the statement of financial performance on a yearly basis.

3 (b) The main objective of setting up parastatals, departments and agencies are as follows:

(i) To bring means of production under public ownership;
(ii) To avoid high prices of goods normally charged by private ownership;
(iii) To avoid duplication of facilities;
(iv) To ensure close government control over certain 'key sectors of the economy;
(v) To ensure survival of industries;
(vi) To improve the standard of living of the people.

(4) The accounts usually prepared by development and Property Corporation or Companies include the following;

(a) General revenue account – The account contains the expenses relating to general development and estate management and that transfers to the various reserves are consolidated.

(b) Property and permanent works accounts – The accounts are meant to record transactions relating to capital projects like land and buildings under construction and for ultimate sale to the public.

(c) Capital works-in-progress account - The account shows the projects of the corporation, which are under construction and as valued by the professionals.

(d) General development expenses account – The account records the levies made on capital works carried out on the agency's project executed by the corporation or as agent of government to cover overheads incurred. On the expenditure side of the account are recorded such items as 'Net expenditure' from General Income and expenditure account.

(e) General income and expenditure account – The account shows the surplus or deficit from development and administration, architects' and surveyors services, fees and such other income accruing from housing property sale, ground rent, improvements for sale and other sources of income. The account classifications are:

(i) Estate management account; and

(ii) Services on capital work account.

Estate management account accommodates all relevant and incidental expenses while services on capital works account records services rendered on capital works account for which general development expenses are charged.

The general development expenditure, after direct charges to the relevant projects, is apportioned between the general development expenses and income and expenditure account. Other expenses are allocated into the two accounts, with which the profitability of each of the projects is determined.

Items identified by the income and expenditure account are:

(i) Net rent income receivable;
(ii) Housing grants from government;
(iii) Investment income;
(iv) Amounts appropriated to the general redemption fund;
(v) Gross surplus or deficit for the period, before grants receivable and taxation;
(vi) Net surplus after taxation and deficit grants;
(vii) Transfer to and from reserves; and
(viii) Notes to the accounts have to reveal additional information on item such as depreciation and taxation.

(f) Property management account – The account records rent generated from operations, miscellaneous income received and expenses incurred.

(g) Statement of financial position – It shows the financial strength of the corporation at a given date. It reports all items, which are unique to the property and development sector, with corresponding figures of the preceding year.

Property development corporation's statement of financial position should disclose the following:

- Movements on the grant redemption fund;
- Deficit grants receivable;
- Particulars of investments held;
- Information on loans granted; and
- Information on loans made to the members of the management committee.

5 National Railway Corporation Loco workshop holding account for the year ended December 31, 2023

			₦
		(a) Salaries	4016 x 40/200
			803,200
Fuel and oil	512 x 75%		384,000
Electricity	300 x 1/3		100,000
Rate	3580 x 30%		1,074,000
Establishment expenses			468,000
Wages			300,000
			3,129,200
Apportionment:			
Passenger	3,129,200 x $^{10}/_{2}$	1,251,680	
Freight	3,129,200 x $^{15}/_{2}$	1,877,520	(3,129,200)

National Railway Corporation

Revenue account
for the year ended December 31, 2023

Revenue:	Passenger ₦000	₦000	Freight ₦000	₦000	₦000	Total ₦000
Income		6,400		9,000		15,000
Expenses: Salaries		1,445.76		1,767.04		3,212.80
Fuel and oil		128.00		-		128.00
Electricity		200.00		-		200.00
Rate		716.00		1,790.00		2,506.00
Estab exp.		572.00		260.00		832.00
Wages		640.00		800.00		1,440.00
Maintenance of wagon		-		1,300.00		1,300.00
Transport						
Passenger		128.00		-		128.00
Bad Debt		-		30.00		30.00
Apportioned cost		1,251.68		1,877.52		3,129.20
Total Operating cost		5,081.44		7,824.56		12,906.00
Operating surplus		1,318.56		1,175.44		2,494.00
Capital financing						
Principal		(60)		(110)		(170)
Interest	(37)	(97)	(75.40)	(185.40)	(112.40)	(282.40)
Surplus for the year		1,221.56		990.04		2,211.60
Balance b/f		84.00		1,274.00		1,358.00
Balance c/f		1,305.56		2,264.04		3,569.60

(b) National Railway Corporation Statement of financial position as at December 31, 20x1

	₦000	**₦000**
Tangible asset:		
Capital outlays:		
Freight wagons	8,442.00	
Loco workshop	624.00	
Buildings	6,146.00	
Passenger	208.00	15,420.00
Less capital discharged:		
Loan redeemed	(14,048+ 170)	14,218.00
Capital receipt applied	254.00	(14,472.00)
		948.00
Intangible assets:		

Debtors	420.00	
Bank	3,240.60	3,660.60
		4,608.60
Financed by:		
Loans outstanding	(1209 - 170)	1,039.00
Revenue balances:		
Passenger	1,305.56	
Freight	2,264.04	3,569.60
		4,608.60

Workings

Interest

	Passenger	Freight
	₦000	₦000
Loan outstanding 1/1/20 x 1	400	809
10% Interest Jan -June (6 months)	20	40.45

	Passenger		Freight	
	Loan	Int.	Loan	Int.
Loan outstanding 1/1/20 x 1	400		809	
10% Int Jan - June (6months)		20		40.45
Loan outstanding 1/7/20 x 1	340		699	
10% Int. July- Dec. (6 months)		17		34.95
Interest for the year	37.00	75.40		

(C) **Capital discharge:** Is the extent to which the cost of the organisation's fixed assets has been paid for and on which the authority has no external liability. Capital discharged or cost of tangible assets can be settled through the following:

(i) Loan redeemed: This is the extent to which loans used to finance capital project that have been repaid by the authority. The repayment of the loan may be through revenue or capital receipt, and such settlements are classified as capital discharged - loans redeemed.

(ii) RCCO - This is revenue contributions to capital outlay, that is the extent to which capital assets are financed directly by a contribution from revenue.

(iii) Capital receipt applied: Capital receipts are the proceeds from the disposal of tangible assets and where these proceeds are used to acquire or finance another capital project it is referred to as capital receipt applied and where the proceeds are not yet utilized it is referred to as capital receipt unapplied.

ICAN 2026

Skills Level
Public Sector Accounting and Finance

CHAPTER 26

INTERPRETATION OF PUBLIC SECTOR FINANCIAL STATEMENTS USING RELEVANT AND APPROPRIATE TECHNIQUES

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26.0 Learning objective
26.1 Learning outcomes
26.2 Introduction
26.3 Techniques used in interpreting public sector financial statements
26.4 Straight forward criticism or analytical review
26.5 Performance reports as per IPSAS 24
26.6 Cash flow statements
26.7 Ratio analysis
26.8 Revenue and expenditure profiles
26.9 Chapter review
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26 Interpretation of Public Sector Financial Statements Using Relevant and Appropriate Techniques

26.0 Learning objective

The objective of this chapter is to enhance readers' understanding of financial strengths of public sector entities through the use of appropriate techniques of interpretation of financial statements.

26.1 Learning outcomes

On successful completion of this chapter, readers should be able to interpret accounts using:

(a) straight forward criticism or analytical review;
(b) performance reports;
(c) cash flow statements; and
(d) ratio analysis.

26.2 Introduction

Interpretation of accounts may be defined as the art and science of translating the figures shown in the financial statements in such a way that it will reveal the strengths and weaknesses of an entity and the causes of the weaknesses. Accounts have to be analysed and interpreted so as to measure the quality of management.

Interpretation has to be undertaken by those conversant with the language of its expression. The accounts have to be drawn up in a form, which enables full appreciation of the facts to be deduced. Any financial statement can be interpreted, consequently, management accounts, final accounts and interim accounts can be critically analysed.

26.3 Techniques for interpreting public sector financial statements

There are four main techniques for interpreting accounts in the public sector, these are:

(a) straight forward criticism or analytical review;
(b) performance reports;
(c) cash flow statements; and
(d) ratio analysis.

Accounts will be perused or scrutinised by different interested persons such as the owners (shareholders), creditors, employees, researchers and bank managers.

The interpreter has to consider and form conclusion on matters, such as the entity's profitability, solvency, ownership, financial strength, rend of economic endeavours, and gearing and cover.

26.4 Straight forward criticism or analytical review

Figures in respect of two or more years may be compared and percentage differences obtained. Comparison of figures may be undertaken in any of the following ways:

(a) Previous years' figures with those of the current year;
(b) The statistics of a period this year with those of a similar period last year;

(c) Figures within the year's 1st quarter with those of the fourth quarter of the same year; and
(d) It may be percentage representation within the year. For example, salary expenses may be expressed as a ratio of total expenses.

The above stated methods are popular with public sector organisations. Another way of analysing financial statements under this method are:

(i) Share of capital expenditure as % of non-debt expenditure;
(ii) Share of capital expenditure as % of total expenditure;
(iii) Share of recurrent expenditure as % of total expenditure;
(iv) Share of statutory allocation as % of total revenue; and
(v) Share of internally generated revenue as % total revenue.

26.5 Performance reports as per IPSAS 24

According to IPSAS 24, entities are required to present a comparison of the budgeted amount for which it is held publicly accountable and actual amount, either as a separate additional financial statement or as an additional budget column in the financial statements currently presented in accordance with IPSASs. The comparison of budgeted and actual amounts shall be presented separately for each level of legislative oversight:

(a) The original and final budget amounts;
(b) The actual amounts on a comparable basis; and
(c) By way of the note disclosure, an explanation of material differences (variances) between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements and across reference to those documents is made in the notes.

Illustration 26-1

Entity YYY

Extract of statement of financial performance (showing budget Information) for the year ended December 31, 20X5

Previous year actual	Description	Current year actual	Final budget for current year	Supplementary budget for current year	Original budget for current year	Difference: Original budget and actual
₦		₦	₦	₦	₦	₦
	Revenue:					
X	Statutory allocation	X	X	X	X	X
X	Value added tax	X	X	X	X	X
X	Independent revenue	X	X	X	X	X
X	Aid and grants	X	X	X	X	X

X	Capital receipts	X	X	X	X	X
XX	**Total receipt**	**XX**	**XX**	**XX**	**XX**	**XX**
	Expenditure:					
X	CRF charges - public debt charges	X	X	X	X	X
X	Internal loans repayment	X	X	X	X	X
X	External loans repayment	X	X	X	X	X
X	CRF charges - public debt charges	X	X	X	X	X
X	Personnel cost	X	XX	XX	XX	XX
X	CRF charges- pensions and gratuities	X	X	X	X	X
X	Overhead cost	X	X	X	X	X
X	Finance cost	X	X	X	X	X
X	**Total expenditure**	**XX**	**XX**	**XX**	**XX**	**XX**
XXX	**Surplus/(deficit) for the period**	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**

26.6. Cash flow statements

Neither the profit and loss account nor the statement of financial position gives a satisfactory explanation of how a business obtains and uses its cash. The cash flow statement reveals the core operations of a government, parastatal or board on the affordability or otherwise of adequate liquid resources.

This is the statement that shows the amount of cash generated by an organisation and the utilisation of such cash for that period.

The major sources of cash inflows and outflows into a public sector, according to IPSAS 2 are:

(a) Operating activities;
(b) Investing activities; and
(c) Financing activities.

The IPSAS 2 specifies that an organisation could employ the use of direct or indirect method in preparing a statement of cash flows and has been discussed in Chapter 23 of this study text.

26.7 Ratio analysis

Financial ratio analysis is the process of calculating financial ratios, which are mathematical indicators calculated by comparing key financial information appearing in financial statements of a public sector entity, and analysing those to find out reasons behind the entity's current financial position and its recent financial performance, and develop expectation about its future outlook.

Ratio analysis involves expressing one figure as a ratio or percentage of another, to bring out the weakness or strength in an organisation's affairs. If one were to take a look at the financial statements of a government department, ministry or corporation, the various figures disclosed would not be sufficiently revealing in terms of the strength or otherwise of the establishment, for well-informed judgment to be made. Ratio analysis comes in handy here, as a useful guide.

The federal, state and local government councils use mostly liquidity ratios to measure the ease with which obligations due in the year can be met. The three tiers of governments operate the cash basis of accounting prior to 1January 2016. However, from 1 January 2016 the three tiers of governments, parastatals and government business entities operate the accrual basis of accounting.

26.7.1 Classification of ratios

In the public sector entities financial ratios can be broadly classified into liquidity ratios, solvency ratios, profitability ratios and efficiency ratios (also called activity ratios or asset utilisation ratios). In view of the peculiarity of public sector activities, the following relevant ratios only, are considered:

26.7.2 Liquidity ratios

Liquidity ratios assess an entity's liquidity, that is, its ability to convert its assets to cash and pay off its obligations without any significant difficulty (i.e. delay or loss of value).

Liquidity ratios are particularly useful for suppliers, employees, banks, etc.

Important liquidity ratios are:

(a) Quick asset ratio (also called acid-test-ratio) - quick ratio (also known as acid test ratio) is a liquidity ratio, which measures the Naira of liquid current assets available per Naira of current liabilities. Liquid current assets are current assets, which can be quickly converted to cash without any significant decrease in their value. Liquid current assets typically include cash, marketable securities and receivables. Quick ratio is expressed as a number instead of a percentage. Quick ratio is a stricter measure of liquidity of a company than its current ratio. While current ratio compares the total current assets to total current liabilities, quick ratio compares cash and near-cash current assets with current liabilities. Since near-cash current assets are less than total current assets, quick ratio is lower than current ratio unless all current assets are liquid. Quick ratio is most useful where the proportion of illiquid current assets to total current assets is high. However, quick ratio is less conservative than cash ratio, another important liquidity parameter.

Quick ratio is calculated by dividing liquid current assets by total current liabilities. Liquid current assets include cash, marketable securities and receivables.

The following is the most common formula used to calculate quick ratio:

$$\frac{\text{Cash + Marketable Securities +Receivables}}{\text{Current Liabilities}}$$

Cash includes cash in hand and cash at bank. Marketable securities are those securities/investments, which can be easily converted to cash, i.e. within a short period of time at a negligible, if any, decrease in its value. Examples include government treasury bills, shares listed on a stock exchange, etc

(b) **Current ratio-** Current ratio is one of the most fundamental liquidity ratios. It measures the ability of a business to repay current liabilities with current assets. Current assets are assets that are converted to cash within normal operating cycle, or one year. Examples of current assets include cash and cash equivalents, marketable securities, short-term investments, accounts receivable, short-term portion of notes receivable, inventories and short-term prepayments.

Current liabilities are obligations that require settlement within normal operating cycle or next 12 months. Examples of current liabilities include accounts payable, salaries and wages payable, current tax payable, sales tax payable, accrued expenses, etc.

Formula is:

$$\frac{\text{Current assets}}{\text{Current liabilities}}$$

Current ratio matches current assets with current liabilities and tells us whether the current assets are enough to settle current liabilities. A current ratio of 1 or more means that current assets are more than current liabilities and the company should not face any liquidity problem. A current ratio below 1 means that current liabilities are more than current assets, which may indicate liquidity problems. In general, higher current ratio is better.

Current ratios should be analysed in the context of relevant industry. Some industries for example retail, have very high current ratios. Others, for example service providers such as accounting firms, have relatively low current ratios because their business model is such that they do not have any significant current assets.

However, there is a limit to the extent to which higher current ratio is a blessing. An abnormally high value of current ratio may indicate existence of idle or under-utilised resources in the company. This is because most of the current assets do not earn any return or earn a very low return as compared to long-term projects. A very high current ratio may hurt a company's profitability and efficiency.

Illustration 26-2

Calculate and analyse current ratios for the Okokomaiko Electricity Distribution Company (OEDC) and Erile Electricity Distribution Company (EEDC) based on the information given below:

Name of entity	Details	2024	2023	2022
		₦'000	₦'000	₦'000

OEDC	Current assets	133,000	130,000	131,000
	Current liabilities	130,000	110,000	120,500
EEDC	Current assets	100,000	110,000	96,000
	Current liabilities	90,000	88,000	86,000

Solution 26.2

	2024	2023	2022
OEDC	133,000	130,000	131,000
	133,000	110,000	120,500
	=1.02 : 1.00	=1.18 : 1.00	=1.09 : 1.00
EEDC	100,000	110,000	96,000
	90,000	88,000	86,000
	=1.11 : 1.00	=1.25 : 1.00	=1.17 : 1.00

Erile Electricity Distribution Company has higher current ratios than Okokomaiko Electricity Distribution Company in each of the three years, which means that Erile Electricity Distribution Company is in a better position to meet short-term liabilities with short-term assets. However, current ratios for Okokomaiko Electricity Distribution Company too have stayed above 1 in all periods, which is not bad.

Both companies experienced improvement in liquidity moving from 2015 to 2016, however. This trend was reversed in 2017.

26.7.3 Solvency ratios

Solvency ratios assess the long-term financial viability of a public sector entity i.e. its ability to pay off its long-term obligations such as bank loans, bonds payable, etc. Information about solvency is critical for banks, employees, owners, bondholders, institutional investors, government, etc. Key solvency ratios are:

(a) **Debt ratio** - Debt ratio (also known as debt to assets ratio) is a ratio, which measures debt level of a business as a percentage of its total assets. It is calculated by dividing total debt of a business by its total assets. Debt ratio finds out the percentage of total assets that are financed by debt and helps in assessing whether it is sustainable or not. If the percentage is too high, it might indicate that it is too difficult for the business to pay off its debts and continue operations.

Formula is: Debt ratio = $\frac{\text{Total debt}}{\text{Total assets}}$

Total debt equals long-term debt and short-term debt. It is not equivalent to total liabilities because it excludes non-debt liabilities such as accounts payable, salaries payable, etc. Sometimes, debt ratio is calculated based on the total liabilities instead of total debt.

Debt ratio is a measure of an entity's financial risk, the risk that the entity's total assets may not be sufficient to pay off its debts and interest thereon. Since not being able to pay off debts and interest payments may result in an entity's being wound up, debt ratio is a critical indicator of long-term financial sustainability of a business.

While a very low debt ratio is good in the sense that the entity's assets are sufficient to meet its obligations, it may indicate under-utilisation of a major source of finance, which may result in restricted growth. A very high debt ratio indicates high risk for both debt-holders and equity investors. Due to the high risk, the entity may not be able to obtain finance at good terms or may not be able to raise any more money at all.

(b) **Debt to equity ratio**-Debt-to-equity ratio is the ratio of total liabilities of a business to its shareholders' equity. It is a leverage ratio and it measures the degree to which the assets of the business are financed by the debts and the shareholders' equity of a business.

Formula

Debt-to-equity ratio is calculated using the following formula:

$$\text{Debt-to-equity ratio} = \frac{\text{Total Liabilities}}{\text{Net assets/equity}}$$

Both total liabilities and shareholders' equity figures in the above formula can be obtained from the statement of financial position of an entity. A variation of the above formula uses only the interest-bearing long-term liabilities in the numerator. Lower values of debt-to-equity ratio are favourable indicating less risk. Higher debt-to-equity ratio is unfavourable because it means that the entity relies more on external lenders thus it is at higher risk, especially at higher interest rates. A debt-to-equity ratio of 1:00 means that debts and half by Net assets/equity finance half of the assets of a business. A value higher than1:00 means that more assets are financed by debt that those financed by money of shareholders' and vice versa.

Illustration 26.3

Calculate debt-to-equity ratio of an entity which has total liabilities of ₦120,000,000 and shareholders' equity of ₦150,000,000.

Solution 26.3

Debt-to-equity ratio = 120,000,000 / ₦150,000,000 = 0.80

(c) **Debt capital ratio-** Debt-to-capital ratio is a solvency ratio that measures

the proportion of interest-bearing debt to the sum of interest-bearing debt and shareholders' equity.

Interest-bearing debt includes bonds payable, bank loans, notes payable, etc. Non-interest-bearing debt includes trade payable, accrued expenses, etc.

The debt-to-capital ratio is a refinement of the debt-to-assets ratio. It measures how much of the capital employed (that is, the resources on which the company pays a cost) is debt. Higher debt included in the capital employed means higher risk of insolvency.

$$\text{Debt to capital ratio} = \frac{\text{Interest bearing debt}}{\text{Interest –bearing debt + equity}}$$

Illustration 26.4

Calculate debt-to-capital and debt-to-assets ratios for Eko State Bulk Purchase Company. Relevant information for the company for financial year 2024 is as follows:

Details	₦'000
Short-term debt	3,120
Accounts payable	3,500
Accrued expenses	2,900
Accrued advertising	1,100
Deferred income	1,950
Other accrued liabilities	3,600
Long-term debt	13,200
Long-term deferred tax liabilities	3,400
Other long-term liabilities	3,700
Total liabilities	36,470
Total shareholders' equity	60,200
Total assets	96,670

Solution 26.4

$$\text{Debt-to-capital ratio} = \frac{16{,}320}{16{,}320 + 60{,}200} = 0.213$$

$$\text{Debt-to-assets ratio} = \frac{16{,}320}{96{,}670} = 0.169$$

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26.7.4 Other ratios

(a) **Receivables' payment period**

Although this index measures the average length of time it takes a corporation's receivables to pay, it is only an estimated average payment period. The formula for calculating the payment period is:

$$\frac{\text{Receivables for goods or services}}{\text{Sales (credit)}} \times 365 \text{ days}$$

The earlier debtors are encouraged to pay, the better the cash position of the board or corporation. It would be more informative to make this calculation regularly to avoid distortions.

(b) Payables' payment period

This is a measure of the average length of time it takes the parastatal under focus to pay its creditors. It is calculated as follows.

$$\frac{\text{Trade or expense creditors}}{\text{Credit purchases}} \times 365 \text{ days}$$

(**c) Inventory turnover period**

This indicates the average number of days that items of inventory are held for sale or in the store. The inventory turnover period is calculated as:

$$\frac{\text{Cost of goods sold}}{\text{(Opening inventory plus closing inventory) / 2}}$$

Average inventory is the average of the opening and closing inventory figures. The shorter the period, the healthier the situation is, in making the best use of funds.

26.7.5 Advantages and limitations of ratio analysis

Financial ratio analysis is a useful tool for users of financial statements. It has the following advantages:

Advantages

(a) It simplifies the financial statements;

(b) It helps in comparing entities of different size with each other;

(c) It helps in trend analysis, which involves comparing a single company's performance over a period; and

(d) It highlights important information in simple form quickly. A user can judge an entity by just looking at few numbers instead of reading the whole financial statements.

Disadvantages

Despite usefulness, financial ratio analysis has some disadvantages. Some key disadvantages of financial ratio analysis are:

(a) Different entities operate in different geographical areas, each having different environmental conditions such as regulation, market structure, etc. Such factors are so significant that a comparison of two entities from different geographical areas might be misleading;

(b) Financial accounting information is affected by estimates and assumptions. Accounting standardsallow different accounting policies, which impairs comparability and hence ratio analysis is less useful in such situations; and

(c) Ratio analysis explains relationships between past information while users are more concerned about current and future information.

26.8 Revenue and expenditure profiles

In Nigeria both the federal and state governments are not pro-active in managing their cash, which results in short-comings in the budget release system which subsequently affects the predictability in the flow of funds to the MDAs to enable them plan the execution of their budgets. MDAs do not have information as to when and how much will be released to them by the treasury. Timely and reliable information to MDAs on availability of funds is very important for an effective budget execution.

At the Federal Government level, funds are released quarterly to MDAs through the issuance of warrants. However, in many states, the system can be as simple as the Governor approving cash releases based on a list of amounts against expenditure heads prepared by the treasury at the end of the month. Generally, in Nigeria there is no established cash planning system at the Treasury that forecasts with any predictability the cash flow for financing the budget.

Greater predictability can be achieved through effective planning, monitoring, and managing of cashflows – that is, accurate forecast of cash availability and the profiling of the revenue and expenditure budgets. With such a system in place, surplus and shortfalls in cash can be identified and better managed, and the budget delivered in a more effective and efficient way.

It is also a key requirement in the Fiscal Responsibility Act that a cash-plan is prepared as soon as the budget has been passed.

Initial revenue profile –The initial revenue profile show the in-flow of revenues (recurrent and capital) on a monthly basis for the budgeted revenue figures and statistical trends for historic recurrent revenue items. This can be compared to the expenditure profile and remedies (borrowing, investing or saving) during periods of deficit or surplus.

Initial expenditure profile -The initial expenditure profile shows the out-flow of cash on recurrent and capital expenditure on a monthly basis for the budgeted expenditure, based on prior trends of expenditure for recurrent, and on capital project work-plans for capital expenditure.

The initial revenue and expenditure profiles can be compared and remedies (borrowing, investing or saving, shifting of expenditure) proposed during periods of deficit or surplus.

The models supporting revenue and expenditure profiling have two main purposes:

(a) Firstly, to provide a monthly profile of revenue (recurrent and capital receipts) and expenditure (personnel, overheads and capital) as the basis for the cash in and out flow; and

(b) Secondly, to provide a basis for in-year revenue budget performance tracking and re-forecast. The model can also be used to assess in-year performance and make adjustments to the cash flow forecast at the appropriate time. As actual monthly data is entered, the model will show the performance (both monthly and cumulative year-to-date) as a percentage of the projected revenue inflow, and by value. It also provides an estimated "re-forecast" based on the current cumulative performance level so that governments can identify potential short-falls in their budget at an early stage in the budget year and take necessary action to adjust expenditure.

26.9 Chapter review

This chapter explains the interpretation of financial statements to reveal the financial strengths and weaknesses of government owned enterprises and their causes. It also covers Cash flow statements which give the details of all cash received and paid by the organisation, during the year.

26.10 Worked examples

26.10.1 Examination type questions

(1) Taking a look at the financial statements of a government department, ministry or corporation, the various figures disclosed would not be sufficiently revealing in terms of the strength or otherwise of the establishment, for well-informed judgment to be made. Ratio analysis comes in handy here, as a useful guide.

Required:

(a) Explain ratio analysis.

(b) Explain the objectives of the following ratios and state their respective modes of computation:

(i) Current ratio

(ii) Quick ratios or acid test ratio

(iii) Debtors payment period

(vi) Creditors payment period

(v) Inventory turnover period

(2) Neither the statement of profit or loss nor the statement of financial position gives a satisfactory explanation of how a business obtains and uses its cash. The cash flow statement reveals the core operations of a government, parastatal or board with respect to its liquid resources.

Required:
Explain cash flow statement.

(3) Financial ratio analysis is a useful tool for users of financial statements, however it has its advantages and limitations.

Required:

Discuss the advantages and limitations of ratio analysis.

26.10.2 Suggested solutions to open-ended questions

(1) (a) Ratio analysis is the expression of one figure as a ratio of another in order to determine the weakness or strength in an entity's financial affairs at a particular period of time.

(b) (i) **Current ratio**

The objective is to determine the extent to which an entity can discharge its current liabilities without having effect on the current assets.
A ratio in excess of 2 is required for an organisation.

(ii) **Quick ratio or acid test ratio**

The ratio in designed to reveal the solid liquidity position of an entity.

(iii) **Receivables payment period**

It measures the average time it takes debtors/receivables of an entity to settle their debts and is estimated on average period.

(iv) **Payables' payment period**

It measures the average time it takes an entity to pay its creditors. It is also estimated on average period.

(v) **Inventory turnover period**

It indicates the average number of days that items of stock are held for sale or in the store.

(2) **Cash flow statement:** This is the statement that shows the amount of cash generated by an

organisation and the utilisation of such cash for that period.

The major sources of cash inflows into a public sector accounting to IPSAS 2 are:

(a) Operating activities;

(b) Investing activities; and

(c) Financing activities.

(3) Advantages and limitations of ratio analysis

Financial ratio analysis is a useful tool for users of financial statement. It has following advantages:

Advantages

(a) It simplifies the financial statements.

(b) It helps in comparing entities of different size with each other.

(c) It helps in trend analysis which involves comparing a single company's performance over a period.

(d) It highlights important information in simple form quickly. A user can judge an entity by just looking at few numbers instead of reading the whole financial statements.

Disadvantages

Despite usefulness, financial ratio analysis has some disadvantages. Some key disadvantages of financial ratio analysis are:

(a) Different entities operate in different geographical areas each having different environmental conditions such as regulation, market structure, etc. Such factors are so significant that a comparison of two entities from different geographical areas might be misleading.

(b) Financial accounting information is affected by estimates and assumptions. Accounting standards allow different accounting policies, which impairs comparability and hence ratio analysis is less useful in such situations.

(c) Ratio analysis explains relationships between past information while users are more concerned about current and future information.

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Skills Level
Public Sector Accounting and Finance

CHAPTER 27

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSASs) Group A (IPSASs 4, 5, 10, 14, 20, and 22)

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27 International Public Sector Accounting Standards (IPSASs) Group A (IPSASs 4, 5, 10, 14, 20 and 22)

27.0 Learning objective

The objective of this chapter is to enhance readers' understanding of the provisions of IPSASs 4, 5, 10, 14, 20 and 22.

27.1 Learning outcomes

On successful completion of this chapter, readers should be able to discuss the provisions of IPSAS 4, 5, 10, 14, 20, 21 and 22 respectively as regards to definitions, applications, recognition, measurement and disclosures.

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27.2 IPSAS 4: The effects of changes in foreign exchange rates

27.2.1 Introduction

This standard is meant to prescribe how public sector entities should account for foreign currency transactions and foreign operations in their financial statements and how to translate financial statements into a presentation currency. More importantly, it addresses general issues such as the exchange rates to be used and how the financial effects of changes in exchange rates should be accounted for in the financial statements.

The IFRS on which the IPSAS is based is IAS 21 on 'The effects of changes in foreign exchange rates.

27.2.2 Principal definitions in the IPSAS

(a) **Functional currency** is the currency of the primary economic environment in which the public sector entity operates. The primary economic environment of an entity is the one in which it primarily generates and expend cash.
(b) **Presentation currency** is the currency in which the financial statements are presented.
(c) **Closing rate i**s the spot exchange rate at the reporting date.
(d) **Exchange difference** is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates.
(e) **Exchange rate** is the ratio of exchange for two currencies.
(f) **Foreign currency** is a currency other than the functional currency of the entity.
(g) **Foreign operation** is an entity that is a control ed entity, associate, joint venture or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.
(h) **Monetary items** are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.
(i) **Net investment in a foreign operation** is the amount of the reporting entity's interest in the net assets/equity of that operation.

27.2.3 Scope of the standard

Public sector entities preparing financial statements under the accrual basis of accounting are required to apply IPSAS 4 on the following premises:

(a) In accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of IPSAS 29 on financial instruments: Recognition and measurement;
(b) In translating the financial performance and financial position of foreign operations that are included in the financial statements of the entity by consolidation, or by the equity method; and
(c) In translating an entity's financial performance and financial position into a presentation currency.

27.2.4 Functional currency concept

The following are the factors relevant for determining a public sector entity's functional currency.

(a) A functional currency may be changed only if there has been a change in the underlying transactions events and conditions. This is because the functional currency reflects the underlying transactions, events and conditions which need to be determined; and
(b) The requirements of IPSAS 10 on 'Financial Reporting in Hyperinflationary economies must be taken into accounts in the entity's financial statements when the functional currency is the currency of a hyper inflationary economy.

27.2.5 Recognition

A transaction shall be recognised and translated if it qualifies as:

(a) a foreign currency transaction;
(b) a foreign operation; or
(c) a policy requires an entity to present its financial statement in a currency other than the functional currency.

27.2.6 Measurement

(a) A foreign currency transaction shall be initially recognised in an entity's books in the functional currency, by applying to the foreign currency amount, the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.
(b) Where an exchange rate fluctuates frequently but insignificantly within a period, an average rate for a week or a month may be used for all transactions in each foreign currency occurring during that period.
(c) Where an exchange rate fluctuates frequently and significantly the use of the average rate for a period is inappropriate.

27.2.7 Reporting in subsequent period

In accordance with IPSAS 4.27, at each reporting date:

(a) foreign currency monetary items are translated using the closing rate;
(b) non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
(c) non-monetary items that are quantified at fair value in a foreign currency are translated using the exchange rates at the date when the fair-value was determined. Upon disposal of the net investment, the associated exchange differences are recognised in surplus or deficit.

27.2.8 Translating to the presentation currency

The provisions of IPSAS4 are to grant a reporting entity the right to choose its presentation currency freely. Furthermore, the standard stipulated that every individual entity within the reporting whose functional currency differs from the presentation currency must be translated to the reporting entity's presentation currency (IPSAS 4.43 etc.).

The financial performance and financial position of a public sector whose functional currency is not a hyperinflationary economy's currency are translated into another presentation currency as follows:

(a) assets and liabilities for each statement of financial position presented (including comparatives) are translated at the closing rate at the date of the statement of financial position;
(b) revenue and expenses in all statement of financial performance (including comparative information) are translated at the exchange rate ruling at the date of transaction. Exchange difference are recognised as a separate component of net assets/equity; and
(c) in the case where the functional currency is the currency of a hyperinflationary economy, special rules apply for translating the financial performance and financial position into a presentation currency (in accordance with IPSAS 4.48).

27.2.9 Changing the functional currency

Public sector entities must apply the translation procedures applicable to the new functional currency prospectively, as at the date of transition, when changing the functional currency.

Illustration (IPSAS 4) 28-1

(a) A public-sector entity purchases equipment from a foreign supplier for $6 million on March 31, 2024 when the exchange rate was $2 = ₦1. The entity also sells goods to a foreign customer for $3.5 million on April 30, 2011 when the exchange ratewas$1.75=₦1. As at the entity's year end on May 31, 2011 the amount has not been paid.

The closing rate of exchange was $1.5 = ₦1. The entity's functional currency is the naira.

Required:
Calculate the exchange differences that would be recorded in the statement of financial performance for the year ended May 31, 2024.

Solution:

(a) In the statement of financial position

March 31 – Asset ₦ (6,000,000 2) = ₦3,000,000

Liabilities (to foreign supplies) = ₦3,000,000 (applying the functional currency – naira)

On May 31, 2011, the liability, at closing exchange rate is $1.5 = ₦1 which amounted to

₦(6,000,000 1.5) =₦4,000,000

Exchange loss ₦(4,000,000 - 3,000,000) ₦1,000,000

Cost of asset (before depreciation) ₦3,000,000

(b) In the statement of financial performance

On April 30/24 Sale ₦ (3,500,000 1.75) = ₦2,000,000 On May 31/11 Amount ₦ (3,500,000 1.5) =₦2,333,333

On May 31/11 Exchange gain ₦ (2,333,333 – 2,000,000) ₦333,333

NB: IPSAS 4 does not specify where exchange gain or loss should be shown in the statement of financial performance.

27.2.10 Disclosure

The entity shall disclose:

(a) the amount of exchange differences recognised in surplus or deficit except for those arising on financial instruments measured at fair value through surplus or deficit;

(b) net exchange differences classified in a separate component of net assets / equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period;

(c) when the presentation currency is different from the functional currency, that fact shall be stated, together with disclosure of the functional currency and the reason for using a different presentation currency;

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(d) when there is a change in the functional currency of either the reporting entity or a significant foreign operation, that fact and the reason for the change in functional currency shall be disclosed;

(e) when an entity presents its financial statements in a currency that is different from its functional currency, it shall describe the financial statements as complying with International Public sector accounting Standards only if they comply with all the requirements of each applicable standard including the translation methods;

(f) an entity sometimes presents its financial statements or other financial information in a currency that is not its functional currency without meeting the requirements of (e) above. For example, an entity may convert into another currency only selected items from its financial statements. Or, an entity whose functional currency is not the currency of a hyperinflationary economy may convert the financial statements into another currency by translating all items at the most recent closing rate. Such conversions are not in accordance with International Public sector accounting Standards and the disclosures set out in (g) below are required; and

(g) when an entity displays its financial statements or other financial information in a currency that is different from either its functional currency or its presentation currency and the requirements of paragraph 64 are not met, it shall:
   (i) clearly identify the information as supplementary information to distinguish it from the information that complies with international public sector accounting standards;
   (ii) disclose the currency in which the supplementary information is displayed; and
   (iii) disclose the entity's functional currency and the method of translation used to determine the supplementary information.

27.3 IPSAS 5 – Borrowing costs

27.3.1 Introduction

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

27.3.2 Definition of terms

The standard defined the following terms:

(a) **Borrowing costs:** are interests and other expenses incurred by an entity in connection with the borrowing of funds.

(b) **Expenses:** are decreases in economic benefits or service potential during the reporting period in the form of outlays as consumption of assets or incurrence of liabilities that result in decrease in net assets/equity, other than those relating to distributions to owners.

(c) **Economic entity:** means a group of entities comprising a controlling entity and one or more controlled entities.

(d) **Borrowing costs:** the standard further explains the components of borrowing costs, which may include:
   (i) Interest on bank overdrafts and short-term and long-term borrowings;
   (ii) Amortisation of discounts or premium relating to borrowings;
   (iii) Amortisation of auxiliary costs incurred in connection with the arrangement of borrowings;
   (iv) Finance charges in respect of finance lease; and
   (v) Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

27.3.3 Borrowing costs recognition: The standard prescribes that:

(a) borrowing costs should be recognised as an expense in the period in which they are incurred, except to the extent that they are capitalised;

(b) borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the costs of that asset; and

(c) de-recognition of a financial liability (borrowing costs) is when the obligation is waived, cancelled, discharged or expired.

27.3.4 Measurement

(a) Only borrowing costs incurred that are directly attributable to a qualifying asset can be capitalised to the cost of the asset.

(b) When an entity specifically borrows funds for the purpose of obtaining a particular qualifying asset, the borrowing costs that are eligible for capitalisation should be the actual borrowing costs incurred on such borrowing during the period, less any income earned on the temporary investment of those borrowings

(c) When the financing activity of an enterprise is coordinated centrally or a range of debt instruments are used to borrow funds at varying rates of interest, such borrowings cannot be readily identifiable with a specific qualifying asset. As a result, funds which are borrowed generally and are used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation should be determined by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate in such cases should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period. However, the borrowing costs capitalised during a period should not exceed the actual borrowing costs incurred during that period.

27.3.5 Accounting treatment

S/N	Details	Dr	Cr	Remarks
		₦	₦	
A	**Specific loans**			

	Qualifying assets account	xxx.		On recognition
	Loan account		xxx.	
	Other creditors account		xxx.	
	Loan account	xxx.		On payment
	Other creditors account	xxx.		
	Bank account		xxx.	
B	**General loans: portion attributable to qualifying assets**			
	Qualifying assets account	xxx.		On recognition
	Loan account		xxx.	
	Other creditors account		xxx.	
	Loan account	xxx.		On payment
	Other creditors account	xxx.		
	Bank account		xxx.	

Illustration (IPSAS 5) 27-2

Okoko General Hospital had the following transactions on January 2, 2025:

(a) A bank facility to implement an approved staff minimum wage was obtained from CCC Bank Plc. The terms of the facility include: Principal amount ₦10,000,000, Interest rate 10% per annum, tenure 24 months, administrative and other processing cost amounted to ₦220,000; and

(b) A bank facility to construct a female ward. The terms of the facility include: Principal amount ₦10,000,000, Interest rate 10% annum, tenure 24 months, administrative and other processing cost amounted to ₦350,000.

Assuming that from loan amortisation table, the total Interest payable for the first 12 months is N786,150.

Required:

Prepare the necessary journal entries to record the above transactions.

Solution 27-2

S/N	Details	Dr	Cr	Remarks
		₦'000	**₦'000**	
i.	Interest charges	786,150		To recognise borrowing cost for the year ended December 31, 2017
	Administration expenses	220,000		
	Bank		1,006,150	
ii.	PPE (Building)	1,006,150		To recognise borrowing cost for the year ended December 31, 2017
	Bank account		1,006,150	

27.3.6 Disclosure

The standard prescribes that the financial statements should disclose:

(a) the accounting policy adopted for borrowing costs;
(b) the amount of borrowing costs capitalised during the period; and
(c) the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation (when it was necessary to apply a capitalisation rate to funds borrowed generally).

27.4 IPSAS 10: Financial reporting in hyper inflationary economies

27.4.1 Introduction

The standard covers (The corresponding IAS is IAS 29) how financial statements are prepared using the currency prevalent in a hyperinflationary economy. In a hyperinflationary economy, financial reporting using the local currency makes the preparation of such statement unrealistic. The reason is that money loses purchasing power at such a rate that comparison of amounts from transactions and other events that have occurred at different times, even within the same reporting period is misleading.

The standard does not establish an absolute rate at which hyperinflation is deemed to arise. Hyperinflation is indicated by characteristics of the economic environment of a country which include, but not limited to, the following:

(a) the general population prefers to keep its wealth in non-monetary assets or in a relatively stable currency. Amounts of local currency held are immediately invested to maintain purchasing power;
(b) the general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency;
(c) sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short;
(d) interest rates, wages and prices are linked to a price index; and
(e) the cumulative inflation rate over three years is approaching, or exceeds 100%.

27.4.2 Re-statement of financial statements

(a) **Statements of financial position** not expressed in terms of the measuring unit current at the reporting date are restated by applying a general price index. Monetary items are not restated because they are already expressed in terms of the monetary unit current at the reporting date. Such monetary items are money held and assets and liabilities to be received or paid in fixed or determinable amount of money.
(b) **Assets and liabilities** linked by agreement to changes in prices, such as index linked bonds and loans, are adjusted in accordance with the agreement in order to ascertain the amount outstanding at the reporting date. These items are carried at this adjusted amount in the restated statement of financial position.
(c) **Statement of financial performance:** The standard requires that all items in the statement of financial performance is expressed in terms of the measuring unit current at the reporting date. All amounts are therefore, needed to be restated by

applying the change in the general price index from the date when the items of revenue and expenses were initially recorded.

(d) **Cash flow statement**: The standard requires that all the items in the cash flow statement are expressed in terms of the measuring unit current at the reporting date.

(e) **Corresponding figures:** Corresponding figures for the previous reporting period are restated by applying a general price index so that the comparative financial statements are presented in terms of the measuring unit current at the end of the reporting period. Information that is disclosed in respect of earlier periods is also expressed in terms of the measuring unit at the end of the reporting period.

(f) **Consolidated financial statements:** A controlling entity that reports in the currency of a hyperinflationary economy may have controlled entities that also report in the currencies of hyperinflationary economies. The financial statements of any such controlled entity need to be restated by applying a general price index of the country in whose currency it reports before they are included in the consolidated financial statements issued by its parent. Where such a controlled entity is a foreign controlled entity, its restated financial statements are translated at closing rates. The financial statements of controlled entities that do not report in the currencies of hyperinflationary economies are dealt with in accordance with IPSAS 4 on "The effects of changes in foreign exchange rates".

27.4.3 Selection and use of the general price index

The restatement of financial statements in accordance with this standard requires the use of a general price index that reflects changes in general purchasing power. All entities that report in the hyperinflationary currency of the same economy should use the same index.

27.4.4 Economies ceasing to be hyperinflationary

When an economy ceases to be hyperinflationary and an entity discontinues the preparation and presentation of financial statements prepared in accordance with this standard, it should treat the amounts expressed in the measuring unit current at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements.

27.4.5 Disclosures

The following disclosures should be made.

(a) The fact that the financial statements and the corresponding figures for previous periods have been restated for the changes in the general purchasing power of the reporting currency and, as a result, are stated in terms of the measuring unit current at the reporting date; and

(b) The identity and level of the price index at the reporting date and the movement in the index during the current and the previous reporting periods.

27.5 IPSAS 14- Events after the reporting date

27.5.1 Introduction

This standard is based on events, both favourable and unfavourable that occurs between the reporting date and the date when the financial statements are authorised for use. Assets and liabilities should be adjusted for events occurring after the reporting date that provide additional evidence to assist with the estimation of amounts relating to conditions existing at the reporting date or that indicate that the going concern assumption in relation to the whole or a part of the entity is not appropriate.

27.5.2 Process for authorisation of the financial statements

The process involved in the authorisation for issue of financial statements will vary depending upon the management/structure and procedures followed in preparing and finalising the financial statements, but the date of authorization for issue will normally be the date on which the statements are authorised for issue outside the entity.

27.5.3 Exceptions to adjustments of events after reporting date

Adjustments to assets and liabilities are not appropriate for events occurring after the reporting date and the date on which the financial statements are authorised for issue. The fall in market value does not normally relate to the condition of investments at the reporting date, but reflects circumstances which have occurred in the following period.

However, disclosure is generally made of events in subsequent period that represents unusual changes to the condition of assets or liabilities at the reporting date (for example the destruction of a major production plant by fire, after the reporting date). Note also that events occurring after the reporting date that are indicative of conditions that arose subsequent to the reporting date are disclosed, if their non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and take proper decisions (for example a major acquisition of another entity).

Statutory requirements also may sometimes require the disclosure of certain financial information that occurred after the reporting date.

Events occurring after the reporting date may indicate that the whole or part of the business of the enterprise ceases to be a going-concern. A deterioration in operating results and financial position after the reporting date may indicate a need to consider whether it is proper to use the going-concern assumption in the preparation of the financial statements.

27.5.4 Reporting date

Reporting date means the date of the last day of the reporting period to which the financial statements relate.

27.5.5 Types of events at the reporting date

In accordance with IPSAS 14.5, there are two types of events at the reporting date.

(a) Events after the reporting date that provide evidence of conditions that existed at the reporting date. These are adjusting events after the reporting date;

(b) Events after the reporting date that is indicative of conditions that arose after the reporting date. These are non-adjusting events after the reporting date.

The authorising body to authorise financial statements of government entity may be a legislative (National or State Assembly) or a Local Council (IPSAS 14.7). The date of authorization for issue of financial statement will be determined in the context of the particular jurisdiction. The audit opinion is given on the basis of these financial statements.

Whether or not government announced intention requiring recognition as adjusting events would depend upon whether they provide more information about the condition existing at the reporting date and whether there is sufficient evidence that they can and will be fulfilled. Usually, the announcement of government intentions will not lead to the recognition of adjusting events. Instead, they would generally qualify for disclosure as non-adjusting events.

27.5.6 Measurement

Adjusting event

For adjusting events, the amounts recognised in the financial statements shall be adjusted to reflect such events after the reporting date.

Non-adjusting events

For non-adjusting events, such amounts shall not be adjusted. However, the nature and estimates of financial effects of material non-adjusting events (i.e. those which could influence the economic decisions of the users) shall be disclose.

27.5.7 Accounting treatment of events after the reporting date

(a) In line with IPSAS 14.10, an entity must adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting date. As an illustration, an adjusting event after the reporting date could be:

  (i) the settlement after the reporting date of a litigation (court case) confirming that the entity had a present obligation at the reporting date. The entity adjusts any previously recognised provision related to this court case in accordance with IPSAS 19 on Provisions, contingent liabilities and contingent assets or recognises a new provision;

  (ii) the receipt of information after the reporting date indicating that an asset was impaired at the reporting date, or that the amount of a previously recognized impairment loss for that asset needs to be adjusted, also qualifies as an adjusting event after the reporting date;

  (iii) the bankruptcy of a debtor, which occurs after the reporting date usually conforms that a loss already existed at the reporting date on a receivable account and that the entity needs to adjust the carrying amount of the receivable account; and

(iv) the discovery of fraud or errors that show that the financial Statements were not correct.

(b) In line with IPSAS 14.11, an entity must not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting date. As an illustration, an adjusting event after the reporting date could be:

(i) an unusually large decline in the value of property carried at fair value, where that decline is unrelated to the condition of the property at reporting date, but is due to circumstances that have arisen since reporting date;
(ii) the entity decides after reporting date, to provide/distribute substantial additional benefits in the future directly or indirectly to participants in community service programs that it operates, and those additional benefits have a major impact on the entity;
(iii) an acquisition or disposal of a major controlled entity or the outsourcing of all or substantially all of the activities currently undertaken by an entity after the reporting date;
(iv) announcing a plan to discontinue an operation or major program, disposing of assets or settling liabilities attributable to disposing of assets or settling liabilities attributable to agreements to sell such assets or settle such liabilities;
(v) major purchases and disposals of assets;
(vi) the destruction of a major building by a fire after the reporting date;
(vii) announcing, or commencing the implementation of, a major restructuring (guidance on accounting for provisions associated with restructuring is found in accounting standards on provisions, contingent liabilities and contingent assets);
(viii) the introduction of legislation to forgive loans made to entities or individuals as part of a program;
(ix) abnormally large changes after the reporting date in asset prices or foreign exchange rates;
(x) entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees after the reporting date; and
(xi) commencing major litigation arising solely out of events that occurred after the reporting date.

The IFRS on which the IPSAS is based is IAS 10 – Events after the balance sheet (statement of financial position) date.

27.5.8 Other disclosure obligations

IPSAS 14.26 states that an entity must disclose the date when the financial statements were authorised for issue and the body that gave such authorisation. If another body has the power to amend the financial statements after the issuance, the entity must disclose that fact.

27.5.9 Accounting treatment

S/N	Details	Dr.	Cr	Remarks
	Adjusting event			
i	Relevant expenses	xxx.		On confirmation of previously recognised contingent liabilities
	Accounts payable / provision		xxx.	
ii	Relevant assets	xxx.		On receipt of information confirming a previously recognised impairment loss
	Impairment loss A/C		xxx.	

Illustration 27-4

The following transactions occurred in the Wazobia Ministry of Environment during the year ended December 31, 2024

The staff rationalisation exercise carried out as part of reform program of Ministry of Environment affected 500 staff in 2016. The affected staff took entity to court and entity's legal team estimated the cost of damages as ₦5,600,000,000. The financial statements for the year ended December31, 2016 prepared by the accounting officer of Ministry of Environment disclosed in its notes to the financial statements a note of a contingent liability in respect of the case. The financial statements are due for issue on the June 30, 2024 while the court decided the case against the entity on the May 3, 2023.

Note: This scenario represents a case of Adjusting Event.

Ministry of Environment reporting period ends on December31, 2016, and the financial statements are authorised for issue on June 31, 2017. One of the debtors who owed the entity ₦250,000 as at December 31, 2016 was confirmed dead on April 30, 2017.

Solution 27-4

S/N	Details	Dr.	Cr	Remarks
		₦	₦	
	Relevant expense	5,600,000		To adjust for event after the reporting date (damages)
i	Accounts payable		5,600,000	
	Accounts payable	5,600,000		On settlement of court judgement in 2017
	Bank		5,600,000	
ii	Bad debt	250,000		Being debt written off to adjust for the event after reporting date
	Account receivables		250,000	

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27.6 IPSAS 20 - Related party disclosures

27.6.1 Introduction

This standard is formulated to require the disclosure of the existence of related party relationships where control exists and the disclosure of information about transactions between entity and its related parties in certain circumstances. This information is required for accountability purposes and to facilitate better understanding of financial position and performance of the reporting entity. The principal issues in disclosing information about related parties are identifying which parties' control or significantly influence the reporting entity and determine what information should be disclosed about transactions with those parties.

27.6.2 Definitions

The following terms are used in this standard:

(a) **Close members of the family of an individual** are close relatives of the individual or members of the individual's immediate family who can be expected to influence, or be influenced by that individual in their dealings with the entity.

(b) Key management personnel are:
   (i) all directors or members of the governing body of the entity; and
   (ii) other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting entity. Where they meet this requirement key, management personnel include:
      - where there is a member of the governing body of a whole of government entity who has the authority and responsibility for planning, directing and controlling the activities of the reporting entity, that member;
      - any key advisor of that member; and
      - unless already included in (a), the senior management group of reporting entity, including the chief executive or permanent head of the reporting entity.

(c) **Oversight** means the supervision of the activities of an entity, with the authority and responsibility to control, or exercise significant influence over the financial and operating decisions of the entity.

(d) **Related parties** are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control. Related parties include:
   (i) Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the reporting entity;
   (ii) Associates (see IPSAS 36 formally IPSAS 7), Investment in Associates);
   (iii) Individual holding, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individual;

(iv) Key management personnel, and close members of the family of key management personnel; and

(v) Entities in which a substantial ownership interest is held, directly or indirectly, by any person described in (c) or (d), or over which such a person is able to exercise significant influence.

(e) **Related-party transaction** is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related-party transactions exclude transactions with any other entity that is related party solely because of its economic dependence on the reporting entity of the government of which it forms part.

(f) **Remuneration of key management personnel** is any consideration or benefits derived directly or indirectly by key management personnel from the reporting entity for service provided in their capacity as members of the governing body or otherwise as employees of the reporting entity.

(g) **Significant influence (for the purpose of this standard)** is the power to participate in the financial and operating policy decisions of an entity, but not control those policies. Significant influences may be exercised in several ways, usually by representation on the board of directors or equivalent governing body but also by, for example, participation in the policy making process, material transactions between entities within an economic entity, inter-change of managerial personnel or dependence on technical information. Significant influence may be gained by an ownership interest, statute or agreement. With regard to an ownership interest, significant influence is presumed in accordance with the definition contained in IPSAS 7.

27.6.3 Disclosure

(a) **Disclosure of control**

Related parties' relationships where control exists should be disclosed irrespective of whether there have been transactions between the related parties.

(b) Disclosure of related party transactions

In respect of transactions between related parties other than transactions that would occur within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those which is reasonable to expect the entity would have adopted if dealing with that individual or entity at arm's length in the same circumstances, the reporting entity should be disclosed:

(i) the nature of related party relationship;

(ii) the types of the transactions that have occurred; and

(iii) the element of the transactions necessary to clarify the significance of these transactions to its operations and sufficient to enable financial statements provide relevant and reliable information for decision making and accountability purposes.

The following are examples of situations where related party transactions may lead to disclosures by reporting entity:

(i) rendering or receiving of services;
(ii) purchase or transfers/sales of property and other asset;
(iii) purchase or transfers/sales of goods (finished or unfinished);
(iv) agency agreements;
(v) leasing agreements;
(vi) transfer of research and development;
(vii) license agreements;
(viii) finance (including loans, capital contributions, grants whether in cash or in kind and other financial support including cost sharing arrangements); and
(ix) guarantees and collaterals.

(c) Disclosure of key management personnel

An entity shall disclose:

(i) the aggregate remuneration of the key management personnel and the number of individuals determined on a full-time equivalent basis, receiving remuneration within this category, showing separately major classes of key management personnel and including a description of each class; and

(ii) the total amount of all other remuneration and compensation provided to key management personnel, by reporting entity during the reporting period showing separately the aggregate amounts provided to:

- key management personnel;
- close members of the family of the management personnel; and
- in respect of loans, which are not widely available to persons who are not key management personnel and loans whose availability is not widely known by members of the public, for each individual member of key management personnel and each close member of the key management personnel:
  - the amount of loans advanced during the period and terms and conditions thereof;
  - the amount of loans repaid during the period;
  - the amount of the closing balance of all loans and receivables; and
  - where the individual is not a director or member of the governing body or senior management group of the entity, the relationship of the individual to such.

27.7 IPSAS-22 - Disclosure of financial information about the general government sector

27.7.1 Introduction

The objective of this standard is to prescribe disclosure requirements for governments which elect to present information about the General Government Sector (GGS) in their consolidated financial statements. The disclosure of appropriate information about the GGS of a government can enhance the transparency of financial reports, and provide for a better understanding of the relationship between the market and non-market

activities of the government and between financial statements and statistical bases of financial reporting.

27.7.2 Definitions

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

(a) General Government Sector (GGS) comprises all organisational entities of the general government as defined in statistical bases of financial reporting.

(i) Under statistical bases of financial reporting, the public sector comprises the GGS, Public Financial Corporation (PFC) and Public Non-Financial Corporation sector (PNFCs). Additional subgroups within these sectors may be identified for statistical analytical purposes.

(ii) The GGS is defined as consisting of all resident central, state and local government units and social security funds at each level of government, and non-market non-profit institutions controlled by government units. Under statistical bases of financial reporting, the GGS encompasses the central operations of government and typically includes all those resident non-market non-profit entities that have their operations funded primarily by the government and government entities. As such, the financing of these entities is sourced primarily from appropriation or allocation of the government's taxes, dividends from government corporation, other revenues, and borrowings. The GGS typically includes entities such as government departments, law courts, public educational institutions, public health care units and other government agencies. The GGS does not include PFCs or PNFCs.

(b) Public financial corporation sector (PFC)

The PFC Sector comprises resident government controlled financial corporations, quasi-corporations and non-profit institutions which primarily engage in financial intermediation and the provision of financial services for the market. Included within these sectors are government-controlled banks, including central banks, and other government financial institutions that operate on a market basis.

(c) Public non-financial corporation sector (PNFC)

The PNFC Sector comprises resident government controlled non-financial corporations, quasi-corporations and non-profit institutions that produce goods or non-financial services for the market. Included within this sector are entities such as publicly owned utilities and other entities that trade in goods and services. Statistical bases of financial reporting define:

(d) **Corporations** are legal entities created for the purpose of producing goods and services for the market;

(i) Quasi-corporations as enterprises that are not incorporated or otherwise legally established but function as if they were corporations; and

(ii) Non-profit institutions are legal or other entities which produce or distribute goods and services, but which do not generate financial gain for their controlling entity.

Government Business Enterprises (GBEs) means an entity that has all the following characteristics:

(a) it is an entity with the power to contract in its own name;
(b) it has been assigned the financial and operational authority to carry on a business;
(c) sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;
(d) it is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and
(e) it is controlled by a public sector entity.

Government Business Enterprises (GBEs) include both trading enterprises, such as utilities, and financial enterprises, such as financial institutions. GBEs are, in substance, are not different from entities conducting similar activities in the private sector. GBEs generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organisations in the community with goods and services at either no charge or a significantly reduced charge.

27.7.3 Disclosures

Disclosure made in respect of the GGS shall include at least of the following:

(a) Assets by major class, showing separately the investment in other sectors;
(b) Liabilities by major class;
(c) Net assets/equity;
(d) Total revaluation increments and decrements and other items of revenue and expense recognised directly in net assets/equity;
(e) Revenue by major class;
(f) Expenses by major class;
(g) Surplus or deficit;
(h) Cash flows from operating activities by major class;
(i) Cash flows from investing activities; and
(j) Cash flows from financing activities.

Entities preparing GGS disclosures shall disclose the significant controlled entities that are included in the GGS and any changes in those entities from the prior period, together with an explanation of the reasons why any such entity that was previously included in the GGS is no longer included.

27.8 Chapter review

This chapter discusses the evolution of the IPSASB, its membership and functions. The chapter also discusses provisions of IPSAS 4, 5, 10, 14, 20 and 22.

27.9 Worked examples

27.9.1 Examination type questions

(1) IPSAS 4 is meant to prescribe how public sector entities should account for foreign currency transactions and foreign operations in their financial statements, and how to translate financial statements into a presentation currency.

Required:

(a) Discuss the factors an entity should consider in determining its functional currency in accordance with IPSAS 4.

(b) Discuss the factors that provide evidence of an entity's functional currency.

(2) Borrowing costs are costs associated to borrowed funds.

Required:

(a) Enumerate costs that can be classified as such.

(b) Explain the process of determining the borrowing costs eligible for capitalisation.

(3) In a hyperinflationary economy, financial reporting using the local currency makes the preparation of such statement unrealistic.

Required:

(a) Discuss the characteristics of an economic environment of a country as indicated by hyperinflation.

(b) Explain the disclosures to be made in the financial statements prepared in a hyperinflationary economy.

27.9.2 Suggested solutions to examination type questions

1. The factors an entity will consider in determining its functional currency will include the following:
   (a) The currency:
      (i) that revenue is raised from, such as taxes, grants and fines;
      (ii) that mainly influences sales prices for goods and services. This is usually the currency in which sales prices for its goods and services are denominated and settled;
      (iii) of the county whose competitive forces and regulations mainly determine the sales prices of its goods and services;

   (b) The factors that provide evidence of an entity's functional currency will include;
      (i) The currency in which funds from financing activities (i.e. issuing debt and equity instruments) are generated;
      (ii) The currency in which receipts from operating activities are usually retained.

2. (a) Borrowing costs may include the following:
      (i) Interest on bank overdraft and short-term and long-term borrowings;
      (ii) Amortisation of discounts or premiums relating to borrowings;

(iii) Amortisation of ancillary costs incurred in connection with the arrangement of borrowings;
(iv) Finance charges in respect of finance lease;
(v) Exchange differences arising from foreign currency borrowings; to the extent that they are regarded as an adjustment to interest costs.

(b) The amount of borrowing costs eligible for capitalisation should be determined by applying a capitalisation rate to the outlays on that asset. The capitalisation rate should be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowings costs capitalised during a period should not exceed the amount of borrowing costs incurred during that period.

3. (a) The characteristics of the economic environment of a country as indicated by hyper-inflation include:
(i) The general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amount of local currency held are immediately invested to maintain purchasing power;
(ii) The general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable currency. Prices may be quoted in that currency;
(iii) Sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short;
(iv) Interest rates, wages and prices are linked to a price index;
(v) The cumulative inflation rate over three years is approaching, or exceeds, 100%.

(b) The following disclosures should be made in the financial statements prepared in a hyper inflationary economy:
(i) The fact that the financial statements and the corresponding figures for previous period have been restated for the changes in the general purchasing power of the reporting currency and as a result, are stated in terms of the measuring unit current at the reporting date; and
(ii) The identity and level of the price index at the reporting date and The movement in the index during the current and the previous reporting periods.

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CHAPTER 28

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS(IPSAS) GROUP B (IPSAS 43,16, 45, 19, 21, 26, 27 and 31)

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28 International Public Sector Accounting Standards (IPSAS) Group B (IPSAS 43, 16, 45, 19, 21, 26, 27 and 31)

28.0 Learning objective

The objective of this chapter is to enhance readers' understanding of the provisions of IPSAS 43, 16, 45, 19, 21, 26, 27 and 31.

28.1 Learning outcomes

On successful completion of this chapter, readers should be able to discuss the provisions of IPSAS 43, 16, 45, 19, 21, 26, 27 and 31 respectively in respect to the definitions, applications, recognition, measurement and disclosures.

28.2 Introduction

This chapter discusses the provisions of another set of the IPSAS. These are IPSAS 43, 16, 45, 19, 21, 26, 27 and 31.

28.3 IPSAS 43 –Leases (replaced IPSAS 13)

28.3.1 Introduction

This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

28.3.2 Definitions:

The following are some of the definitions provided by the standard:

(a) **Commencement of the lease term:** Is the date on which a lessor makes an underlying asset available for use by a lessee.

(b) **A contract, for the purpose of this standard:** Is an agreement between two or more parties that creates enforceable rights and obligations.

(c) **Economic life** is either:
   (i) the period over which an asset is expected to be economically usable by one or more users; or
   (ii) the number of production or similar units expected to be obtained from an asset by one or more users.

(d) **The effective date of the modification:** Is the date when both parties agree to a lease modification.

(e) **Fair value**: For the purpose of applying the lessor accounting requirements in this standard, is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

(f) **Finance lease:** Is a lease that transfers substantially all the risks and rewards incidental to ownership of an underlying asset.

(g) **Fixed payments:** Are payments made by a lessee to a lessor for the right to use an underlying asset during the lease term, excluding variable lease payments.

(h) **Gross investment in the lease:** Is the sum of:

(i) the lease payments receivable by a lessor under a finance lease; and

(ii) any unguaranteed residual value accruing to the lessor.

(i) **The inception date of the lease (inception date):** Is the earlier of the date of a lease agreement and the date of commitment by the parties to the principal terms and conditions of the lease.

(j) **Initial direct costs:** Are incremental costs of obtaining a lease that would not have been incurred if the lease had not been obtained.

(k) **The interest rate implicit in the lease:** Is the rate of interest that causes the present value of the lease payments, and the unguaranteed residual value to equal the sum of the fair value of the underlying asset and any initial direct costs of the lessor.

(l) **A lease:** Is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

(m) **Lease incentives:** Are payments made by a lessor to a lessee associated with a lease, or the reimbursement or assumption by a lessor of costs of a lessee.

(n) **Lease modification:** Is a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term).

(o) **Lease payments:** Are payments made by a lessee to a lessor relating to the right to use an underlying asset during the lease term, comprising the following:

(i) Fixed payments (including in-substance fixed payments), less any lease incentives;

(ii) Variable lease payments that depend on an index or a rate;

(iii) The exercise price of a purchase option, if the lessee is reasonably certain to exercise that option;

(iv) Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

For the lessee, lease payments also include amounts expected to be payable by the lessee under residual value guarantees. Lease payments do not include payments allocated to non - lease components of a contract, unless the lessee elects to combine non-lease components with a lease component, and to account for them as a single lease component.

For the lessor, lease payments also include any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee. Lease payments do not include payments allocated to non-lease components.

(p) **The lease term:** Is the non-cancellable period for which a lessee has the right to use an underlying asset, together with both:

(i) periods covered by an option to extend the lease, if the lessee is reasonably certain to exercise that option; and

(ii) periods covered by an option to terminate the lease, if the lessee is reasonably certain not to exercise that option.

(q) **A lessee:** Is an entity that obtains the right to use an underlying asset for a period of time in exchange for consideration.

(r) **The lessee's incremental borrowing rate:** Is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

(s) **A lessor:** Is an entity that provides the right to use an underlying asset for a period of time in exchange for consideration.

(t) **Net investment in the lease:** Is the gross investment in the lease discounted at the interest rate implicit in the lease.

(u) **Operating lease:** Is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

(v) **Optional lease payments:** Are payments to be made by a lessee to a lessor for the right to use an underlying asset during periods covered by an option to extend or terminate a lease that are not included in the lease term.

(w) **Period of use:** Is the total period of time that an asset is used to fulfil a contract with a customer (including any non-consecutive periods of time).

(x) **The residual value guarantee:** Is a guarantee made to a lessor by a party unrelated to the lessor that the value (or part of the value) of an underlying asset at the end of a lease will be at least a specified amount.

(y) **A right-of-use asset:** Is an asset that represents a lessee's right to use an underlying asset for the lease term.

(z) **A short-term lease:** Is a lease that, at the commencement date, has a lease term of 12 months or less. A lease that contains a purchase option is not a short-term lease.

(aa) **A sub-lease:** Is a transaction for which an underlying asset is re-leased by a lessee ('intermediate lessor') to a third party, and the lease ('head lease') between the head lessor and lessee remains in effect.

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(bb) **Underlying asset** : Is an asset that is the subject of a lease, for which the right to use that asset has been provided by a lessor to a lessee.

(cc) **Unguaranteed residual value:** Is that portion of the residual value of the underlying asset, the realisation of which by a lessor is not assured or is guaranteed solely by a party related to the lessor.

(dd) **Variable lease payments:** Are the portion of payments made by a lessee to a lessor for the right to use an underlying asset during the lease term that varies because of changes in facts or circumstances occurring after the commencement date, other than the passage of time

(ee) **Unguaranteed residual value:** Is that portion of the residual value of the underlying asset, the realisation of which by a lessor is not assured or is guaranteed solely by a party related to the lessor.

(ff) **Variable lease payments:** Are the portion of payments made by a lessee to a lessor for the right to use an underlying asset during the lease term that varies because of changes in facts or circumstances occurring after the commencement date, other than the passage of time.

(gg) **Unearned finance revenue:** Is the difference between:

(i) the gross investment in the lease; and

(ii) the net investment in the lease.

28.3.3 Classification of leases

These are classified into two:

(a) **Finance lease-** A lease is classified as a finance lease if it transfers substantially the entire risks and rewards incidental to ownership.

(b) **Operating lease-** A lease is classified as an operating lease if it does not transfer substantially all risks and rewards incidental to ownership of an underlying asset.

28.3.4 Key features of finance and operating lease

Finance lease	Operating lease
Ownership is transferrable to the Lessee	Ownership is not transferrable
Risks and rewards incidental to ownership resides with the Lessee	Risks and rewards incidental to ownership resides with the Lessor
Option to purchase the asset at a lower value than the fair value	Lease contains no bargain option
The lease term is for the major part of the economic life of the assets even if ownership is not transferred	Lease term is not for the major part of the asset's economic life

At the inception of the lease, the present value of the minimum lease payments amount substantially to at least, the fair value of the Leased assets	Present value of minimum Lease payment does not amount substantially to all the assets value
The lease assets are of such a specialised nature that only the lessee can use them without major modifications	Not specialised nature
The lease assets cannot easily be replaced by another assets	Easily replaceable
If the lessee can cancel the Lease, the losses associated with the cancellation are born by the Lessee	Lessee does not bear the Lessor's cancellation losses
The lessee has the ability to continue the lease for a secondary period at a rent substantially lower than the market rent	Has no option to extend rental at lower than market value
Gains or losses from the fluctuations in the fair value of the residual accrue to the Lessee	Gains or losses from the fluctuations in the fair value of the residual do not accrue to the Lessee

28.3.5 Recognition, measurement and disclosure by lessee

(a) **Recognition**

At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability.

b) Measurement

Initial measurement of the right-of-use asset: At the commencement date, a lessee shall measure the right-of-use asset at cost which shall comprise the following:

(i) the amount of the initial measurement of the lease liability, as described in paragraph 27;

(ii) Any lease payments made at or before the commencement date, less any lease incentives received;

(iii) any initial direct costs incurred by the lessee; and

(iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

A lessee shall recognise the costs described in paragraph (b) (iv) above as part of the cost of the right-of-use asset when it incurs an obligation for those costs. A lessee applies IPSAS 12, Inventories to costs that are incurred during a particular period as a consequence of having used the right-of-use asset to produce inventories during that period.

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Initial measurement of the lease liability: At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

(i) fixed payments (including in-substance fixed payments as described in paragraph AG43), less any lease incentives receivable;
(ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date (payments linked to a consumer price index, payments linked to a benchmark interest rate (such as LIBOR) or payments that vary to reflect changes in market rental rates);
(iii) amounts expected to be payable by the lessee under residual value guarantees;
(iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option); and
(v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent measurement of the right-of-use asset

After the commencement date, a lessee shall measure the right-of-use asset applying a cost model, unless it applies either of the other measurement models stated below.

Cost model: To apply a cost model, a lessee shall measure the right-of-use asset at cost:

(i) less any accumulated depreciation and any accumulated impairment losses; and
(ii) adjusted for any re-measurement of the lease liability specified in paragraph 37(c).

If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Other measurement models

(i) If a lessee applies the fair value model in IPSAS 16, Investment Property to its investment property, the lessee shall also apply that fair value model to right-of-use assets that meet the definition of investment property in IPSAS 16.

(ii) If right-of-use assets relate to a class of property, plant and equipment to which the lessee applies the revaluation model in IPSAS 17, a lessee may elect to apply that revaluation model to all of the right-of-use assets that relate to that class of property, plant and equipment.

Subsequent measurement of the lease liability: After the commencement date, a lessee shall measure the lease liability by:

(i) increasing the carrying amount to reflect interest on the lease liability;
(ii) reducing the carrying amount to reflect the lease payments made; and
(iii) re-measuring the carrying amount to reflect any reassessment or lease modifications.

After the commencement date, a lessee shall recognise in surplus or deficit, unless the costs are included in the carrying amount of another asset applying other applicable Standards, both:

(i) interest on the lease liability; and
(ii) variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs.

Lease modifications: A lessee shall account for a lease modification as a separate lease if both:

(i) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
(ii) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

(c) Presentation

(i) **Statement of financial position:** A lessee shall either present in the statement of financial position, or disclose in the notes:
Right-of-use assets separately from other assets. If a lessee does not present right-of-use assets separately in the statement of financial position, the lessee shall:

- include right-of-use assets within the same line item as that within which the corresponding underlying assets would be presented if they were owned.
- disclose which line items in the statement of financial position include those right-of- use assets.
- Lease liabilities separately from other liabilities. If the lessee does not present lease liabilities separately in the statement of financial position,

the lessee shall disclose which line items in the statement of financial position include those liabilities.

(ii) **Statement of financial performance:** In the statement of financial performance, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset. Interest expense on the lease liability is a component of finance costs, which paragraph 102(b) of IPSAS 1, Presentation of Financial Statements requires to be presented separately in the statement of financial performance.

(iii) **Statement of cash flow:** In the cash flow statement, a lessee shall classify:

- cash payments for the principal portion of the lease liability within financing activities;
- cash payments for the interest portion of the lease liability applying the requirements in IPSAS 2, cash flow statement for interest paid; and
- short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities.

(d) Disclosures

A lessee shall disclose the following amounts for the reporting period:

(i) depreciation charge for right-of-use assets by class of underlying asset;
(ii) interest expense on lease liabilities;
(iii) the expense relating to short-term leases accounted for. This expense needs not include the expense relating to leases with a lease term of one month or less;
(iv) the expense relating to leases of low-value assets accounted for either a straight -line basis over the lease term or another systematic basis;
(v) the expense relating to variable lease payments not included in the measurement of lease liabilities;
(vi) revenue from sub-leasing right-of-use assets;
(vii) total cash outflow for leases;
(viii) additions to right-of-use assets;
(ix) gains or losses arising from sale and leaseback transactions; and
(x) the carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset.

Additional disclosures

This additional information may include, but is not limited to, information that helps users of financial statements to assess:

(i) the nature of the lessee's leasing activities;
(ii) future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities. This includes exposure arising from:
    - variable lease payments;

- extension options and termination options;
- residual value guarantees and
- leases not yet commenced to which the lessee is committed.

(iii) restrictions or covenants imposed by leases; and

(iv) sale and leaseback transactions (as described in paragraph AG53).

28.3.6 Finance lease: Recognition, measurement and disclosure by lessor

(a) **Recognition**

At the commencement date, a lessor shall recognise assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease.

(b) **Measurement**

Initial measurement

(i) The lessor shall use the interest rate implicit in the lease to measure the net investment in the lease. In the case of a sub-lease, if the interest rate implicit in the sublease cannot be readily determined, an intermediate lessor may use the discount rate used for the head lease (adjusted for any initial direct costs associated with the sublease) to measure the net investment in the sublease.

(ii) Initial direct costs are included in the initial measurement of the net investment in the lease and reduce the amount of revenue recognized over the lease term. The interest rate implicit in the lease is defined in such a way that the initial direct costs are included automatically in the net investment in the lease; there is no need to add them separately.

Subsequent measurement: A lessor shall recognize finance revenue over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease.

28.3.7 Operating lease: Recognition, measurement and disclosure by lessor

(a) **Recognition**

(i) A lessor shall recognise lease payments from operating leases as revenue on either a straight-line basis or another systematic basis. The lessor shall apply another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

(ii) A lessor shall recognise costs, including depreciation, incurred in earning the lease revenue as an expense.

(b) **Measurement-** A lessor shall add initial direct costs incurred in obtaining an operating lease to the carrying amount of the underlying asset and recognise those costs as an expense over the lease term on the same basis as the lease revenue.

(c) **Presentation-** A lessor shall present underlying assets subject to operating leases in its statement of financial position according to the nature of the underlying asset.

(d) **Disclosures:**

(i) A lessor shall disclose the following amounts for the reporting period:

For finance leases:

- Selling surplus or deficit;
- Finance revenue on the net investment in the lease; and
- Revenue relating to variable lease payments not included in the measurement of the net investment in the lease.

For operating leases, lease revenue, separately disclosing revenue relating to variable lease payments that do not depend on an index or a rate.

(ii) A lessor shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 88. This additional information includes, but is not limited to, information that helps users of financial statements to assess:

- the nature of the lessor's leasing activities; and
- how the lessor manages the risk associated with any rights it retains in underlying assets. In particular, a lessor shall disclose its risk management strategy for the rights it retains in underlying assets, including any means by which the lessor reduces that risk. Such means may include, for example, buy-back agreements, residual value guarantees or variable lease payments for use in excess of specified limits

28.3.8 Sales and lease back transactions

If a sale and leaseback transaction results in finance lease, any excess of sales proceeds over the carrying amount shall not be immediately recognised as revenue by a seller-lessee. Instead, it shall be deferred and amortised over the lease term.

If a sale and lease back transaction result in a finance lease and it is clear that the transaction is established at fair value, any gain or loss shall be recognised immediately except that, if the loss is compensated by future lease payments at below market price, then it shall be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used.

For operating leases, if the fair value at the time of sale and lease back transactions is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value shall be recognised immediately

28.3.9 Accounting treatments

S/N	Details	Dr	Cr	Remarks
		₦	₦	
A	**For lessee (finance lease)**			

S/N	Details	Dr	Cr	Remarks
		₦	₦	
i.	On recognition of lease assets			
	PPE	xx.		Recognise lease asset and liability
	Accounts payable		xx.	
ii.	On lease payment			
	Accounts payable	xx.		Upon payment of lease rentals
	Interest expense	xx.		
	Bank		xx.	
iii.	On recognition of depreciation			
	Depreciation charges	xx.		Recognition of depreciation leased PPE
	Accumulated depreciation charges		xx.	
B	**For lessee (operating lease)**			
	on recognition of lease rentals payable			
i.	Lease rentals	xx.		On recognition of lease rentals payable
	Accounts payable		xx.	
	On payment of accrued lease rentals			
i.	Accounts payable	xx.		Upon payment of cash
	Bank		xx.	
C	**For lessor (finance lease)**			
	Recognition of assets transferred to the lessee			
i.	Accounts receivable	xx.		With the value of the assets transferred
	PPE- lease assets		xx.	
	On receipt of equal instalment (Principal)			
	Bank	xx.		Upon receipt of cash (Principal)
i.	Accounts receivable		xx.	
	On recognition of lease income			
i.	Accounts receivable	xx.		On recognition of lease
	Lease income		xx.	
	On receipt of cash			
	Bank	xx.		Upon receipt of cash (interest)
	Accounts receivable		xx.	
	For lessor (operating lease)			
D	**On recognition of lease rentals**			
i.	Lease rental receivables	xx.		On recognition of lease rentals
	Rental income		xx.	
	On receipt of payment from accrued rentals			

S/N	Details	Dr	Cr	Remarks
		₦	₦	
	Bank	xx.		On receipt of payment from accrued Rentals
	Rental income receivables		xx.	

Illustration 28-1

Eka State Transport Corporation and Okon Ltd, a local leasing entity signed an agreement that calls for Lessor to lease diesel generator to Eka State Transport Corporation beginning from January 1, 2024. The terms of the lease were as follows:

(i) The lease has 5-year term in which Eka State Transport Corporation has to make N500,000 payment to Okon Ltd at the end of each year;
(ii) Fair value of the diesel generator at inception – ₦2,100,000;
(iii) Estimated economic life of 5 years with no residual value at the end of three years;
(iv) No option of renewal and the diesel generator revert to the Lessor;
(v) The entity depreciates similar diesel generator on straight line basis; and
(vi) The lessor entity set the annual rental to ensure a rate of return on its investment at 10%.

Required:

Journalise the transactions in the books of the lessor and lessee if it meets the recognition criteria of a finance lease for the year ended December 31, 2024

Solution 28-1

S/N	Details	Dr (₦)	Cr (₦)	Remarks
A	**Accounting entries- Lessee**			
	To recognise the lease at inception			
i.	Lease PPE (generator)	1,895,400		To recognise lease assets and associated liability
	Interest suspense	604,600		
	Lease liability		2,500,000	
ii.	Lease liability	500,000		Recognition of first Instalment paid at the end of year 2017
	Bank		500,000	
iii.	Interest expense	120,920		Interest due in year one
	Interest suspense		120,920	
iv.	Depreciation charges	379,080		To recognise depreciation charges for year 2017
	Accumulated depreciation charges		379,080	
B				**Accounting entries- lessor**
				To recognise the lease at inception
	Account receivable	1,895,400		To recognise asset

	Lease asset (generator)		1,895,400	leased to the Lessee at inception
	Bank	500,000		To recognise equal instalment received in year 2017
	Account receivable		379,080	
	Interest earned		120,920	

Note: This is a clear case of finance lease because of the following:

- The lease terms equal the useful economic life of the equipment;
- The present value of the minimum lease payment (₦1,895,400) exceeds 90% of the fair value of the asset which is ₦2,100,000
- The present value of annuity of 10% is 3.709 multiply by ₦500,000 = ₦1,895,400

Illustrations 28-2

Refer to example above for finance lease. Journalise the transactions in the books of lessor and lessee if the lease meets the criteria for recognition as an Operating Lease instead of a finance lease.

Solution

Details	Dr (₦)	Cr (₦)	Remarks
Books of lessee			
Lease expense	500,000		To recognise lease payment for the year 2017
Cash		500,000	
Books of lessor			
Cash	500,000		To recognise receipt of lease for the year 2017
Lease rental income		500,000	

28.4 IPSAS 16: Investment property

28.4.1 Introduction

Investment property is a property (land or building, or part of a building, or both) held to earn rentals or for capital appreciation or both, rather than for:

(a) use in the production of supply of goods or services or for administrative purposes; and
(b) sale in the ordinary course of operations.

Examples of investment property.

(a) Land held by a government hospital or capital appreciation, which may be sold at a beneficial time in future
(b) Land held for a currently undetermined future use.

(c) A building owned by the reporting entity (or held by the reporting entity under a finance lease).
(d) A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.
(e) Property that is being constructed or developed for future use as investment property.

28.4.2 Nature of investment property

A public sector entity (other than a government business entity {GBE}) may be established to manage a government property portfolio on a commercial basis. An investment property will include, specifically, property held by the entity, other than property held for resale in the ordinary course of operations. Other public sector entities may also hold properties for rentals or capital appreciation and use of the cash generated to finance these other activities. As illustration, a university or a local government may own a building for the purpose of leasing on a commercial basis to external parties to generate funds, rather than to be used in producing goods and services.
Investment property is held for the purpose of earning rental or for capital appreciation or both. Therefore, investment property generates cash flow largely independent of other assets held by an entity.

28.4.3 Non-investment properties

(a) Property held for sale in the ordinary courses of operations or in the process of construction or development for such sale.
(b) Property being constructed or developed on behalf of third parties for example where a service department of a ministry enters into construction contracts with entities external to its government.
(c) Owner-occupied property including property held for future use as owner-occupied property held for future development as subsequent use as owner-occupied property, property occupied by employees such as housing for military or police personnel.
(d) Property that is being constructed or developed for future use as investment property. Until construction or development is complete, at which time the property becomes investment property; such property does not acquire investment property status.
(e) Property held to provide a social service, and which also generates cashflows;
(f) Property held for strategic purpose, which could be accounted for in accordance with IPSAS 17 (on Property, plant and equipment).

28.4.4 Measurement of recognised investment property

Two methods of measurement of recognised assets.
(a) **Fair value model** - Investment property is measured at fair value unless there is clear evidence when the entity first acquires an item of investment property that the fair value of the asset is not reliably determined;

(b) **Cost model**–Investment property is measured at fixed costless any accumulated depreciation and any accumulated impairment losses.

Chosen method shall be applied to all of an entity's investment property.

28.4.5 Accounting treatment on disposal or retirement of investment property

An investment property should be eliminated from the statements of financial position on disposal or when the property involved is permanently with drawn from use and no future economic benefits or service potential is expected from its disposal. Determination of gains or losses arising from the retirement or disposal of investment property is arrived at by looking at the difference between the net disposal proceeds and the carrying amount of the asset and recognised in surplus or deficit of the period of the retirement or disposal.

28.4.6 Initial adoption of accrual accounting on IPSAS

On adoption of the accrual basis of accounting for the first time, an entity recognised of investment property as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the standard is first adopted.

An entity that adopts accrual accounting for the first time in accordance with IPSASs may initially recognize investment property at cost or fair value. For investment properties that were acquired at no cost, or for a nominal cost, cost of the investment property's fair value as at the date of acquisition.

28.4.7 Fair value model

The model requires that an entity should report the effect of adopting the standard on its effective date (or earlier) as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the IPSAS is first adopted. In addition:

(a) if the entity has previously disclosed publicly, in the financial statements or otherwise, the fair value of its investment property in earlier periods (determined on a basis that satisfies the definition of fair value in IPSAS16. 6 and the guidance in paragraphs IPDSD 16.37 -54) the entity is encouraged, but not required to:
   (i) adjust the opening balance of accumulated surpluses or deficits for the earliest period presented for which such fair value was disclosed publicly; and
   (ii) restate comparative information for those periods;

(b) if the entity has not previously disclosed publicly the information described in (a), the entity should not restate comparative information and should disclose such fact.

28.4.8 Cost model

This is the model adopted by entities before the initial adoption of the standard. It recognises investment properties on a basis other than cost. IPSAS 3 apply to any

change in accounting policies that occurs when an entity first adopts this standard and choose to use the cost model. The effect of the change in accounting policies includes the reclassification of any amount held in revaluation surplus, for investment property.

28.4.9 Disclosure

(a) Investment property shall be disclosed at the face of the principal statement (statement of financial position) in the GPFS.

(b) In addition, an entity shall disclose in the notes to the GPFS the following:
  (i) the measurement basis used;
  (ii) the depreciation method used, if any;
  (iii) the gross carrying amount;
  (iv) the accumulated depreciation at the end of the period, if any; and
  (v) a reconciliation of the carrying amount at the beginning and end of the period showing the following certain components:
    - additions;
    - disposals;
    - acquisitions through entity combinations;
    - increases or decreases resulting from revaluations;
    - impairment losses recognised in surplus or
    - impairment losses reversed in surplus or deficit;
    - depreciation; and
    - the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity.

(c) The financial statements shall also disclose for each class of investment property recognised in the financial statements:
  (i) the existence and amounts of restrictions on title, and property pledged as securities for liabilities;
  (ii) the amount of expenditure recognised in the carrying amount of an item of the investment property in the course of its construction;
  (iii) the amount of contractual commitments for the acquisition of investment property; and
  (iv) if it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of investment property that were impaired, lost or given up that is included in surplus or deficit.

(d) Selection of the depreciation method and the estimation of the useful life of the assets are matters of judgment. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates provide users of financial statements with information that allows them to review the policies selected by management, and enables comparisons to be made with other entities.
For similar reasons, it is necessary to disclose:

(i) depreciation, whether recognised in surplus or deficit or as a part of the cost of other assets, during a period; and
(ii) accumulated depreciation at the end of the period.

(e) An entity shall disclose the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For investment property, such disclosure may arise from changes in estimates with respect to:
(i) residual values;
(ii) the estimated costs of dismantling, removing, or restoring items of investment property;
(iii) useful life; and
(iv) depreciation methods.

(f) If an Investment property is stated at re-valued amount, the following shall be disclosed:
(i) the effective date of their valuation;
(ii) whether an independent valuer was involved;
(iii) the methods and significant assumptions applied in estimating the assets' fair values;
(iv) the extent to which the assets' fair values were determined directly by reference to observable prices in an active market or recent market transactions at arm's length terms, or were estimated using other valuation techniques;
(v) the revaluation surplus, indicating the change for the period.
(vi) the sum of all revaluation surpluses for individual items of investment property within that class; and
(vii) the sum of all revaluation deficits for individual items of investment property within that class.

(g) An entity shall disclose information on the impairment of investment properties. The following information are relevant:
(i) the carrying amount of temporarily investment property;
(ii) the gross carrying amount of any fully depreciated investment property that is still in use;
(iii) the carrying amount of investment property retired from active use and held for disposal; and
(iv) when the cost model is used, the fair value of investment property when this is materially different from the carrying amount.

28.4.10 Accounting treatments

S/N	Details	Dr	Cr	Remarks
A	**For acquisition of an investment property:**			
i.	Investment property	xx.		When it is an outright acquisition with all attributable cost
	Bank		xx.	
ii.	Investment property	xx.		When acquired on credit with all attributable cost
	Accounts payable		xx.	
B	**Construction by an entity**			
i.	Investment property	xx.		With all attributable cost of construction
	Bank		xx.	
ii.	Investment property	xx.		With all attributable
	Accounts payable		xx.	
iii.	Accounts payable			
	Bank	xx.		When payment is finally made.
			xx.	
C	**To provide for depreciation**			
i.	Depreciation charges	xx.		With the value of wear and tear of the assets using the rates provided
	Accumulated depreciation charges		xx.	
D	**To provide for impairments**			
i.	Impairment charges	xx.		With impairment losses computed
	Accumulated impairment charges		xx.	
E	**For revaluation of investment property**			
i.	Revaluation account	xx.		To close the account of the property as well as the accumulated depreciation and impairment charges
	Accumulated depreciation charges	xx.		
	Accumulated impairment charges	xx.		
	Investment property		xx.	
ii.	Investment property	xx.		To instate the current value of the investment property
	Revaluation account		xx.	
	Revaluation surplus account		xx.	
F	**For recognition of rentals**			
i.	Bank	xx.		With actual cash receipts
	Rental income		xx.	
ii.	Account receivable	xx.		With rental income not yet received
	Rental income		xx.	

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S/N	Details	Dr	Cr	Remarks
iii.	Bank	xx.		With actual cash received
	Account receivable		xx.	
G	**Swapped investment property**			
i.	New investment property	xx.		If the carrying value of new property Is more than that of existing property
	Existing investment property		xx.	
	Gain on exchange		xx.	
ii.	New investment property	xx.		If the carrying value of new property is less than that of existing property
	Loss on exchange	xx.		
	Existing investment property		xx.	

Illustration 28-3

Eko State Development Property Corporation acquired the following properties

(i) A building in 2024 atthecostof₦100,000,000 while additional ₦50,000,000 was spent to carry out major renovation on the building; which is to be held for capital appreciation.

(ii) A land in 2024 at the cost of ₦10,000,000 to construct a plaza for rent. Cost of construction was put at ₦230,000,000 as at the end of the year 2024. The plaza was estimated to have a useful life of 25 years and residual value of ₦5,000,000. The market value of the property at the end of the 10th year was put at ₦350,000,000. It is the policy of the entity to depreciate its investment properties using the straight-line method.

Solution 28-3

S/N	Details	Dr	Cr	Remarks
		₦'000	**₦'000**	
a.	Investment property	150,000		To recognise the investment property in the books
	Bank		150,000	
b. i.	Investment property	240,000		To recognise the investment property in the books
	Bank		240,000	
b. ii	Accumulated depreciation	90,000		To close the investment property account
	Revaluation account	150,000		
	Investment property		240,000	
b. iii	Investment property	350,000		To instate the new value of the investment
	Revaluation account		150,000	
	Revaluation surplus		200,000	

				property

28.5 IPSAS 45 – Property, plant and equipment (Replaced IPSAS 17)

28.5.1 Introduction

The standard is set up to prescribe the accounting treatment for property, plant and equipment, so that users of financial statements can discern information about an entity's investment in its property, plant and equipment and the charges in such investment. The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their carrying amounts and depreciation charges and impairment losses to be recognised in relation to them.

28.5.2 Scope

An entity that prepares and presents financial statements under the accrual basis of accounting, shall apply this standard in accounting for property, plant, and equipment, except when another Standard requires or permits a different accounting treatment.

The standard does not apply to:

(a) biological assets relating to agricultural activity other than bearer plants (see IPSAS 27, Agriculture). This standard applies to bearer plants but does not apply to the produce on bearer plants;
(b) mineral rights and mineral reserves such as oil, natural gas, and similar non-regenerative resources (see the relevant international or national accounting standard dealing with mineral rights, mineral reserves, and similar non-regenerative resources);
(c) property, plant, and equipment classified as held for sale in accordance with IPSAS 44, Non- current Assets Held for Sale and Discontinued Operations; and
(d) the recognition and measurement of exploration and evaluation assets (see the relevant international or national accounting standard dealing with measurement of exploration and evaluation assets).

However, this standard applies to property, plant, and equipment used to develop or maintain the assets described in (a), (b) and (d) above. Also, this standard applies to all property, plant, and equipment, including heritage; infrastructure; service concession arrangement assets after initial recognition and measurement in accordance with IPSAS 32, Service Concession Arrangements: Grantor; and Weapons Systems.

28.5.3 Definitions of terms used in the standard

(a) **Carrying amount**: (for the purpose of this standard) Is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.
(b) **Class of property, plant and equipment:** Means a grouping of assets of similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements.
(c) **Depreciation:** Is the systematic allocation of the depreciable amount of an asset over its useful life.

(d) **Depreciable amount**: Is the cost of an asset, or other amount substituted for cost, less its residual value.

(e) **Cost:** Is the amount of cash or cash equivalent paid and fair value of other consideration given to acquire an asset at the time of its acquisition or construction.

(f) **Fair value:** Is the amount for which an asset could be exchanged or liability settled, between knowledgeable, willing parties in an arm's length transaction.

(g) **An impairment loss of a cash generating asset:** Is the amount by which the carrying amount of an asset exceeds its recoverable amount.

(h) **An impairment loss of a non-cash generating asset:** Is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

(i) **Non-exchange transactions:** Are transactions that are not exchange transactions. In non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

(j) **Property, plant and equipment:** Are tangible items that:
   (i) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
   (ii) are expected to be used for more than one reporting period.

(k) **Recoverable amount:** is the higher of a cash-generating asset's fair value less costs to sell and its value in use.

(l) **Recoverable service amount:** is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

(m) **The residual value of an asset** is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

(n) **Useful life:** Is
   (i) the period over which an asset is expected to be available for use by an entity; or
   (ii) the number of production or similar units expected to be obtained from the asset by an entity.

(o) **Heritage assets:** Some property, plant, and equipment are described as heritage assets because of their rarity and/or significance in relation, but not limited, to their archaeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific, or technological features. Entities usually intend to hold heritage assets for long periods and preserve them for the benefit of present and future generations. Examples of heritage assets, include historic buildings, monuments, museum collections, and works of art.

   Heritage assets typically have the following distinguishing characteristics:
   (i) they have restrictions on their use and/or disposal;
   (ii) they are irreplaceable; and
   (iii) they have long and sometimes indefinite useful lives.

(p) **Infrastructure assets:** Some property, plant, and equipment are described as infrastructure assets because they comprise a number of assets that make up networks or systems that serve the community at large. Generally, infrastructure assets have long lives because the number of assets that make up these networks or systems are continually maintained, replaced and refurbished. If a number of these assets were removed, the network or system may not achieve its service potential objective.

Infrastructure assets typically have the following distinguishing characteristics:
(i) they are networks or systems; and
(ii) they have long useful lives.

(q) **Weapons systems:** Weapons systems will normally meet the definition of property, plant, and equipment, and should be recognised in accordance with this Standard. Weapons systems include vehicles and other equipment, such as warships, submarines, military aircrafts, tanks, missile carriers and launchers that are used continuously in the provision of defence services, even if their peacetime use is simply to provide deterrence. Some single-use items, such as certain types of ballistic missiles, may provide an ongoing service of deterrence against aggressors and, therefore, can be classified as weapons systems.

28.5.4 Depreciation and impairment

Depreciation

(a) Each part of an item of property, plant, and equipment with a cost or value that is significant in relation to the total cost or value of the item shall be depreciated separately.

(b) The depreciation charge for each period shall be recognised in surplus or deficit, unless it is included in the carrying amount of another asset. The depreciable amount of an asset shall be allocated on a systematic basis over its useful life

(c) The residual value and the useful life of an asset shall be reviewed at least at each annual reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors.

(d) The depreciation method shall reflect the pattern in which the asset's future economic benefits or service potential is expected to be consumed by the entity.

(e) The depreciation method applied to an asset shall be reviewed at least at each annual reporting date and, if there has been a significant change in the expected pattern of the consumption of the future economic benefits or service potential embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3.

Impairment

Compensation from third parties for items of property, plant, and equipment that were impaired, lost, or given up shall be included in surplus or deficit when the compensation becomes receivable.

28.5.5 Recognition and derecognition

Recognition

The cost of an item of property, plant and equipment shall be recognised as an asset, if and only if:

(a) it is probable that future economic benefits or service potential associated with the item will flow to the entity;
(b) the cost or fair value of the item can be measured reliably;
(c) recognition of costs in the carrying amount of an item of property, plant, and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant, and equipment:
    (i) costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;
    (ii) initial operating losses, such as those incurred while demand for the item's output builds up; and
    (iii) costs of relocating or reorganising part or all of the entity's operations.

Derecognition

The carrying amount of an item of property, plant, and equipment shall be derecognised:

(a) on disposal; or
(b) when no future economic benefits or service potential is expected from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant, and equipment shall, be included in surplus or deficit when the item is derecognised (unless IPSAS 43 – Leases, requires otherwise on a sale and leaseback).

The gain or loss arising from the derecognition of an item of property, plant, and equipment, shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

28.5.6 Measurement at recognition

(a) An item of property plant and equipment that qualifies for recognition, as an asset shall be measured at its cost.
(b) Where an asset is acquired through a non-exchange transaction, its cost shall be measured at its deemed cost.
(c) The cost of an item of property, plant, and equipment is the cash price equivalent or, for an item referred to in (b) above, its deemed cost at the recognition date. If

payment is deferred and the time value of money is material, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit.

(d) After recognition, an item of property, plant, and equipment shall be carried at its historical cost, less any accumulated depreciation and any accumulated impairment losses.

(e) After recognition, an item or part of an item of property, plant, and equipment, whose current value can be measured reliably shall be carried at a revalued amount, being its current operational value or fair value at the date of the revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses.

28.5.7 Revaluation

When an item of property, plant, and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount. A class of property, plant, and equipment is a grouping of assets of a similar nature or function in an entity's operations. The following are examples of separate classes. For example, land, operational buildings, machinery, ships, aircraft, weapons systems, motor vehicles, furniture and fixtures, office equipment, oil rigs, bearer plants, heritage collections, and infrastructure.

At the date of the revaluation, the asset is treated in one of the following ways:

(a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset, after taking into account accumulated impairment losses; or

(b) The accumulated depreciation is eliminated against the gross carrying amount of the asset.

(c) If the carrying amount of a class of assets is increased as a result of a revaluation, the increase shall be credited directly to revaluation surplus. However, the increase shall be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognised in surplus or deficit.

(d) If the carrying amount of a class of assets is decreased as a result of a revaluation, the decrease shall be recognised in surplus or deficit. However, the decrease shall be debited directly to revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that class of assets.

(e) Revaluation increases and decreases relating to individual assets within a class of property, plant, and equipment, must be offset against one another within that class but must not be offset in respect of assets in different classes.

28.5.8 Elements of cost

The cost of an item of property, plant, and equipment comprises:

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;

(b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management for example, cost of site preparation, initial delivery, and handling costs etc; and

© the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

28.5.9 Disclosure

The financial statements shall disclose the following, for each class of property, plant and equipment recognised in the financial statements.

(a) The measurement bases used for determining the gross carrying amount;

(b) The depreciation method used;

(c) The useful life or the depreciation rate used;

(d) The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and

(e) A reconciliation of the carrying amount at the beginning and end of the period, showing:

  (i) additions;

  (ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IPSAS 44 and other disposals;

  (iii) acquisition through any public sector combinations;

  (iv) increases or decreases resulting from revaluations;

  (v) impairment losses recognised in surplus or deficit in accordance with IPSAS 21 or IPSAS 26, as appropriate;

  (vi) impairment losses reversed in surplus or deficit in accordance with IPSAS 21 or 26, as appropriate;

  (vii) depreciation;

  (viii) the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and

  (ix) other charges.

The financial statements shall also disclose for each class of property, plant and equipment recognised in the financial statements:

(a) the existence, amounts of restrictions on title, property, plant and equipment recognised in the financial statements;

(b) the amount of expenditure recognised in the carrying amount of an item of property, plant and equipment in the course of the construction;

(c) the amount of contractual commitments for the acquisition of property, plant and equipment; and
(d) if it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in surplus or deficit.

If not presented separately in the statement of financial performance, the financial statements shall also disclose:

(a) the amount of compensation from third parties for items of property, plant, and equipment that were impaired, lost or given up, that is included in surplus or deficit; and
(b) the amounts of proceeds and cost included in surplus or deficit in accordance with paragraph 18 that relate to items produced that are not output of the entity's ordinary activities, and which line item(s) in the statement of financial performance include(s) such proceeds and cost.

If a class of property, plant and equipment is stated at re-valued amounts, the following shall be disclosed:

(a) the effective date of the revaluation;
(b) whether an independent valuer was involved;
(c) the methods and significant assumptions applied in estimating the assets' fair values
(d) the extent to which the assets' fair values were determined directly by reference to observable prices in an active market or recent market transaction, on arm's length terms or were estimated using other valuation techniques;
(e) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders or other equity holders;
(f) the sum of all revaluation surpluses for individual items of property, plant and equipment within those classes; and
(g) the sum of all revaluation deficits for individual items of property, plant and equipment within that class.

Disclosure of unrecognised heritage property, plant, and equipment

Where heritage property, plant, and equipment or a class of heritage property, plant, and equipment is not recognised in the financial statements because, at the initial measurement, its cost or current value cannot be measured reliably, the entity shall disclose:

(a) the difficulties in obtaining a reliable measurement that prevented recognition; and
(b) the significance of the unrecognised heritage property, plant, and equipment in relation to delivery of the entity's objectives.

Current value measurement

An entity shall disclose information that helps users of its financial statements assess both of the following:

(a) For property, plant, and equipment that are measured at current operational value or fair value in the statement of financial position, after initial recognition, the valuation techniques and inputs used to develop those measurements; and

(b) For fair value measurements using significant unobservable inputs (Level 3), or current operational value measurements estimated using significant unobservable inputs, the effect of the measurements on surplus or deficit or net assets/equity for the period.

28.5.10 Criteria for recognition of land and/or buildings and other PPE

S/N	Purpose of acquisition	Recognition	Measurement
i.	Acquired for resale	Recognise as Inventory (IPSAS 12)	Lower of Cost or Net Realisable value
ii	Acquired to produce goods or services and is owner-occupier	Recognise as Property, Plant and Equipment (IPSAS 45)	Cost Model or Revaluation Model
iii.	Acquired for capital appreciation or to earn rentals	Recognise as Investment Property (IPSAS 16)	Cost Model or Fair Value Model
iv.	Constructed or developed on behalf of third parties	Recognise as Construction Contract	Fixed Price/Cost plus Model

28.5.11 Accounting treatment

S/N	Details	Remarks
A	**For purchase of PPE:**	
i.	Dr- PPE Cr- Cash/Bank	When it is an outright acquisition with all attributable cost
	Dr - PPE Cr - Accounts payable	When acquired on credit with all attributable cost
B.	**Construction by an entity:**	
ii	Dr - PPE Cr - Cash/Bank	With all attributable cost of construction
	Dr - PPE Cr - Accounts payable	With all attributable cost accrued
	Dr - Accounts Payable Cr - Cash/Bank	When payment finally made.
C	**To Provide for depreciation**	
	Dr - Depreciation charges - Accumulate depreciation charges	With the value of wear and tear on the assets using the rates provided
D	**To provide for impairments**	
	Dr - Impairment charges	With impairment losses computed

	Cr - Accumulated impairment	
E	**For revaluation of PPE**	
	Dr - Revaluation account Dr - Accumulated depreciation charges Cr - PPE	To close the account of the carrying amount as well as the corresponding accumulated depreciation.
	Dr - PPE Cr - Revaluation account Cr - Revaluation surplus	To reinstate the current value of the PPE
F.	**Donated or granted PPE**	
	Dr - Relevant PPE - Donation/grant received	With the fair value of the PPE
G.	**Swapped PPE**	
	Dr-New PPE Cr -Existing PPE Cr- Gain on exchange	If the carrying value of new PPE exceeds that of existing PPE
	Dr- New PPE Dr- Loss on exchange Cr- Existing PPE	If the Carrying value of new PPE is less than that of Existing PPE
H.	**Taken over or inherited PPE (free of charge)**	
	Dr - PPE Cr - Take off grant/donor	With the fair value of the PPE taken over or inherited.

Illustration

Obodo State University had the following transactions:

(i) During the year ended 31 December 2024, acquired Office Equipment worth ₦24,000,000 from Joko Nigeria Limited. The installation and transportation of the equipment amounted to ₦300,000. Half of the cost of the Equipment was paid during the year while the balance was paid later in January 2025.

(ii) The Governing Council of the University, during the year 2024 directed that works department instead of outright acquisition produce all Lecture and Library Furniture internally. Cost of materials and other related cost of production amounted to ₦2,780,000. The materials purchased were completely used in the production of the furniture. The policy of the university is to recognise PPE constructed internally at the actual cost of construction. All the furniture constructed was issued out for use in the lecture halls and library during the year.

(iii) The University swapped its plant and machinery with a building from Ministry of Education during the year. The carrying value of the plant and machinery as at the time of the transaction was ₦3,000,000, while the fair value of the building was ₦4,500,000.

(iv) The University took over the PPE of a defunct State College of Education, including buildings and other infrastructures. The fair value of the PPE taken over was estimated at ₦20,000,000.

(v) The University Teaching Hospital received motor vehicles and laboratory equipment from a UK based Research Institute as donation during the year. The intervention was to assist to curtail the spread of Lassa fever in the country. The cost of the assets donated amounted to ₦6,700,000.

(vi) The University acquired a motor vehicle (MV) for ₦5,500,000 on 1/1/2024. Delivery cost and cost of registration amounted to ₦75,000. The vehicle has a useful life of 5 years with no estimated residual value.

(vii) One of the buildings owned by the University was gutted by fire during the year ended 31st December 2024. The carrying value of the building as at the date of the fire incidence was put at ₦125,000,000. The fair value of the building after the fire incidence was estimated by a valuer to be ₦120,000,000.

(viii) An entity acquired a building at a cost ₦100,000,000 on 1st January 2015. The policy of the entity is to depreciate its buildings on straight-line method over 50 years. By the end of the 9th year, a valuer stated the fair value of the building at ₦120,000,000.

(ix) The University acquired motor vehicle on 1st January 2012 at ₦2,000,000 with an estimated useful life of 4 years and estimated residual value at the end of the 4th year to be ₦200,000. The agency decided to dispose the MV for ₦1,500,000 at the end of the second year. The Accounting policy of the entity is to depreciate PPE on straight-line method.

(x) The University acquired a computer on the 1 January 2011 at the cost of ₦450,000. It has an estimated useful life of 5 years and residual value of ₦50,000. Due to fire outbreak in the agency on the 31 December 2012, the computer was badly damaged and of no use to the agency. It was resolved that it should be discarded and written off. The agency uses straight-line method in depreciating its PPE.

Required: Journalise the above entries in the books of the University

Suggested solution

S/N	Details	Dr	Cr	Remarks
		₦'000	**₦'000**	
a.	PPE- (Office equipment)	24,300		The Cost of Assets is made up of the Purchase cost plus all attributable cost.
	Bank		12,300	
	Accounts payable		12,000	
	Accounts payable	12,000		Ton payment of outstanding debt
	Bank		12,000	
b.	Stock of materials	2,780		The Cost of material and other cost of production
	Bank		2,780	
	Capital work-in-progress	2,780		On completion and issuance of the Furniture
	Stock of Materials		2,780	
	PPE	2,780		On completion and issue of the Furniture
	Capital work-in - progress		2,780	
C	New PPE (Buildings)	4,500		The swapped transaction could have resulted to loss if the carrying cost of the plant and
	Old PPE (Plant and equipment)		3,000	

S/N	Details	Dr	Cr	Remarks
		₦'000	₦'000	
	Gain on swapped PPE		1,500	
d.	PPE	20,000		This is treated as part of take-off grant
	Take over grant		20,000	
e.	PPE	6,700		Donation received during the year
	Aid and Grant (Donation) Received		6,700	
f.	PPE (Motor vehicle)	5,575		To recognise the purchase and receipt of the motor vehicle
	Bank		5,575	
	Depreciation charges	1,115		Value of wear and tear using Straight-line method of depreciation.
	Accumulated depreciation		1,115	
g.	Impairment charges	5,000		Being difference between the carrying value and the fair value of the building
	Accumulated Impairment		5,000	
h.	Revaluation account	82,000		To close the account of the carrying amount as well as the corresponding Accumulated Depreciation
	Accumulated depreciation	18,000		
	Building		100,000	
	Building	120,000		To reinstate the current value of the PPE
	Revaluation account		82,000	
	Revaluation surplus		38,000	
I	PPE Disposal account	2,000		To close the account of the Motor vehicle
	Motor Vehicle account		2,000	
	Accumulated depreciation	900		To close Accumulated Dep. Account
	PPE disposal account		900	
	Bank	1,500		To recognise proceeds from the sale of the motor vehicle
	PPE disposal Account		1,100	
	Gain on disposal		400	
j.	Accumulated depreciation	160		To close the PPE account and accumulated depreciation account.
	Loss on disposal	290		
	PPE- Computer account		450	

28.6 IPSAS 19 – Provisions, contingent liabilities and contingent assets

28.6.1 Introduction

The objective of this standard is to define provisions, contingent liabilities and contingent assets and identify the circumstances in which provisions should be measured and the disclosures that should be made about them. The standard also requires that certain information be disclosed about contingent liabilities and contingent assets in the notes to the financial statements to enable users to understand their nature, timing and amount.

28.6.2 Definitions

The following terms are used in this standard with the meaning specified.

(a) **Constructive obligation** is an obligation that derives from an entity's actions where:

(i) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that will accept certain responsibilities; and

(ii) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities

(b) **Contingent asset** is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

(c) Contingent liability is:

(i) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

(ii) a present obligation that arises from past events but is not recognised because:

- it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
- the amount of the obligation cannot be measured with sufficient reliability.

(d) **Executory contracts** are contracts under which neither party has performed any of its obligations, nor both parties have partially performed their obligation to an equal extent.

(e) **Legal obligation** is an obligation that derives from:

(i) a contract (through its explicit or implicit terms);

(ii) legislation; or

(iii) other operation of law

(f) **Liabilities** are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

(g) **Obligation event** is an event that creates legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.

(h) **Onerous contract** is a contract for the exchange of assets or services in which the unavoidable cost of meeting the obligations under the contract exceeds the economic benefits or services, potential expected to be received under it.

(i) **Provision** is a liability of uncertain timing or amount.

(j) **Restructuring** is a program that is planned and controlled by management, and materially changes either:

(i) the scope of an entity's activities; or

(ii) the manner in which those activities are carried out.

28.6.3 Recognition

(a) **Provision**

A provision should be recognised when:

(i) an entity has a present obligation (legal or constructive) as a result of a past event;

(ii) it is probable that an outflow or resources embodying economic benefits or service potential will be required to settle the obligation; and
(iii) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision should be recognised.

(b) Present obligation

In some cases, it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the reporting date.

28.6.4 Measurement

(a) **Best estimate**

The amount recognised, as a provision should be the best estimate of the expenditure required to settle the present obligation at the reporting date.

The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time.

(b) **Risk and uncertainties**

The risks and uncertainties that inevitably surround many events and circumstances should be taken into account in reaching the best estimate of a provision.

(c) **Present value**

Where the effect of the time value of money is material, the amount of a provision should be the present value of the expenditure expected to be required to settle the obligation.

The discount rate (or rates) should be a pre-tax rate (or rates) that reflects current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) should not reflect risks of which future cash flow estimates have been adjusted.

(d) **Future events**

Future events may affect the amount required to settle an obligation and should be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.

28.6.5 Expected disposal of assets

Gains from the expected disposal of assets should not be taken into account in measuring a provision.

28.6.6 Reimbursements

Where some or all of the expenditure required for settling a provision is expected to be reimbursed by another party, the reimbursement should be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement should be treated as a separate asset. The amount recognised for the reimbursement should not exceed the amount of the provision.

In the statement of financial performance, the expense relating to a provision may be presented net of the amount recognised for a reimbursement.

28.6.7 Changes in provisions

Provisions should be reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision should be reversed.

28.6.8 Use of provisions

A provision should be used for expenditure for which the provision was originally recognised.

28.6.9 Restructuring

The following are examples of events that may fall under the definition of restructuring:

(a) termination or disposal of an activity or service;

(b) the closure of a branch office or termination of activities of a government agency in a specific location or region or the relocation of activities from one region to another;

(c) changes in management structure, for example, eliminating a layer of management or executive service; and

(d) fundamental re-organisations that have a material effect on the nature and focus of the entity's operations.

A constructive obligation to restructure arises only when an entity:

(i) has a detailed format plan for the restructuring identifying at least:

- the activity/operating unit or part of an activity/operating unit concerned;
- the principal locations affected;
- the location and approximate number of employees who will be compensated for terminating their services;
- the expenditure that will be undertaken; and
- when the plan will be implemented.

(ii) has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

28.6.10 Disclosure

(a) For each class of provision an entity should disclose:

(i) the carrying amount at the beginning and end of the period

(ii) additional provisions made in the period, including increases to existing provisions;

(iii) amounts used (i.e. incurred and charged against provision) during the period

(iv) unused amounts reversed during the period; and

(v) the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate. Comparative information is not required.

(b) An entity should disclose the following for each class of provision:
   (i) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential;
   (ii) an indication of the uncertain ties about the amount or timing of those outflows. where necessary to provide adequate information, an entity should disclose the major assumptions made concerning future events. and
   (iii) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

(c) Where an entity elects to recognise in its financial statements provisions for social benefits for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits, it should make the disclosures required in paragraph 1 and 2 in respect of those provisions.

(d) Unless the possibility of any outflow in settlement is remote, an entity should disclose for each class of contingent liability at the reporting date, a brief description of the nature of the contingent liability and where practicable:
   (i) an estimate of its financial effect
   (ii) an indication of the uncertainties relating to the amount or timing of any outflow; and
   (iii) the possibility of any reimbursement.

(e) Where an inflow of economic benefits or service potential is probable, an entity should disclose a brief description of the nature of the contingent assets at the reporting date, and, where practicable, an estimate of their financial effect.

(f) In extremely rare cases, disclosure of some or all of the information required above can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information, but should disclose the general nature of the dispute, together with the fact that, and reason why the information has not been disclosed.

28.6.11 Accounting treatment

S/N	Details	Remarks
i.	To record the provision on recognition	
	Dr- relevant expense	To recognise provisions in the reporting period
	Cr. – relevant provision	
ii.	To reverse provision	
	Dr- relevant provision	Reversal of provisions in subsequent reporting period
	Cr.- Prior year adjustments (reserves)	

28.7 IPSAS 21 – Impairment of non-cash-generating assets

28.7.1 Introduction

The objective of this standard is to prescribe the procedures that an entity applies to determine whether a non-cash-generating asset is impaired and to ensure the impairment losses are recognised. This standard also specifies when an entity would reserve an impairment loss and prescribes disclosures.

28.7.2 Definitions

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

(a) **Active market** is a market in which all the following conditions exist:
   (i) the items traded within the market are homogeneous;
   (ii) willing buyers and sellers can normally be found at any time; and
   (iii) prices are available to the public.

(b) **Carrying amount** is the amount at which an asset is recognized in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses there on.

(c) **Cash-generating assets** are assets held with the primary objective of generating a commercial return.

(d) **Costs of disposa**l are incremental costs directly attributable to the disposal of an asset, excluding finance cost and income tax expense.

(e) **Depreciation (amortisation)** is the systematic allocation of the depreciable amount of an asset over its useful life.

(f) **Fair value less costs to sell**: is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

(g) **Impairment loss of a non-cash-generating asset** is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

(h) **Non-cash-generating assets** are assets other than cash-generating assets.

(i) **Recoverable service amount i**s the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

(j) Useful life is either:
   - the period over which an asset is expected to be available for use by an entity; or
   - the number of production or similar units expected to be obtained from the asset by an entity.

(k) **Value in use of a non-cash-generating asset** is the present value of the asset remaining service potential.

28.7.3 Identifying an asset that may be impaired

An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists the entity shall estimate the recoverable service amount of an asset.

In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

(a) External sources of information
    (i) Cessation, or near cessation, of the demand or need for the services provided by the asset;
    (ii) Significant long-term changes with an adverse on the entity have been taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the entity operates.

(b) Internal sources of information
    (i) Evidence is available of physical damage of an asset;
    (ii) Significant long-term changes with an adverse on the entity have taken place during the period or are expected to take place in near future, in the extent to which, or manner in which, an asset is used or expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date;
    (iii) A decision to halt the construction of an asset before it is completed or in a usable condition; and
    (iv) Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.

28.7.4 Recognising and measuring an impairment loss

If, and only if, the recoverable service amount of an asset is less than its carrying amount, the carrying amount of an asset shall be reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss shall be recognised immediately in surplus or deficit. When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an entity shall recognise a liability if, and only if, that is required by another IPSAS.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on systematic basis over its remaining useful life.

28.7.5 Reversing an impairment loss

An entity shall assess at each reporting date whether there is an indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased, if any such indication exists, the entity shall estimate the recoverable service amount of the asset.

In assessing whether there is an indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased, an entity shall consider, as a minimum the following indications:

External sources of information

(a) Resurgence of the demand or need for service provided by the asset;

(b) Significant long-term changes with a favourable effect on the entity have taken place during the period, or will take place in the near future, in the technological, legal or government policy environment in which the entity operates.

Internal sources of information

(a) Significant long-term changes with a favourable effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or expected to be used. These changes include costs incurred during the period to improve or enhance an asset's performance or restructure the operation to which the asset belongs.
(b) A decision to resume construction of the asset that was previously halted before it was completed or in a usable condition.
(c) Evidence is available from internal reporting, which indicates that the service performance of an asset is, or will be, significantly better than expected.

An impairment loss recognised in prior periods, of an asset shall be reversed if, only if, there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment cost was recognised. If this is the case, the carrying amount of the asset shall, except as described in the next paragraph, be increased to its recoverable service amount. That increase is a reversal of an impairment loss.
The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.
A reversal of an impairment loss for an asset shall be recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any),on a systematic basis over its remaining useful life.

28.7.6 Re- designation of assets

The re-designation of assets from cash-generating assets to non-cash-generating assets or from non-cash-generating assets to cash-generating assets shall only occur when there is clear evidence that such are-designation is appropriate. A re-designation, by itself, does not necessarily trigger an impairment test or reversal or an impairment loss arises from, as a minimum, the listed indications applicable to the asset after re-designation.

External sources of information

(a) The asset's market value has increased significantly during the period.

(b) Significant changes with a favourable effect on the entity have taken place during the period, or will take place during the period, or will take place in the near future, in the technological market, economic or legal environment in which the entity operates or in the market to which the asset is dedicated.

(c) Market interest rate or other market rates of return on investments have decreased during the period, and those decreases are likely to affect the discount rate used in calculating an asset's value in use and increase in the asset's recoverable amount materially.

Internal sources of information

(a) Significant changes with a favourable effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, the asset is used or is expected to be used. These changes include costs incurred during the period to improve or enhance the asset's performance or restructure the operation to which the asset belongs.

(b) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, better than expected.

28.7.7 Disclosure

(a) The amount of impairment losses recognized in surplus or deficit during the period and the line item(s) of the statement of financial performance in which those impairment losses are included.

(b) The amount of reversals of impairment losses recognised in the surplus or deficit during the period and the line item(s) of the statement of financial performance in which those impairment losses are reversed.

An entity that reports segment information in accordance with IPSAS 18, 'Segment Reporting' shall disclose the following for each segment reported by the entity:

(a) the amount of reversals of the impairment losses recognised in the surplus or deficit the period; and

(b) the amount of reversals of impairment losses recognised in surplus or deficit during the period.

An entity shall disclose the following for each material impairment loss recognised or reversed during the period:

(i) the events and circumstances that led to the recognition or the reversal of the impairment loss;

(ii) the amount of the impairment loss recognised or reversed;

(iii) the nature of the asset;

(iv) the segment to which the asset belongs, if the entity reports segment information in accordance with IPSAS 18;

(v) whether the recoverable service amount of the asset is its fair value less costs to sell or its value in use;

(vi) if the recoverable service amount is fair value less costs to sell, the basis used to determine fair value less cost to sell (such as whether fair value was determined by reference to an active market); and

(vii) if the recoverable service amount is value in use, the approach used to determine value in use.

An entity shall disclose the following information for the aggregate of impairment losses recognised during the period for which no information is disclosed in accordance with the paragraph above:

(a) the main classes of assets affected by impairment losses (and the main classes of assets affected by reversals of impairment losses); and

(b) the main events and circumstances that led to the recognition of these impairment losses and reversals of impairment losses.

28.8 IPSAS 26- Impairment of cash generating assets

28.8.1 Introduction

The objective of the standard is to prescribe the procedures that an entity applies to determine whether a cash generating asset is impaired and to ensure that impairment losses are recognised. This standard also specifies when an entity should reverse an impaired lost and prescribe disclosures.

28.8.2 Definitions

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

(a) **Cash-generating assets** are assets held with the primary objective of generating a commercial return.

(b) **A cash-generating unit** is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflow from continuing use that are largely independent of the cash inflow from other assets or groups of assets.

(c) **An impairment loss of a cash-generating asset** is the amount by which the carrying amount of an asset exceeds its recoverable account

(d) Non-cash generating assets are assets other than cash generating asset

(e) The recoverable amount of an asset or a cash-generating unit is its fair value less costs to sell and its value in use.

(f) Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

28.8.3 Value in use

The following elements shall be reflected in the calculation of an asset's value in use:

(a) an estimate of the future cash flows the entity expects to derive from the asset;

(b) expectations about possible variations in the amount or timing of those future cash flows;
(c) the time value of money, represented by the current market risk free rate of interest;
(d) the price for bearing the uncertainty inherent in the asset; and
(e) other factors, such as illiquidity that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

28.8.4 Reversing an impairment loss

An entity shall assess at each reporting date whether there is an indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased, if any such indication exists, the entity shall estimate the recoverable service amount of the asset.
In assessing whether there is an indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased, an entity shall consider, as a minimum the following indications:

External sources of information

(a) The asset's market value has increased significantly during the period.
(b) Significant changes with a favourable effect on the entity have taken place during the period, or will take place during the period, or will take place in the near future, in the technological market, economic or legal environment in which the entity operates or in the market to which the asset is dedicated.
(c) Market interest rate or other market rates of return on investments have decreased during the period, and those decreases are likely to affect the discount rate used in calculating an asset's value in use and increase in the asset's recoverable amount materially.

Internal sources of information

(a) Significant changes with a favourable effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, the asset is used or is expected to be used. These changes include costs incurred during the period to improve or enhance the asset's performance or restructure the operation to which the asset belongs; and
(b) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, better than expected.

28.8.5 Disclosure

An entity shall disclose the criteria developed by the entity to distinguish cash generating assets from non-cash-generating assets.
An entity shall disclose the following for each class of assets:

(a) the amount of impairment losses recognised in surplus or deficit during the period and the line item(s) of the statement of financial performance in which those impairment losses are included.

(b) the amount of reversals of impairment losses recognised in the surplus of deficit during the period and the line item(s) of the statement of financial performance in which those impairment losses are reversed.

An entity is encouraged to disclose assumptions used to determine the recoverable amount of assets during the period. An entity is required to disclose information about the estimates used to measure the recoverable amount of cash-generating unit when an intangible asset with an indefinite useful life is included in the carrying amount of that unit.

28.8.6 Accounting treatment for impairment on generating assets and non-generating assets

S/N	Details	Remarks
i.	**Recognition of impairment**	
	Dr.- Impairment charges Cr.- Accumulated impairment charges	With the value of the determined impairment
ii.	**Reversal of Impairment**	
	Dr.- Accumulated impairment charges Cr.- Reserves account	With the value of the determined impairment charges for reversal

28.9 IPSAS 27 Agriculture

28.9.1 Introduction:

The IPSAS 27 deals with the accounting treatment and disclosures in relation to agricultural practice. It specifically deals with the accounting treatment of assets that are biological in nature as regards to their period of growth, degeneration, production and procreation and the basis for the measurement of agricultural produce at the period they are ready for harvesting.

28.9.2 Definition

(a) **Agricultural activity:** This is the management by an entity of the biological assets for sale, distribution or for conversion into agricultural produce. This comprises of such activities like raising livestock, forestry, annual or perennial cropping and cultivation of plantations, floriculture and fish farming.

(b) **Agricultural produce:** This is described as the harvested product of an entity's biological assets.

(c) **Biological asset:** This is described as a living animal or plant.

(d) **Biological transformation:** This is described as the aggregate process of growth, degeneration, production and procreation, which culminated into qualitative and quantitative changes in a biological asset.

(e) **Costs to sell:** These are the incremental costs which are directly incurred during the sale of an asset. This does not include finance costs and income taxes paid.

28.9.3 Relationship between agricultural activities and non-agricultural activities

Biological assets	Agricultural produce	Products that are the result of processing after harvest (non-agricultural produce)
Sheep	Wool	Yarn, carpet
Trees in a plantation	Felled trees	Logs, timber etc.
Plants	Cotton/harvested canes	Threads for clothing/sugar
Dairy cattle	Milk	Cheese, Ice cream
Pigs	Carcass	Sausages, cured hams
Bushes	Leaf	Tea, cured tobacco
Vines	Grapes	Wine
Fruit trees	Picked fruits	Processed fruits, juice drinks

28.9.4 Scope of accounting treatment of biological assets

(a) **Biological assets and agricultural produce**

In relation to the two above a public sector entity employing the accrual basis of accounting has to apply IPSAS 27 at the point of harvest. However, after the point of harvest, IPSAS 12, which deals with inventories is to be used for the accounting standard.

(b) **Recognition of biological assets and agricultural produce**

According to the standard, an entity shall recognise a biological asset or agricultural produce only when:

(i) the entity controls the assets as a result of past events.

(ii) there is the probability that future economic benefits or service hitherto associated with the asset will flow into the entity.

(iii) the fair value or the cost of the asset can be measured reliably.

(c) **Measurement of biological asset and agricultural produce**

(i) **Biological asset:** The standard reiterated that a biological asset be measured on initial recognition and at each reporting date at its fair value less costs to sell until disposal except where the fair value cannot be measured reliably.

(ii) **Agricultural produce:** Agriculture produce harvested from an entity's biological assets is measured at its fair value less costs to sell at the point of harvest.

(d) **Determination of fair value for a biological asset or agricultural produce:**

Section 14 of the standard states that, the fair value of an asset is based on its present location and condition. For instance, the fair value of a barn of yams is the price for the yams in the market less the transport and other incidental cost of taking the yams to the market, which is an active mar

However, where there exists no active market, the standard recommends any or combination of the following as reference point for determining the fair value.

(i) The most recent market transaction price

(ii) Market price for similar assets with adjustment to reflect differences.
(iii) The agricultural sector benchmark i.e. per hectare of crops per kg of meat.

28.9.5 Measurement of a biological asset

(a) Determination of fair value if market prices are not available

There are situations where market determined prices or values may not be available for a biological asset in its present state. In determining fair value in this situation, an entity should use the present value of expected net cash flows from the asset discounted at a current market–determined rate. Section 27 of the standard provides that an entity should include the net cash flows that the market participants would expect the asset to generate in its most relevant market.

(b) Measurement when fair value cannot be reliable determined

Where market determined prices or value of a biological asset cannot be reliably measured and other estimates of fair value are not reliable, than the biological asset is required to be measured at its cost less any accumulated depreciation and any accumulated impairment losses.

28.9.6 Accounting treatment of gains or losses

(a) **Gains or losses arising on initial recognition**

In accordance with Sections 30 and 32 of the Standard, gain or loss arising on initial recognition of a biological asset or agricultural produce at fair value less costs to sell is included in surplus or deficit for the period in which it relates for example a gain or loss arising when a kid is given birth to or when crops are harvested.

(b) Gains or losses from a change in fair value less costs to sell

Sections 30, of the standard state that gains or losses arising from a change in fair value less cost to sell of a biological asset are taken as surplus or deficit for the relevant period in which it relates.

S/N	Details	Remarks
a.	**Acquired biological asset**	
	Dr - Biological asset Cr - Accounts payable	To recognise acquired biological asset with all attributable cost
	Dr -Accounts payable Cr -Cash/Bank	On payment of cash
b.	**Transformed biological assets**	
	Dr -Biological asset Cr- Accounts payable	With all attributable cost of biological transformation
	Dr - Accounts payable Cr -Cash/Bank	On payment of cash in respect of transformation of biological assets
c.	**Depreciation of biological assets**	
	Dr - Depreciation charges Cr - Accumulated depreciation charges	With the value of wear and tear of the assets using the rates provided

S/N	Details	Remarks
		in the accounting policy
d.	**Impairments of biological assets**	
	Dr - Impairment charges Cr- Accumulated impairment charges	With impairment losses computed
e.	**Revaluation of biological assets**	
	Dr - Relevant biological assets Cr - Relevant revaluation reserve account	With the value of appreciation computed

Illustration 28-5

BIA State Agricultural Corporation is involved in rearing of cattle livestock. It acquired 300 calves at fair value of ₦60,000 per calf during the financial year. Cost of bringing the calves from the point of purchase was put at ₦200,000
In addition to the above, the entity incurred a total sum of ₦550,000 in maintaining the cattle during the period. The cattle were later slaughtered at the entity's abattoir and carcasses sold for a total sum of ₦24,500,000.

Required: Prepare the journal entries to record the above transactions.

Solution 28-5

S/N	Details	Dr	Cr	Remarks
		₦'000	**₦'000**	
a.	Biological assets	18,200		To recognise cost of biological assets obtained through exchange transaction
	Bank		18,200	
b.	Biological assets	550		To recognise cost of transformation
	Bank		550	
	Inventory held for sale	18,750		To recognise total costs of agricultural produce at the point of sale
	Biological assets		18,750	
	Account receivable	24,500		To recognise the revenue from the sales of carcasses
	Inventory held for sale		18,750	
	Gain on sale		5,750	
	Bank	24,500		On receipt of payments
	Account receivable		24,500	

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28.10 IPASAS 31: Intangible asset

28.10.1 Introduction

The basic objective of the standard is to prescribe the accounting treatment for intangible assets that are not treated specifically in other IPSAS. The standard requires an entity to recognise an intangible asset if certain criteria are met and also specifies how to measure the carrying amount and specific disclosures required about intangible assets.

28.10.2 Definition

(a) **Amortisation** is the systematical location of the depreciable amount of an intangible asset over its useful life.
(b) **Development** is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, product, processes, systems or services before the start of commercial production or use.
(c) **Depreciable amount** is the cost of an asset or other amount substituted for cost less its residual value.
(d) **Impairment loss** is the amount by which the carrying amount of an asset exceeds its recoverable amount.
(e) **Intangible asset** is an identifiable non-monetary asset without physical substances. Examples of intangible assets in the public sector are computer software, patents, copyrights and acquired import quotas.
(f) **Research** is the original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

28.10.3 Scope of IPSAS 31

The IPSAS applies to:

(a) expenditure on advertising, training, start-up, research and development activities; and
(b) legal documentation in the case of a license or patent or film.

For the determination whether an asset that incorporates both intangible and tangible elements should be treated under IPSAS 45 or as an intangible asset under IPSAS 31, an entity uses judgment to assess which element is more significant. The standard shall be applied in accounting for tangible assets except:

(i) intangible assets that are within the scope of another standard;
(ii) financial assets;
(iii) the recognition and measurement exploration and evaluation costs;
(iv) expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources;
(v) intangible assets or goodwill acquired in a business combination; and
(vi) power and rights conferred by legislation, a constitution or by equivalent means.

28.10.4 Recognition

(a) An intangible asset is an identifiable non-monetary asset without physical substance. An intangible asset is identifiable when it:
   (i) is separable, that is, it can be separated or removed from an entity and disposed of, licensed, rented or exchanged, either individually or together with a related contract asset or liability; and
   (ii) arises from rights from binding arrangements irrespective of whether such rights are transferable or separable from the entity or from other rights and obligations.

(b) Control is another condition that can be employed in the recognition of an intangible asset. A public sector entity controls an asset if the entity has the power to obtain the future economic benefits or service potential flowing from the underlying resource of the entity.

(c) An intangible asset shall only be recognised if:
   (i) it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
   (ii) the cost or fair value of the asset as appropriate can be reliably measured.

(d) Internally generated goodwill is not recognised as an asset because it is not an identifiable resource i.e. it is not separable.

According to section 55 of the standard, an intangible asset arising from development shall be recognised if an entity can demonstrate the following:

(a) the technical feasibility of completing the intangible asset so that it will be available for use;
(b) its intention to complete the intangible asset and use or sell it;
(c) its ability to use or sell the intangible asset;
(d) how the intangible asset will generate probable future economic benefits or service potential;
(e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

28.10.5 Initial measurement

In general, an intangible asset that is separately acquired through an exchange transaction is measured initially at cost. The cost of a separately acquired intangible asset comprises:

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
(b) any directly attributable cost of preparing the asset for its intended use.

An intangible asset that is acquired free of charge, or for nominal consideration, through a non-exchange transaction i.e. measured at its fair value at the date it is acquired for example licenses to operate radio and T.V. stations, import licenses or airport landing rights.

28.10.6 Subsequent measurement

For subsequent measurement of an intangible asset, an entity can decide to use the cost model or the revaluation model as its adopted accounting policy.
If an intangible asset is accounted for using the revaluation model, all other assets in its class shall also be accounted for using the same model except there are no active markets for those assets as applicable to intangible assets in IPSAS 45

An intangible asset with a finite useful life is amortised while an intangible asset with an indefinite useful life is not. Therefore, an entity is required to assess whether the useful life of an intangible asset is finite or indefinite.

The amortisation commences when the asset is ready for use and ceases the date the asset is held for sale or derecognised whichever comes earlier.

28.10.7 Accounting treatment

S/N	Details	Remarks
a.	**For purchased intangible assets**	
i.	Dr - Intangible assets Cr - Cash/Bank	When it is an outright purchase with all attributable cost
ii.	Dr - Intangible assets Cr - Accounts payable	When acquired on credit with all attributable cost
iii.	Dr - Accounts payable Cr - Cash/Bank	When payment is made
b.	**For Internally generated intangible assets (development cost)**	
i.	Dr - Iitangible assets Cr - Bank	When it is outright payment with all attributable cost
ii.	Dr - Intangible assets Cr - Accounts payable	When acquired on credit with all attributable cost accrued
iii.	Dr - Accounts payable Cr - Bank	When payment is finally made.
c.	**For Intangible assets from aid and grants**	
i.	Dr– Intangible assets Cr - Aid and grants	With the fair value of the assets donated.
d.	**For swapped intangible assets**	
i.	Dr. - New intangible assets Cr - Existing intangible assets Cr - Gain on exchange	If the carrying value of new intangible assets exceed that of existing assets
ii.	Dr - New intangible assets Dr - Loss on exchange Cr - Existing intangible assets	If the carrying value of new intangible assets is less than that of existing intangible assets
e.	**For amortisation charges**	

S/N	Details	Remarks
i.	Dr - Amortisation charges Cr – Accumulated amortisation charges	In the case of intangible assets with finite useful life span
f.	For recognition of impairment losses on intangible assets	
i.	Dr - Impairment charges Cr - Accumulated impairment charges	Recognition of computed impairment loss
g.	**For disposal of intangible assets**	
i.	Dr,- Intangible asset disposal A/C Cr - Relevant intangible asset A/C	With the carrying amount.
ii.	Dr - Accumulated amortisation A/C Cr - Intangible asset disposal A/C	With carrying amount of accumulated amortisation
iii.	Dr.- Bank Cr - Intangible assets disposal A/C	With proceeds from disposal of the intangible assets
iv.	Dr - Intangible assets disposal A/C Cr - Gain on disposal;	Recognition of gain on disposal
v	Dr - Loss on disposal Cr - Intangible assets disposal A/C	Recognition of loss disposal
h.	**For revaluation of intangible assets**	
i.	Dr - Relevant intangible assets Cr - Relevant revaluation reserve A/C	With the value of appreciation computed

Illustration 28-6

Mokola State Drug Manufacturing Corporation had the following transactions for the year ended December 31, 2024:

(i) The agency acquired patent from a third party at the cost of ₦2,000,000. Other attributable costs amounted to ₦150,000

(ii) The Agency decides to exchange a drug patent (patent X) it owns with a third party for another drug patent (Patent Y). Patent X's carrying amount as at the date of transaction was ₦5,000,000 and its fair value was ₦7,000,000

(iii) The Agency developed new Software that will assist in distributing all the Agency drugs effectively. It has expended a total sum of ₦600,000 on the development of the Software between June 1, 2024 and December 2024. Prior to June 1, the expenditure incurred by the Agency for the R&D of the system was ₦200,000. From all indications, economic benefits will be derived from the software and it has met all the criteria for recognition as an intangible asset.

(iv) The Entity acquired Patent from a third party (AKO Ltd) at a cost of ₦750,000. The Patent is expected to be used for a period of 10 years and thereafter be sold at a value of ₦250,000 to any willing buyer.

(v) The Entity acquired Patent to manufacture vaccines in the country for a period of 20 years at a cost of ₦850,000 in 2024. The entity decides to sell the right to another entity at a cost of ₦590,000. The carrying amount of the patent right at the time of disposal was ₦500,000.

Solution 28-6

S/N	Details	Dr	Cr	Remarks
		₦'000	₦'000	
a.	Intangible assets	350		To recognise intangible asset acquired
	Accounts payable		350	
	Accounts payable	350		Upon payment of cash
	Bank		350	
b.	Intangible asset (Patent Y)	7,000		To recognise non-monetary exchange of intangible asset
	Intangible asset (Patent X)		5,000	
	Gain on exchange		2,000	
c.	Operating expenses (research)	200		To recognise expenditure incurred for the R&D of the new system
	Intangible asset (software)	600		
	Bank		800	
d.	Intangible assets	750		To recognise expenditure incurred on acquisition of patent right
	Bank		750	
	Amortisation charges	50		To recognise amortisation charges calculated as follows: (750,000-250,000)/10
	Accum. amortisation charges		50	
e.	Intangible asset disposal A/C	850		To close the account of the patent right
	Patent account		850	
	Accumulated amortisation	250		To close accumulated amortisation account
	Intangible asset disposal A/C		250	
	Bank	590		To recognise proceeds and gain on the sale of the patent right
	Intangible asset disposal A/C		590	
	Gain on disposal of PPE		90	

28.11 Chapter review

This chapter examines the provisions of IPSASs 43, 16, 45, 19, 21, 26, 27 and 31. The objective is to facilitate better awareness of their provisions and applications.

28.12 Worked examples

28.12.1 Examination type questions

1. The objective of IPSAS 19 is to define provisions, contingent liabilities and contingent assets, and identify the circumstances in which provisions should be measured and the disclosures that should be made about them.

Required:

(a) Explain the provisions of contingent liabilities and contingent assets that are not covered by IPSAS 19.

(b) Explain the provisions an entity is expected to disclose under IPSAS 19 on provisions, contingent liabilities and contingent assets.

2 The objective of IPSAS 26 is to prescribe the procedures that an entity applies to determine whether a cash generating asset is impaired and to ensure that impairment losses are recognised.

Required:

(a) Explain 'impairment' in accordance with IPSAS 26 on impairment of cash generating assets.

(b) Discuss the disclosures for each material impairment loss recognised or reversed during the period for cash generating assets.

3. According to IPSAS 27 on Agriculture which deals with the accounting treatment of assets that are biological in nature as regards to their period of growth, degeneration, production and procreation and the basis for the measurement of agricultural produce at the period they are ready for harvesting

Required:

(a) Explain the relationship between agricultural activities and non-agricultural activities.

(b) Discuss the conditions for the recognition of biological assets and agricultural produce.

(c) Discuss the measurement of biological asset and agricultural produce

28.12.2 Suggested solutions to open-ended questions

1 (a) Provisions, contingent liabilities and contingent assets that are not covered by IPSAS 19 will include the following:

(i) Those provisions resulting from financial instruments that are carried at fair value;

(ii) Those provisions, contingent liabilities and contingent assets resulting from executory contracts, other than where the contract is onerous subject to other provisions;

(iii) Those provisions and contingent liabilities arising from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of goods and service provided directly in return from the recipients of those benefits;

(iv) Those provisions and contingent liabilities in insurance entities from contracts with policy holders;

(v) Those provisions and contingent liabilities covered by another IPSAS;

(vi) Those provisions arising in relation to income taxes equivalents;

(vii) Those provisions and contingent liabilities arising from employees' termination benefits that arise as a result of are structuring;

(b) For each class of provision, an entity should disclose the following in its financial statements:

(i) The carrying amount at the beginning and end of period;

(ii) Additional provisions made in the period, including increase to existing provisions;

(iii) Amount used (that is, incurred and charged against the provision) during the period;

(iv) Unused amount reversed during the period;

(v) The increase during the period in the discounted amount arising from passage of time and the effect of any change in the discount rate.

2. (a) IPSAS 26 defines 'impairment' as a loss in the future economic benefits or service potential of an assets, over and above the systematic recognition of the loss of the assets' future economic benefits or service potential embodied in an asset to the entity that controls it. A good example will be a motor- park built by a local council that is currently being used at 50% of capacity. Since it is held for commercial purposes and management has estimated that it generates a commercial rate of return when usage is at 80% of capacity and above. The decline in usage has not been supported by significant increase in parking charges. The asset is therefore, regarded as impaired because its carrying amount exceeds its recoverable amount.

(b) An entity shall disclose the following for each material impairment loss recognised or reversed during the period for a cash-generating asset.

(i) The events and circumstances that led to the recognition or reversal of the impairment loss.

(ii) The amount of the impairment loss recognised or reversed.

(iii) For a cash-generating asset:

- The nature of the asset, and
- If the entity reports segment information in accordance with IPSAS 18, the reported segment to which the asset belongs, based on the entity's reporting format;

(iv) For a cash-generating unit:

- a description of the cash-generating unit (such as whether it is a product line, a plant, a business operation, a geographical area, or a reported segment);
- the amount of the impairment loss recognized or reversed by class of assets, and if the entity reports segment information inaccordance with IPSAS18, by reported segment based on the entity's reporting format;
- if the aggregation of assets for identifying the cash generating unit has changed since the previous estimate of the cash-generating unit's recoverable amount (if any), a description of the current and former way of aggregating assets and the reason for changing the way the cash-generating unit is identified;

(v) Whether the recoverable amount of the asset is its fair valueless costs to sell or its value in use.

(vi) If the recoverable amount is fair value less costs to sell, the basis used to determine fair value less costs to sell (such as whether fair value was determined by reference to an active market).

(vii) If the recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.

3 (a) Relationship between agricultural activities and non-agricultural activities

Biological assets	Agricultural produce	Products that are the result of processing after harvest (non-agricultural produce
Sheep	Wool	Yam, carpet
Trees in a plantation	Felled Trees	Logs, timber etc.
Plants	Cotton/harvested canes	Threads for clothing/sugar
Dairy cattle	Milk	Cheese, ice cream
Pigs	Carcass	Sausages, cured hams
Bushes	Leaf	Tea, cured tobacco
Vines	Grapes	Wine
Fruit trees	Picked fruits	Processed fruits, juice drinks

(b) Recognition of biological assets and agricultural produce:

According to the Standard, an entity shall recognise a biological asset or agricultural produce only when:

(i) the entity controls the assets as a result of past events;

(ii) there is the probability that future economic benefits or service hitherto associated with the asset will flow into the entity; and

(iii) the fair value or the cost of the asset can be measured reliably.

(c) Measurement of biological asset and agricultural produce

(i) Biological asset: The standard reiterated that a biological asset be measured on initial recognition and at each reporting date at its fair value less costs to sell until disposal except where the fair value cannot be measured reliably.

(ii) Agricultural produce: Agriculture produce harvested from an entity's biological assets is measured at its fair value less costs to sell at the point of harvest.

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Skills Level
Public Sector Accounting and Finance

CHAPTER 29

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSASs) GROUP C (IPSASs 28, 30, 32, 35 and 41)

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29.7 Chapter review

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29 International public sector accounting standards (IPSASs) Group C (IPSASs 28, 30, 32, 35 and 41)

29.0 Learning objective

The objective of this chapter is to enhance readers' understanding of the provisions of IPSASs 28, 30,32, 35, and 41.

29.1 Learning outcomes

On successful completion of this chapter, readers should be able to discuss the provisions of IPSASs, 28, 30,32, 35, and 41.

29.2 IPSAS 28: Financial instruments: Presentation (replaced IPSAS 15)

29.2.1 Introduction

The main objective of the standard is to establish the principles for presentation of financial instruments as liabilities or net assets/equity purposely for offsetting financial asset and financial liabilities. The standard applies to the following:

(a) classification of financial instruments into financial assets, financial liabilities and equity instruments;
(b) classification of related interest, dividends or similar distributions, losses and gains; and
(c) circumstances in which financial instruments and liabilities should be offset.

29.2.2 Basic definitions

(a) **Equity instrument** is any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities.
(b) **Financial instrument** is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.
(c) **Financial asset** is any asset that is:
    (i) cash;
    (ii) an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity or to exchange financial assets or financial liabilities with another entity; and
    (iii) a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.
(d) **Financial liability** is any liability that is:
    (i) a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity; and

(ii) a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial assets for a fixed number of the entity's own equity instruments.

(e) **Puttable instrument** is a financial instrument that gives the holder of the instrument the right to put it back to the issuer for cash or another financial asset or is automatically put back to the issuer as a result of an uncertain future event or death of the instrument holder or retirement of instrument holder.

(f) **Financial guarantee contract** is a contract that requires the issuer to make specified payments to re-imburse the holder for a loss it incurs because a specified debt or has failed to make payment as at when due in accordance with the original terms of a debt instrument.

29.2.3 Scope of IPSAS 28

The scope of the standard excludes insurance contracts but deals with financial guarantee contracts and with insurance contract that transfer financial risk. In other words, contracts that are insurance contracts but involve the transfer of so financial risks may be treated as financial instruments.

29.2.4 Presentation of liabilities and equity

The standard states that the issuer of a financial instruments hall classify the instrument or its component parts on initial recognition in accordance with the subsistence of the contractual arrangement as a financial liability, a financial asset or an equity instrument (substance over form).

29.2.5 Presentation of treasury shares

Where an entity re-acquires its own equity instruments, the instruments so re-acquired (treasury shares) shall be deducted from net assets/equity and no gain or loss shall be recognised in surplus or deficit arising from an entity's own equity instruments.

29.2.6 Presentation of interest, dividends or similar distributions, losses and gains.

The standard stipulates that interest, dividends losses and gains relating to a financial instrument are recognised as revenue or expenses in surplus or deficit. Distributions to holders of an equity instrument are debited directly to net assets/equity.

29.2.7 Off-setting a financial asset and a financial liability

Financial assets and financial liabilities shall be offset when an entity has a legally enforceable right to set off and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

29.3 IPSAS 30: Financial instruments: Disclosures (replaced IPSAS 15)

29.3.1 Introduction

The main objective of the standard is to require entities to provide disclosure in their financial statements that enable them to evaluate:

(a) the importance of financial instruments for the entity's financial state and performance;
(b) the nature and extent of risks that has arose from financial instruments to which the entity is exposed during and at the end of the relevant reporting period; and
(c) how the entity manages the risk above.

29.3.2 Basic definitions

(a) **Credit risk** is the risk that one party to a financial instrument will cause financial loss for the other party by failing to discharge an obligation.
(b) **Currency risk** is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in foreign exchange rate.
(c) **Interest rate risk** is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
(d) **Liquidity risk** is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.
(e) **Loans payables** are financial liabilities other than short-terms trade payables on normal credit terms.
(f) **Market risk** is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.
(g) **Other price risk** is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market price.
(h) **Past due:** A financial asset is said to be past due when a counter party has failed to make a payment when contractually due.

29.3.3 Scope of IPSAS 30

The standard applies to both recognised and unrecognised financial instruments. Recognised and unrecognised financial instruments and financial liabilities are those within and outside the scope of IPSAS 29 respectively.

29.3.4 Overview of the disclosure

Classification

(a) Financial Statement disclosures resulting from financial instruments:
    (i) General disclosures on financial instruments
        - The carrying amounts of financial instruments according to the category have to be shown in statement of financial position or as notes.

- All entities have to disclose items of revenue, expense and gains or losses resulting from financial instruments in their statement of financial performance or in the notes.
- All entities are required to disclose the significant accounting policies relevant to an understanding of their financial instruments.

(ii) **Specific disclosures on financial statements**

An entity must provide additional disclosures if:

- financial assets or financial liabilities have been designated;
- financial assets have been reclassified;
- financial assets have been transferred;
- financial assets have been pledged or held as collateral;
- the impairment of financial assets have been recorded in a separate account;
- defaults of loans payable or breaches of loan agreement terms have occurred; and
- financial assets or financial liabilities have been recorded at fair value.

(ii) **Specific disclosures and concessionary loans**

Concessionary Loans are loans granted to or received by an entity on below- market terms for example loans to developing countries small farms, student loans, or housing loans to low-income earners. The specific disclosures in relation to such loans are:

- reconciliation between the opening and closing balance of the loans;
- the nominal value of the loans at the end of the period;
- the purpose and terms of the loans; and
- the assumptions for valuations.

(b) Risk disclosures resulting from financial instruments

Disclosures on credit sales

(i) Specific disclosures by category of financial instrument that are required in particular for financial assets that are either past due or impaired collateral and other credit enhancements obtained have to be named, quantified and explained.

(ii) **Disclosures on liquidity risks**

A maturity analysis must be disclosed for derivative and non-derivative financial liabilities.

(iii) **Disclosures on market risks**

Besides qualitative disclosures on the market risks arising from financial instruments, an entity has to quantify its market risks. A sensitivity analysis is required to be disclosed for each type of market risk

29.3.5 Accounting treatment

S/N	Details	Remarks
a.	**To recognise account receivable on dividend**	
	Dr Account receivable Cr Relevant revenue line item	To recognize receivable on declared dividend.
	Dr - Cash/Bank Cr- Account receivable	Upon cash receipt on declared dividend.
b.	**To recognise financial asset at fair value through surplus or deficit**	
	Dr - Relevant financial asset Cr-Cash/bank	With the fair value of the financial asset
c.	**To record sale of financial asset at fair value through surplus or deficit**	
	Dr -Cash/Bank Dr - Loss on sale of financial asset Cr - Relevant financial asset	Atfair value surplus or deficit through
d.	**To record the purchase of available- for-sale financial asset**	
	Dr - Relevant financial asset Cr -Cash/bank	Withthe total cost of purchase
e.	**To expense transaction cost relating to financial asset**	
	Dr - Relevant expenses account Cr- Cash/bank	To recognise expense of the transaction cost financial asset
f.	**To record the gain on the re- measurement of available –for-sale**	
	Dr - Relevant financial asset Cr- Gain on re-measurement of relevant financial asset.	To recognise the gain on there- measurement of available –for- sale
g.	**To record purchase of held to maturity financial asset**	
	Dr - Relevant financial asset Cr - Cash/bank	To recognise purchase of held to maturity financial asset
h.	**To record recognition of loan**	
	Dr-Loan Cr-Cash/bank	To recognise recognition of loan
	Dr- Interest receivable Cr- Interest revenue	
i.	**To treat periodic repayment of the loan**	
	Dr - Cash/bank Cr - Loan Cr - Interest receivable	To recognise periodic repayment of the loan

Illustration 29-1

The Obodo State Government using IPSAS accrual carries out the following transactions during the year 2024:

(a) The government provided services to Kuku Local Government within the state for ₦845,000 for the provision of health services;

(b) The government had in its accounts as at December 31, 2024, an overdue account receivable in the sum of ₦400,000. The government on approval from authorities set up a provision for impairment loss for ₦230,000 after collectability assessment. The debtor after serious discussions committed to payment in the sum of ₦180,000 while the balance was later written off completely;

(c) An accounts receivable of the government in the sum of ₦150,000 was deemed uncollectable. There was no allowance for impairment loss made;

(d) The government during the year ended 2024 provided a loan of ₦20,000,000 to State Education Board to finance construction of school buildings. The loan bears interest at a rate of 10% per annum and is repayable yearly at the end of every year over a 5-year period. There was no moratorium period;

(e) The government granted a loan in the sum of ₦5,000,000 to the State Primary Health Board to fight tuberculosis at 5% concessionary interest rate and the market interest rate is 25%. Repayable over a period of four years with the first installment due at the end of year one;

(f) Akoko Ltd. Purchased bonds issued by the State Government at fair value through surplus or deficit. The fair value at the date of purchase amounted to ₦7,800,000 while transaction cost amounted to ₦200,000. The fair value of the bond at the end of the year decreased to ₦7,560,000;

(g) The government sold a financial asset at fair value of ₦5,425,000. The carrying amount of the financial asset is ₦5,000,000;

(h) The state government purchased a quoted security during the year which amount to a sum of ₦600,000 without any transaction cost. The fair value of the security as at year end it appreciated to ₦800,000; and

(i) The governmental so purchased quoted bonds at ₦4,500,000; the sum of ₦80,000 was incurred as transaction cost. The bonds were re-measured and valued at ₦4,000,000 as at the year-end.

Required: Prepare the journal entries to record the above transactions.

Solution 29.1

S/N	Details	Dr	Cr	Remarks
		₦'000	**₦'000**	
a.	Account receivable	845		To recognise transaction - upon service rendered to the third party
	Relevant revenue line item		845	

S/N	Details	Dr	Cr	Remarks
		₦'000	₦'000	
	Bank	845		Upon cash settlement
	Account receivable		845	
b.	Impairment loss expense	230		To record accumulated impairment loss
	Accumulated impairment loss		230	
	Accumulated impairment loss	180		To recognise partial reversal
	Impairment loss expense		180	
	Accumulated impairment loss	50		To recognise balance written off.
	account receivable		50	
c.	Bad debt written off	150		To recognise the write off.
	Account receivable		150	
d.	Account receivable (loan)	20,000		To recognise loan granted
	Bank		20,000	
	Interest receivable	2,000		To recognise accrued interest receivable in 2017
	Interest revenue		2,000	
	Bank	6,000		To recognise periodic repayment of principal and interest on loan
	Accounts receivable (loan)		4,000	
	Interest receivable		2,000	
e.	Account receivable (Loan)	5,000		To recognise loan granted
	Bank		5,000	
	Interest receivable	250		To recognise accrued interest receivable in 2017
	Grants (expense)	1,000		
	Interest revenue		1,250	
	Bank	1,500		To recognise periodic repayment of principal and interest on loan
	Accounts receivable		1,250	
	Interest receivable		250	
f.	Financial assets	7,800		To recognise financial assets at fair value through surplus or deficit
	Relevant expense	200		
	Bank		8,000	
	Loss on financial assets	240		To recognise Loss in financial assets
	Financial assets		240	
g.	Bank	5,425		To recognise the gain on sale of financial assets at fair value
	Financial assets		5,000	
	Gain on financial assets		425	
h.	Financial assets	600		To recognise the purchase of financial assets
	Bank		600	
	Financial assets	200		To recognise capital

S/N	Details	Dr	Cr	Remarks
		₦'000	₦'000	
	Gain on financial assets		200	appreciation on financial assets
i.	Financial assets	4,580		To recognise the purchase of bonds held to maturity
	Bank		4,580	
	Impairment loss expense	500		To recognise impairment loss on held to maturity financial assets
	Accumulated impairment loss		500	

29.4 IPSAS 32: Service concession arrangements: Grantor

29.4.1 Introduction

The standard establishes the accounting and reporting requirement for the grantor in a service concession arrangement; the grantor here being the public sector.

29.4.2 Basic definitions

(a) **Service concession arrangement**
This can be described as "public private partnership" that contains an asset as well as a service component. It is a binding arrangement between a grantor and an operator in which:
(i) the operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time.
(ii) the operator is compensated for its services over the period of the service concession arrangement.

(b) **Binding arrangement**
This describes contracts and other arrangements that confer similar rights and obligations on the parties to it as if they were in the form of a contract.

(c) **Grantor**
A grantor is the entity that grants the right to use the service concession asset to the operator whereas the operator is the entity that uses the service concession asset to produce public services subject to the grantor's control of the asset.

(d) **Services concession asset** is an asset (property, plant and equipment or an intangible asset) used to provide service in a service concession arrangement that:
(i) Is provided by the operator which:
- the operator constructs, develops or acquired from a third party; or
- is an existing asset of the operator

(ii) Is provided by the grantor which:
- is an existing asset of the grantor; or
- is an upgrade to an existing asset of the grantor

(e) **Whole-of-life-asset** is an asset that is used in a service concession arrangement for its entire result.

29.4.3 Scope of the standard

The standard provides that there is an operator constructing or developing an asset used to provide a public service or upgrading an existing asset and operating and maintaining the asset for a specified period of time. The operator is paid for its services over the period of the arrangement.

The standard in accordance with section 6 does not apply to arrangements that do not involve the delivery of public services and to arrangements that contain service and management components where the asset is not controlled by the grantors for example outsourcing and service contracts.

29.4.4 Recognition of service concession asset

IPSAS 32 requires the grantor to recognise an asset which is provided by the operator as a service concession asset if the under listed criteria are met.

(a) The grantor controls what services the operator must provide with the asset to whom it must provide them and at what price or at least regulates them.
(b) The grantor controls through ownership, beneficial entitlements or otherwise any significant residual interest in the asset at the end of the term of the arrangement. The same is applicable where the operator upgrades an existing asset of the grantor.

29.4.5 Measurement of a service concession asset

A grantor accounting according to Sections 9 and 10 of the standard shall initially measure a service concession asset recognised as such at its fair value.

29.4.6 Recognition of the liability in a service concession arrangement

Generally, the recognition of a service concession asset implies recognition of a liability. Only when an existing asset of the grantor is reclassified as a service concession asset then the grantor shall not recognise a liability.

29.4.7 Measurement of the liability in a service concession arrangement

Initially, the liability recognised in a service concession arrangement shall be measured at the same amount as the service concession asset, that is, fair value.

However, the amount is subject to adjustment by the amount of any other consideration for example cash from the grant or to the operator or vice-versa. Furthermore, in reference to the compensation, the grantor receives; the “financial liabilities model” is applied when the grantor makes payments to the operator.
However, the “grant of a right to the operator made” is applied where the grantor is compensated by the operator by:

(a) granting the operator, the right to earn revenue from third party users of the service concession asset or

(b) granting the operator access to another revenue-generating assets for the operator's use.

29.4.8 Financial liability model

Under this model, the grantor compensates the operator for the construction, development, acquisition or upgrade of a service concession asset and service provision by making a pre-determined series of payments to the operator, and therefore shall account for the liability therefrom, as a financial liability. All incidental charges like finance charges and charges for services provided by the operator shall be expensed while any pre- determined services of payments to the operator by the grantor shall be used to reduce the financial liability.

29.4.9 Grant of a right to the operator model

In the grant of a right to the operator model the grantor compensates the operator for the construction, development, acquisition or upgrade of a service concession asset by granting the operator the right to earn revenue from third party users of the services concession asset or another revenue-generating asset.
In this model, the grantor takes a service concession asset while the operator receives an intangible asset that would have given rise to revenue for the grantor.

29.4.10 Dividing the arrangement

Where the grantor compensates the operator partly by making payment and partly by the grant of a right to the operator, the portion of the total liability should be accounted for separately.
The amount initially recognised for the total liability is the same amount as the fair value of the service concession asset.
The grantor is required to account for each part of the liability according to Section 18 paragraph 26 of the Standard which is either according to the provisions of the financial liability model or to the provisions of the grant of a right to the operator model.

29.4.11 Disclosure

(a) The grantor shall present information concerning service concession asset in the statement of financial position.
(b) The following shall be disclosed by way of notes to the accounts.
    (i) Full description of the arrangement.
    (ii) Significant terms of the arrangement that may affect the amount, timing, and certainty of future cash flows (for example the period of the concession, re-pricing dates, and the basis upon which re-pricing or re-negotiation is determined).
    (iii) The nature and extent (for example quantity, time, period or amount as appropriate) of:
        - rights to use specific assets;
        - rights to expect the operator to provide specified services in relation to the service concession arrangement;

- service concession assets recognised as assets during the reporting period, including existing assets of the grantor reclassified as service concession assets;
- rights to receive specified assets at the end of the service concession arrangement;
- renewal and termination options;
- other rights and obligations (for example major overhaul of service concession assets); and
- obligations to provide the operator with access to service concession assets or other revenue-generating assets.

(c) Changes in the arrangement occurring in the reporting period.

29.4.12 Accounting treatment

S/N	Details	Remarks
a.	**For recognition of service concession asset and liability**	
	Dr - Service concession asset Cr - Service concession liability	When all criteria for recognition are met.
b.	**Making payments to the operator (financial liability model)**	
	Dr - Service concession liability Cr - Cash/bank	With the predetermined series of payment to the operator
c.	**For grant of right to operator**	
	Dr - Service concession liability Cr - Revenue line item	With the predetermined series of payment to the operator
d.	**For Combination of (b) and (c)**	
	Dr - Service concession liability Cr - Cash/bank	With the portion of predetermined series of payment to the operator
	Dr - Service concession liability Cr - Revenue line item	With the portion of predetermined series of payment to the operator

Illustrations 29-2

Galadimawa State Government entered into the following contracts in order to meet one of the party promises to the state citizens:

(a) The government entered into an agreement with Japo Limited to build and equip the state general hospital through PPP arrangement at a cost of ₦2 billion in year 2023. The project was completed and commissioned during the year. The contractor is to operate the hospital for a period of 20 years and thereafter handover to the government. The contractor is to recover fully his investment through medical fees from patients. From available information, a total of ₦250,000,000 was realized by the contractor from patients in 2024.

(b) The governmental so entered into a service concession agreement with a Chinese construction company to construct a 15km ring road on behalf of the government in 2022. The road was constructed and commissioned in year 2016. The terms of the agreement were as follows:

(i) Cost of the road project - ₦980 million;
(ii) The Chinese company to collect toll fees for a period of 10 years, estimated at ₦650 million;
(iii) The government to pay the contractor the sum of ₦450 million within 10 years on equal annual instalment; and
(iv) The difference between the cost of the project and total revenue accruable to the contractor to be treated as return on investment.

At the end of year 2024, the contract or was able to collect a total sum of ₦100 million, as toll fees. The government was also able to fulfill its own part of the agreement.

Required: Prepare the necessary journal entries to record the transactions.

Solution 29-2

S/N	Details	Dr	Cr	Remarks
		₦'mill.	**₦'mill.**	
a.	Service concession assets	2,000		To recognise service concession assets and liability
	Service concession liability account		2,000	
	Service concession liability account	250		To recognise medical fees collected by the contractor
	Revenue line item		250	
b.	Service concession assets	980		To recognise service concession assets and liability
	Service concession liability account		980	
	Service concession liability account	145		To recognise toll fees collected by the contractor in 2017 and payment made by the government
	Revenue line item		100	
	Bank		45	

29.5 IPSAS 35 – Consolidated Financial Statements (Replacement for IPSAS 6)

29.5.1 Introduction

The objective of the standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The standard:

(a) requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;

(b) defines the principle of control, and establishes control as the basis for consolidation;
(c) sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;
(d) sets out the accounting requirements for the preparation of consolidated financial statements; and
(e) defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

29.5.2 Definition of terms

(a) **Benefits** are the advantages an entity obtains from its involvement with other entities. Benefits may be financial or non-financial. The actual impact of an entity's involvement with another entity can have positive or negative aspects
(b) **Binding arrangement:** For the purposes of the standard, a binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights.
(c) **Consolidated financial statements** are the financial statements of an economic entity in which the assets, liabilities, net assets/equity, revenue, expenses and cash flows of the controlling entity and its controlled entities are presented as those of a single economic entity.
(d) **Control:** An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.
(e) **Controlled entity** is an entity that is controlled by another entity. A controlling entity is an entity that controls one or more entities.
(f) **Decision-maker** is an entity with decision-making rights that is either a principal or an agent for other parties.
(g) **Economic entity** is a controlling entity and its controlled entities. An investment entity is an entity that:
    (i) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
    (ii) has the purpose of investing funds solely for returns from capital appreciation, investment revenue, or both; and
    (iii) measures and evaluates the performance of substantially all of its investments on a fair-value basis.
(h) **Non-controlling interest** is the net assets/equity in a controlled entity not attributable, directly or indirectly, to a controlling entity.
(i) **Power consists** of existing rights that give the current ability to direct the relevant activities of another entity.
(j) **Protective rights** are rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate.

(k) **Relevant activities:** For the purpose of this standard, relevant activities are activities of the potentially controlled entity that significantly affect the nature or amount of the benefits that an entity receives from its involvement with that other entity.

(l) **Removal rights** are rights to deprive the decision maker of its decision-making authority.

29.5.3 Benefits

An entity is exposed, or has rights, to variable benefits from its involvement with an entity being assessed for control when the benefits that it seeks from its involvement have the potential to vary as a result of the other entity's performance. Entities become involved with other entities with the expectation of positive financial or non-financial benefits over time.

The following examples illustrate financial benefits that an entity may receive from its involvement with another entity.

(a) Dividends, variable interest on debt securities, other distributions of economic benefits.
(b) Exposure to increases or decreases in the value of an investment in another entity.
(c) Exposure to loss from agreements to provide financial support, including financial support for major projects.
(d) Cost savings (for example, if an entity would achieve economies of scale or synergies by combining the operations or assets of the other entity with its own operations or assets).
(e) Residual interests in the other entity's assets and liabilities on liquidation of that other entity.
(f) Other exposures to variable benefits that are not available to other entities.

Examples of non-financial benefits.

(a) The ability to benefit from the specialised knowledge of another entity.
(b) The value to the entity of the other entity undertaking activities that assist the entity in achieving its objectives.
(c) Improved outcomes.
(d) More efficient delivery of outcomes.
(e) More efficient or effective production and delivery of goods and services.
(f) Having an asset and related services available earlier than otherwise would be the case.
(g) Having a higher level of service quality than would otherwise be the case.

29.5.4 Presentation of consolidated financial statements

(a) An entity that is a controlling entity shall present consolidated financial statements. This Standard applies to all entities, except that a controlling entity need not present consolidated financial statements if it meets all the following conditions:
    (i) it is itself a controlled entity and the information needs of users are met by its controlling entity's consolidated financial statements, and, in the case of a

partially owned controlled entity, all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not presenting consolidated financial statements;

(ii) its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

(iii) it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and

(iv) its ultimate or any intermediate controlling entity produces financial statements that are available for public use and comply with international public sector accounting standards (IPSAS), in which controlled entities are consolidated or are measured at fair value through surplus or deficit in accordance with this standard.

(b) A controlled entity is not excluded from consolidation because its activities are dissimilar to those of the other entities within the economic entity, for example, the consolidation of government business enterprises (GBEs) with entities in the budget sector.

(c) A controlling entity shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.

(d) Consolidation of a controlled entity shall begin from the date the entity obtains control of the other entity and cease when the entity loses control of the other entity.

29.5.5 Consolidation procedures

Consolidated financial statements.

(a) Combine like items of assets, liabilities, net assets/equity, revenue, expenses and cash flows of the controlling entity with those of its controlled entities.

(b) Offset (eliminate) the carrying amount of the controlling entity's investment in each controlled entity and the controlling entity's portion of net assets/equity of each controlled entity (the relevant international or national accounting standards explain how to account for any related goodwill).

(c) Eliminate in full intra-economic entity assets, liabilities, net assets/equity, revenue, expenses and cashflows relating to transactions between entities of the economic entity (surpluses or deficits resulting from intra-economic entity transactions that are recognised in assets, such as inventory and tangible assets, are eliminated in full). Intra-economic entity losses may indicate an impairment that requires recognition in the consolidated financial statements.

29.5.6 Measurement

An entity includes the revenue and expenses of a controlled entity in the consolidated financial statements from the date it gains control until the date when the entity ceases to control the controlled identity. Revenue and expenses of the controlled entity are based on the amounts of the assets and liabilities recognised in the consolidated financial statements at the acquisition date. For example, depreciation expense

recognised in the consolidated statement of financial performance after the acquisition date is based on the values of the related depreciable assets recognised in the consolidated financial statements at the acquisition date.

29.5.7 Reporting dates

The financial statements of the controlling entity and its controlled entities used in the preparation of the consolidated financial statements shall be prepared as at the same reporting date. When the end of the reporting period of the controlling entity is different from that of a controlled entity, the controlling entity shall either:

(a) obtains, for consolidation purposes, additional financial information as of the same date as the financial statements of the controlling entity; or

(b) uses the most recent financial statements of the controlled entity adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.

29.5.8 Non-controlling interests

(a) A controlling entity shall present non-controlling interests in the consolidated statement of financial position within net assets/equity, separately from the net assets/equity of the owners of the controlling entity.

(b) Changes in a controlling entity's interest in a controlled entity that do not result in the controlling entity losing control of the controlled entity are transactions with owners in their capacity as owners.

(c) An entity shall attribute the surplus or deficit and each gain or loss recognised directly in net assets/equity to the owners of the controlling entity and to the non-controlling interests. The entity shall also attribute the total amount recognised in the statement of changes in net assets/equity to the owners of the controlling entity and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(d) If a controlled entity has outstanding cumulative preference shares that are classified as equity instruments and are held by non-controlling interests, the entity shall compute its share of surplus or deficit after adjusting for the dividends on such shares, whether or not such dividends have been declared.

29.5.9 Loss of control

If a controlling entity loses control of a controlled entity, it shall:

(a) de-recognise:

(i) the assets (including any goodwill) and liabilities of the controlled entity at their carrying amounts at the date when control is lost; and

(ii) the carrying amount of any non-controlling interests in the former controlled entity at the date when control is lost (including any gain or loss recognised directly in net assets/equity attributable to them).

(b) recognise:

(i) the fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control;

(ii) if the transaction, event or circumstances that resulted in the loss of control involves a distribution of shares of the controlled entity to owners in their capacity as owners, that distribution; and

(iii) any investment retained in the former controlled entity at its fair value at the date when control is lost.

(c) transfer directly to accumulated surplus/deficit, if required by other IPSASs, the amounts recognised directly in net assets/equity in relation to that controlled entity on the same basis as would be required if the controlling entity had directly disposed of the related assets or liabilities;

(d) if a revaluation surplus previously recognised directly in net assets/equity would be transferred directly to accumulated surplus/deficit on the disposal of the asset, the controlling entity shall transfer the revaluation surplus directly to accumulated surplus/deficit when it loses control of the controlled entity; and

(e) recognise any resulting difference as again or loss in surplus or deficit attributable to the controlling entity.

29.5.10 Transitional provisions

At the date of initial application, an entity is not required to make adjustments to the previous accounting for its involvement with either:

(a) entities that would be consolidated at that date in accordance with IPSAS 6, Consolidated and Separate Financial Statements, and are still consolidated in accordance with this Standard; or

(b) entities that would not be consolidated at that date in accordance with IPSAS 6, and are not consolidated in accordance with the standard;

(c) if, at the date of initial application, an entity concludes that it shall consolidate another entity that was not consolidated in accordance with IPSAS 6, the entity shall measure the assets, liabilities and non-controlling interests in that previously unconsolidated entity as if that other entity had been consolidated from the date when the entity obtained control of that other entity on the basis of the requirements of the standard; and

(d) the entity shall adjust retrospectively the annual period immediately preceding the date of initial application. When the date that control was obtained is earlier than the beginning of the immediately preceding period, the entity shall recognise, as an adjustment to net assets/equity at the beginning of the immediately preceding period, any difference between:

(i) the amount of assets, liabilities and non-controlling interests recognised; and

(ii) the previous carrying amount of the entity's involvement with the other entity.

29.6 IPSAS 41: Financial instrument (replaces IPSAS 29)

29.6.1 Introduction

The objective of this Standard is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to

users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

29.6.2 Scope

This standard shall be applied by all entities to all types of financial instruments except:

(a) Those interests in controlled entities, associates and joint ventures that are accounted for in accordance with IPSAS 34, Separate Financial Statements, IPSAS 35, Consolidated Financial Statements, or IPSAS 36, Investments in Associates and Joint Ventures.

(b) Rights and obligations under leases to which IPSAS 43 (formerly IPSAS 13) on leases applies

(c) Employers' rights and obligations under employee benefit plans, to which IPSAS 39, Employee Benefits applies.

(d) Financial instruments issued by the entity that meet the definition of an equity instrument in IPSAS 28 (including options and warrants) or that are required to be classified as an equity instrument.

(e) Rights and obligations arising under:
   (i) an insurance contract, other than an issuer's rights and obligations arising under an insurance contract that meets the definition of a financial guarantee contract in paragraph 9; or
   (ii) a contract that is within the scope of relevant international or national accounting standard dealing with insurance contracts, because it contains a discretionary participation feature.

(f) Any forward contract between an acquirer and a selling shareholder to buy or sell an acquired operation that will result in a public sector combination to which IPSAS 40 applies at a future acquisition date.

(g) Loan commitments other than those loan commitments described below:
   (i) Loan commitments that the entity designates as financial liabilities at fair value through surplus or deficit.
   (ii) Loan commitments that can be settled net in cash or by delivering or issuing another financial instrument. These loan commitments are derivatives.
   (iii) Commitments to provide a loan at a below-market interest rate

(h) Financial instruments, contracts and obligations under share-based payment transactions to which the relevant international or national accounting standard dealing with share-based payment applies.

(i) Rights to payments to reimburse the entity for expenditure that it is required to make to settle a liability that it recognises as a provision in accordance with IPSAS 19 - Provisions, Contingent Liabilities and Contingent Assets, or for which, in an earlier period, it recognised a provision in accordance with IPSAS 19.

(j) The initial recognition and initial measurement of rights and obligations arising from non-exchange revenue transactions to which IPSAS 23 - Revenue from Non-Exchange Transactions (Taxes and Transfers) applies.

(k) Rights and obligations under service concession arrangements to which IPSAS 32 - Service Concession Arrangements: Grantor applies.

29.6.3 Definitions

(a) **12-month expected credit losses** are the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

(b) **The amortised cost of a financial asset or financial liability** is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

(c) **A credit-impaired financial asset** is a financial asset that is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired, include observable data about the following events:

(i) significant financial difficulty of the issuer or the borrower;
(ii) a breach of contract, such as a default on past due event;
(iii) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(iv) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
(v) the disappearance of an active market for that financial asset because of financial difficulties; or
(vi) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired.

(d) **Credit loss** is the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (that is, all cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

(e) **Credit-adjusted effective interest rate** is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the amortised cost of a financial asset, that is, a purchased or originated credit-impaired financial asset.

(f) **Derecognition** is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

(g) **A derivative** is a financial instrument or other contract within the scope of this standard with all three of the following characteristics.
   (i) Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
   (ii) It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
   (iii) It is settled at a future date.

(h) **Dividends or similar distributions** are distributions to holders of equity instruments in proportion to their holdings of a particular class of capital.

(i) **The effective interest method** is the method that is used in the calculation of the amortised cost of a financial asset or a financial liability and in the allocation and recognition of the interest revenue or interest expense in surplus or deficit over the relevant period.

(j) **The effective interest rate** is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortized cost of a financial liability.

(k) **An expected credit loss** is the weighted average of credit losses with the respective risks of a default occurring as the weights.

(l) **A financial guarantee contract** is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

(m) **A financial liability at fair value through surplus or deficit** is a financial liability that meets one of the following conditions:
   (i) It meets the definition of held for trading.
   (ii) Upon initial recognition it is designated by the entity as at fair value through surplus or deficit.
   (iii) It is designated either upon initial recognition or subsequently as at fair value through surplus or deficit

(n) **A firm commitment** is a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.

(o) **A forecast transaction** is an uncommitted but anticipated future transaction.

(p) **The gross carrying amount of a financial asset** is the amortised cost of a financial asset, before adjusting for any loss allowance.

(q) **The hedge ratio** is the relationship between the quantity of the hedging instrument and the quantity of the hedged item in terms of their relative weighting.

(r) **A held for trading** financial instrument is a financial asset or financial liability that:
   (i) is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;

(ii) on initial recognition is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short- term profit-taking; or

(iii) is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

(s) **An impairment gain or loss** is recognised in surplus or deficit that arises from applying the impairment requirements.

(t) **Lifetime expected credit losses** are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

(u) **A loss allowance** is the allowance for expected credit losses on financial assets measured

(v) **A modification gain or loss** is the amount arising from adjusting the gross carrying amount of a financial asset to reflect the renegotiated or modified contractual cash flows.

(w) **A purchased or originated credit-impaired financial asset** is credit-impaired on initial recognition.

(x) **The reclassification date** is the first day of the first reporting period following the change in management model that results in an entity reclassifying financial assets.

(y) **A regular way purchase or sale** is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

(z) Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability

29.6.4 Recognition and derecognition of financial assets and liabilities

Initial recognition: An entity shall recognise a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument (see.

Classification of financial assets

When an entity first recognises a financial asset, it shall classify in accordance with:

(i) the entity's management model for financial assets; and

(ii) the contractual cash flow characteristics of the financial asset.

A financial asset shall be measured at amortized cost if both of the following conditions are met:

(i) the financial asset is held within a management model whose objective is to hold financial assets in order to collect contractual cash flows; and

(ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Classification of financial liabilities

An entity shall classify all financial liabilities as subsequently measured at amortized cost, except for:

a. financial liabilities at fair value through surplus or deficit. such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.
b. financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
c. financial guarantee contracts. after initial recognition, an issuer of such a contract shall subsequently measure it at the higher of:
    i. the amount of the loss allowance determined in accordance with impairment requirements; and
    ii. the amount initially recognised less, when appropriate, the cumulative amount of amortization recognized in accordance with the principles of IPSAS 9.
d. commitments to provide a loan at a below-market interest rate. An issuer of such a commitment shall (unless paragraph 45(a) applies) subsequently measure it at the higher of:
    i. the amount of the loss allowance determined in accordance with impairment requirements; and
    ii. the amount initially recognized (see paragraph 57) less, when appropriate, the cumulative amount of amortization recognized in accordance with the principles of IPSAS 9.
e. contingent consideration recognized by an acquirer in a public sector combination to which IPSAS 40 applies. Such contingent consideration shall subsequently be measured at fair value with changes recognized in surplus or deficit.

Derecorgnition of financial assets

(a) An entity shall derecognise a financial asset when, and only when:
    (i) the contractual rights to the cash flows from the financial asset expire or are waived, or
    (ii) it transfers the financial asset as set out in paragraphs (b) and (c) below and the transfer qualifies for derecognition in accordance with paragraph (d) below

(b) An entity transfers a financial asset if, and only if, it either:
    (i) transfers the contractual rights to receive the cash flows of the financial asset, or
    (ii) retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions in paragraph (d) below.

(c) When an entity retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), the entity treats the transaction as a transfer of a financial asset if, and only if, all of the following three conditions are met.
    (i) The entity has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset. Short-term

advances by the entity with the right of full recovery of the amount lent plus accrued interest at market rates do not violate this condition.

(ii) The entity is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows.

(iii) The entity has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay.

(d) When an entity transfers a financial asset (see paragraph 15), it shall evaluate the extent to which it retains the risks and rewards of ownership of the financial asset. In this case:

(i) if the entity transfers substantially all the risks and rewards of ownership of the financial asset, the entity shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer;

(ii) if the entity retains substantially all the risks and rewards of ownership of the financial asset, the entity shall continue to recognise the financial asset; and

(iii) if the entity neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the entity shall determine whether it has retained control of the financial asset. In this case:

- if the entity has not retained control, it shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer; and
- if the entity has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset.

Transfers that qualify for derecognition

(a) If, as a result of a transfer, a financial asset is derecognised in its entirety, but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity shall recognise the new financial asset, financial liability or servicing liability at fair value.

(b) On derecognition of a financial asset in its entirety, the difference between the carrying amount (measured at the date of derecognition); and the consideration received (including any new asset obtained less any new liability assumed) shall be recognised in surplus or deficit.

(c) If the transferred asset is part of a larger financial asset (for example, when an entity transfers interest cash flows that are part of a debt instrument and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset shall be allocated between the part that continues to be recognised and the part that is derecognised, on the basis of the relative fair values of those parts on the date of the transfer. For this purpose, a retained servicing asset shall be treated as a part that continues to be recognised.

The difference between the carrying amount (measured at the date of derecognition) allocated to the part derecognised; and the consideration

received for the part derecognised (including any new asset obtained less any new liability assumed) shall be recognised in surplus or deficit.

(d) When an entity allocates the previous carrying amount of a larger financial asset between the part that continues to be recognised and the part that is derecognised, the fair value of the part that continues to be recognised needs to be measured

Transfers that do not qualify for derecognition

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity shall continue to recognise the transferred asset in its entirety and shall recognise a financial liability for the consideration received. In subsequent periods, the entity shall recognise any revenue on the transferred asset and any expense incurred on the financial liability.

Continuing involvement in transferred assets

(a) If an entity neither transfers nor retains substantially all the risks and rewards of ownership of a transferred asset, and retains control of the transferred asset, the entity continues to recognise the transferred asset to the extent of its continuing involvement.

(b) When an entity continues to recognise an asset to the extent of its continuing involvement, the entity also recognises an associated liability. The associated liability is measured in such a way that the net carrying amount of the transferred asset and the associated liability is:

  (i) the amortised cost of the rights and obligations retained by the entity, if the transferred asset is measured at amortised cost; or

  (ii) equal to the fair value of the rights and obligations retained by the entity when measured on a stand-alone basis, if the transferred asset is measured at fair value.

29.6.5 Measurement

Initial measurement

(a) Except for short-term receivables and payables measured at the original invoice amount, if the effect of discounting is immaterial within the recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

(b) However, if the fair value of the financial asset or financial liability at initial recognition differs from the transaction price, an entity shall measure on-derivative financial asset or a non-derivative financial liability at fair value through surplus or deficit may be designated as a hedging instrument unless it is a financial liability designated as at fair value through surplus or deficit for which the amount of its change in fair value that is attributable to changes in the credit risk of that liability is presented in net assets/equity.

(c) When an entity uses settlement date accounting for an asset that is subsequently measured at amortised cost, the asset is recognised initially at its fair value on the trade date.

Subsequent measurement of financial assets

After initial recognition, an entity shall measure a financial asset at:

- amortised cost;
- fair value through net assets/equity; or
- fair value through surplus or deficit.

29.7 Chapter review

This chapter adequately covers the provisions of IPSASs 28, 30, 32, 35 and 41.

29.8 Worked examples

29.8.1 Examination type questions

(1) The main objective of IPSAS 28 is to establish principles for presenting financial instruments as liabilities or net assets/equity and for offsetting financial asset and financial liabilities.

Required:

(a) Identify the financial instruments that are not covered by IPSAS 28 on 'Financial Instruments: Presentation', under accrual basis of accounting.

(b) Discuss the various ways in which a contract to buy or sell a non-financial item can be settled net in cash or another financial instrument or by exchanging financial instruments.

(2) IPSAS 34 – Separate Financial Statements, stipulates the requirements for preparing separate financial statements for a group of entities, while IPSAS 35 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

Required:

(a) Differentiate between a controlling entity and a controlled entity in accordance with IPSAS 34.

(b) Discuss the scope of consolidated financial statements as contained in IPSAS 35.

(3) IPSAS 35 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

Required:

(a) Explain the conditions that will warrant entity not present consolidated financial statements in accordance to IPSAS 35.

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(b) Discuss both financial and non-financial benefits that an entity may receive from its involvement with another entity.

29.8.2 Suggested solutions

(1) (a) The financial instruments that are covered by IPSAS 28 under accounting are:

(i) Those interests in controlled entities, associates or joint ventures that are accounted for in accordance with IPSAS 6 on 'consolidated and separate financial statements' likewise IPSAS 7 on investments in associates or IPSAS 8 on 'interests in joint ventures.

In some cases, however, IPSAS 6, 7,or 18 permits an entity to account for an interest in a controlled entity, associates, or joint venture using IPSAS 29 on 'financial instruments' recognition and measurement. In that case, entities shall apply the requirements. Entities shall also apply IPSAS 28 to all derivatives linked to interests in controlled entities, associates and joint ventures.

(ii) Employer's rights and obligations under employees benefit plans to which IPSAS 39 (formally IPSAS 25) on 'Employee benefits' applies.

Obligation arising from insurance contracts, IPSAS 28 however, applies to:

- derivatives that are embedded in insurance contracts if IPSAS 29 requires the entity to account for them separately; and
- financial guarantee contracts, if the issuer applies IPSAS 29 in recognizing and measuring the contracts, but shall apply the relevant international or national accounting standard dealing with insurance contracts if the issue relects to apply that standard in recognising and measuring them.

(b) The following are the various ways in which a contract to buy and sell an on-financial item can be settled net in cash or another financial instrument or by exchanging financial statements:

(i) When the terms of the contract permit either party to settle it net in cash or another financial instrument or by exchanging financial statements;

(ii) When the ability to settle net in cash or another financial instrument or by exchanging financial instruments is not explicit in terms of the contract, but the entity has a practice of settling similar contracts net in cash or another financial instrument, by exchanging financial statements;

(iii) When, for similar contracts, the entity has a practice of taking delivery of the underlying and selling if within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or dealer's margin; and

(iv) When the non-financial item is the subject of the contract and is readily convertible to cash.

2.(a) A controlling entity is an entity that has one or more controlled entities. A controlling entity is mandated to present consolidated financial statements. A

controlling entity that is a wholly owned controlled entity, or is virtually wholly owned, need not present consolidated financial statements provided users of such financial statements are unlikely to exist or their information needs are met by the controlling entity's consolidated financial statements; or in the case of one that is virtually wholly owned, the controlling entity obtains approval of the owner of the minority interest such a controlling entity should disclose the reason why consolidated financial statements have not been presented together with the bases on which controlled entities are accounted for in its separate financial statements. The name and the principal address of its controlling entity that publishes consolidated financial statements should also be disclosed.

(b) The scope of consolidated financial statements in accordance with IPSAS 35 is as follows:

(i) A controlling entity which issues consolidated financial statements should consolidated all controlled entities, foreign and domestic, other than those referred to under IPSAS 6.22

(ii) A controlled entity should be excluded from consolidation when;

» Control is intended to be temporary because the controlled entity is acquired and held exclusively with a view to its subsequent disposal in the near future; or

» It operates under severe external long-term restrictions which prevent the controlling entity from benefitting from its activities.

3(a). A controlling entity need not present consolidated financial statements if it meets all the following conditions:

(i) It is itself a controlled entity and the information needs of users are met by its controlling entity's consolidated financial statements, and, in the case of a partially owned controlled entity, all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not presenting consolidated financial statements;

(ii) Its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

(iii) It did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and

(iv) Its ultimate or any intermediate controlling entity produces financial statements that are available for public use and comply with international public sector accounting standards (IPSASs), in which controlled entities are consolidated or are measured at fair value through surplus or deficit in accordance with the standard.

(b) The following examples illustrate financial benefits that an entity may receive from its involvement with another entity:

(i) Dividends, variable interest on debt securities, other distributions of economic benefits;

(ii) Exposure to increases or decreases in the value of an investment in another entity;

(iii) Exposure to loss from agreements to provide financial support, including financial support for major projects;

(iv) Cost savings (for example, if an entity would achieve economies of scale or synergies by combining the operations or assets of the other entity with its own operations or assets);

(v) Residual interests in the other entity's assets and liabilities on liquidation of that other entity; and

(vi) Other exposures to variable benefits that are not available to other entities.

Examples of non-financial benefits include:

- The ability to benefit from the specialised knowledge of another entity;
- The value to the entity of the other entity undertaking activities that assist the entity in achieving its objectives;
- Improved outcomes;
- More efficient delivery of outcomes;
- More efficient or effective production and delivery of goods and services;
- Having an asset and related services available earlier than otherwise would be the case; and
- Having a higher level of service quality than would otherwise be the case.

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Skills Level
Public Sector Accounting and Finance

CHAPTER 30

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSASs) GROUP D (IPSASs 18, 36, 37, 38 and 40)

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30 International Public Sector Accounting Standards (IPSASs) Group D (IPSASs 18, 36, 37, 38 and 40)

30.0 Learning objective

The objective of this chapter is to enhance readers' understanding of the provisions of IPSAS 18, 36, 37, 38 and 40.

30.1 Learning outcomes

On successful completion of this chapter, readers should be able to discuss the provisions of IPSAS, 18, 36, 37, 38 and 40.

30.2 IPSAS 18 – Segment reporting

30.2.1 Introduction

The purpose of the standard is to establish principle for reporting financial information by segments. The disclosure of financial information about segments will:

(a) help users of the financial statement to better understand the entity's past performance and to identify the resources allocated to support the major activities of the entity; and

(b) enhance the transparency of financial reporting and enable the entity to better discharge its accountability obligation.

30.2.2 Definitions

The following terms used in this standard have been fully discussed under other standards.

(a) Accounting policies;
(b) Financing activities;
(c) Investing activities;
(d) Operating activities; and
(e) Revenue.

30.2.3 Definition of a segment

A segment is a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of evaluating the entity's past performance in achieving its objectives and for making decisions about the future allocation of resources.

30.2.4 Reporting by segment

An entity should identify its separate segments in accordance with the requirement of the above paragraph of this standard and should present information about those segments.

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30.2.5 Definition of segment revenue, expense, assets, liabilities and accounting policies

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

(a) **Segment revenue:** is revenue reported in the entity's statement of financial performance that is directly attributable to a segment and the relevant portion of entity revenue that can be allocated on a reasonable basis to a segment, whether from budget appropriation or similar, grants, transfer, fines, fees or sales to external customer or from transaction with other segment of the same entity. Segment revenue does not include:

(i) interest or dividend revenue including interest earned on advances or loan to others segment unless the segment operations are primarily of a financial nature; or

(ii) gains on sales of investment or gains on extinguishment of debt unless the segment operations are primarily of a financial nature.

Segment revenue include an entity's share of a net surplus (deficit) of, associates, joint ventures, or other investment accounted for under the equity method only if those items are included in consolidated or total entity revenue.

Segment revenue includes a joint venturer's share of the revenue of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with IPSAS 36, "Investments in associates and joint ventures".

(b) **Segment expense** is an expense resulting from operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment including expenses relating to the provision of goods and services to external parties and expenses relating to transaction with other segment of the same entity. Segment expense does not include:

(i) Interest, including interest incurred on advances or loan from other segment, unless the segment operations are primarily of financial nature;

(ii) Losses on sales of investment or losses on extinguishment of debt unless the segment operations are primarily of a financial nature.

(iii) An entity's share of net deficit or losses of associate joint ventures, or other investment accounted for under the equity method;

(iv) Income tax or income-tax equivalent expense that is recognised in accordance with accounting standard dealing with obligations to pay income tax or income-tax equivalent; or

(v) General administrative expense, head office expense, and other expense that arise at the entity level and relate to the entity as a whole. However, costs are sometimes incurred at the entity level on behalf of a segment, such costs are segment expenses if they relate to the segment's operating activities and they can be directly attributed or allocated to the segment on a reasonable basis.

(c) **Segment assets** are those operating assets that are employed by a segment in its operating activities and that either is directly attributable to the segment on a reasonable basis.

(d) **Segment liabilities** are those operating liabilities that result from the operating activities of a segment and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

(e) **Segment accounting policies** are the accounting policies adopted for preparing and presenting the financial segments of the consolidated group or entity as well as those accounting policies that are related specifically to segment reporting.

30.2.6 Disclosure

(a) An entity should disclose segment revenue and segment expense for each segment. Segment revenue from budget appropriation or similar allocation, segment revenue from other external sources and segment revenue from transactions with other segments should be separately reported.

(b) An entity should disclose the total carrying amount of segment asset for each segment.

(c) An entity should disclose the total carrying amount of segment liabilities for each segment.

(d) An entity should disclose the total cost incurred during the period to acquire segment asset that are expected to be used during more than one period for each segment.

(e) An entity should disclose for each segment the aggregate of the entity's share of the net surplus (deficit) of associates, joint ventures, or other investments accounted for under the equity method if substantially all of those associates' operations are within that single segment.

(f) If an entity's aggregate share of the net surplus (deficit) of associates, joint venture, or other investments accounted for under the equity method is disclosed by segment, the aggregate investments in those associates and joint ventures should also be disclosed by segment.

(g) An entity should present reconciliation between the information disclosed for segments and the aggregate information in the consolidation or entity financial statements. In presenting the reconciliation, segment revenue should be reconciled to entity revenue from external sources (including disclosure of the amount of entity revenue from external sources not included in any segment's revenue); segment expense should be reconciled to entity asset; and segment liabilities should be reconciled to entities liabilities.

30.2.7 Other disclosure matters

(a) In measuring and reporting segment revenue from transactions with other segments, inter-segment transfers should be measured on the basis that they occur. The basis of pricing inter-segment transfers and any change therein should be disclosed in the financial statements.

(b) Changes in accounting policies adopted for segment reporting that have a material effect on segment information should be disclosed, and prior period segment information presented for comparative purposes should be restated unless it is impracticable to do so.

(c) Such disclosure should include a description of the nature of the change, the reasons for the change, the fact that comparative information has been restated or that is impracticable to do so, and the financial effect of the change on its segments and it does not restate prior period segment information on the new basis because it is impracticable to do so. For the purpose of comparison, an entity should report segment data for both the old and new bases of segmentation in the year in which it changes the identification of its segments.

(d) If not otherwise disclosed in the financial statements or elsewhere in the annual report, an entity should indicate:
   (i) The types of goods and services included in each reported service segment;
   (ii) The composition of each reported geographical segment; and
   (iii) If neither a service nor geographical basis of segmentation is adopted, the nature of the segment and activities encompassed by it.

30.3 IPSAS 36 - Investments in Associates and Joint Ventures (replaced IPSAS 7)

30.3.1 Introduction

The objective of the standard is to prescribe how to account for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply the standard in accounting for investments in associates and joint ventures.

The standard shall be applied by all entities that are investors with significant influence over, or joint control of, an investee where the investment leads to the holding of a quantifiable ownership interest.

In contrast with IPSAS 7, the standard applies to both associates and joint ventures. Because joint ventures can take many forms, including partnership arrangements, which do not have formal equity structures, the scope limitation in IPSAS 7 was not appropriate.

30.3.2 Definitions

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

(a) **An associate** is an entity over which the investor has significant influence.

(b) **A binding arrangement:** For the purposes of thestandard, a binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or

documented discussions between the parties. Statutory mechanisms such as legislative or executive authority can also create enforceable arrangements, similar to contractual arrangements, either on their own, or in conjunction with contracts between the parties.

(c) **Consolidated financial statements** are the financial statements of an economic entity in which assets, liabilities, net assets/equity, revenue, expenses and cash flows of the controlling entity and its controlled entities are presented as those of a single economic entity.

(d) **The equity method is** a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets/equity of the associate or joint venture. The investor's surplus or deficit includes its share of the investee's surplus or deficit and the investor's net assets/equity includes its share of changes in the investee's net assets/equity that have not been recognized in the investee's surplus or deficit.

(e) **A joint arrangement** is an arrangement of which two or more parties have joint control.

(f) **Joint control** is the agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

(g) **A joint venture** is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

(h) **A joint venture** is a party to a joint venture that has joint control of that joint venture.

(i) **Significant influence** is the power to participate in the financial and operating policy decisions of another entity but is not control or joint control of those policies. Whether an investor has significant influence over the investee is a matter of judgment based on the nature of the relationship between the investor and the investee, and on the definition of significant influence in the standard. The standard applies only to those associates in which an entity holds a quantifiable ownership interest either in the form of a shareholding or other formal equity structure or in another form in which the entity's interest can be measured reliably. The existence of significant influence by an entity is usually evidenced in one or more of the following ways:

   (i) representation on the board of directors or equivalent governing body of the investee;
   (ii) participation in policy-making processes, including participation in decisions about dividends or similar distributions;
   (iii) material transactions between the entity and its investee;
   (iv) interchange of managerial personnel; or
   (v) provision of essential technical information.

30.3.3 Equity method recognition

(a) Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost and the carrying amount is increased or decreased to recognize the investor's share of the surplus or deficit of the investee after the date of acquisition.
(b) The investor's share of the investee's surplus or deficit is recognised in the investor's surplus or deficit. Distributions received from an investee reduce the carrying amount of the investment.
(c) IPSAS 41, Financial Instruments: Recognition and Measurement do not apply to interests in associates and joint ventures that are accounted for using the equity method.
(d) An investment in an associate or a joint venture accounted for using the equity method shall be classified as a non-current asset.
(e) An entity with joint control of, or significant influence over, an investee shall account for its investment in an associate or a joint venture using the equity method except when that investment qualifies for exemption in accordance with paragraph 31.3.4 below.

30.3.4 Exemptions from applying the equity method

An entity need not apply the equity method to its investment in an associate or a joint venture if the entity is a controlling entity that is exempt from preparing consolidated financial statements by the scope exception in paragraph 5 of IPSAS 35 or if all of the following apply:

(a) the entity itself is a controlled entity and the information needs of users are met by its controlling entity's consolidated financial statements, and, in the case of a partially owned entity, all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not applying the equity method;
(b) the entity's debtor equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
(c) the entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation, for the purpose of issuing any class of instruments in a public market; and
(d) the ultimate or any intermediate controlling entity of the entity produces financial statements available for public use that comply with IPSASs, in which controlled entities are consolidated or are measured at fair value in accordance with IPSAS 35.

30.3.5 Discontinuing the use of the equity method

An entity shall discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture as follows:

(a) if the investment becomes a controlled entity, the entity shall account for its investment in accordance with the relevant national or international pronouncement dealing with public sector combinations and IPSAS 35;

(b) if the retained interest in the former associate or joint venture is a financial asset, the entity shall measure the retained interest at fair value. The fair value of the retained interest shall be regarded as its fair value on initial recognition as a financial asset in accordance with IPSAS 41;

(c) if an entity is precluded by IPSAS 29, from measuring the retained interest at fair value, the entity shall measure the retained interest at the carrying amount of the investment at the date that it ceases to be an associate or joint venture and that carrying amount shall be regarded as its cost on initial recognition as a financial asset in accordance with IPSAS 41;

(d) the entity shall recognise in surplus or deficit any difference between:
   (i) The fair value (or, where relevant, the carrying amount) of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture; and
   (ii) The carrying amount of the investment at the date the equity method was discontinued.

(e) when an entity discontinues the use of the equity method, the entity shall account for all amounts previously recognised directly in the entity's net assets/equity in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities.

30.4 IPSAS 37- Joint arrangements

30.4.1 Introduction

The objective of the standard is to establish principles for financial reporting by entities that have interest in arrangements that are controlled jointly (i.e., joint arrangements). An entity that prepares and presents financial statements under the accrual basis of accounting shall apply the standard in determining the type of joint arrangement in which it is involved and in accounting for the rights and obligations of the joint arrangement. This Standard shall be applied by all entities that are a party to a joint arrangement. The standard supersedes IPSAS 8, Interests in Joint Ventures (December 2006). IPSAS 8, remains applicable until IPSAS 37 is applied or becomes effective, whichever is earlier.

30.4.2 Definitions

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

(a) **Binding arrangement:** For the purposes of the standard, a binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights.

(b) **A joint arrangement** is an arrangement of which two or more parties have joint control. A joint arrangement has the following characteristics:
   (i) The parties are bound by a binding arrangement; and
   (ii) The binding arrangement gives two or more of those parties joint control of the arrangement.

A joint arrangement is either a joint operation or a joint venture.

(c) **Joint control** is the agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

(d) **A joint operation** is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

(e) **A joint operator** is a party to a joint operation that has joint control of that joint operation.

(f) **A joint venture** is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

(g) **A joint venturer** is a party to a joint venture that has joint control of that joint venture.

(h) **A separate vehicle** is a separately identifiable financial structure, including separate legal entities or entities recognized by statute, regardless of whether those entities have a legal personality.

(i) **A party to a joint arrangement** is an entity that participates in a joint arrangement, regardless of whether that entity has joint control of the arrangement.

30.4.3 Financial statements of parties to a joint arrangement

(a) A joint operator shall recognise in relation to its interest in a joint operation:
   (i) its assets, including its share of any assets held jointly;
   (ii) its liabilities, including its share of any liabilities incurred jointly;
   (iii) its revenue from the sale of its share of the output arising from the joint operation;
   (iv) its share of the revenue from the sale of the output by the joint operation; and
   (v) its expenses, including its share of any expenses incurred jointly.

   A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IPSASs applicable to the particular assets, liabilities, revenues and expenses.

(b) A joint venturer shall recognise its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with IPSAS 36, Investments in Associates and Joint Ventures, unless the entity is exempted from applying the equity method as specified in that standard.

   A party that participates in, but does not have joint control of, a joint venture shall account for its interest in the arrangement in accordance with the IPSASs dealing with financial instruments, being IPSAS 28, Financial Instruments: Presentation, IPSAS 41, Financial Instruments: Recognition and Measurement, and IPSAS 30, Financial Instruments: Disclosures, unless it has significant influence over the joint venture, in which case it shall account for it in accordance with IPSAS 36.

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30.5 IPSAS 38- Disclosure of interests in other entities

30.5.1 Introduction

The objective of the standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

(a) the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated;

(b) the effects of those interests on its financial position, financial performance and cashflows; and

(c) an entity that prepares and presents financial statements under the accrual basis of accounting shall apply this standard in disclosing information about its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated.

30.5.2 Definitions

(a) An interest in another entity for the purpose of the standard refers to involvement by way of binding arrangements or otherwise that exposes an entity to variability of benefits from the performance of the other entity. An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees. It includes the means by which an entity has control or joint control of, or significant influence over, another entity. An entity does not necessarily have an interest in another entity solely because of a typical funder/recipient or customer/supplier relationship.

(b) A structured entity is where:

(i) administrative arrangements or legislation are normally the dominant factors in deciding who has control of an entity, an entity that has been designed so that administrative arrangements or legislation are not the dominant factors in deciding who controls the entity, such as when binding arrangements are significant to determining control of the entity and relevant activities are directed by means of binding arrangements; or

(ii) voting or similar rights are normally the dominant factor in deciding who has control of an entity, an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of binding arrangements.

30.5.3 Disclosure

An entity shall disclose

(a) The significant judgments and assumptions it has made in determining:

(i) the nature of its interest in another entity or arrangement;

(ii) the type of joint arrangement in which it has an interest; and

(iii) that it meets the definition of an investment entity, if applicable.

(b) Information about its interests in:
  (i) controlled entities;
  (ii) joint arrangements and associates;
  (iii) structured entities that are not consolidated;
  (iv) non-quantifiable ownership interests; and
  (v) controlling interests acquired with the intention of disposal.

(c) The methodology used to determine:
  (i) that it has control of another entity as described in paragraphs18 and 20 of IPSAS 35;
  (ii) that it has joint control of an arrangement or significant influence over another entity; and
  (iii) the type of joint arrangement (i.e., joint operation or joint venture) when the arrangement has been structured through a separate vehicle.

(d) The factors considered in determining that:
  (i) it controls a specific entity (or similar category of entities) where the interest in the other entity is not evidenced by the holding of equity or debt instruments;
  (ii) it does not control another entity (or category of entities) even though it holds more than half of the voting rights of the other entity (or entities);
  (iii) it controls another entity (or category of entities) even though it holds less than half of the voting rights of the other entity (or entities);
  (iv) it is an agent or a principal;
  (v) it does not have significant influence even though it holds 20 per cent or more of the voting rights of another entity; and
  (vi) it has significant influence even though it holds less than 20 percent of the voting rights of another entity.

30.6 IPSAS 40 - Public sector combinations

30.6.1 Introduction

The objective of the standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about a public sector combination and its effects. To accomplish this, the standard establishes principles and requirements on how:

(a) a reporting entity classifies a public sector combination as an amalgamation or an acquisition;
(b) a resulting entity recognises and measures in its financial statements the identifiable assets received, the liabilities assumed and any non-controlling interest in an amalgamation;
(c) a resulting entity recognises and measures components of net assets/equity and other adjustments recognised in an amalgamation;
(d) an acquirer recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired operation;

(e) an acquirer recognises and measures the goodwill acquired in, or the gain or loss arising from, an acquisition; and
(f) a reporting entity determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of a public sector combination.

This standard does not apply to:
(a) The accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
(b) The acquisition or receipt of an asset or a group of assets (and any related liabilities) that does not constitute an operation. In such cases an entity shall identify and recognise the individual identifiable assets acquired or received (including those assets that meet the definition of, and recognition criteria for, intangible assets in IPSAS 31, Intangible Assets) and liabilities assumed. Such a transaction or event does not give rise to goodwill.
(c) The assumption of a liability or a group of liabilities that does not constitute an operation. In such cases an entity shall identify and recognise the individual liabilities assumed.

30.6.2 Definitions

The following terms are used in the standard with the meanings specified:
(a) A public sector combination is the bringing together of separate operations into one public sector entity;
(b) Equity interest is used broadly to mean ownership interests of investor-owned entities and owner, member or participant interests of mutual entities;
(c) An asset is identifiable if it either:
    (i) Is separable, i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related binding arrangement, identifiable asset or liability, regardless of whether the entity intends to do so; or
    (ii) arises from binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations;
(d) A mutual entity is an entity, other than an investor-owned entity, that provides dividends, lower costs or other economic benefits directly to its owners, members or participants. For example, a mutual insurance company, accredit union and a co-operative entity are all mutual entities;
(e) An operation is an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving an entity's objectives, by providing goods and/or services;
(f) For the purposes of the standard, owners are used broadly to include any party with quantifiable ownership interests in an operation. This includes, but is not limited to, holders of equity interests of investor-owned entities and owners or members of, or participants in, mutual entities;

(g) A public sector combination under common control is a public sector combination in which all of the entities or operations involved are ultimately controlled by the same entity both before and after the public sector combination;

(h) An amalgamation gives rise to a resulting entity and is either:

  (i) a public sector combination in which no party to the combination gains control of one or more operations; or

  (ii) a public sector combination in which one party to the combination gains control of one or more operations, and in which there is evidence that the combination has the economic substance of an amalgamation.

(i) The amalgamation date is the date on which the resulting entity obtains control of the combining operations;

(j) A combining operation is an operation that combines with one or more other operations to form the resulting entity in an amalgamation;

(k) A resulting entity is the entity that is the result of two or more operations combining in an amalgamation;

(l) An acquired operation is the operation that the acquirer gains control of in an acquisition;

(m) An acquirer is the entity that gains control of one or more operations in an acquisition;

(n) An acquisition is a public sector combination in which one party to the combination gains control of one or more operations, and there is evidence that the combination is not an amalgamation;

(o) The acquisition date is the date on which the acquirer gains control of the acquired operation;

(p) Contingent consideration is usually an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquired operation as part of the exchange for control of the acquired operation if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met; and

(q) Goodwill is an asset representing the future economic benefits arising from other assets acquired in an acquisition that are not individually identified and separately recognised.

30.6.3 Classification of public sector combinations

(a) If no party to a public sector combination gains control of one or more operations as a result of the combination, the combination shall be classified as an amalgamation.

(b) If one party to a public sector combination gains control of one or more operations as a result of the combination, an entity shall consider the economic substance of the combination in classifying the combination as either an amalgamation or an acquisition.

(c) A combination in which one party gains control of one or more operations shall be classified as an acquisition, unless it has the economic substance of an amalgamation.

30.6.4 Indicators that may provide evidence that the combination is an amalgamation

(a) Consideration is paid for reasons other than to compensate those with an entitlement to the net assets of a transferred operation for giving up that entitlement;
(b) Consideration is not paid to those with an entitlement to the net assets of a transferred operation;
(c) Consideration is not paid because there is no-one (whether an individual or an entity) with an entitlement to the net assets of a transferred entity;
(d) A public sector combination is imposed by a third party without any party to the combination being involved in the decision-making process;
(e) A public sector combination is subject to approval by each party's citizens through referenda; and
(f) A public sector combination under common control occurs.

30.6.5 Accounting for amalgamations

A resulting entity shall account for each amalgamation by applying the modified pooling of interest's method of accounting, which requires:

(a) identifying the resulting entity;
(b) determining the amalgamation date;
(c) recognising and measuring the identifiable assets received, the liabilities assumed and any non-controlling interest in the combining operations, consistent with the requirements in IPSASs; and
(d) recognising and measuring the components of net assets/equity and other adjustments from an amalgamation.

30.6.6 Recognising and measuring the identifiable assets, liabilities assumed and any non- controlling interests in the combining operations

(a) As of the amalgamation date, the resulting entity shall recognise the identifiable assets, liabilities and any non-controlling interests that are recognised in the financial statements of the combining operations as of the amalgamation date. The effects of all transactions between the combining operations are eliminated in preparing the financial statements of the resulting entity.
(b) The resulting entity shall measure the identifiable assets and liabilities of the combining operations at their carrying amounts in the financial statements of the combining operations as of the amalgamation date. The resulting entity shall measure the identifiable assets and liabilities of the combining operations at their carrying amounts in the financial statements of the combining operations as of the amalgamation date.

30.6.7 Exceptions to the recognition or measurement principles

(a) A license or similar right, previously granted by one combining operation to another combining operation and recognised as an intangible asset by the

recipient combining operation shall be recognised by the resulting entity as an intangible asset.

(b) Amalgamations involving public sector entities may result in a tax authority forgiving amounts of tax due as part of the terms of the amalgamation. The resulting entity shall not recognise any taxation items that are forgiven as a result of the terms of the amalgamation.

30.6.8 Recognising and measuring components of net assets/equity arising as a result of an amalgamation

The resulting entity shall recognise within net assets/equity amounts equal and opposite to the following items:

(a) the carrying amounts of the combining operations' assets;
(b) the carrying amounts of the combining operations' liabilities; and
(c) the carrying amounts of the combining operations' non-controlling interests.

The resulting entity shall recognise within net assets/equity the corresponding adjustments in respect of:

(a) the elimination of transactions between combining entities;
(b) adjustments made to the carrying amounts of the identifiable assets and liabilities of the combining operations where required, to conform to the resulting entity's accounting policies; and
(c) adjustments made in respect of the exceptions to the recognition and/or measurement principles.

The resulting entity may present the amounts recognised within net assets/equity as either as a single opening balance; or as a separate component of net assets/equity.

30.6.9 Presentation of financial statements

Except where a resulting entity is not a new entity following a public sector combination, the resulting entity's first set of financial statements following the amalgamation shall comprise:

(a) An opening statement of financial position as of the amalgamation date;
(b) A statement of financial position as at the reporting date;
(c) A statement of financial performance for the period from the amalgamation date to the reporting date;
(d) A statement of changes in net assets/equity for the period from the amalgamation date to the reporting date;
(e) A cashflow statement for the period from the amalgamation date to the reporting date;
(f) If the entity makes publicly available its approved budget, a comparison of budget and actual amounts for the period from the amalgamation date to the reporting date, either as a separate additional financial statement or as a budget column in the financial statements; and
(g) Notes, comprising a summary of significant accounting policies and other explanatory notes.

30.6.10 Disclosures

The resulting entity shall disclose the following information that enables users of its financial statements to evaluate the nature and financial effect of an amalgamation.

(a) The name and a description of each combining operation.
(b) The amalgamation date.
(c) The primary reasons for the amalgamation including, where applicable, the legal basis for the amalgamation.
(d) The amounts recognised as of the amalgamation date for each major class of assets and liabilities transferred.
(e) The adjustments made to the carrying amounts of assets and liabilities recorded by each combining operation as of the amalgamation date:
    (i) to eliminate the effect of transactions between combining operations; and
    (ii) to conform to the resulting entity's accounting policies.

If a resulting entity elects to present financial statements for periods prior to the amalgamation date in accordance with paragraph 52, the resulting entity shall disclose the following information for each combining operation:

(a) a statement of financial position as at the end of the prior period(s);
(b) a statement of financial performance for the prior period(s);
(c) a statement of changes in net assets/equity for the prior period(s);
(d) a cash flow statement for the prior period(s); and
(e) notes, comprising a summary of significant accounting policies and other explanatory notes.

If, at the time the financial statements of the resulting entity are authorised for issue, the last reporting date of any of the combining operations does not immediately precede the amalgamation date, the resulting entity shall disclose the following information.

(a) The amounts of revenue and expense, and the surplus or deficit of each combining operation from the last reporting date of the combining operations until the amalgamation date. The amounts of revenue shall be analysed in a manner appropriate to the entity's operations, in accordance with paragraph 108 of IPSAS 1, Presentation of Financial Statements. The amounts of expenses hall be analysed using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is faithfully representative and more relevant, in accordance with paragraph 109 of IPSAS1.
(b) The amounts reported by each combining operation immediately prior to the amalgamation date for each major class of assets and liabilities.
(c) The amounts reported by each combining operation immediately prior to the amalgamation date in net assets/equity.

The resulting entity shall disclose the following information that enables users of its financial statements to evaluate the financial effects of adjustments recognised in the current reporting period that relate to amalgamations that occurred in the period or previous reporting periods.

(a) If the initial accounting for an amalgamation is incomplete (see paragraph 40) for particular assets or liabilities, and the amounts recognised in the financial statements for the amalgamation thus have been determined only provisionally:

(i) the reasons why the initial accounting for the amalgamation is incomplete;
(ii) the assets or liabilities for which the initial accounting is incomplete; and
(iii) the nature and amount of any measurement period adjustments recognised during the reporting period in accordance with paragraph 43.

(b) If amounts of tax due are forgiven as a result of the terms of the amalgamation:
(i) the amount of tax due that was forgiven; and
(ii) where the resulting entity is the tax authority, details of the adjustment made to tax receivable.

30.6.11 Acquisition method of accounting

Applying the acquisition method of accounting requires:
(a) identifying the acquirer;
(b) determining the acquisition date;
(c) recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired operation; and
(d) recognising and measuring goodwill, a gain or a loss from an acquisition.

Applying the acquisition method of accounting requires:
(a) identifying the acquirer;
(b) determining the acquisition date;
(c) recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired operation; and
(d) recognising and measuring goodwill, a gain or a loss from an acquisition.

30.7 Chapter review

The chapter discusses the provisions of IPSAS 18, 36,37,38 and 40.

30.8 Worked examples

30.8.1 Examination type questions

1. Segment expense is an expense resulting from the operating activities of a segment that is directly attributable to the segment.
Required:
(a) Identify the expenses that cannot be classified as segment expenses.
(b) Discuss the disclosures contained in IPSAS18.52-75, that are required of entity's financial statements in relation to segment reporting.

2 National Communication Commission (NCC) acquired a 40% interest in the capital of ICT Limited on the date of incorporation, January 1, 2020, for ₦2,500,000. This

enabled NCC to exercise significant influence over the associate company, ICT Limited.

On December 31, 2023, the shareholders' equity of ICT Limited was as follows:

	₦ '000
Capital	3,750
Reserves	1,227
Accumulated surplus	4,750
Total	9,727

The following extracts were taken from the financial statements of ICT Limited for the year ended December 31, 2024:

	₦ '000
Net surplus	2,650
Extraordinary item	(28)
Net profit for the period	2,622
Statement of changes in equity	
Accumulated surplus at the beginning of the year	4,750
Net surplus for the period	2,622
Dividend paid	(1,800)
Accumulated surplus at the end of the year	5,572

In November 2024, NCC sold inventories to ICT Limited for the first time. The total sales amounted to N500,000 and NCC earned a surplus of N50,000 on the transaction. None of the inventories had been sold by ICT Limited by December 2024. The income tax rate is 30%.

Required:
Compute the carrying amount of Investment in ICT Limited, using the equity method.

3. The objective of the standard is to improve the relevance, faithful representativeness, and comparability of the information that a reporting entity provides in its financial statements about a public sector combination and its effects.

Required:

a. Explain the term "amalgamation" as stated in IPSAS 40, stating the indicators that may provide evidence that the combination is an amalgamation.
b. Explain the disclosure requirements that enable users of its financial statements to evaluate the nature and financial effect of an amalgamation.

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30.8.2 Suggested solutions

1. (a) Expenses that will not qualify as segment expenses will include:
   (i) Extraordinary items;
   (ii) Interest including interest incurred on advances or loans from other segments unless the segment's operations are primarily of a financial nature;
   (iii) Losses on sales of investment or losses on extinguishment of debt unless the segments' operations are primarily of a financial nature;
   (iv) An entity's share of net deficit or losses of associates, joint ventures, or other investments accounted for under the equity method;
   (v) Income tax or income tax equivalent expense that is recognised in accordance with accounting standards dealing with obligations to pay income tax or income tax equivalents;
   (vi) General administrative expenses, head office expenses and other expenses that arise at the entity level and relating to the entity as a whole. However, costs are sometimes incurred on behalf of the segment. Such costs are segments expenses if they relate to the segment's operating activities and they can be directly attributed or allocated to the segment on a reasonable basis.

   (b) The disclosure requirements applied to entity financial statement in accordance with IPSAS 18.52-75 will include the following:
   (i) An entity should disclose segment revenue and segment expenses for each segment. Segment revenue from budget appropriation or similar allocation, segment revenue from external sources and segment revenue from transactions with other segments should be separately reported;
   (ii) An entity should disclosure the total carrying amount of segment's assets for each segment;
   (iii) An entity should disclose the total carrying amount of segment's liabilities for each segment;
   (iv) An entity should disclose the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period for each segment.

2. Calculation of the carrying amount of Investment in ICT Limited

	₦'000
Original cost of investment in ICT Ltd	2,500.00
Post-acquisition surplus accounted for at the beginning of the year (40% x ₦1,227,000 + ₦ 4,750,000)	2,390.80
Carrying amount on January1,2014	4,890.80
	₦'000

Attributable portion of net surplus for the period (WI)	1,062.80
Dividend received (40% of ₦1,800,000)	(720)
Total	**342.80**
Working I: Attributable portion of net surplus	
Net surplus (40% x ₦2,622,000)	1,048.80
After-tax rate of unrealised surplus (40% x (70% x ₦50,000)	14.00
	1,062.8

3.a. An amalgamation gives rise to a resulting entity and is either:

(a) A public sector combination in which no party to the combination gains control of one or more operations; or

(b) A public sector combination in which one party to the combination gains control of one or more operations, and in which there is evidence that the combination has the economic substance of an amalgamation.

Indicators that may provide evidence that the combination is an amalgamation

- Consideration is paid for reasons other than to compensate those with an entitlement to the net assets of a transferred operation for giving up that entitlement;
- Consideration is not paid to those with an entitlement to the net assets of a transferred operation;
- Consideration is not paid because there is no-one (whether an individual or an entity) with an entitlement to the net assets of a transferred entity;
- A public sector combination is imposed by a third party without any party to the combination being involved in the decision-making process;
- A public sector combination is subject to approval by each party's citizens through referenda (paragraph AG36 provides additional guidance); and
- A public sector combination under common control occurs.

(b) Disclosures

The resulting entity shall disclose the following information that enables users of its financial statements to evaluate the nature and financial effect of an amalgamation.

The name and a description of each combining operation.

(i) The amalgamation date.

(ii) The primary reasons for the amalgamation including, where applicable, the legal basis for the amalgamation.

(iii) The amounts recognised as of the amalgamation date for each major class of assets and liabilities transferred.

(iv) The adjustments made to the carrying amounts of assets and liabilities recorded by each combining operation as of the amalgamation date

- To eliminate the effect of transactions between combining operations and
- To conform to the resulting entity's accounting policies.

If a resulting entity elects to present financial statements for periods prior to the amalgamation date in accordance with paragraph 52, the resulting entity shall disclose the following information for each combining operation:

(i) a statement of financial position as at the end of the prior period(s);
(ii) a statement of financial performance for the prior period(s);
(iii) a statement of changes in net assets/equity for the prior period(s);
(iv) a cash flow statement for the prior period(s); and
(v) notes, comprising a summary of significant accounting policies and other explanatory notes.

If, at the time the financial statements of the resulting entity are authorised for issue, the last reporting date of any of the combining operations does not immediately precede the amalgamation date, the resulting entity shall disclose the following information:

(i) the amounts of revenue and expense, and the surplus or deficit of each combining operation from the last reporting date of the combining operations until the amalgamation date. The amounts of revenue shall be analysed in a manner appropriate to the entity's operations, in accordance with paragraph 108 of IPSAS 1, Presentation of Financial Statements. The amounts of expense shall be analysed using a classification based on either the nature of expenses or their function within the entity, which ever provides information that is faithfully representative and more relevant, in accordance with paragraph 109 of IPSAS1;
(ii) the amounts reported by each combining operation immediately prior to the amalgamation date for each major class of assets and liabilities; and
(iii) the amounts reported by each combining operation immediately prior to the amalgamation date in net assets/equity.

The resulting entity shall disclose the following information that enables users of its financial statements to evaluate the financial effects of adjustments recognised in the current reporting period that relate to amalgamations that occurred in the period or previous reporting periods.

If the initial accounting for an amalgamation is incomplete (see paragraph 40) for particular assets or liabilities, and the amounts recognised in the financial statements for the amalgamation thus have been determined only provisionally:

(i) the reasons why the initial accounting for the amalgamation is incomplete;
(ii) the assets or liabilities for which the initial accounting is incomplete; and
(iii) the nature and amount of any measurement period adjustments recognised during the reporting period in accordance with paragraph 43.

If amounts of tax due are forgiven as a result of the terms of the amalgamation:

(i) The amount of tax due that was forgiven; and
(ii) Where the resulting entity is the tax authority, details of the adjustment made to tax receivable.

Skills Level
Public Sector Accounting and Finance

31

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSASs) GROUP E (IPSASs 42, 44, 46, 47, 48 and 50)

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31 International Public Sector Accounting Standards (IPSASs) GROUP E (IPSASs 42, 44, 46, 47, 48 and 50)

31.0 Learning objective

The objective of this chapter is to enhance readers' understanding of the provisions of IPSASs, 42, 44, 46, 47, 48 and 50.

31.1 Learning outcomes

On successful completion of this chapter, readers should be able to discuss the provisions of IPSASs, 42, 44, 46, 47 and 48.

31.2 IPSAS 42 – Social Benefits

31.2.1 Introduction

The objective of this standard is to improve the relevance, faithful representativeness, and comparability of the information that a reporting entity provides in its financial statements about social benefits, as defined in this Standard. The information provided should help users of the financial statements and general-purpose financial reports to assess:

(a) the nature of such social benefits provided by the entity;
(b) the key features of the operation of those social benefit schemes; and
(c) the impact of such social benefits provided on the entity's financial performance, financial position and cash flows.

To accomplish that, this IPSAS establishes principles and requirements for:

(a) recognising expenses and liabilities for social benefits;
(b) measuring expenses and liabilities for social benefits;
(c) presenting information about social benefits in the financial statements; and
(d) determining what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the social benefits provided by the reporting entity.

31.2.2 Scope

This standard applies to a transaction that meets the definition of a social benefit. This standard does not apply to cash transfers that are accounted for in accordance with other standards.

Limitations of scope

a. Financial instruments that are within the scope of IPSAS 41, Financial Instruments (or IPSAS 29 - Financial Instruments: Recognition and Measurement, prior to an entity adopting IPSAS 41);
b. Employee benefits that are within the scope of IPSAS 39 - Employee Benefits; and
c. Insurance contracts that are within the scope of the relevant international or national accounting standard dealing with insurance contracts.

31.2.3 Definitions

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

(a) Social benefits are cash transfers provided to:
   (i) specific individuals and/or households who meet eligibility criteria;
   (ii) mitigate the effect of social risks; and
   (iii) address the needs of society as a whole.

(b) **Social risks** are events or circumstances that:
   (i) relate to the characteristics of individuals and/or households, for example, age, health, poverty and employment status; and
   (ii) may adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their incomes.

31.2.4 Recognition of a liability for a social benefit scheme under general approach

An entity shall recognise a liability for a social benefit scheme, when:

(a) the entity has a present obligation for an outflow of resources that results from a past event; and

(b) the present obligation can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in general purpose financial reports as set out in the conceptual framework for general purpose financial reporting by public sector entities.

31.2.5 Recognition of an expense for a social benefit scheme under general approach

(a) An entity shall recognise an expense for a social benefit scheme at the same point that it recognises a liability.

(b) An entity shall not recognise an expense for a social benefit scheme, where a social benefit payment is made prior to all eligibility criteria for the next payment being satisfied. Rather, an entity shall recognise a payment in advance as an asset in the statement of financial position, unless the amount becomes irrecoverable, in which case it shall recognise an expense.

31.2.6 Measurement of a liability for a social benefit scheme under general approach

Initial measurement of the liability

(a) An entity shall measure the liability for a social benefit scheme at the best estimate of the costs (that is, the social benefit payments) that the entity will incur in fulfilling the present obligations represented by the liability.

(b) An entity's best estimate of the costs (that is, the social benefit payments) that the entity will make, takes into account the possible effect of subsequent events on those social benefit payments.

(c) When the liability in respect of a social benefit scheme is not expected to be settled before twelve months after the end of the reporting period in which the liability is recognised (that is, the next social benefit payment will not be made for more than twelve months), the liability shall be discounted using the discount rate that reflect the time value of money.

Subsequent measurement

(a) The liability for a social benefit scheme shall be reduced as social benefit payments are made. Any difference between the cost of making the social benefit payments and the carrying amount of the liability in respect of the social benefit scheme is recognised in surplus or deficit in the period in which the liability is settled.

(b) Where a liability is discounted, reflect the time value of money, the liability is increased and interest expense recognised in each reporting period until the liability is settled, to reflect the unwinding of the discount.

(c) Where a liability has yet to be settled, the liability shall be reviewed at each reporting date, and adjusted to reflect the current best estimate of the costs (that is, the social benefit payments) that the entity will incur in fulfilling the present obligations represented by the liability.

31.2.7 Measurement of an expense for a social benefit scheme under general approach

An entity shall initially measure the expense for a social benefit scheme at an amount equivalent to the amount of the liability measured at the best estimate of the costs that the entity will incur in fulfilling the present obligations represented by the liability. Where the entity makes a social benefit payment prior to all eligibility criteria for the next payment being satisfied, it shall measure the payment in advance or expense recognised in accordance with subsection b under recognition of an expense for a social benefit scheme under general approach above at the amount of the cash transferred.

31.2.8 Disclosure under general approach

a. Information about the characteristics of its social benefit schemes, including:

(ii) The nature of the social benefits provided by the schemes (for example, retirement benefits, unemployment benefits, child benefits).

(iii) Key features of the social benefit schemes, such as a description of the legislative framework governing the schemes, a summary of the main eligibility criteria that must be satisfied to receive the social benefits, and a statement about how additional information about the scheme can be obtained.

(iv) A description of how the schemes is funded, including whether the funding for the schemes is provided by means of a budget appropriation, a transfer from another public sector entity, or by other means. If a scheme is funded (whether in full or in part) by social contributions, the entity shall provide:

- across reference to the location of information about those social contributions and any dedicated assets (where this information is included in the entity's financial statements); or

- a statement regarding the availability of information on those social contributions and any dedicated assets in another entity's financial statements and how that information can be obtained.

(v) A description of the key demographic, economic and other external factors that influence the level of expenditure under the social benefit schemes. This description may be presented in aggregate, where the same demographic, economic and other external factors impact a number of social benefit schemes in a similar manner.

b. The total expenditure on social benefits recognised in the statement of financial performance, analysed by social benefit scheme.

c. A description of any significant amendments to the social benefit schemes made during the reporting period, along with a description of the expected effect of the amendments. Amendments to a social benefit scheme include, but are not limited to:
   (i) changes to the level of social benefits provided; and
   (ii) changes to the eligibility criteria, including the individuals and/or households covered by the social benefit scheme.

31.2.9 Recognition and measurement under insurance approach

An entity may recognise and measure the assets, liabilities, revenue and expenses associated with a social benefit scheme by applying, by analogy, the requirements of the relevant international or national accounting standard dealing with insurance contracts where:

(a) the social benefit scheme is intended to be fully funded from contributions; and

(b) there is evidence that the entity manages the scheme in the same way as an issuer of insurance contracts, including assessing the financial performance and financial position of the scheme on a regular basis.

31.2.10 Disclosure under insurance approach

a. Information about the characteristics of its social benefit schemes, including:
   (i) The nature of the social benefits provided by the schemes (for example, retirement benefits, unemployment benefits, child benefits); and
   (ii) Key features of the social benefit schemes, such as a description of the legislative framework governing the scheme, a summary of the main eligibility criteria that must be satisfied to receive the social benefit, and a statement about how additional information about the scheme can be obtained.

b. A description of any significant amendments to the social benefit schemes made during the reporting period, along with a description of the expected effect of the amendments. Amendments to a social benefit scheme include, but are not limited to:
   (i) changes to the level of social benefits provided; and
   (ii) changes to the eligibility criteria, including the individuals and/or households covered by the social benefit scheme.

31.3 IPSAS 44 – Non-current assets held for sale and discontinued operations

31.3.1 Introduction

The objective of this standard is to specify the accounting for assets held for sale, and the presentation and disclosure of discontinued operations. In particular, this standard requires:

(a) assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets to cease; and

(b) assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.

31.3.2 Scope

The classification and presentation requirements of this standard apply to all recognised non-current assets and to all disposal groups of an entity.

The measurement provisions of this standard do not apply to the following assets, which are covered by the standards listed, either as individual assets or as part of a disposal group:

(i) deferred tax assets within the scope of the relevant international or national accounting standard dealing with income taxes;

(ii) assets arising from employee benefits (IPSAS 39 - Employee Benefits);

(iii) Financial assets within the scope of IPSAS 41 - Financial Instruments;

(iv) non-current assets that are accounted for in accordance with the fair value model in IPSAS 16 - Investment Property;

(v) non-current assets that are measured at fair value less costs to sell in accordance with IPSAS 27 - Agriculture; and

(vi) groups of contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts.

This standard specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. Disclosures in other IPSAS do not apply to such assets (or disposal groups) unless those IPSASs require:

(a) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations; or

(b) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of this standard and such disclosures are not already provided in the other notes to the financial statements.

31.3.3 Definitions

(a) **A cash-generating unit** is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

(b) **A component of an entity** comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.

(c) **Costs to sell** are the incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs and income tax expense.

(d) **A discontinued operation** is a component of an entity that either has been disposed of or is classified as held for sale and:

(i) represents a separate major operation or geographical area of operations;

(ii) is part of a single coordinated plan to dispose of a separate operation or geographical area of operations; or

(iii) is a controlled entity acquired exclusively with a view to resale.

(e) A disposal group is a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

(f) **A firm purchase commitment** is an agreement with an unrelated party, binding on both parties and usually legally enforceable, that (a) specifies all significant terms, including the price and timing of the transactions, and (b) includes a disincentive for non-performance that is sufficiently large to make performance highly probable.

(g) **Highly probable** means significantly more likely than probable.

(h) **A non-current asset** is an asset that does not meet the definition of a current asset.

(i) **Probable** means more likely than not.

(j) **Recoverable amount** is the higher of an asset's fair value less costs of disposal and its value in use.

31.3.4 Classification of non-current assets as held for sale or as held for distribution to owners

(a) An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction, rather than through continuing use.

(b) For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

(c) For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated.

(d) Sale transactions include exchanges of non-current assets for other non-current assets when the exchange has commercial substance in accordance with IPSAS 45 (formerly IPSAS 17) - Property, Plant, and Equipment.
(e) When an entity acquires a non-current asset (or disposal group) exclusively with a view to its subsequent disposal, it shall classify the non-current asset (or disposal group) as held for sale at the acquisition date only if the one-year requirement in paragraph (c) above is met.
(f) If the criteria in paragraphs (b) and (c) above are met after the reporting period, an entity shall not classify a non-current asset (or disposal group) as held for sale in those financial statements when issued.

Non-current assets that are to be abandoned

(a) An entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use.
(b) An entity shall not account for a non-current asset that has been temporarily taken out of use as if it had been abandoned.

31.3.5 Measurement of non-current assets classified as held for sale

Measurement of a non-current asset

(a) An entity shall measure a non-current asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell.
(b) An entity shall measure a non-current asset classified as held for distribution to owners at the lower of its carrying amount and fair value less costs to distribute
c) When the sale is expected to occur beyond one year, the entity shall measure the costs to sell at their present value. Any increase in the present value of the costs to sell that arises from the passage of time shall be presented in surplus or deficit as a financing cost.

31.3.6 Recognition of impairment losses and reversals

(a) An entity shall recognise an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell, to the extent that it has not been recognised in accordance with paragraph 27.
(b) An entity shall recognise a gain for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognised either in accordance with this Standard or previously in accordance with IPSAS 21 - Impairment of Non-Cash-Generating Assets or IPSAS 26 - Impairment of Cash-Generating Assets.
(c) An entity shall recognise a gain for any subsequent increase in fair value less costs to sell of a disposal group:
    (i) to the extent that it has not been recognised shall be remeasured in accordance with applicable IPSAS before the fair value less costs to sell of the disposal group is remeasured; but
    (ii) not in excess of the cumulative impairment loss that has been recognised, either in accordance with this Standard or previously in accordance with

IPSAS 21 or IPSAS 26, on the non-current assets that are within the scope of the measurement requirements of this standard.

31.3.7 Presentation and disclosure

An entity shall present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets.

Presenting discontinued operations

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and

(a) represents a separate major operation or geographical area of operations;
(b) is part of a single coordinated plan to dispose of a separate major operation or geographical area of operations; or
(c) is a controlled entity acquired exclusively with a view to resale.

An entity shall disclose:

(a) A single amount in the statement of financial performance comprising the total of:
   i. the post-tax surplus or deficit of discontinued operations; and
   ii. the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.
(b) An analysis of the single amount in (a), into:
   (i) the revenue, expenses and pre-tax surplus or deficit of discontinued operations;
   (ii) the related income tax expense as required by the relevant international or national accounting standard dealing with income taxes;
      - the gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and
      - The related income tax expense as required by the relevant international or national accounting standard dealing with income taxes.
(c) An entity shall present a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale shall be presented separately from other liabilities in the statement of financial position. Those assets and liabilities shall not be offset and presented as a single amount. The major classes of assets and liabilities classified as held for sale.

Additional disclosures

(a) An entity shall disclose the following information in the notes in the period in which a non-current asset (or disposal group) has been either classified as held for sale or sold:
   (i) a description of the non-current asset (or disposal group);

(ii) a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal;
(iii) the gain or loss recognised in accordance with paragraphs 28–30 of the standard and, if not separately presented in the statement of financial performance, the caption in the statement of financial performance that includes that gain or loss; and
(iv) if applicable, the segment in which the non-current asset (or disposal group) is presented in accordance with IPSAS 18 - Segment Reporting.

(b) An entity shall disclose in the notes, the fair value of the non-current asset (or disposal group) classified as held for sale when that non-current asset (or disposal group) is measured at a materially lower carrying amount than fair value.

Fair value disclosures

An entity shall disclose information that helps users of its financial statements assess, for assets and liabilities that are measured at fair value in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements.

To meet the objectives of fair value disclosure, an entity shall consider all the following:

(a) the level of detail necessary to satisfy the disclosure requirements;
(b) how much emphasis to place on each of the various requirements;
(c) how much aggregation or disaggregation to undertake; and
(d) whether users of financial statements need additional information to evaluate the quantitative information disclosed.

Also, to meet the objectives of fair value disclosure, an entity shall disclose, at a minimum, the following information for each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition.

(a) The fair value measurement at the end of the reporting period, and the reasons for the measurement.
(b) The level of the fair value hierarchy within which the fair value measurements are categorised in their entirety.
(c) For fair value measurements categorised within the fair value hierarchy, a description of the measurement technique(s) and the inputs used in the fair value measurement.

31.4 IPSAS 46 - Measurement

31.4.1 Introduction

The objective of this standard is to define measurement bases that assist in reflecting fairly the cost of services, operational capacity and financial capacity of assets and liabilities. The standard identifies approaches under those measurement bases to be applied through individual IPSAS to achieve the objectives of financial reporting.

31.4.2 Scope

An entity that prepares and presents financial statements under the accrual basis of accounting shall apply IPSAS 46 – Measurement, in measuring assets and liabilities.

The standard applies when another IPSAS requires or permits:

(a) one or more of the measurement bases defined in this Standard; and

(b) measurements that are based on one or more of the measurement bases (for example, fair value less costs of disposal).

The measurement requirements of this standard do not apply to the following:

(a) leasing transactions accounted for in accordance with IPSAS 43 - Leases;

(b) transactions accounted for in accordance with IPSAS 32 - Service Concession Arrangements: Grantor; and

(c) Measurements that have some similarities to the measurement bases in this Standard but are not those measurement bases, such as net realisable value in IPSAS 12 – Inventories, or value in use in IPSAS 21 - Impairment of Non-Cash-Generating Assets, and IPSAS 26 - Impairment of Cash-Generating Assets, (but this Standard is applied in measuring fair value as required in IPSAS 21 and 26).

The measurement requirements described in this Standard apply to both initial and subsequent measurement, unless specific guidance is included in the individual IPSAS.

31.4.3 Definitions

(a) **Active market** is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

(b) **Cost approach** is a measurement technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

(c) **Cost of fulfilment** is the costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.

(d) **Current operational value** is the amount the entity would pay for the remaining service potential of an asset at the measurement date.

(e) **Deemed cost** is an amount used as a surrogate for transaction price at the measurement date.

(f) **Entry price** is the price paid to acquire an asset or received to assume a liability in an exchange transaction.

(g) **Exit price** is the price received to sell an asset or paid to transfer a liability.

(h) **Expected cash flow** is the probability-weighted average (that is, mean of the distribution) of possible future cash flows.

(i) **Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

(j) **Highest and best use** is the use of a non-financial asset by market participants that would maximise the value of the asset or the group of assets and liabilities (for example, an operation) within which the asset would be used.

(k) **Historical cost** is the consideration given to acquire, construct, or develop an asset plus transaction costs, or the consideration received to assume a liability

minus transaction costs, at the time the asset is acquired, constructed or developed, or the liability is incurred.

(l) **Income approach** is a measurement technique that converts future amounts (for example, cash flows or revenue and expenses) to a single current (that is, discounted) amount.

(m) **Inputs** are the assumptions used when pricing the asset or liability, including assumptions about risk, such as the following:

(i) The risk inherent in a particular measurement technique used to estimate a measurement in accordance with a measurement basis (such as a pricing model); and

(ii) The risk inherent in the inputs to the measurement technique. Inputs may be observable or unobservable.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

(n) **Market approach** is a measurement technique that uses prices and other relevant information generated by market transactions involving identical or comparable (that is, similar) assets, liabilities or a group of assets and liabilities.

(o) **Market participants** are buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:

(i) They are independent of each other, that is, they are not related parties as defined in IPSAS 20 - Related Party Disclosures, although the price in a related party transaction may be used as an input to a fair value measurement if the entity has evidence that the transaction was entered into at market terms.

(ii) They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary.

(iii) They are able to enter into a transaction for the asset or liability.

(iv) They are willing to enter into a transaction for the asset or liability, that is, they are motivated but not forced or otherwise compelled to do so.

(p) **Market-corroborated inputs** are inputs that are derived principally from or corroborated by observable market data by correlation or other means.

(q) **Most advantageous market** is the market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs.

(r) **Non-performance risk** is the risk that an entity will not fulfil an obligation. Non-performance risk includes, but may not be limited to, the entity's own credit risk.

(s) **Observable inputs** are inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect

the assumptions that market participants would use when pricing the asset or liability.

(t) **Orderly transaction** is a transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (for example, a forced liquidation or distress sale).

(u) **Principal market** is the market with the greatest volume and level of activity for the asset or liability.

(v) **Risk premium** is the compensation sought by risk-averse market participants for bearing the uncertainty inherent in the cash flows of an asset or a liability. This is also referred to as a 'risk adjustment'.

(w) **Transaction costs** are incremental costs that are directly attributable to the acquisition, construction, development or disposal of an asset, or incurrence of a liability, and would not have been incurred if the entity had not acquired, constructed, developed or disposed of the asset, or incurred the liability.

(x) **Transaction price** is the consideration given to acquire, construct or develop an asset or received to assume a liability.

(y) **Transport costs** are the costs that would be incurred to transport an asset from its current location to its principal (or most advantageous) market.

(z) **Unit of account** is the level at which an asset or a liability is aggregated or disaggregated in an IPSAS for recognition purposes.

(aa) **Unobservable inputs** are inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.

31.4.4 Measurement

Initial measurement

On the date an item qualifies for recognition, it shall be initially measured at its transaction price, plus transaction costs for assets or minus transaction costs for liabilities, unless:

(a) that transaction price, plus or minus transaction costs, does not faithfully present relevant information of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes (see paragraphs 10–13); or

(b) otherwise required or permitted by another IPSAS.

When applying accrual basis IPSAS for the first time, initial measurement in an opening statement of financial position at the date of adoption of IPSAS should be carried out in accordance with IPSAS 33 - First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs).

Transactions in an orderly market

(a) When an asset is acquired, constructed, or developed, or a liability is assumed in an orderly market, the transaction price, plus or minus transaction costs, reflects the initial value of the asset or liability negotiated between market participants at the measurement date under current market conditions.

(b) Where a transaction price exists, it is presumed to present relevant information on the date the transaction occurred. When determining whether the transaction price presents relevant information about the asset or liability, an entity shall consider factors specific to the transaction and to the asset or liability.

Transactions not undertaken in an orderly market

When an asset is acquired, constructed, or developed, or a liability is assumed, as a result of an event that is not a transaction in an orderly market:

(a) It may not be possible to observe a transaction price;
(b) The transaction price may not faithfully present relevant information about the asset or liability; or
(c) The transaction price may be zero.

In such cases, deemed cost is used to measure the initial value of the asset or liability.

A current value measurement basis is used to determine the deemed cost of the asset or liability on initial measurement.

Any difference between deemed cost and any consideration given or received would be recognised as revenue or expenses, unless it is a contribution from owners or a relevant IPSAS requires otherwise.

Circumstances where a transaction price may not be observable or may not faithfully present relevant information include:

(a) transaction prices that have a concessionary element;
(b) assets transferred to the entity free of charge by a government or donated to the entity by another party;
(c) liabilities imposed by legislation or regulation;
(d) liabilities to pay compensation or a penalty arising from an act of wrongdoing or breach of contract;
(e) transaction prices that are affected by relationships between the parties, or by financial distress or other duress of one of the parties; and
(f) transaction prices that are not available on the date of adoption of IPSAS as defined in IPSAS 33.

Transaction costs at initial measurement

Transaction costs related to acquiring, constructing, or developing, an asset or incurring a liability are features of the transaction in which the asset was acquired, constructed, or developed, or the liability was incurred. The initial measurement of the asset or liability reflects those transaction costs as the entity could not have acquired, constructed, or developed the asset or assumed the liability without incurring those costs.

The acquisition of an asset may occur in stages or may be followed by further expenditures to adapt the asset for the entity's own use. Any expenditures incurred in bringing the asset to the state where it is ready for use will be included in the consideration identified as part of the asset's initial measurement.

Subsequent measurement

After initial measurement, unless otherwise required by the relevant IPSAS, an accounting policy choice is made to measure an asset or liability through the selection of the measurement models or bases.

(a) **Historical cost basis**

The historical cost basis is an entry, entity-specific value. The historical cost basis provides monetary information about assets, liabilities and related revenue and expenses, using information derived, at least in part, from the price of the transaction or event that gave rise to them.

(b) **Current operational value basis**

Current operational value provides monetary information about assets, and related amortisation, depreciation, etc., using information updated to reflect conditions at the measurement date. Current operational value therefore reflects changes in the values of assets since the previous measurement date.

(c) **Cost of fulfilment basis**

Cost of fulfilment is an exit, entity-specific cost that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner. Cost of fulfilment is the present value of the cash, or other economic resources, that the entity expects to be obliged to transfer as it fulfils a liability.

(d) **Fair value basis**

Fair value measurement is an exit, market-based measurement that provides monetary information about assets, liabilities and related revenues and expenses, using information updated to reflect conditions at the measurement date. Fair value therefore reflects changes in the values of assets and liabilities since the previous measurement date.

Transaction costs in subsequent measurement

Transaction costs are incremental costs that would not have been incurred if the entity had not acquired, constructed, developed or disposed of the asset or incurred, transferred, or settled the liability, while incremental costs are a direct result of the transaction. For example, while costs to operate an asset after it has been acquired are incremental costs because they would not be incurred if the entity had not acquired the asset, these costs are not transaction costs, as they are not a direct result of the transaction.

Costs attributable to the acquisition, construction, or development, of an asset relate specifically to costs of transfer of control. Costs incurred prior to transfer (for example, costs to negotiate the transaction), or costs incurred subsequent to the transfer (for example, borrowing costs), are excluded from the definition of transaction costs.

31.4.5 Disclosure

An entity shall disclose information that helps users of its financial statements assess the measurement basis, the measurement techniques and inputs used to develop those measurements.

An entity shall apply the measurement disclosure requirements in the relevant IPSAS to which the measurement of the asset or liability applies.

31.5 IPSAS 47 – Revenue

31.5.1 Introduction

The objective of this standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from revenue transactions.

31.5.2 Scope

An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this standard in accounting for its revenue transactions. The standard does not apply to:

(a) contributions to social benefit schemes that are accounted for in accordance with IPSAS 42 - Social Benefits (the insurance approach);
(b) a public sector combination within the scope of IPSAS 40 - Public Sector Combinations;
(c) the accounting for contributions from owners;
(d) lease contracts within the scope of IPSAS 43 - Leases;
(e) insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts;
(f) financial instruments and other contractual rights or obligations within the scope of IPSAS 41 - Financial Instruments;
(g) rights or obligations arising from binding arrangements within the scope of IPSAS 19, IPSAS 32, IPSAS 34, IPSAS 35, IPSAS 36, IPSAS 37, IPSAS 39 and IPSAS 40;
(h) non-monetary exchanges between entities in the same line of business to facilitate sales to resource providers or potential resource providers. For example, this standard would not apply to a binding arrangement between two public sector entities that agree to an exchange of electricity to satisfy demand from their resource providers in different specified locations on a timely basis;
(i) gains from the sale of non-financial assets that are not output of an entity's activities and are within the scope of IPSAS 16, IPSAS 45, or IPSAS 31;
(j) changes in the value of current and non-current assets arising from subsequent measurement;
(k) initial recognition or changes in the fair value of biological assets related to agricultural activity (IPSAS 27 - Agriculture); and
(l) the extraction of mineral resources.

31.5.3 Definitions

(a) **Binding arrangement** is an arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement. (Paragraphs AG10–AG31 provide additional guidance.)
(b) **Binding arrangement asset** is an entity's right to consideration for satisfying its compliance obligations in compliance with the terms of the binding arrangement

when that right is conditioned on something other than the passage of time (for example, the entity's future performance).

(c) **Binding arrangement liability** is an entity's obligation to satisfy its compliance obligation in compliance with the terms of the binding arrangement for which the entity has received consideration (or the amount is due) from the resource provider.

(d) **Capital transfer** is an inflow of cash or another asset that arises from a binding arrangement with a specification that the entity acquires or constructs a non-financial asset that will be controlled by the entity.

(e) **Compliance obligation** is an entity's promise in a binding arrangement to either use resources internally for distinct goods or services or transfer distinct goods or services to a purchaser or third-party beneficiary.

(f) **Customer** is a party that has contracted with an entity to obtain goods or services that are an output of the entity's activities in exchange for consideration.

(g) **Expenses paid through the tax system** are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

(h) **Fines** are economic benefits or service potential received or receivable by the entity, as determined by a court or other law enforcement body, as a consequence of the breach of laws and/or regulations.

(i) **Other compulsory contributions and levies** are cash or other assets, paid or payable to the entity, in accordance with laws and/or regulations, established to provide revenue that is to be used in the provision of specified government programmes.

(j) **Purchaser** is a resource provider that provides a resource to the entity in exchange for goods or services that are an output of an entity's activities under a binding arrangement for its own consumption. (Paragraph AG27 provides additional guidance.)

(k) **Resource provider** is the party that provides a resource to the entity.

(l) **Stand-alone value (of a good or service)** is the price of a good or service that is required to be used internally, or provided separately to a purchaser or third-party beneficiary.

(m) **Tax expenditures** are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

(n) T**axable event** is the event that the government, legislature, or other authority has determined will be subject to taxation.

(o) **Taxes** are economic benefits or service potential compulsorily paid or payable to the entity, in accordance with laws and/or regulations, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of laws and/or regulations.

(p) **Third-party beneficiary** is an entity, household or individual who will benefit from a transaction made between other parties by receiving resources.

(q) **Transaction consideration** is the amount of resources to which an entity expects to be entitled.

(r) **Transfer** is a transaction, other than taxes, in which an entity receives a resource from a resource provider (which may be another entity or an individual) without directly providing any good, service, or other asset in return.

31.5.4 Revenue

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the entity, which represents an increase in net assets/equity, other than increases relating to contributions from owners. Taxes, which include compulsory contributions and levies, are the major source of revenue for many governments and other public sector entities.

Public sector revenues may arise from transactions without binding arrangements or with binding arrangements. The majority of revenue of governments and other public sector entities is typically derived from transactions without binding arrangements, or from transactions with binding arrangements that do not include transfers of distinct goods or services to external parties.

31.5.5 Identify whether a binding arrangement exists

For an arrangement to be binding, it must be enforceable through legal or equivalent means. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the binding arrangement and hold the parties accountable for the satisfaction of their obligations.

31.5.6 Revenue from transactions without binding arrangements

Recognition

An entity's revenue transaction without a binding arrangement may confer rights and/or obligations. Any entity shall determine if:

(a) any of its rights in its revenue transaction without binding arrangements meet the definition of an asset if it presently controls the resources (such as goods, services, or other assets) received as a result of past events, and the value of the asset can be measured reliably; and

(b) any of its obligations in its revenue transaction without binding arrangements meet the definition of a liability when it is a present obligation of the entity to transfer resources as a result of past events.

An entity shall recognise revenue from a transaction without a binding arrangement:

(a) when (or as) the entity satisfies any obligations associated with the inflow of resources that meet the definition of a liability; or

(b) immediately if the entity does not have an enforceable obligation associated with the inflow of resources.

Measurement

Assets

After initial recognition, an entity shall subsequently measure:

(a) A receivable asset:
    (i) Within the scope of IPSAS 41 as a financial asset in accordance with IPSAS 41; or
    (ii) Not within the scope of IPSAS 41 on the same basis as a financial asset in accordance with IPSAS 41, by analogy.
(b) All other assets as prescribed by the applicable IPSAS.

Liabilities
The amount recognised as a liability shall be the best estimate of the amount required to settle the obligation at the reporting date. For the purposes of this standard, the best estimate of a liability on initial recognition is limited to the value of the associated asset recognised.

Revenue
Revenue from transactions without a binding arrangement shall be measured at the amount of the increase in net assets (for example, the consideration received or receivable) recognised by the entity.

Taxes
An entity shall recognise an asset in respect of taxes, which include other compulsory contributions and levies, when the taxable event, or other event giving rise to other compulsory contributions and levies, occurs and the asset recognition criteria are met.
It should be noted that:
(a) Taxation revenue shall be determined at a gross amount. It shall not be reduced by expenses paid through the tax system; and
(b) Taxation revenue shall not be grossed up by the amount of tax expenditures.

31.5.7 Revenue from transactions with binding arrangements

Recognition
Accounting for the binding arrangement
An entity shall account for a binding arrangement using the binding arrangement accounting model, if all of the following criteria are met:
(a) the parties to the binding arrangement have approved the binding arrangement (in writing, orally or in accordance with other customary practices) and are committed to perform their respective obligations;
(b) the entity can identify each party's rights under the binding arrangement;
(c) the entity can identify the payment terms for the satisfaction of each identified compliance obligation;
(d) the binding arrangement has economic substance (that is, the risk, timing or amount of the entity's future cash flows or service potential is expected to change as a result of the binding arrangement; and
(e) it is probable that the entity will collect the consideration to which it will be entitled for satisfying its compliance obligations in accordance with the terms of the binding arrangement.

When a binding arrangement does not meet all of the criteria in (a) to (e) above, the entity shall recognise any consideration received as revenue, only when either of the following events has occurred:

(a) the entity has fully satisfied its compliance obligation to which the consideration that has been received relates and the consideration received from the resource provider is non-refundable; or
(b) the binding arrangement has been terminated and the consideration received from the resource provider is non-refundable.

A binding arrangement is wholly unsatisfied, if both of the following criteria are met:

(a) The entity has not yet started satisfying any of its compliance obligations in the binding arrangement; and
(b) The resource provider has not yet paid, and is not yet obligated to pay, any consideration to the entity, for the entity satisfying any of its compliance obligations in the binding arrangement.

31.5.8 Identifying compliance obligations in a binding arrangement

At the inception of the binding arrangement, an entity shall assess the goods or services promised in a binding arrangement with a resource provider and shall identify as a compliance obligation each promise to use resources internally for, or transfer to an external party or parties (that is, the purchaser (the resource provider) or third-party beneficiary), either:

(a) a good or service (or a bundle of goods or services) that is distinct; or
(b) a series of distinct goods or services that are substantially the same in characteristics and risks and that have the same pattern of use, internally or transfer to the purchaser or third-party beneficiary

A binding arrangement has at least one compliance obligation because its enforceability holds the entity accountable for satisfying its obligations of the arrangement, for which the entity has little or no realistic alternative to avoid.

31.5.9 Recognition of revenue transactions with a binding arrangement

When an entity receives an inflow of resources in a revenue transaction with a binding arrangement that meets the definition of and recognition criteria for, an asset, the entity shall recognise:

(a) revenue for any satisfied compliance obligations in respect of the same inflow; and
(b) a liability for any unsatisfied compliance obligations in respect of the same inflow.

The timing of revenue recognition is determined by the nature of the requirements in a binding arrangement and their settlement. An entity shall recognise revenue from a transaction with a binding arrangement when, (or as) the entity satisfies a compliance obligation by using resources in the specified manner, in compliance with the terms of the binding arrangement.

31.5.10 Measurement

An asset in a revenue transaction with a binding arrangement shall initially be measured by the entity at its transaction consideration as at the date in which the criteria for asset recognition are satisfied.

The amount recognised as a liability shall be the best estimate of the amount required to settle the compliance obligation at the reporting date.

Measurement of revenue transactions with binding arrangements

When (or as) a compliance obligation is satisfied, an entity shall recognise as revenue the amount of the transaction consideration that is allocated to that compliance obligation.

31.5.11 Disclosure

The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from revenue transactions. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:

(a) Its revenues from transactions without binding arrangements;
(b) Its revenues from transactions with binding arrangements;
(c) The significant judgments, and changes in the judgments, made in applying this standard to those binding arrangements; and
(d) Any assets recognised from the costs to obtain or fulfil a binding arrangement with a resource provider.

An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.

An entity shall disclose either on the face of, or in the notes to, the general-purpose financial statements:

(a) the amount of revenue from transactions recognised during the period, showing separately, and by major classes:
    i. taxes;
    ii. other compulsory contributions and levies;
    iii. transfers; and
    iv. compliance obligations in a binding arrangement.
(b) the amount of receivables recognised at the reporting date in respect of revenue;
(c) the amount of liabilities recognised at the reporting date in respect of transferred assets subject to compliance obligations;
(d) the amount of liabilities recognised at the reporting date in respect of concessionary loans that are subject to requirements on transferred assets;
(e) the existence and amounts of any advance receipts in respect of transactions; and
(f) the amount of any liabilities forgiven.

An entity shall disclose in the notes to the general-purpose financial statements:

(a) the accounting policies adopted for the recognition of revenue;
(b) the judgments, and changes in the judgments, made in applying this standard that significantly affect the determination of the amount and timing of revenue;
(c) for major classes of revenue from transactions, the basis on which the transaction consideration of inflowing resources was measured;
(d) for major classes of taxation revenue and revenue from other compulsory contributions, and levies that the entity cannot measure reliably during the period in which the taxable event or equivalent event for other compulsory contributions and levies occurs, information about the nature of the tax, or other compulsory contribution or levy;
(e) the nature and type of major classes of bequests, gifts, and donations showing separately major classes of goods in-kind received; and
(f) qualitative and quantitative information about services in-kind that have been recognised.

Specific disclosure for revenue without binding arrangement

(a) Where an entity is unable to reliably measure the assets and revenue arising until one or more reporting periods has or have elapsed since the taxable event or equivalent event for other compulsory contributions and levies occurred. In these cases, the entity makes disclosures about the nature of major classes of taxation or other compulsory contributions and levies that cannot be reliably measured, and therefore recognised, during the reporting period in which the taxable event or equivalent event for other compulsory contributions and levies occurs.
(b) An entity to disclose the existence of advance receipts. These liabilities carry the risk that the entity will have to make a sacrifice of future economic benefits or service potential if the taxable event does not occur, or a transfer arrangement does not become binding.
(c) An entity to make disclosures about the nature and type of major classes of bequests, gifts, and donations it has received.
(d) Entities that do not recognise services in-kind on the face of the general-purpose financial statements are strongly encouraged to disclose qualitative information about the nature and type of major classes of services in-kind received, particularly if those services in-kind received are integral to the operations of the entity.
(e) Where services in-kind meet the definition of an asset and satisfy the criteria for recognition as an asset, entities may elect to recognise these services in-kind and measure them at their fair value. An entity is strongly encourage to make qualitative disclosures about the nature and type of all services in-kind received, whether they are recognised or not. Such disclosures may assist users to make informed judgments about:
    (i) the contribution made by such services to the achievement of the entity's objectives during the reporting period; and
    (ii) the entity's dependence on such services for the achievement of its objectives in the future.

Specific disclosure for revenue with binding arrangements

An entity shall disclose all of the following amounts for the reporting period unless those amounts are presented separately in the statement of financial performance in accordance with other Standards:

(i) revenue recognised from binding arrangements with compliance obligations, separately from its other sources of revenue; and

(ii) any impairment losses recognised (in accordance with IPSAS 41) on any receivables or binding arrangement assets arising from an entity's binding arrangements, which the entity shall disclose separately from impairment losses from other binding arrangements.

Binding arrangement balances

An entity shall disclose all of the following:

(a) the opening and closing balances of receivables, binding arrangement assets and binding arrangement liabilities from binding arrangements, if not, otherwise separately presented or disclosed;

(b) revenue recognised in the reporting period that was included in the binding arrangement liability balance at the beginning of the period; and

(c) revenue recognised in the reporting period from compliance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction consideration).

Compliance obligations

An entity shall disclose information about its compliance obligations in binding arrangements, including a description of all of the following:

(a) when the entity typically satisfies its compliance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service), including when compliance obligations are satisfied in a bill-and-hold arrangement;

(b) the significant payment terms (for example, when payment is typically due), whether the binding arrangement has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained;

(c) the nature of the compliance obligations the entity has promised to satisfy, highlighting any compliance obligations to arrange for another party to incur compliance obligations (that is, if the entity is acting as an agent);

(d) obligations for returns, refunds and other similar obligations; and

(e) types of warranties and related obligations.

An entity shall disclose the following information about its remaining compliance obligations:

(a) The aggregate amount of the transaction consideration allocated to the compliance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period; and

(b) An explanation of when the entity expects to recognise as revenue the amount disclosed in accordance with paragraph 185(a), which the entity shall disclose in either of the following ways:
    (i) on a quantitative basis using the time bands that would be most appropriate for the duration of the remaining compliance obligations; or
    (ii) by using qualitative information.

31.6 IPSAS 48 - Transfer expenses

31.6.1 Introduction

The objective of this standard is to establish the principles that a transfer provider (an entity) shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of expenses and cash flows arising from transfer expense transactions.

To meet the objective above, the standard:

(a) requires an entity to consider the terms of the transaction and all relevant facts and circumstances to determine the type of transfer expense transaction; and
(b) sets out the accounting requirements for the transfer expense transaction.

31.6.2 Scope

The standard does not apply to:

(a) Leases as defined in IPSAS 43 - Leases;
(b) Contributions from, and distributions to, owners;
(c) Service concession arrangements as defined in IPSAS 32 - Service Concession Arrangements: Grantor;
(d) Employee benefits as defined in IPSAS 39 - Employee Benefits;
(e) Financial instruments, including concessionary loans, as defined in IPSAS 41- Financial Instruments;
(f) Social benefits as defined in IPSAS 42 - Social Benefits;
(g) Insurance contracts (see the international or national accounting standard dealing with insurance contracts);
(h) Share-based payments (see the international or national accounting standard dealing with share-based payments); and
(i) Income taxes (see the international or national accounting standard dealing with income taxes).

31.6.3 Definitions

(a) **Capital transfer** is an outflow of cash or another asset that arises from a binding arrangement with a specification that the transfer recipient acquires or constructs a non-financial asset that will be controlled by the transfer recipient.
(b) **Stand-alone consideration** is the amount that an entity intends to compensate the transfer recipient for satisfying each of its obligations in a binding arrangement.
(c) **Transfer consideration** represents the total amount of resources which an entity expects to transfer.

(d) **Transfer expense** is an expense arising from a transaction, other than taxes, in which an entity provides a good, service, or other asset to another entity (which may be an individual) without directly receiving any good, service, or other asset in return.
(e) **Transfer obligation** is an entity's obligation in a binding arrangement to transfer resources in a specified manner.
(f) **Transfer obligation liability** is the liability recognised for the existence of one or more transfer obligations arising from a binding arrangement.
(g) **Transfer provider i**s an entity that provides a good, service, or other asset to another entity without directly receiving any good, service or other asset in return.
(h) **Transfer recipient** is an entity that receives a good, service, or other asset from another entity without directly providing any good, service or other asset to that entity.
(i) **Transfer right** is an entity's enforceable right to have the transfer recipient satisfy its obligation in a manner as specified in a binding arrangement or face the consequences as specified in the binding arrangement.
(j) **Transfer right asset** is the asset recognised for the existence of one or more transfer rights arising from a binding arrangement.

31.6.4 Transfer expenses from transactions without binding arrangements

Recognition

For transfer expenses without binding arrangements, an entity shall recognise expenses as follows:

a. At the point when a constructive obligation or legal obligation to transfer resources arises and results in the recognition of a provision results in the recognition of an expense, and the subsequent transfer of resources settles the recognised provision; or
b. If a constructive or legal obligation to transfer resources does not exist, when the entity ceases to control the resources; this will usually be the date at which it transfers the resources to the transfer recipient. In such cases, the entity derecognises the resources it ceases to control in accordance with other standards.

Measurement

(a) When a provision is recognised in the situation described by paragraph 18(a), the provision is initially and subsequently measured in accordance with paragraphs 44 - 72 of IPSAS 19.
(b) When an entity recognises an expense at the time it ceases to control the resources, the entity shall measure the expense at the carrying amount of the transferred resources.

31.6.5 Transfer expenses from transactions with binding arrangements

At the inception of a binding arrangement to transfer resources, an entity shall consider its rights in the binding arrangement and shall identify each distinct transfer right as:

a. a right to have the transfer recipient satisfy an obligation that is separate from the satisfaction of other obligations in the binding arrangement; or
b. a series of rights to have the transfer recipient satisfy its obligation that have substantially the same characteristics and risks and that have the same pattern of satisfaction.

Recognition

(a) When (or as) an entity transfers resources in accordance with a binding arrangement prior to the transfer recipient satisfying its obligations, the transferred resources are derecognised, and a transfer right asset is recognised for the transfer rights arising from the binding arrangement.
(b) Conversely, when (or as) a transfer recipient satisfies its obligations in the binding arrangement prior to the entity transferring resources, the arrangement gives rise to a transfer obligation for the entity. The existence of a transfer obligation results in the recognition of a transfer obligation liability. A transfer obligation liability is also recognised when it is more likely than not that a present obligation exists for the transfer of variable consideration.

For transfer expenses with binding arrangements, an entity shall recognise expenses:
(a) when (or as) a transfer right asset is derecognised; or
(b) when a transfer obligation liability is recognised.

Measurement

An entity shall consider the terms of the binding arrangement to determine the transfer consideration. Transfer consideration is the total carrying amount of the resources which an entity has transferred, or is obligated to transfer, to the transfer recipient in accordance with the binding arrangement and includes the effects of variable consideration.

(a) When an entity transfers resources to a transfer recipient prior to the transfer recipient starting to satisfy its obligation, the entity shall, at recognition, measure the resulting transfer right asset at the total carrying amount of the resources which have been transferred in accordance with the binding arrangement.
(b) When a transfer expense is recognised from the extinguishment of a transfer right, the transfer expense is measured at the amount of the transfer consideration that is allocated to the extinguished transfer right to reflect its stand-alone consideration, adjusted for amounts of variable consideration.
(c) When the transfer recipient has satisfied its compliance obligations and the entity has not yet transferred its resources as required by the binding arrangement, the entity measures its transfer obligation liability at the total carrying amount of the resources which the entity is obligated to transfer in accordance with the binding arrangement.

To determine the transfer consideration, an entity shall assume that the transfer recipient will satisfy its obligations in accordance with the existing binding arrangement and that the binding arrangement will not be cancelled, renewed, or modified.

31.6.6 Disclosure

The objective of the disclosure requirements is for the entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of expenses and cash flows arising from transfer expense transactions. To achieve that objective, the entity shall disclose qualitative and quantitative information about all of the following:

a. transfer expenses and related balances;
b. transfer arrangements; and
c. the significant judgments, and changes in the judgments, made regarding the recognition of transfer right assets from transfer expense transactions.

3 1 . 7 IPSAS 50 - Exploration for and Evaluation of Mineral Resources (Effective date January 1, 2027)

31.7.1 Introduction

The objective of this standard is to specify the financial reporting requirements for the exploration and evaluation of mineral resources. In particular, the standard requires:

(a) Limited improvements to existing accounting practices for exploration and evaluation expenditures;
(b) Entities that recognise exploration and evaluation assets to assess such assets for impairment in accordance with this standard and measure any impairment in accordance with IPSAS 26, Impairment of Cash-Generating Assets; and
(c) Disclosures that identify and explain the amounts in the entity's financial statements arising from the exploration for and evaluation of mineral resources and help users of those financial statements understand the amount, timing and certainty of future cash flows from any exploration and evaluation assets recognised.

31.7.2 Scope

An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard to exploration and evaluation expenditures that it incurs. This standard does not address other aspects of accounting by entities engaged in the exploration for and evaluation of mineral resources.

An entity shall not apply this standard to expenditures incurred:

(a) Before the exploration for and evaluation of mineral resources, such as expenditures incurred before the entity has obtained the legal rights to explore a specific area; and
(b) After the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

31.7.3 Definitions

The following terms are used in this **s**tandard with the meanings specified:

(a) Exploration and evaluation assets means exploration and evaluation expenditures recognised as assets in accordance with the entity's accounting policy;

(b) Exploration and evaluation expenditures means expenditures incurred by an entity in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable; and

(c) Exploration for and evaluation of mineral resources means the search for mineral resources, including minerals, oil, natural gas, and similar non-regenerative resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource.

31.7.4 Recognition of exploration and evaluation assets

When developing its accounting policies, an entity recognising exploration and evaluation assets shall apply paragraph 12 of IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors.

31.7.5 Measurement of exploration and evaluation assets

Initial Measurement

Exploration and evaluation assets shall be measured at cost.

Elements of cost of exploration and evaluation assets

An entity shall determine an accounting policy specifying which expenditures are recognised as exploration and evaluation assets and apply the policy consistently. In making this determination, an entity considers the degree to which the expenditure can be associated with finding specific mineral resources. The following are examples of expenditures that might be included in the initial measurement of exploration and evaluation assets (the list is not exhaustive):

(a) Acquisition of rights to explore;
(b) Topographical, geological, geochemical and geophysical studies;
(c) Exploratory drilling;
(d) Trenching;
(e) Sampling; and
(f) Activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

Subsequent measurement

An entity shall measure the exploration and evaluation assets at either historical cost or fair value . If fair value is used (either according to the model in IPSAS 45, Property, Plant, and Equipment, or according to the model in IPSAS 31) it shall be consistent with the classification of the assets (see paragraph 16).

31.7.6 Changes in accounting policies

(a) An entity may change its accounting policies for exploration and evaluation expenditures, if the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs. An entity shall judge relevance and reliability using the criteria in IPSAS 3.

(b) To justify changing its accounting policies for exploration and evaluation expenditures, an entity shall demonstrate that the change brings its financial statements closer to meeting the criteria in IPSAS 3, but the change needs not achieve full compliance with those criteria.

31.7.7 Presentation

Classification of exploration and evaluation assets:

(a) An entity shall classify exploration and evaluation assets as tangible or intangible according to the nature of the assets acquired and apply the classification consistently;

(b) Some exploration and evaluation assets are treated as intangible (for example, drilling rights), whereas others are tangible (for example, vehicles and drilling rigs). To the extent that a tangible asset is consumed in developing an intangible asset, the amount reflecting that consumption is part of the cost of the intangible asset. However, using a tangible asset to develop an intangible asset does not change a tangible asset into an intangible asset.

Reclassification of exploration and evaluation assets

An exploration and evaluation asset shall no longer be classified as such, when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets shall be assessed for impairment, and any impairment loss recognised, before reclassification.

31.7.8 Impairment

Recognition and measurement

(a) Exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, an entity shall measure, present and disclose any resulting impairment loss in accordance with IPSAS 26, except as provided by paragraph 22 below.

(b) For the purposes of exploration and evaluation assets only, paragraph 21 of this Standard shall be applied rather than paragraphs 25–29 of IPSAS 26 when identifying an exploration and evaluation asset that may be impaired. Paragraph 21 uses the term ‘assets’ but applies equally to separate exploration and evaluation assets or a cash-generating unit, in the case of cash-generating assets per IPSAS 26.

One or more of the following facts and circumstances indicate that an entity should test exploration and evaluation assets for impairment (this list is not exhaustive):

(a) The period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

(b) Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

(c) Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and
(d) Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

In any such case, or similar cases, the entity shall perform an impairment test in accordance with IPSAS 26. Any impairment loss is recognised as an expense in accordance with IPSAS 26.

Specifying the level at which exploration and evaluation assets are assessed for Impairment:

(a) An entity shall determine an accounting policy for allocating exploration and evaluation assets to cash-generating units or groups of cash-generating units for the purpose of assessing such assets for impairment. Each cash-generating unit or group of units to which an exploration and evaluation asset is allocated shall not be larger than a segment determined in accordance with IPSAS 18, Segment Reporting; and
(b) The level identified by the entity for the purposes of testing exploration and evaluation assets for impairment may comprise one or more cash-generating units.

31.7.9 Disclosure

An entity shall disclose information that identifies and explains the amounts recognised in its financial statements arising from the exploration for and evaluation of mineral resources.

To comply with the above paragraph, an entity shall disclose:

(a) Its accounting policies for exploration and evaluation expenditures, including the recognition of exploration and evaluation assets; and
(b) The amounts of assets, liabilities, revenue and expense, and operating and investing cash flows arising from the exploration for and evaluation of mineral resources.

An entity shall treat exploration and evaluation assets as a separate class of assets and make the disclosures required by either IPSAS 45 or IPSAS 31 consistent with how the assets are classified.

31.8 Chapter review

The chapter discusses the provisions of IPSAS 42, 44, 46, 47, 48 and 50.

31.9 Worked examples

31.9.1 Examination type questions

1. The main objective of IPSAS 42 - Social Benefit, to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits as defined in the standard.

Required:
Explain the initial and subsequent measurements of a liability for social benefit scheme under general approach.

2. The objective of IPSAS 46 on measurement is to define measurement bases that assist in reflecting fairly the cost of services, operational capacity and financial capacity of assets and liabilities. The standard identifies approaches under those measurement bases to be applied through individual IPSAS to achieve the objectives of financial reporting.

Required:
Explain the initial and subsequent measurements of transactions undertaken and not undertaken in an orderly market; and initial and subsequent measurements transaction costs.

3. The objective of IPSAS 48 is to establish the principles that a transfer provider (an entity) shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of expenses and cash flows arising from transfer expense transactions.

Required:
Explain the:
(a) Term "transfer expense" as it relates to IPSAS 48
(b) Biding arrangement concept under IPSAS 48
(c) The accounting model for transfer expenses from transactions without biding arrangement

31.9.2 Suggested solutions

1. Measurement of a liability for a social benefit scheme under general approach

Initial measurement of the liability

(a) An entity shall measure the liability for a social benefit scheme at the best estimate of the costs (i.e., the social benefit payments) that the entity will incur in fulfilling the present obligations represented by the liability.

(b) An entity's best estimate of the costs (i.e., the social benefit payments) that the entity will make takes into account the possible effect of subsequent events on those social benefit payments.

(c) When the liability in respect of a social benefit scheme is not expected to be settled before twelve months after the end of the reporting period in which the liability is recognised (i.e., the next social benefit payment will not be made for more than twelve months), the liability shall be discounted using the discount rate that reflect the time value of money.

Subsequent measurement

(a) The liability for a social benefit scheme shall be reduced as social benefit payments are made. Any difference between the cost of making the social benefit payments and the carrying amount of the liability in respect of the social benefit scheme is recognised in surplus or deficit in the period in which the liability is settled.

(b) Where a liability is discounted, reflect the time value of money, the liability is increased and interest expense recognised in each reporting period until the liability is settled, to reflect the unwinding of the discount.

(c) Where a liability has yet to be settled, the liability shall be reviewed at each reporting date, and adjusted to reflect the current best estimate of the costs (i.e., the social benefit payments) that the entity will incur in fulfilling the present obligations represented by the liability.

2. Measurement

Initial measurement

On the date an item qualifies for recognition, it shall be initially measured at its transaction price, plus transaction costs for assets or minus transaction costs for liabilities, unless:

(a) that transaction price, plus or minus transaction costs, does not faithfully present relevant information of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes (see paragraphs 10–13); or

(b) otherwise required or permitted by another IPSAS.

When applying accrual basis IPSAS for the first time, initial measurement in an opening statement of financial position at the date of adoption of IPSAS should be carried out in accordance with IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs).

Transactions in an orderly market

(a) When an asset is acquired, constructed, or developed, or a liability is assumed in an orderly market, the transaction price, plus or minus transaction costs, reflects the initial value of the asset or liability negotiated between market participants at the measurement date under current market conditions.

(b) Where a transaction price exists, it is presumed to present relevant information on the date the transaction occurred. When determining whether the transaction price presents relevant information about the asset or liability, an entity shall consider factors specific to the transaction and to the asset or liability.

Transactions not undertaken in an orderly market

When an asset is acquired, constructed, or developed, or a liability is assumed, as a result of an event that is not a transaction in an orderly market:

(a) It may not be possible to observe a transaction price;

(b) The transaction price may not faithfully present relevant information about the asset or liability; or

(c) The transaction price may be zero.

In such cases, deemed cost is used to measure the initial value of the asset or liability. A current value measurement basis is used to determine the deemed cost of the asset or liability on initial measurement.

Any difference between deemed cost and any consideration given or received would be recognised as revenue or expenses, unless it is a contribution from owners or a relevant IPSAS requires otherwise.

Circumstances where a transaction price may not be observable or may not faithfully present relevant information include:

(a) transaction prices that have a concessionary element;

(b) assets transferred to the entity free of charge by a government or donated to the entity by another party;

(c) liabilities imposed by legislation or regulation;

(d) liabilities to pay compensation or a penalty arising from an act of wrong doing or breach of contract;

(e) transaction prices that are affected by relationships between the parties, or by financial distress or other duress of one of the parties; and

(f) transaction prices that are not available on the date of adoption of IPSAS as defined in IPSAS 33.

Transaction costs at initial measurement

Transaction costs related to acquiring, constructing, or developing, an asset or incurring a liability are a feature of the transaction in which the asset was acquired, constructed, or developed, or the liability was incurred. The initial measurement of the asset or liability reflects those transaction costs as the entity could not have acquired, constructed, or developed the asset or assumed the liability without incurring those costs.

The acquisition of an asset may occur in stages or may be followed by further expenditures to adapt the asset for the entity's own use. Any expenditures incurred in bringing the asset to the state where it is ready for use will be included in the consideration identified as part of the asset's initial measurement.

Subsequent measurement

After initial measurement, unless otherwise required by the relevant IPSAS, an accounting policy choice is made to measure an asset or liability through the selection of the measurement models or bases.

(a) **Historical cost basis**

The historical cost basis is an entry, entity-specific value. The historical cost basis provides monetary information about assets, liabilities and related revenue and expenses, using information derived, at least in part, from the price of the transaction or event that gave rise to them.

(b) **Current operational value basis**

Current operational value provides monetary information about assets, and related amortisation, depreciation, etc., using information updated to reflect conditions at the measurement date. Current operational value therefore reflects changes in the values of assets since the previous measurement date.

(c) **Cost of fulfilment basis**

Cost of fulfilment is an exit, entity-specific cost that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner. Cost of fulfilment is the present value of the cash, or other economic resources, that the entity expects to be obliged to transfer as it fulfils a liability.

(d) **Fair value basis**

Fair value measurement is an exit, market-based measurement that provides monetary information about assets, liabilities and related revenues and expenses, using information updated to reflect conditions at the measurement date. Fair value therefore reflects changes in the values of assets and liabilities since the previous measurement date.

Transaction costs in subsequent measurement

Transaction costs are incremental costs that would not have been incurred if the entity had not acquired, constructed, developed or disposed of the asset or incurred, transferred, or settled the liability, while incremental costs are a direct result of the transaction. For example, while costs to operate an asset after it has been acquired are incremental costs because they would not be incurred if the entity had not acquired the asset, these costs are not transaction costs, as they are not a direct result of the transaction.

Costs attributable to the acquisition, construction, or development, of an asset relate specifically to costs of transfer of control. Costs incurred prior to transfer (for example, costs to negotiate the transaction), or costs incurred subsequent to the transfer (for example, borrowing costs), are excluded from the definition of transaction costs.

3.(a) A transfer expense is an expense arising from a transaction, other than taxes, in which an entity provides a good, service, or other asset to another entity, without directly receiving any good, service, or other asset in return

For many governments, the delivery of services to the public through social benefits, collective and individual services, and transfer expenses accounts for a significant portion of their expenditure.

The accounting in IPSAS 48 is driven by whether a transfer transaction results in recognition of an asset. This approach is more intuitive and better aligned with the definition of an asset

(b) The concept of a 'binding arrangement' is prevalent throughout IPSAS literature and is fundamental for the accounting for transfer expenses.

A binding arrangement is an arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement. As such, an entity must have at least an enforceable right and an enforceable obligation

Enforceability underpins the definition of a binding arrangement. An entity uses judgement to consider all relevant factors in their jurisdiction and specific transaction, to assess whether enforceability exists in its transfer expense arrangement.

Enforceability can:

(i) Arise from various mechanisms (i.e., "what"), to hold the parties accountable to fulfilling each of their respective obligations by compelling them to fulfil their obligations or face imposed consequences (i.e., "how"); and

(ii) Be through legal or equivalent means in the public sector. Equivalent means (which include executive authority and cabinet or ministerial directives) capture enforcement outside the judicial system that is similar to the force of law.

(c) The accounting model for transfer expenses without binding arrangements requires an entity to consider whether any of its rights or its obligations in the transfer expenses transactions are enforceable, and meet the definition of an asset or liability, respectively

The core principle in a transfer expense transaction without binding arrangements, the entity does not have <u>both</u> an enforceable right and an enforceable obligation, but may have an:

(i) Unenforceable right, and unenforceable obligation, for example, a donation where the transfer provider cannot direct how the funds are to be used by the transfer recipient;

(ii) Enforceable right, but unenforceable obligation— for example, certain education grants where a government directs how the funds are to be distributed, but the educational institution has no rights to demand payment; or

(iii) Unenforceable right, but enforceable obligation— for example, an obligation to pay a fine or penalty

An entity determines whether any of its rights in the arrangement meet the definition and recognition criteria of an asset, and whether any of its obligations meet the definition and recognition criteria of a liability.

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CHAPTER 32

PUBLIC SECTOR AUDIT

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32 Public Sector Audit

32.0 Learning objective

The objective of this chapter is to enhance readers' understanding of the roles of internal audit, external audit and assurance, and investigations in public finance management. It also covers international auditing standards

32.1 Learning outcomes

On successful completion of this chapter, the reader should be able to:

(a) describe auditing and types of audits;
(b) identify the objectives and steps in auditing;
(c) explain investigation and steps in investigation; and
(d) identify factors contributing to an effective audit.

32.2 Introduction

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

32.3 Legal and other requirements for public sector audit

32.3.1 Constitution of the Federal Republic of Nigeria 1999

The law guiding the audit of public accounts of the Federation and of all offices and courts of the Federation is set out in Sections 85 to 87 of the Constitution has been discussed under chapter 12 (paragraph.12 3), shall be audited and reported on to the Auditor General who shall submit his reports to the National Assembly; and for that purpose, the Auditor General or any person authorised by him shall have access to all the books, records, returns and other documents relating to those accounts".

Under paragraph 85 (or 125) of the 1999 Constitution, the Auditor General for the Federation (or the Auditor General for the State Government) are the external auditors for the federation and the state respectively.

32.3.2 Audit of government enterprises (parastatals)

The laws setting up most of the Federal corporations' state that:

(a) An internal audit department should be established. The department should audit the corporation and copies of reports forwarded to the Auditor General for the Federation,

for information only.

(b) An external auditor must be appointed by the boards to audit the accounts of the corporation yearly in accordance to Section 83 (3) of the Constitution.

(c) Section 85 (3) of the Constitution states that the Auditor General shall provide such bodies with:
   (i) A list of auditors qualified to be appointed by them as external auditors and from which the bodies shall appoint their external auditors, and
   (ii) Guidelines on the level of fees to be paid to external auditors; and
   (iii) Comment on their annual accounts and auditor's reports thereon.

(d) Section 85 (4) gives the Auditor General power to conduct checks of all government statutory corporations, commissions, authorities, agencies, including all persons and bodies established by an Act of the National Assembly.

32.3.3 Lima (Peru) declaration by the International Organisation of Supreme Audit Institutions (INTOSAI), meeting in Lima, 1977

The IXth Congress of the International Organisation of Supreme Audit Institutions (INTOSAI) met in Lima (Peru) in 1977 made declaration of guidelines on auditing precepts as follows:

(a) Supreme audit institutions can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence.

(b) Supreme audit institutions shall have the functional and organisational independence required to accomplish their tasks.

(c) The establishment of supreme audit institutions and the necessary degree of their independence shall be laid down in the Constitution; details may be set out in legislation.

(d) The independence of supreme audit institutions is inseparably linked to the independence of its members.

(e) The independence of the members shall be guaranteed by the Constitution. In particular, the procedures for appointment and removal from office also shall be embodied in the Constitution and may not impair the independence of the members.

(f) In their professional careers, audit staff of supreme audit institutions must not be influenced

(g) Supreme audit institutions shall be provided with the financial means to enable them to accomplish their tasks.

(h) If required, supreme audit institutions shall be entitled to apply directly for the necessary financial means to the public body deciding on the national budget.

(i) Supreme audit institutions shall be entitled to use the funds allotted to them under a separate budget heading as they see fit.

32.3.4 Mexico declaration on Supreme Audit Institutions (SAI) Independence, INTOSAI

(a) The existence of an appropriate and effective constitutional/statutory/legal framework and of de facto application provisions of this framework;
(b) The independence of SAI heads and members (of collegial institutions), including security of tenure and legal immunity in the normal discharge of their duties;
(c) A sufficiently broad mandate and full discretion, in the discharge of SAI functions;
(d) Unrestricted access to information;
(e) The right and obligation to report on their work;
(f) The freedom to decide the content and timing of audit reports and to publish and disseminate them;
(g) The existence of effective follow-up mechanisms on SAI recommendations; and
(h) Financial and managerial/administrative autonomy and the availability of appropriate human, material, and monetary resources.

32.3.5 The South Africa declaration on the International Standards of Supreme Audit Institutions

The XXth Congress of the International Organisation of Supreme Audit Institutions (INTOSAI) in Johannesburg, South Africa considered various aspects of the ISSAIs and wishes to declare as follows:

(a) Whereas the International Organisation of Supreme Audit Institutions (INTOSAI) has developed and endorsed an ISSAI framework which contains a comprehensive set of International Standards of Supreme Audit Institutions (ISSAIs) and INTOSAI guidance on good governance (INTOSAIGOVs);
(b) Whereas the ISSAIs lay down the founding principles, prerequisites for the functioning of SAIs, fundamental auditing principles and auditing guidelines;
(c) Whereas the purpose of the INTOSAI GOVs is to encourage good governance in the public sector;
(d) Whereas INTOSAI provides to its members and other external partners the ISSAIs, which present the essence of public sector auditing;
(e) Whereas it is a key strategic priority for INTOSAI to assist SAIs in implementing the ISSAI framework as successfully as possible; and
(f) Whereas keeping the ISSAIs and INTOSAI GOVs up to date, relevant and on the cutting edge of development is of vital importance to their continued relevance to the INTOSAI community and other interested parties;

In line with the Lima and Mexico Declarations and recognising the independence of each individual INTOSAI member to determine its own approach consistent with national legislation, XX INCOSAI now resolves to call upon its members and other interested parties to:

(a) use the ISSAI framework as a common frame of reference for public sector auditing;

(b) measure their own performance and auditing guidance against the ISSAIs;
(c) implement the ISSAIs in accordance with their mandate and national legislation and regulations;
(d) raise the awareness of the ISSAIs and INTOSAI GOVs globally, regionally and at the national level; and

Share experience, good practice and challenges in implementing the ISSAIs and INTOSAI GOVs with those responsible for developing and revising the ISSAIs and INTOSAI GOVs.

32.4 Types of audits

Public sector auditing can be described as a systematic process of objectively obtaining and evaluating evidence to determine whether information or actual conditions conform to established criteria.

There are three main types of public sector auditing: financial audit, compliance audit and performance audit. It is important to understand the differences between the three audit types. The objective(s) of the audit to be conducted will determine the applicable standards to follow.

32.4.1 Compliance audit

The definition of compliance audit builds on the definition of public sector audits with a specific focus on assessing compliance with criteria derived from authorities. Authorities are the parliamentary decisions, laws, legislative acts, established codes or norms, and agreed-upon terms that a public sector entity is expected to comply
within the execution of its roles and responsibilities. The main objective of compliance auditing is to provide the intended user(s) with information on whether the audited public entities follow parliamentary decisions, laws, legislative acts, policy, established codes and agreed upon terms.

In compliance auditing, you identify a subject matter, which is the area of the entity's work that the audit will address, for example the entity's procurements, their reporting on non-financial information, and their adherence to the freedom of information law or the staff's compliance with their codes of conduct.

Compliance audit is the independent assessment of whether a particular subject matter is in compliance with applicable authorities identified as criteria. As auditors, we assess whether activities, financial transactions, and information are, in all material respect, in compliance with the authorities, which govern the audited entity.

Auditors performing compliance audit look for material deviations or departure from criteria, which could be based on laws and regulations, principles of sound financial management,

or propriety, which is the observance of the general principles governing sound financial management and the conduct of public officials.

The Legislative arm of Government appropriates public funds to activities for the benefit of the citizens. Public sector auditing is essential to evaluate if public sector administration is managing the allocated funds as decided by those that appropriated the funds. The officials are expected to act in the best interest of the public by spending the funds for the intended purposes, and in line with the authorities (laws and regulations etc. that govern them).

It is the responsibility of the public sector entities and appointed officials to be transparent about their actions and accountable to citizens for the funds with which they are entrusted, and to exercise good governance over such funds.

Compliance auditing promotes transparency, by providing reliable reports as to whether funds have been administered and citizens' rights to due process are honoured as required by the applicable authorities. It promotes accountability by reporting deviations from and violations of authorities, so that corrective action may be taken and those responsible may be held accountable for their actions. It promotes good governance both by identifying weaknesses and deviations from laws and regulations and by assessing propriety where there are insufficient or inadequate laws and regulations.
Fraud and corruption are by their very nature, are elements which counteract transparency, accountability and good stewardship. Compliance auditing therefore promotes good governance in the public sector by considering the risk of fraud in relation to compliance.

32.4.2 Financial audit

Financial audit is determining whether an entity's financial information is presented in accordance with an applicable financial reporting and regulatory framework.
While doing financial audit, auditors should look for misstatements and errors that can have material impact on the information presented in the financial statements. Misstatements or errors are considered material if they impact the decisions of the intended users of the financial statements.
Compliance in financial audit is limited, and it is described in ISSAI 1250 paragraph 10 that the objectives of the audit are:

(a) To obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements;
(b) To perform specified audit procedures to help identify instances of non- compliance with other laws and regulations that may have a material effect on the financial statements; and
(c) To respond appropriately to non-compliance or suspected non-compliance with laws and regulations identified during the audit.

Normally, considerations of compliance with laws and regulations in the public sector have a broader scope than that set out in International Standards of Supreme Audit Institutions (ISSAI) 1250. This may, for example include additional responsibilities for expressing a separate opinion or conclusion as to the entity's compliance with laws and regulations. Public sector auditors with such additional responsibilities should consider ISSAI 4000 instead of trying to include this as part of financial audits.

32.4.3 Performance audit or Value-for-money audit

Performance audit is an independent, objective and reliable examination of whether the government undertakings, systems, operations, programmes, activities or organisations are operating in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvements. Performance auditing seeks to provide new information, analysis or insights and, where appropriate recommendations for improvement.

'Value for money' (VFM) means using resources in the best way in order to achieve intended objectives. There are three aspects to achieving value for money, often known as the '3Es'.

(a) **Economy.** This means spending money carefully, and not paying more than necessary for resources - materials, labour and other expenses.

(b) **Efficiency.** Efficiency means using resources in such a way that they produce the greatest possible amount of 'output'. It means getting more from the use of available resources. For example, efficiency in the use of an employee means getting a high rate of output for every hour or day worked.

(c) **Effectiveness.** Effectiveness means using resources in such a way as to achieve the desired objectives. Efficiency is of little value unless the output from the system is what the entity wishes to achieve.

The purpose of a VFM engagement is to investigate a particular aspect of an entity's operations, and reach a conclusion about whether the entity is obtaining value for money.

3 Es	Meaning	Measurement
Economy	Doing it cheaply	Compare money spent with inputs acquired.
Efficiency	Doing it well	Compare inputs used with output achieved
Effectiveness	Doing the right thin	Compare output achieved with objectives

Steps to be taken in carrying out performance or value-for-money audit

(a) Do initial analysis of the financial statements.

(b) Review the management system.

(c) Plan and control.

(d) Carry-out compliance test. Check for approval by authorised office and limits of

authority.

(e) Carry out substantive tests

Substantive test is subdivided into three, as follows:

(i) **Economy test**. The objective of economy test is to ensure that resources (inputs) are obtained at the cheapest prices. The tests to be carried out are:
- Oral interview, and
- Circularisation.

(ii) **Efficiency assessment**. The objective of efficiency assessment is to ensure that wastages are reduced to the barest minimum. The tests to be carried out are:
- Physical asset verification;
- Check to 'third party' evidence;
- Review computation;
- Review extension;
- Circularisation;
- Conduct oral interview; and
- Review internal audit report.

(iii) **Carry out 'effectiveness review'.** The objectives of 'Effectiveness Review' are to confirm the popularity of the policy adopted by the organisation. The tests to be carried out are:

(iv) Circularisation, and

(v) Oral interview

(f) Write the report

To evaluate efficiency and effectiveness, it is necessary to carry out physical verification of assets, check to evidences of third parties, review computations for occupancy, consider internal audit reports, circularise debtors and conduct oral interview.

32.5 Other types of audits

32.5.1 Annual/statutory audit

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

32.5.2 Ad-hoc or special audit

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

32.5.3 Pre-payment audit

Pre-payment audit is carried out before payment is made. It is common in government services. An example is the audit carried out before contractors are paid. 'Prepayment audit' is carried out by the internal auditor to evaluate the extent to which management has achieved economy, efficiency and effectiveness and adhered to laid down rules and regulations.

Objectives of pre-payment audit

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

32.5.4 Post-payment audit

Post-payment audit is carried out after payment for the goods and services has been effected. Both internal and external auditors execute 'post payment audit'. The exercise is to complement the pre-payment audit and ensure that disbursements take place in consideration of organisational interests and policies.

32.5.5 Interim audit

This is an audit carried out by the external auditor for the earlier months of the year.

It is designed to reduce the workload at the end of the year. It has the advantage of early detection of frauds and mistakes, and evaluation of the adequacy of the existing internal control.

32.5.6 Final audit

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

32.5.7 Management audit

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

32.5.8 Operational or systems audit

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

32.5.9 Vouching audit

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

32.5.10 Verification audit

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

32.6 Efficiency unit

There are several reasons why an efficiency unit has become imperative for Nigeria. Some derive from the structure of the Nigerian economy while others relate to Nigeria's spending patterns and processes over the years. Amongst the reasons are:

(a) Nigeria's dependence on crude oil for foreign exchange and revenue, which has made the Nigerian economy vulnerable to, shocks in the international oil markets. The impact of the recent collapse in crude oil prices on Nigeria's External Reserves, the naira exchange rate and revenues are testament to the urgent need to review the manner in which increasingly limited Government revenues are spent.

(b) The disproportionate share of Recurrent Expenditure to Capital Expenditure which has constrained the development of infrastructure. Such spending pattern that is biased against spending on capital projects is inimical to growth and development.

(c) The work and procurement processes as well as, practices in the public sector which inherently promote or support wastage and inefficiency.

(d) To ensure that government's resources are used in the most efficient manner so that citizens get value for money and that more funds are available for capital projects (such as infrastructure) has never been greater. That the government is taking a bold initiative to zoom in on its expenditure with a view to eliminating waste and inefficiencies.

32.6.1 Mandate of the efficiency unit

The efficiency unit will execute its mandate in a number of ways:

(a) Reviewing the government's spending pattern using data from the budget implementation report and other sources;

(b) Work closely with the ministries, departments and agencies (MDAs) to review work and procurement processes for specific expenditure lines;

(c) Agree changes or process improvements to reduce wastages and make savings;

(d) Continuously publishing the achievements (savings) from the implementation of such changes or process improvements;

(e) Identifying and migrating best practices in the public sector spending patterns and

processes of other countries to Nigeria;

(f) Promoting a change in the culture of public spending by MDAs to one of prudence and savings;

(g) Collaborate with government institutions whose responsibilities have a bearing with those of the unit;

(h) Identifying and implementing price guidelines and benchmarking of MDAs offers the opportunity for quick wins and large savings; and

(i) Ensuring that the government's revenues are deployed in an efficient manner that translates to value for money and savings to government. This initiative will complement on-going efforts by the government to diversify its revenue sources.

32.6.2 Benefits of efficiency unit

The creation of an efficiency unit as a public sector reform initiative has the following unique benefits for Nigeria:

(a) It is a tool that is internal to the government thereby saving costs, providing learning opportunities for government and resulting in long term benefits;

(b) It is participatory (the MDAs are involved) rather than top-down, which makes acceptance and the institutionalisation of a culture of efficiency easier; and

(c) It has the potential for introducing other reforms in the public sector for public good.

32.7 Objectives of audit

The primary objective of auditing is broken down into the following general audit objectives:

(a) **Completeness-** All transactions relevant to the year of account have been recorded;

(b) **Occurrence-** All recorded transactions properly occurred and were relevant to the year of account;

(c) **Measurement-** The recorded transactions have been correctly valued, properly calculated, or measured in accordance with established accounting policies, on an acceptable and consistent basis;

(d) **Regularity-** The recorded transactions are in accordance with primary and secondary legislation and other specific authorities required by them.

(e) **Disclosure -** The recorded transactions have been properly classified and disclosed where appropriate.

32.8 Factors contributing to an effective audit

The following factors make for an effective audit:

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

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

(c) The expertise and professionalism of the auditor and his staff: The Auditor should be adequately trained, versatile and skillful at his job;
(d) The resources at the auditor's disposal: There should be enough funds at the disposal of the auditor to carry out his assignment;
(e) Freedom of reporting and the qualitative nature of reports: The reports which the auditor transmits should be promptly looked into and timely and effective decisions taken in order to comply with the professional audit standards;
(f) Unrestricted access: Audits should be conducted with complete and unrestricted access to employees, property and records; and
(g) Stakeholder support: The legitimacy of the audit activity and its mission should be understood and supported by a broad range of elected and appointed government officials, as well as the media and the involved citizens.

32.9 Steps taken in auditing financial statements

The auditor should carry out such examination of the financial statements of the audited body as is sufficient, in conjunction with the conclusions drawn from other audit evidence which will give him a reasonable basis for his opinion on the financial statements.

(a) Scheduling and planning the audit

At the planning stage the objective of the audit guides the planning. Whenever appropriate, the timing of an audit is discussed and agreed with management. The nature of the audit, the independence of the members of the team, the audit programme (i.e. the activities that will be undertaken, documents that will be examined, questions that will be asked, enquiries that will be made, officials that will be interviewed) and the scope of the Audit is articulated before embarking on the Audit exercise. International Standards on Auditing (ISA) 300 deals with the planning of audit of financial statements.

Adequate planning benefits the audit of financial statements in several ways, including the following:

(i) Helping the auditor to devote appropriate attention to important areas of the audit;
(ii) Helping the auditor identify and resolve potential problems on a timely basis;
(iii) Helping the auditor to properly organise and manage the audit so that it is performed in an effective and efficient manner;
(iv) Assisting in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks, and the proper assignment of work to them;
(v) Facilitating the direction and supervision of engagement team members and the review of their work; and
(vi Assisting, where applicable, in coordination of work done by auditors of components and experts consulted on execution of the audit.

ISA 300 deals with the auditor's responsibility to plan an audit. ISA 300 is written in the context of recurring audits. Additional considerations in an initial audit engagement are identified in the ISA.

(i) ISA 300 requires auditors to establish overall audit strategy
(ii) Identify the characteristics of the engagement that define its scope.
(iii) Ascertain the reporting objectives of the engagement, to plan the timing of the audit and the nature of the communications required.
(iv) Consider the factors that, in the auditor's professional judgment, are significant in directing the engagement team's efforts.
(v) Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant.
(vi) Ascertain the nature, timing and extent of resources necessary to perform the engagement.
(vii) ISA 300 requires the auditor to develop audit plan that involves:
    - The nature, timing and extent of planned risk assessment procedures;
    - The nature, timing and extent of planned further audit procedures at the assertion level; and
    - Other planned audit procedures that are required to be carried out so that the engagement complies with ISAs.
(viii) ISA 300 requires auditors to plan the nature, timing and extent of direction and supervision.
(ix) ISA 300 requires auditors to document the strategy, plan and any significant changes.
(x) Communicating with the predecessor auditor, where there has been a change of auditors, in compliance with relevant ethical requirements.

(b) Engagement letter

The engagement letter serves to notify management of a pending audit. Notification occurs via letters to the auditee, and usually includes a request for preliminary documentation needed for review, such as written policies, procedures, the books of accounts as well as documents and records.

Engagement letter should also contain terms of reference (TOR) of the audit and the scope of the audit.

ISA 210 deals with terms of reference of the audit. With respect to Government audits the terms are prescribed by relevant statutes, which must be complied with. The objective of the auditor in the government is to conduct an audit engagement in accordance with the objectives, which form the basis upon which it is to be performed. Basically, expenditure must strictly comply with the Appropriation Act in amount and nature and expenditure must provide value for money spent in terms of economy, efficiency and effectiveness. Financial statements must present financial position at financial year-end, financial performance to

reveal outcome operations at the financial year end as well as movements in cash financial transactions.

The auditor is therefore expected to:

(i) Establish whether the preconditions for an audit are present; and

(ii) Confirm that there is a common understanding between the auditor and management and, where appropriate, those charged with governance, of the terms of the audit engagement.

ISA 210 further requires that:

(i) Financial reporting framework to be applied in the preparation of the financial statements should be settled;

(ii) Management acknowledges and understands its responsibility;

(iii) For the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation;

(Iv) For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

(v) To provide auditor with access to all information, additional information and unrestricted access to all officials who could offer useful information in respect of the audit;

(vi) If limitation on the scope of audit is sensed when planning the audit, management should be informed to remove the limitation since law requires statutory audit. If limitation is not removed this will lead to qualification of opinion of the auditor;

(vii) Agree the terms of audit engagement with management or those charged with governance; and

(viii) Notification of the intention to audit to the Auditee should at least include:

- The objective and scope of the audit of the financial responsibilities of management; and
- Identification of the applicable financial reporting framework for the preparation of the financial statements; and reference to the expected form and content of any reports to be issued by the auditor.

(ix) There must be reasonable justification for change in notification letter, after it has been forwarded.

(x) Any change needs to comply with relevant provision of the audit laws of the state or additional revelation after the audit has commenced.

(c) Entrance conference

An entrance conference may be scheduled with the department to discuss the purpose and scope of the audit. This may be accomplished through scheduled meeting between the audit office and the auditee. Auditee should be encouraged to discuss any concerns or questions they have about the audit and this may indicate issues management would like to be included in the audit review.

(d) Regularity (financial) audit

By the provisions of ISA regularity (financial) audit embraces:

(i) Attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinions on financial statements;

(ii) Attestation of financial accountability of the government administration as a whole;

(iii) Audit of financial systems and transactions including an evaluation of compliance with applicable statutes and regulations;

(iv) Audit of internal control and internal audit functions;

(v) Audit of the probity and propriety of administrative decisions taken within the audited entity; and

(vi) Reporting of any other matters arising from or relating to the audit that the supreme audit institution considers should be disclosed.

(e) Field work

Much work on statutory audit in the public sector is done at the site of the Auditee for ease of access to necessary records and information. During fieldwork, interviews should be frequently conducted and questionnaires used with departmental personnel to gain a better understanding of operations and procedures. Official time is valuable, each person's time is valuable, so attempt should be made to arrange meetings in advance and to work around scheduling conflicts. Audit rules and regulations usually provide that auditors shall have full, free, and unrestricted access to all activities, records, property, infrastructure, and personnel. Documents and information obtained during any review are to be safeguarded and handled in a professionally responsible and confidential manner in accordance with regulations.

Method of field work audit.

(i) The organisation's management prepares the financial report. It must be prepared in accordance with legal requirements and financial reporting standards. The organisation's directors approve the financial report.

(ii) Auditors start their examination by gaining an understanding of the organisation's activities, and considering the economic and sector issues that might have affected the entity during the reporting period.

(iii) For each major activity listed in the financial report, auditors identify and assess any risks which could have a significant impact on the financial position or financial performance, and also some of the measures (called internal controls) that the organisation has put in place to mitigate those risks.

(iv) Based on the risks and controls identified, auditors consider what management has done to ensure the financial report is accurate, and examine supporting evidence.

(v) Auditors discuss the scope of the audit work with the organisation, the directors or management may request that additional procedures be performed. Auditors maintain independence from management and directors so that tests and judgments

are made objectively. Auditors determine the type and extent of the audit procedures they will perform, depending on the risks and controls they have identified. The procedures may include:

(vi Asking a range of questions, from formal written questions to informal oral questions, from a range of individuals in the organisation;

(vii) Examining financial and accounting records, other documents, and tangible items such as plant and equipment;

(viii) Making judgments on significant estimates or assumptions that management made when they prepared the financial report;

(ix) Obtaining written confirmations of certain matters, for example, asking a debtor to confirm the amount of their debt with the organisation;

(x) Testing some of the organisation's internal controls and watching certain processes or procedures being performed; and

(xi) Auditors then make a judgment as to whether the financial report taken as a whole presents a true and fair view of the financial results and position of the organisation and its cash flows, and is in compliance with financial reporting standards and, if applicable, the Companies and Allied Matters Act.

(f) Draft audit report

Throughout the audit, potential issues and recommendations will be discussed with departmental management. After completion of work, a draft report is prepared and presented to departmental management for review and commentary. Open communication and the sharing of information with employees familiar with the details are encouraged. This is to ensure that issues noted in draft reports are accurate, fairly presented, and complete. There may be several iterations of draft reports, particularly if new, relevant information becomes available or circumstances change significantly during the drafting stages. Ultimately, a response is requested from management for each of the recommendations contained in the draft report. According to ISA, management's responses must include a corrective action plan, those responsible for implementing the corrective actions, and an estimated timetable for completion.

The following reporting standards should be followed:

(a) At the end of each audit the auditor should prepare a written opinion or report, as appropriate, setting out the findings in an appropriate form; its content should be easy to understand and free from vagueness or ambiguity, include only information which is supported by competent and relevant audit evidence, and be independent, objective, fair and constructive; and

(b) It is for the Auditor General to decide finally on the action to be taken in relation to fraudulent practices or serious irregularities discovered by the auditors.

(g) Exit conference

A formal exit conference may be held at the option of the auditee. Sometimes, this process can be completed on an informal basis via e-mail, telephone or other forms of communication.

(h) Report distribution

Finally, auditors prepare an audit report setting out their opinion, for the organisation's shareholders or members. Final audit reports are addressed to the Legislative body and the Accountant General. The final audit report of the government is to be published for user's consumption.

The following ISAs dwell extensively on communication of audit observations:

(i) ISA 260, Communication with those charged with governance

- To communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, and an overview of the planned scope and timing of the audit;
- To obtain from those charged with governance information relevant to the audit;
- To provide those charged with governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process; and
- To promote effective two-way communication between the auditor and those charged with governance.

(ii) ISA265, communicating deficiencies in internal control to those charged with governance and management

Deficiency in Internal control exists when:

- A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis; or
- A control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing.

32.10 Relationship between the Auditor General and the Public Accounts Committee (PAC)

The committee is a body established by law to study and examine the reports submitted by the Auditor-General, especially in the areas of fraud practices or embezzlement of public funds. The body is also to make appropriate recommendations to the National Assembly.

The Auditor-General's certification of the financial statements of the government, as well as the report of his findings and opinion will be sent to the National Assembly, to be deliberated upon by the Public Accounts Committee.

On the other hand, the Auditor-General has maintained consistent relationship by ensuring that ministries and other public agencies that formulate policies demonstrate commitment to accountability and transparency principles in the execution of such policies.

During the PAC session the Auditor General should:

(a) guide members of the PAC in improper direction of its session
(b) throw further light on issues raised;
(c) assist the committee with the correct approach to problems;
(d) offer his expert, independent and professional advice to make the deliberations of the committee lively, effective and meaningful;
(e) assist to select areas that need less attention and those that need to be probed deep;
(f) identify the weaknesses the financial administration;
(g) interrogate the officials in the course of deliberation of the committee if permitted by the chairman;
(h) assess and evaluate the answers given by the officials who are examined by the committee;
(i) express his professional assessment of the acceptability or relevance of such evidence; and
(j) assist the committee if allow, in compiling its final report based on minutes of evidence.

32.11 Internal audit

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

32.11.1 Objectives of internal auditing

The objectives of internal auditing may be outlined thus:

(a) Determining the adequacy of the system of internal control which is in existence;
(b) Investigating compliance with the existing financial memorandum, laws and financial regulations;
(c) Checking the adequacy of monthly returns of activities; and
(d) Verification of the physical existence of assets and liabilities.

32.11.2 Scope of internal audit functions

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

(a) Pre-audit;

(b) Vouching of payroll and third-party claims;
(c) Auditing of store movements and records;
(d) Conducting internal investigations and evaluation for management; and
(e) Constant review and appraisal of the existing internal control measures.

32.11.3 Role of a government internal auditor in the democratic system

The main idea of introducing the democratic system of government is to further ensure accountability and probity. In this perspective, there are various laws, rules and procedures that must be complied with, to ensure sanity in the polity and governance. The internal auditor is expected to render 'exception reports' on continuous basis on the financial activities of government. He writes his reports to the accounting officer and copies the Auditor -General. The democratic system of government empowers the legislative house to interview the Auditor General on his position on actions already taken by the executive arm, which he had endorsed, as correct. The system of government expects him to ensure budget discipline through continued monitoring of receipts and payments.

32.11.4 Steps to be taken to foster working relationships with internal auditor

The following steps should be taken to foster working relationships with internal auditor:

(a) Allocate responsibility for establishing and maintaining an effective relationship with internal audit unit at each audited body which has one;
(b) Arrange liaison meetings with internal audit on a regular basis, at least half yearly, with an agreed record of important decisions; mutual discussion of audit plans can help avoid unnecessary duplication of effort;
(c) Check all internal audit reports and the internal audit working papers;
(d) Seek to agree areas where reliance will specifically be placed upon internal audit work which will, provided it is done satisfactory, form part of the certification audit of an account;
(e) Discuss with audited bodies specific shortcomings in internal audit units revealed by evaluations; and
(f) Where internal audit is required to co-operate with and assist external audit by making available work plans, audit programmes, details of work done, tests carried out, audit reports etc. then planning documents and working papers may be made available to internal audit in confidence.

32.11.5 Areas where the internal auditors can assist the external auditors

Much of the work performed by an internal audit can overlap with the work conducted by the external auditor, specifically in areas dealing with the assessment of control processes. It is likely that in carrying out detailed work evaluating and reviewing the organisation's internal control system internal audit perform procedures on financial controls relevant to the external audit. As such, the external auditor, rather than duplicating these procedures, may be able to place reliance on the work carried out by the internal

auditor. Some the areas where external auditor may rely on the work of internal auditors are as follows:

(a) Attendance at stock taking and cash counts of an organisation where external auditor is not able to do them himself;
(b) Conducting pay parade of the staff of the organisation;
(c) Where they have internal auditors who have relevant expertise in particular areas;
(d) Strengthened relationship between the external and internal auditors through a more effective dialogue thereby resulting to bring accounting and auditing issues identified during the audit to the attention of the external auditors;
(e) Checking the underlying audit evidence for some of the work performed by the internal auditors;
(f) With the knowledge of the internal auditors, the external auditor can gain additional insights into the entity;
(g) Conducting compliance tests on accounting controls, on a continuous basis to provide assurance that such controls have operated satisfactorily throughout the period under review;
(h) Testing transactions and balances such as payables, receivables, non-current assets, etc.;
(i) Documentation of the accounting and internal control systems; and
(j) Assisting by making his work plans, programmes, working papers, etc. available to the external auditor in confidence.

32.11.6 Reliance of the Auditor General on the internal auditor's work

Before an external auditor could rely on the work of the internal auditor, the former would have made the following assessments:

(a) the degree of independence of the internal auditor;
(b) the scope and objectives of the internal audit functions as defined by the management;
(c) due professional care, that is, whether or not the internal audit work is properly planned, recorded and reviewed;
(d) the technical competence of the internal auditor. this raises the question as to whether the internal auditor belongs to any reputable professional accounting body or has relevant practical experience in internal audit work;
(e) the quality and quantity of the internal audit reports and to what extent they are being acted upon by the management are of interest to the external auditor; and
(f) the quality and standard of internal audit working papers are of significance, showing the extent of work done.

32.12 Areas where the specialists can assist the external auditors

In some cases, the external auditor may have to rely on the work of specialists to form his audit opinion. Examples of such situations are:

(a) valuations of type of assets, for example, lands, buildings, machinery, minerals, etc.;
(b) measurement of work completed, in progress or to be completed on long term contracts, architects, engineers, etc.;
(c) legal interpretation of agreement or statutes;
(d) physical stock taking of specialised stores for example drugs or chemicals; and
(e) determination of amounts using specialised techniques or methods, for example, an actuarial valuation.

It should be noted that, when determining the need to use the work of an expert, the auditor should consider:

(i) the engagement team's knowledge and previous experience of the matter being considered;
(ii) the risk of material misstatement based on the nature, complexity and materiality of the matter being considered;
(iii) the quantity and quality of other audit evidence expected to be obtained;
(iv) evaluate the professional competence of the expert; and
(v) evaluate the objectivity of the experts which may be impaired if the expert is employed by the auditee or related to the auditee.

32.13 Assurance engagements

Assurance engagements are enquiries commissioned by client firms or government to find out the cause or causes of an event, so that remedial actions may be taken.

The internal and external auditors can be requested to carry out an investigation into a financial transaction. They will adopt standard audit review investigation steps such as:

(a) reviewing financial statements;
(b) reviewing of the system;
(c) evaluating the application of the relevant financial legislation;
(d) conducting compliance test;
(e) conducting substantive test; and
(f) writing of report.

32.13.1 Contents of assurance report

The following must be stated in assurance report:

(a) Confirmation and amount of loss;
(b) The regulation, which was violated;
(c) Recommendations to effect correction and prevent are occurrence;
(d) Name and post of officer/s involved;

(e) Degree of negligence of individual officers; and
(f) Recommendation and necessary sanction.

32.14 International standards on auditing framework:

The following International Standards on Auditing are applicable to Public Sector Audit in Nigeria

(a) General principles and responsibilities:

(i) 200 Objective and General Principles Governing an Audit of Financial Statements;
(ii) 210 Term of Audit Engagements;
(iii) 220 Quality Control for Audits of Historical Information;
(iv) 230 Documentation;
(v) 230R Audit Documentation;
(vl) 240 The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements;
(vii) 240 A Fraud and Error;
(viii) 250 Considerations of Laws and Regulations in an Audit of Financial Statements; and
(ix) 260 Communications of Audit Matters with those Charged with Governance.

(b) Risk assessment and response to assessed risks:

(i) 300 Planning an Audit of Financial Statements;
(ii) 315 Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement;
(iii) 320 Audit Materiality;
(iv) 330 The Auditor's Procedures in Response to Assessed Risks; and
(v) 402 Audit Considerations Relating to Entities Using Service Organisations.

(c) Audit evidence:

(i) 500 Audit Evidence;
(ii) 501 Audit Evidence - Additional Considerations for Specific Items;
(iii) 505 External Confirmations;
(iv) 510 Initial Engagements – Opening Balances;
(v) 520 Analytical Procedures;
(vi) 530 Audit Sampling and Other Means of Testing;
(vii) 540 Audits of Accounting Estimates;
(viii) 545 Auditing Fair Value Measurements and Disclosures;
(ix) 550 Related Parties;

(x) 560 Subsequent Events;
(xi) 570 Going Concern; and
(xii) 580 Management Representations.

(d) Using the work of others:

(i) 600 Using the Work of Another Auditor;
(ii) 610 Considering the Work of Internal Auditing; and
(iii) 620 Using the Work of an Expert.

(e) Audit conclusions and reporting:

(i) 700 The Auditor's Reports on Financial Statements;
(ii) 700R The Independent Auditor's Report on a Complete Set of General-Purpose Financial Statements;
(iii) 701 Modifications to the Independent Auditor's Report;
(iv) 710 Comparatives; and
(v) 720 Other Information in Documents Containing Audited Financial Statements.

(f) Specialised Areas:

(i) 800 The Auditor's Report on Special Purpose Audit Engagements.

32.15 International Organisations of Supreme Audit Institutions (INTOSAI) – Code of ethics and auditing standards

32.15.1 Code of ethics

(a) **Integrity** - Auditors have a duty to adhere to high standards of behaviour (for example honesty and candidness) in the course of their work and in their relationships with the staff of audited entities.
(b) **Independence, objectivity and impartiality** - Personal or external interests should not impair the independence of auditors. There is a need for objectivity and impartiality in the work and the reports, which should be accurate and objective. Conclusions in opinions and reports should be based exclusive on evidence obtained and assembled in accordance with the SAI's auditing standards.
(c) **Professional secrecy -** Auditors should not disclose information obtained in the auditing process to third parties except for the purposes of meeting the SAI's statutory responsibilities.
(d) **Competence -** Auditors must not undertake work which they are not competent to perform.

32.15.2 Basic postulates for the auditing standards

(a) The Supreme Audit Institutions (SAI), that is, the Auditor General, should consider compliance with the INTOSAI auditing standards in all matters that are deemed

material. Certain standards may not be applicable to some of the work done by SAIs, including those organised as Courts of Account, nor to the non-audit work conducted by the SAI. The SAI should determine the applicable standards for such work to ensure that it is of consistently high quality.

(b) The SAI should apply its own judgment to the diverse situations that arise in the course of government auditing.

(c) With increased public consciousness, the demand for public accountability of persons or entities managing public resources has become increasingly evident so there is a need for the accountability process to be in place and operating effectively.

(d) Development of adequate information, control, evaluation and reporting systems within the government will facilitate the accountability process. The management is responsible for correctness and sufficiency of the form and content of the financial reports and other information.

(e) Appropriate authorities should ensure the promulgation of acceptable accounting standards for financial reporting and disclosure relevant to the needs of the government, and audited entities should develop specific and measurable objectives and performance targets.

(f) Consistent application of acceptable accounting standards should result in the fair presentation of the financial position and the results of operations.

(g) The existence of an adequate system of internal control minimises the risk of errors and irregularities. It is the responsibility of the audited entity to develop adequate internal control systems to protect its resources. It is also the obligation of the audited entity to ensure that controls are in place and functioning to help ensure that applicable statutes and regulations are complied with, and that probity and propriety are observed in decision-making. The auditor should submit proposals and recommendations where controls are found to be inadequate or missing.

(h) Legislative enactments would facilitate the co-operation of audited entities in maintaining and providing access to all relevant data necessary for a comprehensive assessment of the activities under audit.

(i) All audit activities should be within the SAI's audit mandate.

(j) Legislative enactments would facilitate the co-operation of audited entities in maintaining and providing access to all relevant data necessary for a comprehensive assessment of the activities under audit.

(k) SAIs should work towards improving techniques for auditing the validity of performance measures.

(l) SAIs should avoid conflict of interest between the auditor and the audited entity.

32.16 **Codification of offences and sanctions arising from audit queries financial regulations (2009 Edition) chapter 31**

S/N	Audit Query	Time limit to respond to query	Sanctions	
a.	Inflation of Contracts	5 Days	i)	Where it affects the Accounting Officer, he shall be reported to Mr. President.
			ii)	In the case of any other Officer, he shall be surcharged appropriately and removed from the duty schedule, dismissed and prosecuted.
			iii)	Where it involves Tenders Board, all members involved shall be severally and collectively sanctioned.
b.	Un-authorised Contract Variation	21 Days	i)	Where it affects the Accounting Officer, he shall be reported to Mr. President.
			ii)	In the case of any other Officer, he shall be surcharged appropriately and removed from the duty schedule, dismissed and prosecuted
c.	Payment to Contractor for job not executed	30 Days	i)	Contractor to complete the job within time limit or refund the money paid to him.
			ii)	Contractor to be black listed and report to EFCC for prosecution.
d.	Payment to Contractor on false Certificate of completion	21 Days	i)	Contractor to complete the job within time limit or refund the money paid to him.
			ii)	Contractor to be black listed and report to EFCC for prosecution.
e.	Payment to Contractor for job not executed due to fraudulent act of a public officer	NA	i)	Officer to refund the money paid to the contractor.
			ii)	Officer to be removed from the duty schedule and report to EFCC for prosecution
f.	Poor Quality of work	42 Days	i)	Contractor to rectify the abnormalities of the poor job within time limit or refund the money paid to him.
			ii)	Contractor to be black listed and report to EFCC for prosecution
			iii)	The officer that certified the job shall be demoted

S/N	Audit Query	Time limit to respond to query	Sanctions	
g.	Irregular or Wrong payment	21 Days	i)	Officer to refund the money paid to the contractor.
			ii)	Officer to be removed from the duty schedule
h.	Shortage or Losses of stores by storekeeper	14 Days	i)	Officer to be surcharged for the loss.
			ii)	Officer to be removed from the duty schedule.
i.	Shortage or Losses of cash by the cashier	7 Days	i)	Officer to be surcharged for the loss.
			ii)	Officer to be removed from the duty schedule
j.	Assets paid for but not supplied	21 Days	i)	Contractor to be black listed and report to EFCC for prosecution.
			ii)	Officer to be removed from the duty schedule and made to face disciplinary action.
k.	Payment for Ghost workers	NA		Officer to be removed from the duty schedule, charged for misconduct and reported to EFCC for prosecution.
l.	Overpayment of salaries and allowances to staff	21 Days		Officer to be disciplined and reported to Police for prosecution.
m.	Failure to collect Government Revenue	21 Days		Officer to be removed from the duty schedule and surcharged.
n.	Where an officer fails to give satisfactory reply for his failure to account for government revenue	7 Days		Officer to be surcharged for full amount and reported to EFCC or ICPC for pros-ecution

S/N	Audit Query	Time limit to respond to query	Sanctions	
o.	Non-payment for use of Government property	30 Days		Officer to be surcharged for full amount and seriously warned.
p.	Non-Rendition of Return	30 Days		Officer to be surcharged for full the loss incurred for noncompliance and seriously warned
q.	Non-Rendition of Monthly transcript	21 Days		Allocation to the MDA shall be suspended indefinitely
r.	Non-Retirement of Advance and Imprest	21 Days		Officer to be surcharged and total amount recovered
s.	Offences under the Public Procurement Act, 2007	NA	i)	Imprisonment of not less than 5 calendar years without option of fine
			ii)	Summary dismissal from government service
			iii)	Debarment from all public procurements for a period not less than 5 calendar years
			iv)	A fine equivalent to 25% of the value of the procurement in issue
t.	Making payment with cash/cheques by organisation and officer	N A	i)	Budget allocation of the organisation to be suspended.
			ii)	Officer is regarded to have committed a gross misconduct and shall be disciplined accordingly.

32.17 Chapter review

This chapter discusses the roles of internal audit, external audit and assurance, and investigations, in public finance management. It also covers the provisions of International Auditing Standards (IASs) and International Organisations of Supreme Audit Institutions (INTOSAI) - Code of ethics and auditing standards.

32.18 Worked examples

32.18.1 Examination type questions

1. The functions of the office of the Auditor General for the Federation include audit the accounts of all accounting officers and all persons entrusted with the collections, receipts, custody and issue or payment of the federal government moneys or with the receipt collection issue, sale transfer of delivery of any stamps, securities, stores, or other property of the government of the federation and for the certification of the annual accounts of the government.

   Required:
   Discuss the audit objectives of:
   (a) Treasury accounts;
   (b) Agency accounts; and
   (c) Government enterprise accounts.

2. Public sector auditing can be described as a systematic process of objectively obtaining and evaluating evidence to determine whether information or actual conditions conform to established criteria.

   Required:
   (a) Explain eight (8) tests to be carried out when auditing a revenue collector.
   (b) Explain **SEVEN** (7) internal control questionnaires to evaluate the operation of imprest accounts.

3 Much of the work performed by an internal audit can overlap with the work conducted by the external auditor, specifically in areas dealing with the assessment of control processes. It is likely that in carrying out detailed work evaluating and reviewing the organisation's internal control system internal audit perform procedures on financial controls relevant to the external audit.

   Required:
   (a) Differentiate between primary and secondary objective of carrying out an audit in the public sector;
   (b) (i) Explain internal control; and
   (ii) Discuss the features of internal control.

4. To be most effective, Value for Money (VFM) audits should be aligned with an organisation's strategic goals. This ensures that audits focus on areas where they can add the most value and drive improvements.

   Required:
   (a) Explain value-for-money (VFM) audit.
   (b) Identify and explain three major components of value-for-money audit.
   (c) Explain five steps towards a successful value-for-money audit.
   (d) Identify five factors which contribute to an effective value-for-money audit.

(e) Explain the precise roles of internal audit unit in relation to value-for- money audit of a government business entity (GBE).

32.8.2 Suggested solutions

1. The following are the audit objectives:

(a) Treasury accounts:

(i) To ensure that all money is being received as at when due;
(ii) To ensure that the money received is accounted for;
(iii) To ensure that cash book and other relevant memorandum accounts are maintained;
(iv) To confirm compliance with the year 2009 Financial Regulations;
(v) To guide against misappropriation;
(vi) To ensure compliance with all relevant financial legislations;
(vii) To ensure safety of government assets within each department;
(viii) To guarantee the accuracy of the records; and
(ix) To confirm existence and ownership of the assets.

(b) Agency accounts:

(i) To ensure compliance with all relevant legislations which set up the agency;
(ii) To ensure compliance with the prescriptions of the accounting manual;
(iii) To ensure misappropriation is reduced to the barest minimum;
(iv) To ensure safety of government assets within each agency of government;
(v) To ensure the reliability of the records and returns;
(vi) To ensure that payments and receipts are in line with the trust deeds that established the agency;
(vii) To ensure that returns are being rendered as at when due; and
(viii) To confirm existence and ownership of the agency assets.

(c) Government enterprise accounts:

(i) To confirm compliance with the laws that established the enterprises;
(ii) To confirm compliance with the provisions of the accounting manual;
(iii) To ensure safety of the enterprise assets;
(iv) To ensure that receipts and payments are in line with the approved Budget;
(v) To guide against misappropriation;
(vi) To confirm the existence of government enterprise assets; and
(vii) To proof ownership of assets.

2 (a) The following relevant tests will be carried out when auditing a revenue collector

(i) Review the system for revenue collection.

(ii) Review the cashbook.
(iii) Cast the cashbook.
(iv) Check for the type of receipts being issued, to confirm originality.
(v) Review and continue the preparation of bank reconciliation.
(vi) Spot check on the revenue collector.
(vii) Review the reports of internal and external auditors.
(viii) Review to ensure that all money due is collected and accounted for.

(b) The following are necessary questions to review imprest account
(i) Will a bank account be opened for imprest over N20,000?
(ii) Was the cashbook properly kept?
(iii) Were vouchers properly kept and classified?
(iv) Was the imprest account correctly accounted for at the time of your check?
(v) Was the LPO register kept by the imprest holder and cash disbursement for LPO made by him?
(vi) Were receipts issued for unspent cash returned?
(vi) Was the reimbursement request checked?
(vii) Were the classifications made to the appropriate Head and subhead of expenditure?

3 (a) The primary objectives of an audit is to enable the auditor to report as to whether the financial statements present a true and fair view of the state of the financial affairs of an establishment.
The secondary objectives of audit are:
(i) Detection of frauds, errors and omissions; and
(ii) Prevention of frauds and errors.

(b) (i) Internal control can be defined as the "whole system of controls, financial or otherwise, established by the management with a view to carry on the business of an entity in a manner that will protect the assets and place reliability on the records of the entity."

(ii) Important features of internal control

- Segregation of duty: This is by employing division of labour so that the work in one place or department will be different from another department and carried out by different people.
- Established organisation structure: All the duties and powers of an officer should be clearly defined so that an officer would know what is required and expected of him.
- Perusal of records: This is to check previous work done so as to correct any anomaly, error or omission.
- Acknowledgement of deed: This is by appending signature or initials on

work done by an officer or by a senior officer to ascertain that the task is already done.

- Asset protection: This is by keeping all records and statutory documents under lock and key and obtaining insurance policy on physical assets.
- Formality: All transfer and receipt of stores have to be backed up by authorised requisition vouchers and acknowledged by signing appropriate vouchers.
- Verification: All items purchased must be verified for completeness, accuracy and that they meet the required standard and specifications.
- Internal audit: It is the continuous review of operation and records of an organisation by specialised staff referred to as Internal Auditors.

4 (a) "Value-for-money" (VFM) audit means using resources in the best way in order to achieve intended objectives. Value-for-money audit is the review of the financial transactions to confirm that an organisation has received adequate benefits for the money expended.

(b) The three major components of value-for-money audit are:

(i) **Economy:** This means spending money carefully, and not paying more than necessary for resources-materials, labour and other expenses.

(ii) **Efficiency:** Efficiency means using resources in such a way that they produce the greatest possible amount of output". It means getting more from the use of available resources. For example, efficiency in the use of an employee means getting a high rate of output for every hour or day worked.

(iii) **Effectiveness:** Effectiveness means using resources in such a way as to achieve the desired objectives. Efficiency is of little value unless the output from the system is what the entity wishes to achieve.

(c) The five steps towards a successful 'Value-for-money" audit are:

(i) Initial analysis of projects are as for value for money audit through analysis of the annual budgets and other financial statements.

(ii) Adequate planning, co-ordination and control in order to;

- Determine the annual programme of performance audit work, the staff and other resources needed to deliver on the programme;
- Ensure that appropriate attention is devoted to important areas, potential problems are identified and that the work is completed expeditiously; and
- Assist in the proper assignment of work to team members and the coordination of work performed by different audit teams.

(iii) Introduction of the main study area to the auditee should cover the following:

- Purpose of the main study;
- Time schedule for the main study;
- Members of the audit team;

- The audit objective, audit question and assessment criteria;
- Methods that will be used to collect data;
- The information and support that will be requested from the auditee;
- The purpose of the auditee appointing a contact person; and
- The purpose of the exit meeting.

(iv) Carrying out compliance test to test the strength of internal control in operation.

(v) Carry out substantive tests in order to:

- Ensure that resources (inputs) are obtained at the cheapest prices (economy test);
- Ensure that wastages are reduced to the barest minimum (efficiency test); and
- Ensure that resources were used in such a way as to achieve the desired objectives (effectiveness test).

(vi) Reporting involves:

- The clearance of the report through reviews;
- Quality controls and exit meetings with the auditee; and
- Submission of the report to the legislature, government and/or the audited entities.

(vii) Follow-up action involves:

- Processes that identify and document the audit impact;
- The progress the auditee has made in implementing audit recommendations; and
- Such processes that provide feedback to the auditor and to the legislature.

(d) The factors contributing to effective "value-for-money" audit are:

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

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

(iii) The expertise and professionalism of the auditor and his staff: The auditor should be adequately trained, versatile and skillful at his job.

(iv) The resources at the auditor's disposal: There should be enough funds at the disposal of the audit or to carry out his assignment.

(v) Freedom of reporting and the qualitative nature of reports: The reports which the auditor transmits should be timely and promptly looked into so that

effective decisions could be taken in order to comply with the professional audit standards.

(vi) Unrestricted access: Audits should be conducted with complete and unrestricted access to employees, property and records.

Stakeholder support: The legitimacy of the audit activity and its mission should be understood and supported by a broad range of elected and appointed government officials, as well as the media and the citizens involved.

(e) The precise roles of Internal audit unit in relation to value-for money audit are to:

(i) Guide against unreasonable or extravagant expenditure;

(ii) Ensure that sufficient funds are available to enable payment to be effected;

(iii) Ensure compliance with budgetary, civil service rules, financial memorandum, legislation and other legal requirements on payment;

(iv) Ensure that goods/services conform with the prescribed standards before payments; and

(v) Confirm whether or not the public sector organisation has committed its resources economically, efficiently and effectively.

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Skills level
Public Sector Accounting and Finance

CHAPTER 33

INTRODUCTION TO PUBLIC FINANCE

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33 Introduction to Public Finance

33.0 Learning objective

The objective of this chapter is to enhance readers' understanding of the role of the public sector to critically sustain economic growth and development in every developing economy, like Nigeria.

33.1 Learning outcomes

On successful completion of this chapter, readers should be conversant with the following:

(a) public sector and private sector;
(b) characteristics of public and private goods;
(c) definition of public finance;
(d) rationale of government intervention in public sector; and
(e) methods of intervention.

33.2 Introduction

The term public finance is a conjunction of two concepts, namely public and finance. The word public deals with the masses or generality of the people with specific needs and desires. The word finance covers the entire spectra of activities involving generating (mobilising) and allocating resources (financial) for the purpose of achieving specific objectives. Therefore, public finance can be defined as the resource generation (revenue) and allocation (expenditure) functions of the public authorities and the consequence on the economy. According to Musgrave, the complex financial problems that operate through the revenue and expenditure process of government is traditionally referred to as public finance. Since public sector interacts with the private sector, the effects of expenditure and tax policies depend on the reactions of the private sector. In addition, the need for fiscal measures is determined by the performance of private sector in their absence. Buchanan says, that public finance studies the economic activity of government as a unit. David N. Hyman defined public finance as the field of economics that studies government activities and the alternative means of financing government expenditure.

According to Dalton, public finance is concerned with the income and expenditure of public authorities with adjustment of one to the other. In his contribution, Bhatia opined that the subject matter of public finance looks into the financial problems and policies of the government at different levels and also studies the inter-governmental financial relations. He went further to divide the subject matter of public finance into five categories, namely: revenue; expenditure; financial administration; stabilisation, growth and distributive justice; and federal finance.

(a) The theory of revenue. This deals with the various sources of revenue that is available to the government, the comparative advantages and disadvantages of each of the sources of revenue as well as the principles that govern them. Among the sources of revenue to the government are taxation, non-tax revenue and

others. Of all the sources of revenue, taxation is the most important and deserves special treatment.

(b) The theory of expenditure. This is an important tool in the hands of policy makers as it can be used to achieve various economic objectives of government such as allocation of resources, redistribution of income and wealth, stabilisation of prices and employment as well as achieving optimum growth rate. It is through public expenditure that government contributes to the financial flows of the economy, regulates the patterns of demand and supply, as well as implement welfare programmes.

(c) Financial administration. This involves the budget, its formulation and execution of the various objectives specified in it. It also includes the government accounting, auditing as well as the other financial operations of public authorities.

(d) Economic growth and stabilisation. The objective of economic growth and stabilisation is usually the major focus of government policies. To that extent, it is the concern of public finance that there should be prudent utilisation of scarce resources to ensure the achievement of these objectives.

(e) Federal finance. The practice of fiscal federalism necessitates the assignment of expenditure and revenue responsibilities among the multi levels or tiers of government and the attendant challenges and possible solutions of inter-governmental financial flows.

33.3 Overview of public sector

Since it is not possible for everybody to be involved in the process of decision making it is therefore, necessary to either appoint, elect or select some representatives who will be responsible for decision making on behalf of the masses. It is this group of representatives that is commonly referred to as government which in some cases operate through a body or institution known as the public sector. The degree of government involvement in economic activities in terms of total output produced or total income generated varies from one country to another depending on the economic and political philosophy embraced.

In some countries, public sector dominance is prevalent. While in others, the public sector presence is less noticeable. However, in a mixed economy like Nigeria, it is the interaction of both the public and private sectors that operate in an integral fashion for the growth and development of the economy. The public sector represents that segment of the economy whose activities both economic and non-economic are under the control and direction of the state. In Nigeria, it covers both public services and public undertakings. The public services include defence, maintenance of law and order, provision of infrastructure such as roads, railways, water supply, electricity grids, bridges, telecommunication, education and health facilities, and so on.

The public undertakings include but not limited to Nigerian Port Authority (NPA), Nigerian Railway Corporation (NRC), Nigerian National Petroleum Limited (NNPL), Standard Organisation of Nigeria (SON), National Agency for Food and Drug Administration Control (NAFDAC) ,Nigerian Raw Materials Research and Development

Council, various publicly owned research institutions, health and educational institutions, the Central Bank of Nigeria (CBN), Bank of Industry (BOI), Securities and Exchange Commission, and many more.

The public sector is characterised by collective ownership of resources which are used mainly for the welfare of the citizens, as well as maintenance of government machinery. An important feature of this sector is the near absence of ownership title which makes transfer of ownership interest and control somewhat difficult. The output of public sector, that is, goods and services is commonly referred to as public goods which have the principal characteristics of non-rival consumption and non-excludability. Consumption of public goods is non-rivalrous in the sense that consumption by one person will not deny others from enjoying it whenever they desire to do so. Furthermore, consumption of public goods is not dependent upon payment, as free riders can be accommodated.

As mentioned earlier, the public sector does not exist in isolation especially in a mixed economy like Nigeria as the private sector also plays a significant role. The other segment of the economy which activities both economic and non-economic are under the control and direction of non-governmental private economic units such as individuals and households are referred to as the private sector. In this sector, resources are privately owned and used for profit maximisation. A unique characteristic of this is the ownership title which facilitates exchange of goods and services.

33.4 Public versus private provision

The goods and services produced in every society can be classified into two broad categories namely,

(a) public goods; and
(b) private goods.

Public goods can also be subdivided into the following:

(a) **Pure public goods –** They are goods that are perfectly non-rival in consumption and non-excludable. Defence and street lightings are good examples of pure public goods

(b) **Quasi-public goods -** These are goods that possess some characteristics of both private and public goods. They are partially non-rivalrous and partially non-excludable. Examples include roads, tunnels and bridges. Markets for these goods are considered to be inefficient. For example, private enterprise could provide some bridges, roads and tunnels if a charging system could be applied which solves the free rider problem.

(c) **Merit goods-** The concept was introduced in economics by Richard Musgrave as a commodity which is judged to be of immense value to an individual or society and one should have on the basis of need, rather than ability and willingness to pay. Merit goods are those goods and services that the government believes people will under-consume, and which ought to be subsidised or provided free at the point of use so that consumption does not depend primarily on the ability to

pay for the goods or services. Education and healthcare are good examples of merit goods

Characteristics of public goods

Below are the characteristics of public goods

(i) Non-rival consumption

Generally public goods refer to those goods whose consumption is not in rival relationship. This implies that consumption by one individual will not cause a decline in the benefit that will accrue to other consumers of the same goods. For example, government policy of providing street lightings on roads, defence and adequate policing to make the society crime-free will become beneficial to everyone. It does not matter whether or not everybody is a tax payer. Therefore, consumption of public goods is not competitive.

(ii) Non-excludability

Another remarkable feature of public goods is the non-applicability of exclusion principle. Since every one consumes from the same source of supply, once provided for one individual the same quantity and quality becomes available to everyone. Divisibility of output into smaller units to meet individual's demand is not desirable even if were feasible. Therefore, consumption of public goods is not dependent upon payment thereby giving room for 'free riders'. The non-excludability condition makes provision of public goods through the market mechanism impossible.

(iii) Zero marginal cost

Public goods are characterised by the existence of zero or near zero marginal cost. This means that increase in demand may not necessarily force government to increase supply at least in the short run. Hence there is no extra cost incurred by the additional demand. For example, increase in the number of vehicles plying a road may not necessitate immediate expansion of the road. Similarly, additional vehicle passing over a bridge is without any additional cost to the society.

(iv) Equality of sum of marginal benefits with marginal cost

The marginal cost is usually a measure of benefit (utility/satisfaction) derived by consumers from consumption. In the case of public goods, it is the sum of the marginal benefits derived by each individual that should equal marginal cost. This is so since all consumers consume from the same source of supply.

Characteristics of private goods

In the case of private goods produced by the private sector, the characteristics are complete opposite of those of public goods.

(i) Rivalrous consumption.

This is a major feature of private goods. It means that consumption of a particular private good makes it unavailable for another person. Hence consumption of

private goods is competitive. For example, a pair of shoe or glasses worn by the class coordinator is not available to his/her assistant.

(ii) Excludability.

It is a peculiar characteristic of private goods. There are specific conditions that must be satisfied before consumers can enjoy the benefit of private goods. Payment must be made, otherwise market will fail to function efficiently in the production and supply of private goods. Where it is impossible to limit the supply of goods to a particular consumer (exclusion), it will be impossible to charge price and where price cannot be charged or introduced, market fails. The principle of excludability is prevalent when discussing private goods and nothing will be lost while much will be gained when consumers are prevented from consumption unless they pay.

(iii) Positive marginal cost.

The marginal cost of private goods is positive. Addition to the numbers of consumers for a particular good will necessitate increase in output which will not be possible without additional cost – marginal cost. Increase in output will be necessary because of the urge to make extra income by the producers of the good in question.

(iv) Equality of marginal benefit with marginal cost

In the case of private goods, efficiency requires equality of marginal benefit derived by each consumer with marginal cost. The reason being that each individual consumer will pay the same unit price but purchase different quantity.

33.5 Public goods and public choice

Where a good is characterised by non-rivalrous consumption and non-excludable, a consumer is generally unable to exercise an option and has little choice whether or not to consume. The quality of goods or services available under existing terms and conditions, and one's preference will not materially affect the quality of such goods. Furthermore, individuals may be forced to consume public goods which have a negative value for them. Streets, for example, may become congested thorough fares reducing the convenience of local residents and shoppers who are required to cope with the traffic whether they like it or not.

33.6 Efficient provision of public goods

With private goods, consumers decide what quantity to buy for any given market price. Individual demand curves show the willingness to pay for any quantity of the good and the market demand is found by horizontally adding the individual demand curves, determining for each price level the total quantity requested by the market.

In the case of public goods, there is only one level of output and consumers are willing to pay different prices for each level. Therefore, the market demand for a public good is found by vertically adding all the individual demand curves. For each potential level of public good output, the market demand reveals the total amount that consumers are willing to pay. An efficient allocation would then require producing the public good as

long as society's total willingness to pay for it is greater than the marginal cost of producing the good. This is the so-called Samuelson's condition, stating that an allocation will be efficient if the sum of marginal benefits from the public good equals the marginal cost of providing it.

33.7 Rationale for public sector in the economy

Government involvement in the economy can be explained by any or combinations of these factors.

(a) **Political and social ideologies:** The need for government can be explained by the existence of political and social ideologies which is different from the principle of consumer's behaviour guided by utility satisfaction. More importantly, market forces left alone cannot perform all economic functions. Therefore, there is need to guide, regulate and supplement market forces under certain circumstances.

(b) **Allocation of resources:** The claim that market mechanism leads to efficient allocation of resources is based on the conditions of perfect competition which presupposes the existence of free entry and exit, perfect knowledge of the market, mobility of factors, lack of preferential treatment among other factors. Government regulations and other measures are required to ensure the presence of these conditions as market on its own will not guarantee their existence.

(c) Healthy competition: It is the role of government to ensure that competition exists in the production of goods and services. It is therefore expected to improve quality and increase quantity of output. However, in the absence of regulation, competition may become inefficient or at best reduced to decreasing cost.

(d) Legal structure: An important factor for effective and efficient market system is the legal structure that guarantees punishment for violators of rules and regulations. It is the responsibility of government to ensure strict adherence to rules and regulations otherwise abuse becomes an albatross to economic growth and development.

(e) **Externalities:** The case of externalities may be a potent factor to explain the rationale for government intervention. Even if the legal structure is provided and all barriers removed, certain goods and services cannot be provided through the market system due to the presence of externalities that cause distortion between private and public appraisal of projects. Externalities can only be tackled through public policy.

(f) **Economic objectives:** The economic objectives of full employment, general price stability, optimum growth rate, equitable distribution of income as well as soundness of foreign account cannot be brought about automatically, even in the most highly developed financial economy. Therefore, government policies and other measures are to achieve these objectives.

33.8 Performance of the Nigerian economy.

With a population of about 45 million at independence and gross domestic product of about 4.19 million US Dollars, the economy obviously had a very weak beginning. As

a mixed economy with agriculture being the dominant sector, the country was able to earn foreign exchange from primary products' export without value addition. Prior to the advent of oil, the sector provided employment to greater proportion of the labour force in addition to being the principal source of basic food items. The agricultural sector suffered from low commodity prices while the oil boom contributed to the negative growth of agriculture in 1970's. The boom in the oil sector lured labour away from the rural sector to urban centres. The contribution of agriculture to GDP, which was 63 percent in1960, declined to 34 percent in 1988, not because the industrial sector increased its share but due to neglect of the agricultural sector. It was therefore not surprising that the economy had become a net importer of basic food items.

Since then, oil has become the main driver of the economy as it now provides over 65% of government revenue. The reliance on oil revenue led to near neglect of other sectors of the economy thereby creating structural imbalance in every sphere of social, economic and political conditions of the country. Realising the vulnerability of the economy to external shocks arising from fluctuations in oil prices, measures are being taken to bring about restructuring and diversification of the revenue base of the economy thereby ensuring growth and development.

The economy never experienced double-digit inflation in 1960s. By 1976, however, the inflation rate stood at 23 per cent. It decreased to 11.8 per cent in 1979 and jumped to 41 percent and 72.8 per cent in 1989 and 1995, respectively. By 1998, the inflation rate had, however, reduced to9.5 percent from29.0 percent in1996. In year 2012, the rate of inflation was12.72 percent and declined steadily to 8.48 percent and 8.06 percent in 2013 and 2014, respectively. In 2015, the inflation rate was 9.02 and rose progressively to 15.7 percent and 16.5 per cent in 2016 and 2017, respectively. As at September 2018, the inflation rate stood at 11.28 percent up from 11.23 percent in the prior month of August.

Unemployment rates averaged almost 5 percent for the period 1976-1998. The rate increased to 18.80 percent in the third quarter of 2017 from 16.20 percent in the second quarter of 2017. The rising unemployment is a testament to increasing population and slow expansion of national output. The current population of Nigeria is 197.5 million as at November 2018, based on the latest United Nations estimates. It was 190.9million, 186.0 million and 181.2 million in years 2017, 2016 and 2015, respectively indicating average growth rate of about 2.63 percent.

Over the last couple of years, certain changes have taken place in the structure of output in the economy, prominent among these changes is the entry of the telecommunications sector as well as the film industry which have witnessed explosive and sustained real GDP growth. The above notwithstanding, the economy is yet to achieve the necessary structural changes required to jump-start rapid and sustainable growth and development. Aside disarticulated and narrow productive base, the sectoral linkages in the economy are also weak. Although the economy experienced respectable GDP growth rates, averaging over 6.5 per cent per annum between 2006 and 2012, this growth neither brings commensurate employment nor reduce the poverty level experienced in the country.

The Nigerian economy grew by 1.5 percent year-on-year in the second quarter of 2018, slowing from a 1.9 percent expansion in the prior period. It was the weakest growth rate since the third quarter of last 2017, as oil output shrank while non-oil sector continued to rise.

Real growth of the oil sector was –3.95% (year-on-year) in the second quarter of 2018 indicating a decrease of 7.48% points relative to the rate recorded in the corresponding quarter of 2017. The Oil sector contributed 8.55% to total real GDP in the second quarter of 2018, down from 9.04% figure recorded in the corresponding period of 2017.

The non-oil sector grew by 2.05% in real terms in the second quarter of 2018. The non-oil sector was mainly driven by Information and communication services. Other notable drivers included Construction, Agriculture, Transportation and Storage and Other Services. In real terms, the non-oil sector contributed 91.45% to the nation's GDP, compared to 90.96% recorded in the second quarter of 2017. The on-going economic reform programme represents an attempt to put the economy on a recovery path with minimal inflation.

33.9 Economic functions of government

In their book, Public Finance in Theory and Practice, Musgrave and Musgrave suggested that the functions of government should be separated into three branches namely, allocation; redistribution and stabilisation which are examined briefly below.

(a) **Allocation function:** Allocation relates to the division of total resource use with respect to provision of public goods and production of private goods as well as the appropriate combination of the two goods. This implies efficient utilisation of available resources. Market mechanism will ensure efficient and effective resource allocation provided, supply to a single individual (excludability or divisibility) is possible. Where supply to single individual is impossible, market fails. Market failure refers to the inability of the market forces to perform efficiently certain economic functions. Understanding the difference between public and private goods will give illumination to the allocation function of the government. Public goods are those whose consumption is not in rival relationship in the sense that consumption by individual A will not reduce the benefit available to individual B whenever he chooses to consume. Therefore, benefit derived from consumption of public goods is externalised. In addition, consumption of public goods is not dependent upon payment. This is so, since excludability is not desirable even if it were feasible. For example, consider a policy measure put in place to reduce air pollution or traffic jam. If improvement is obtained, the benefit will be available to everyone. Hence such goods cannot be provided through the market system. In the case of private goods, consumption is rivalrous as a pizza being consumed by individual A is not available to individual B. Furthermore, the principle of excludability is prevalent when discussing private goods as nothing will be lost while much will be gained when consumers are prevented from consumption unless they pay. The market mechanism is better suited for the provision of private goods.

(b) **Redistribution function.** It involves adjustment in the existing pattern of distribution to conform with the principle to social justice and equity. In the absence of any policy to adjust the prevailing state of distribution, distribution of income and wealth will be based first of all on the process of factor endowment which in a competitive market sets factor returns equal to marginal product. If all factor prices and other returns to human efforts including wages and salaries are competitively determined, the resulting pattern of distribution might not be acceptable to the society. The question then is, what constitutes a "fair or just" state of distribution? A change in economic condition constitutes improvement in social welfare if only the position of one individual is improved without that of anyone else being worsened. The answer to the question of fair distribution involves consideration of social philosophy and value judgment and not by the operations of market mechanism. Redistribution is better implemented through tax transfer scheme.

(c) Stabilisation function. The economic objectives of full employment, general price stability, equitable distribution of income, soundness of foreign accounts and acceptable rate of growth are essential for development of any economy. These objectives will not be achieved automatically even in the most highly developed economy. Therefore, public policies are required to secure these objectives. In the absence of public policy, the market economy tends to be subject to substantial fluctuations and may suffer from sustained period of inflation and unemployment. The fact that public policy is required to deal with these contingences does not preclude the possibility that public policy, if poorly conducted can itself become a destabiliser. The task of stabilisation is further complicated by the fact that countries do not exist in isolation but are interrelated through trade and capital flows. Therefore, policies that affect the level of domestic income and prices also affect the country's exports and imports as well as balance of payments. This in turn affect the economic conditions of other countries. Hence, stabilisation policy must take into consideration the complex problems of international politics.

33.10 Macroeconomic objectives of government

There are five major macro-economic objectives of government in any country which are discussed briefly below:

(a) **Full employment.** Full employment occurs when resources especially human capital is fully engaged in productive activities that will contribute to increase in the volume of output. It describes a situation where able-bodied people who are willing to work at the prevailing wage rate are able to find job. It does not imply100 percent employment but rather something around 95 percent.

(b) **General price stability.** This implies moderate fluctuations (upward and downward movement) in the general price level of goods and services over a given period. A rise in the price level of goods and services that is less than 3 percent is considered good as such will stimulate investment for growth and development. Higher rise in price level say over 7 percent means erosion in the purchasing power of a unit of currency and hence unacceptable.

(c) **Equitable distribution of income.** A fair or equitable distribution of income means that the gap between the poor and the rich is not too wide but sufficient enough to create incentive for hard work. There should be no concentration of wealth in the hands of few individuals but rather fair spread among the people.

(d) **Socially desired growth rate.** This means a steady and non-inflationary increase in the volume of output – goods and services of the nation. It is the primary objective of the government to pursue policies that will enhance steady rise in national output that will not be inflationary.

(e) **Soundness of foreign account /balance of payment equilibrium.** The country's trade position with the rest of the world should be such that will not permit or allow persistence deficit or surplus. Any deficit or surplus should be promptly addressed to avoid being regarded as unfair dealings with other countries.

33.11 Methods of intervention

There are different methods of intervention by government in the course of the economy. They include:

(a) **Fiscal policy:** It relates to government expenditure and tax measures aimed at controlling aggregate demand and hence the economy. It may be expansionary or contractionary depending on the objective(s) being pursued. Its' components include:
   (i) taxation
   (ii) expenditure
   (iii) national budget
   (iv) borrowing or public debt
   (v) subsidies

(b) **Monetary policy:** This refers to the conscious and deliberate action on the part of the monetary authorities to control money supply, the general credit availability, the direction and cost of credit within the economy. It is aimed at influencing intermediate variables for the purpose of manipulating target variables. It comprises the use of such measures as:
   (i) open market operations
   (ii) cash reserve ratio
   (iii) liquidity ratio
   (iv) bank rate/discount rate
   (v) credit ceiling
   (vi) sectoral allocation
   (vii) moral suasion
   (viii) mandatory deposit, etc.

(c) **Price control/income policy:** It deals with various regulations, rules and guidelines introduced by government to moderate price and income movements mainly to prevent unwarranted increases. It is based on the premise that labour unions will always demand for increase in wages which if allowed, can create distortion in the economy.

(d) **Commercial policy:** It relates to a set of rules and regulations that influence the country's imports and exports. It consists of tariffs, quotas and other form of trade restrictions designed to promote exports, generate income and employment and restrict imports in order to reduce commercial deficits.

33.12 Chapter review

This chapter discusses the critical role of the public sector in sustainable economic growth and development in every developing economy like Nigeria.

33.13 Worked examples

33.13.1 Examination type questions

1 In some countries, public sector dominance is prevalent. While in others, the public sector presence is less noticeable. However, in a mixed economy like Nigeria, it is the interaction of both the public and private sectors that operate in an integral fashion for the growth and development of the economy.

Required:

(a) Explain public sector.

(b) Explain four characteristics of each of public and private goods.

2. If the composition of output is in conformity with the preferences of individual consumers' demand and that there is a preference for decentralised decision making.

Required:

Explain why the entire economy is not left to the private sector.

3. In Nigeria, oil has become the main driver of the economy as it provides over 65% of government revenue. The reliance on oil revenue led to near neglect of other sectors of the economy, thereby creating structural imbalance in every sphere of social, economic and political conditions of the country. Realising the vulnerability of the economy to external shocks arising from fluctuations in oil prices, measures are being taken to bring about restructuring and diversification of the revenue base of the economy, thereby ensuring growth and development.

Required:

(a) Discuss the macroeconomic objectives of government in any economy.

(b) Discuss three methods of intervention by government.

33.13.2 Suggested solutions

1(a) Public sector refers to that segment of the economy whose activities both economic and non-economic are under the control and direction of the state. It covers both public services like defence, policing, administration of justice, provision of infrastructures such as roads, telecommunication facilities, electricity grids, water supply etc., as well as public undertakings like Nigerian National Petroleum Corporation (NNPC), Nigerian Ports Authority (NPA), Nigeria Railway Corporation (NRC), Nigeria Deposit Insurance Corporation (NDIC), Securities and Exchange Commission (SEC) and soon.

In public sector, there is collective ownership of resources which are used mainly for the benefit of the society as well as maintenance of government. An important characteristic is the absence of ownership title which makes transfer of ownership interest and control somewhat difficult.

(b) Characteristics of public and private goods

i. Public goods

- **Non-rival consumption:** Generally public goods refer to those goods whose consumption is not in rival relationship. This implies that consumption by one individual will not cause a decline in the benefit that will accrue to other consumers of the same goods. For example, government policy of providing streetlights on all roads, defence and adequate policing to make the society crime free will become beneficial to everyone. It does not matter whether or not everybody is a tax payer. Therefore, consumption of public goods is not competitive.
- **Non-excludability:** Another remarkable feature of public goods is the non-applicability of exclusion principle. Since everyone consumes from the same source of supply, once provided for one individual, the same quantity and quality becomes available to everyone. Divisibility of output into smaller units to meet individual's demand is not feasible and ultimately undesirable. Therefore, consumption of public goods is not dependent upon payment thereby giving room for 'free riders'. The non-excludability condition makes provision of public goods through the market mechanism impossible.
- **Zero marginal cost:** Public goods are characterised by the existence of zero or near zero marginal cost. This means that increase in demand may not necessarily force government to increase supply at least in the short run. Hence there is extra cost incurred by the additional demand. For example, increase in the number of vehicles plying a road may not necessitate immediate expansion of the road. Another example is that of a bridge over which an additional vehicle will pass without any additional cost to the society.
- **Equality of sum of marginal cost and benefit:** The marginal cost is usually a measure of benefit (utility/satisfaction) derived by consumers from consumption. In the case of public goods, it is the sum of the marginal benefits derived by each individual that should equal marginal cost. This is so since both consumers consume from the same source of supply.

ii. Private goods

In the case of private goods produced by the private sector, the characteristics are complete opposite of those of public goods.

- **Rivalrous consumption:** This is a major feature of private goods. It means that consumption of a particular private good makes it unavailable for another person. Hence, consumption of private goods is competitive. For

example, a pair of shoe or glasses worn by the class coordinator is not available to his/her assistant.

- **Excludability:** This is peculiar characteristic of private goods. There are specific conditions that must be satisfied before consumers can enjoy the benefit of private goods. Payment must be made otherwise market will fail to function efficiently in the production and supply of private goods. Where it is impossible to limit the supply of goods to a particular consumer (exclusion), it will be impossible to charge price and where price cannot be charged or introduced, market fails. The principle of excludability is prevalent when discussing private goods and nothing will be lost while much will be gained when consumers are prevented from consumption unless they pay.
- **Positive marginal cost:** The marginal cost of private goods is positive. Addition to the numbers of consumers for a particular good will necessitate increase in output which will not be possible without additional cost (marginal cost). Increase in output will be necessary because of the urge to make extra income by the producers of the good in question.
- **Marginal cost and marginal benefit equality:** In the case of private goods, efficiency requires equality of marginal benefit derived by each consumer with marginal cost. The reason being that each individual consumer will pay the same unit price but purchase different quantity.

2. Rationale for public sector/government intervention

Several reasons can be put forth to explain the need for government intervention in the economy. Some of the reasons are discussed below:

Political and social ideologies: The need for government can be explained by the existence of political and social ideologies which is different from the principle of consumer's behaviour guided by utility satisfaction. More importantly, market forces left alone cannot perform all economic functions. Therefore, there is the need to guide, regulate and supplement market forces under certain circumstances.

Allocation of resources: The claim that market mechanism leads to efficient of resources is based on the conditions of perfect competition which presupposes the existence of free entry and exit, perfect knowledge of the market, mobility of factors, lack of preferential treatment among other factors. Government regulations and other measures are required to ensure the presence of these conditions as market on its own will not guarantee their existence.

Healthy competition: It is the role of government to ensure that competition exists in the production of goods and services as such is expected to improve quality and increase quantity of output. However, in the absence of regulation competition may become inefficient or at best reduced to decreasing cost.

Legal structure: An important factor for effective and efficient market system is the legal structure guarantees punishment for violators of rules and regulations. It is the responsibility of government to ensure strict adherence to rules and

regulations otherwise abuse becomes an albatross to economic growth and development.

Externalities: The case of externalities may be a potent factor to explain the rationale for government intervention. Even if the legal structure is provided and all barriers removed, certain goods and services cannot be provided through the market system due to the presence of externalities that cause distortion between private and public appraisal of projects. Externalities can only be tackled through public policy.

Economic objectives: The economic objectives of full employment, general price stability, optimum growth rate, equitable distribution of income as well as soundness of foreign account cannot be brought about automatically even in the most highly developed financial economy. Therefore, government policies and other measures are to achieve these objectives.

3(a) Macroeconomic objectives of government

(i) **Full employment.** Full employment occurs when resources especially human capital is fully engaged in productive activities that will contribute to increase in the volume of output. It describes a situation where able-bodied people who are willing to work at the prevailing wage rate are able to find job. It does not imply 100 per cent employment but rather something around 95 percent.

(ii) **General price stability**: This implies moderate fluctuations (upward and downward movement) in the general price level of goods and services over a given period. A rise in the price level of goods and services that is less than 3 percent is considered good as such will stimulate investment for growth and development. Higher rise in price level, say over 7 percent means erosion in the purchasing power of a unit of currency and hence unacceptable.

(iii) **Equitable distribution of income:** A fair or equitable distribution of income means that the gap between the poor and the rich is not too wide but sufficient enough to create incentive for hard work. There should be no concentration of wealth in the hands of few individuals but rather fair spread among the people.

(iv) **Socially desired growth rate:** This means a steady and non-inflationary increase in the volume of output, goods and services of the nation. It is the primary objective of the government to pursue policies that will enhance steady rise in national output that will not be inflationary.

(v) **Soundness of foreign account/balance of payment equilibrium:** The country's trade position with the rest of the world should be such that does not permits or allows persistence deficit or surplus. Any deficit or surplus should be promptly addressed to avoid being regarded as unfair dealings with other countries.

(b) Methods of intervention/government policies

There are different methods of intervention by government in the course of the economy. They include:

(i) **Fiscal policy:** It relates to government expenditure and tax measures aimed at controlling aggregate demand and hence the economy. It may be expansionary or contractionary depending on the objective(s) being pursued. Its components include vis:

- Taxation;
- Expenditure;
- national budget;
- borrowing or public debt; and
- subsidies.

(ii) **Monetary policy:** This refers to the conscious and deliberate action on the part of the monetary authorities to control money supply, the general credit availability, the direction and cost of credit within the economy. It is aimed at influencing intermediate variables for the purpose of manipulating target variables. It comprises the use of such measures as:

- open market operations;
- cash reserve ratio;
- liquidity ratio;
- bank rate/discount rate;
- credit ceiling;
- sectoral allocation;
- moral suasion; and
- mandatory deposit, etc.

(iii) **Commercial policy:** It relates to a set of rules and regulations that influence the country's imports and exports. It consists of tariffs, quotas and other form of trade restrictions design to promote exports, generate income and employment and restrict imports in order to reduce commercial deficits.

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Skills level
Public Sector Accounting and Finance

CHAPTER 34

PUBLIC REVENUE

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34 Public Revenue

34.0 Learning objective

The objective of this chapter is to enhance readers' understanding of the concept of public revenue and receipt.

34.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

(a) discuss the sources of revenue in government; and
(b) explain the principles of revenue allocation and its challenges.

34.2 Sources of public revenue

Government, like any other economic units, needs funds which can be raised from various sources for the purpose of financing its activities. Public revenue refers to income generated by government from its activities/operations. In other words, it is a segment of total funds needed to finance government activities. It may be difficult to provide a complete list of all the sources of public receipts. However, the common and important ones include taxes, fees, fines, borrowings, disposal of assets, income from public undertakings, gifts, donations, licenses, royalties, rents, rates, levies, printing of currency, and so on. According to Dalton, it may be useful to make a distinction between public receipts and public revenue. While public receipts cover receipts from all sources, public revenue is a narrower concept and does not include borrowings, printing of currency, grants, gifts and donations, sale of public assets and reimbursement.

The 1999 constitution of the Federal Republic of Nigeria as amended is silent on the distinction between public receipts and public revenue as it made reference only to revenue. While in the1979, it was clearly emphasized that other "monies" which include reimbursement, sales of assets, printing of currency should not form part of the funds in the distributable account which is to be shared among the three tiers of government.

There are two broad sources of revenue to the federal government of Nigeria as usually specified in the country's annual budget. These are the oil revenue and non-oil revenue. The oil revenue sources include proceeds of crude oil sales, NNPC earnings, royalties, signature fees and so on. The non-oil revenue comprises personal income tax, companies' income tax, excise duty, import and export taxes, value added tax, stamp duties, etc. There are also the independent revenue sources like fees, fines, levies, investment income, licences, rent, rates, etc.

The oil revenue has remained the principal source of government funding as it generates most of the foreign exchange earnings for the country. Though there are other non-oi activities contributing to gross domestic product, their contributions in terms of revenue generation have been minimal due to low revenue diversification.

34.3 Revenue allocation and its challenges

This is an act under the practice of fiscal federalism which involves sharing of fiscal responsibilities (tax and expenditure functions) among the multi levels of government in

a federation. The practice of revenue sharing in Nigeria is ridden with series of controversies and the debate on the appropriate mode of resource sharing remains inconclusive. Many factors can be put forth to explain why this is so.

(a) Over-dependence on oil revenue

The discovery and subsequent exploration of oil in Nigeria and its high yielding revenue has continued to undermine the development of the hitherto buoyant agriculture and other viable sectors such as industry, mining and human capita development. Consequently, oil revenue has become the major source on which the country critically depends. This has with time led to the evolving of "a leech syndrome" among the component units of the federation thereby making the states dependent on the hand-outs from the Federation Account. The leech nature of most of the states makes them an economic appendage of the central government and has eroded the autonomy of the federating units. This, in a way, established a master-servant relationship between the Federal Government and the component units. The current revenue sharing formula encourages laziness and idleness as states rely heavily on the federal allocation - a situation that makes most states, perhaps, excluding Lagos, parasitic in nature feeding voraciously on the Federation Account.

(b) Conflicts over revenue sharing formula

Revenue sharing among the component units of the Nigerian federation has been, from inception, replete with agitations, controversies and outright rejections due to elevation of political rather than economic considerations in making decisions. The process of revenue sharing is inundated with conflicting criteria that were, often times, rejected by majority of the states. Consequently, several attempts at revenue sharing (both vertically and horizontally) have been made, yet no revenue sharing formula and principles have been considered acceptable among and within the tiers of government at any point in time. Due to the foregoing, the determining factor in revenue allocation strongly revolved around political rather than economic criteria, thereby making revenue allocation issue in Nigeria contentious and thorny.

(c) Agitation for resource control

The historical facts of the use of the principle of derivation (emphasised earlier and de-emphasised later) have been a source of inter-regional/states conflict, rivalry and antagonism. The major fall out of the down play of the principle of derivation, which stipulates that the component units of a system should be able to control some of their own resources as they desire, is the agitation for resource control that has taken criminal dimensions in most of the oil producing communities and states of the Niger Delta. There have been multifarious cases of kidnapping, vandalism of oil pipelines and installations, desperations and high scale violence.

(d) Increasing fiscal units

The rapid changes in the number of fiscal units that is not guided by economic and political philosophy led to creation of states that are fiscally and financially unviable and consequently increased demand for increased share of the "national

cake". Many states in Nigeria will blame their inactivity and ineffectiveness on low or lack of allocation from the federation account rather than become inventive and innovative in ideas that will cause increase in their mobilisation of resources. The increase in the number of fiscal units in Nigeria from 3 to 4, 12, 19, 21, 30 and 36 within a period of three and a half decades is contrary to what obtains in older and other federations thereby contributing to the unending resource control controversy.

(e) Unstable constitutional framework

The absence of a permanent and generally acceptable legal structure in the form constitution may result in chaotic tendencies. For instance, the last constitutional conference in the United States of America was in 1787 and only 27 amendments have been made as at 1999 as opposed to Nigeria in which several constitutional conferences had taken place since independence without general acceptability. In addition, states in Nigeria do not really have the statutory power to raise taxes and collect the proceeds and as such the problem had centred not on who should raise, but how the proceeds should be shared. Therefore, expenditure and tax/revenue assignments are inundated with ambiguity and inefficiency. A good example is the case of Lagos State MOT, which became a legal tussle between the government and some activists.

(f) **Lack of will**

The absence of sincere desire on the part of public office holders to address the challenges of revenue sharing is aptly reflected in the refusal to convoke a conference of leaders of various groups and ethnic nationalities that may lead to design of acceptable resource allocation scheme. Even where such conferences have been convoked in the past, the will to implement suddenly disappears from the initiators.

34.4 Commissions and ad-hoc committees

Attempts at resolving the problems associated with revenue allocation in Nigeria led to the inauguration of various ad hoc commissions and committees with each suggesting various principles and in some cases patterns, upon which revenue sharing should be based. The summary of the recommendations of the various commissions and committees are presented here under.

Commissions	Year	Suggested / recommended principles
Philipson	1946	Derivation
		Even-progress
		Population
Hicks-Philipson	1951	Derivation
		Need
		National interest

Commissions	Year	Suggested / recommended principles
Chick	1953	Derivation
		Need
Raisman	1958	Derivation
		Need
Binns	1964	Need
		Even development
Dina Interim Committee	1968	Fiscal commission establishment
Aboyade Technical Committee	1977	Absorptive capacity
		Equal access to development opportunities
		Independent revenue and tax effort
		National minimum standard
		Fiscal efficiency
Okigbo	1979	Minimum responsibility of government
		Population
		Social development factors
		Internal revenue

The National Revenue Mobilisation Allocation and Fiscal Commission which was inaugurated on 6 September 1988 through Decree 49 of 1989 by the then military president is the body that deals with the issue of revenue sharing among the multi levels of government in Nigeria. The various principles specified in the Constitution under section 162 (2) to be used by the Commission are:

(a) derivation;
(b) population;
(c) land mass;
(d) terrain;
(e) internal revenue; and
(f) equality of states.

34.5 Principles of revenue allocation

(a) **Derivation:** This principle was originally applied to the proceeds of export taxes on agricultural produce. The principle asserts that the state from which the bulk of the revenue is obtained should receive extra share over and above what other states receive.

(b) **Even development:** The objective of government is that the Federation itself should grow and develop at an optimum rate and that each of the constituent states should grow and develop at the optimum (not necessarily equal) rate. The principle requires that growth and development should be spread so that serious inequalities or imbalances are reduced in the Federation. These may be achieved by sacrificing efficiency in the form of a reduced overall growth.

(c) **Need:** The rate of growth and development a state is able to achieve depends on the revenue the state is able to generate. It requires financial as well as other resources not only to maintain its existing facilities but also to develop additional capacities. Given a set of these other resources, a state requires funds to enable it realize its potential. When the need of a state is compared with the need of others, it may be necessary to transfer financial resources from one state to another in the interest of efficiency.

(d) **National interest:** This principle is used residually by the highest level of government to intervene and transfer funds to lower levels or units in the lower levels to serve various considerations. It lies therefore, in the sphere of discretionary grants to be administered by the highest tier, that is, government of the Federation.

(e) **Independent revenue:** The principle is of the view that each level of government should be able to raise and keep some revenue for its use. The bulk of the revenue of the state revenue comes from what is raised and collected by the Federal government. The main sources left to the state governments are those on personal income taxes, capital gains tax and stamp duties, which should be exploited.

(f) **Continuity of government services:** The principle suggests that each level of government has a certain minimum responsibility and that the level of services provided should not be allowed to fall below a certain standard. Where a state is unable to function effectively due to lack of funds, such a state should be assisted with federally collected revenue.

(g) **Equality of States:** All men are created equal, but are endowed differently. Similarly, states are created equally but they arrive, at creation and through passages of time with different endowments of economic, financial and political power. The principle asserts that revenue sharing among the states should be done on equal basis.

(h) **Equality of access to development opportunities:** This was introduced to correct unequal endowments of the states. The principle asserts that preferential treatment should be given to those states which by some measures of development lag behind others or fall below a certain norm.

(i) **Absorptive capacity:** It represents the capacity of the state to make proper use of funds. It is on exceptional and efficiency grounds, that is, funds should go to those states that are best able to utilise them.

(j) **Population:** This Principle asserts that since government is about people, that development is also about people and that the essence of government should be the welfare of the people. Therefore, states with larger populations should receive extra share above others with smaller populations.

(k) **Tax effort:** The principle, which applies in most Federation, is designed to encourage states to exploit their tax capacities. The realisation of a state's potential in respect of tax revenues will widen its development possibilities.

(l) **Fiscal efficiency:** This principle asserts that states should minimise the cost of fiscal administration or obtain maximum revenue from a given cost. Fiscal efficiency reflects not only on the ability to raise taxes and collect them, but it reflects also the structure of the tax base itself as well as the overall administrative machinery of government.

34.6 Patterns of revenue allocation

Revenue sharing in a federation involves two distinct strands, namely vertical or horizontal. Vertical allocation refers to revenue sharing among the different tiers of government within a Federation based on a given pattern. This implies sharing among the Federal, State and Local governments. Horizontal allocation on the other hand refers to revenue sharing among the component states and local governments on the basis of acceptable principles.

Statutory allocation formula (% of Federation account) 1980 – 2002

	1980	1982	1987	1990	1995	2002
Federal government	55.0	55.0	55.0	50.0	48.5	48.5
State governments	34.5	34.5	32.5	30.0	24.0	24.0
Local governments	8.0	10.0	10.0	15.0	20.0	20.0
Special funds	2.5	0.5	2.5	5.0	7.5	7.5
FCT	2.5			1.0	1.0	1.0
Derivation				1.0	1.0	1.0
Mineral producing area			1.5	1.5	3.0	3.0
Ecological problems			1.0	1.0	2.0	2.0
Statutory stabilisation		0.5		0.5	0.5	0.5

Other means of capital finance

Besides revenue, there are other means of capital finance available to the government. They include the following:

(a) Debt finance or borrowing
(b) Public Private Partnership
(c) Privatisation

Adequate discussions will be undertaken on all of these concepts in subsequent chapters of this text.

34.7 Chapter review

This chapter covers the concept of, public revenue and receipt, the sources of revenue to the government, and their classification. It also addresses the challenges of revenue sharing and attempts at resolution.

34.8 Worked examples

34.8.1 Examination type questions

1 Government, like any other economic unit, needs funds which can be raised from various sources for the purpose of financing its activities.

Required:

(a) Apart from revenue, outline other sources of funding that is available to the government of Nigeria.

(b) Identify the sources of revenue to the government of Nigeria and discuss the importance of each to the Nigerian economy.

2 The National Revenue Mobilisation Allocation and Fiscal Commission which was inaugurated on 6 September 1988 through Decree 49 of 1989 by the then military president is the body that deals with the issue of revenue sharing among the multi levels of government in Nigeria.

Required:

(a) Discuss **FOUR** factors responsible for revenue sharing controversies.

(b) Explain the **FIVE** principles of revenue allocation specified in the 1999 Constitution of the Federal Republic of Nigeria (as amended).

34.8.2 Suggested solutions

1(a) The other means of financing government activities besides revenue include:

(i) Public private partnership
(ii) Borrowing or public debt
(iii) Joint venture partnership
(iv) Grants

(b) The sources of revenue to the government of Nigeria can be classified into two broad categories, namely; oil revenue, and non-oil revenue
The oil revenue sources comprise proceeds of the sale of crude oil, royalties, signature fees as well as NNPC earnings. The non-oil revenue consists of excise tax, personal income tax, company income tax, import and export duties, value added tax, capital gains tax etc. There is also the independent revenue sources like fees, fines, levies, licenses, rents, rates, investment income.

Oil revenue is the most important source of funding to the government of Nigeria since it provides over forty percent (40%) of budgetary finance. The reason of this

can be traced to advent of oil and subsequent neglect of other sectors. In addition, the low diversification of the revenue base and lack of innovation and invention to exploit the potential of the abundant resources turned the country to a mono-product economy.

2 (a) Factors responsible for revenue sharing problems

(i) **Over-dependence on oil revenue:** The advent of oil in Nigeria and its high yielding revenue generation tendency has continued to undermine the development of the hitherto buoyant agricultural and other viable sectors such as industry, mining and human capital development. Consequently, oil revenue has become the major source on which the country critically depends on thereby becoming a mono-product economy. The current revenue sharing formula encourages laziness and idleness as states rely heavily on the federal allocation - a situation that makes most states, with the exception of Lagos parasitic in nature feeding voraciously on Federation Account.

(ii) **Politics of revenue sharing.** Revenue sharing among the component units of Nigerian federation has been, from the inception, replete with agitations, controversies and outright rejections due to the nature of the politics that is involved in it. The process of revenue sharing is inundated with conflicting criteria that were, often times, rejected by majority of the states. The determining factor in revenue allocation strongly revolved around political rather than economic criteria, thereby making the revenue allocation issue in Nigeria contentious and thorny.

(iii) **Agitation for resource control.** The historical facts of the use of the principle of derivation (emphasised earlier and de-emphasised later) have been a source of inter-regional/states conflict, rivalry and antagonism. The major fall out of the down play of the principle of derivation, which stipulates that the component units of a system should be able to control some of its own resources as they desire, is the agitation for resource control that has taken criminal dimensions in most of the oil producing communities and states of the Niger Delta. There have been multifarious cases of kidnapping, vandalism of oil pipes and installations, desperations and high scale violence.

(iv) I**ncreasing fiscal units.** The rapid changes in the number of fiscal units that is not necessitated by guided economic and political philosophy led to creation of states that are fiscally unviable and consequently increased demand for increased share of “national cake”. Many states in Nigeria will blame their inactivity and ineffectiveness on low or lack of allocation from the federation account, rather than become inventive and innovative in ideas that will cause increase in their revenue generation. The increase in the number of fiscal units in Nigeria from 3 to 4, 12, 19, 21, 30 and 36 with a

period of three and a half decades is contrary to what obtains in older and other federations.

(b) Five principles of revenue allocation

(i) **Derivation:** This principle was originally applied to the proceeds of export taxes on agricultural produce. The principle asserts that the state from which the bulk of the revenue is obtained should receive extra share over and above what other states receive.

(ii) **Population:** This principle asserts that since government is about people, that development is also about people and that the end of government should be the welfare of the people. Therefore, states with larger population should receive an extra share above others with smaller population.

(iii) **Equality of states**: According to this principle, all men are created equal but are endowed differently. Similarly, states were created equally but they arrive, at creation and through passages of time with different endowments of economic, financial and political capabilities. Certain proportion of revenue sharing among the states should be based on equal basis.

(iv) **Internal revenue:** The principle is of the view that each level of government should be able to raise and keep some revenue for its use. The bulk of the state revenue comes from what is raised and collected by the federal government. The main sources left to the state governments are those on personal income taxes, capital gains and stamp duties, which should be exploited.

(v) **Land mass:** This is of the opinion that states with large expanse of land will require more financial assistance otherwise the potential within the entire land space will remain under-utilised.

ICAN 2026

Skills Level
Public Sector Accounting and Finance

CHAPTER 35

PUBLIC EXPENDITURE

ontents

35.0 Learning objective

35.1 Learning outcomes

35.2 Introduction

35.3 Reasons for increase in public expenditure

35.4 Functional classification of public expenditure

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35.6 Principles of public expenditure

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ICAN 2020

35 Public Expenditure

35.0 Learning objective

The objective of this chapter is to enhance readers' understanding of the concept of public expenditure and the effect of public expenditure on the economy.

35.1 Learning outcomes

On successful completion of this chapter, the readers should be able to:

(a) explain the objectives of public expenditure;
(b) discuss reasons for increase in public expenditure;
(c) understand reasons for the functional classification of public expenditure;
(d) explain the justification for public undertakings/enterprises; and
(e) understand the principles upon which expenditure decision should be based

35.2 Introduction

This is an important segment of budgetary activities. It refers to the expenses incurred by government in the course of its activities. It can as well be defined as the financial counterpart of limited resources used directly by government or places at the disposal of certain section of the society for the purpose of achieving specific objectives such as:

(a) correcting distortions or market failures;
(b) regulating private activity that might be harmful to the society;
(c) providing public goods and services (i.e. economic and social infrastructure); and
(d) engage in other productive activities.

It can assist the economy to achieve a higher level of growth and development when it is properly designed and implemented.

Globally, there has been steady increase in the level of government expenditure in different areas of activities. A cursory examination of the table below confirms the above assertion in the case of Nigeria.

Federal Government recurrent expenditure growth (₦' Trillion)

	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Total	**2.380**	**3.525**	**3.842**	**4.004**	**4.043**	**4.369**	**4.892**	**5.763**	**7.139**
Admin.	0.714	1.112	1.262	1.159	1.112	0.993	1.229	1.092	1.297
Social	0.354	0.551	0.785	0.790	0.844	0.775	0.808	0.782	0.905
Economic	0.424	0.563	0.311	0.230	0.291	0.266	0.275	0.257	0.308
Transfers	0.888	1.294	1.483	1.824	1.796	2.335	2.580	3.632	4.629

Federal Government capital expenditure growth (₦' Trillion)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total	**1.153**	**0.884**	**0.919**	**0.875**	**1.108**	**0.783**	**0.818**	**0.635**	**1.163**
Admin.	0.292	0.260	0.232	0.191	0.283	0.230	0.227	0.150	0.309
Social	0.145	0.152	0.093	0.097	0.155	0.111	0.083	0.080	0.148
Economic	0.506	0.412	0.386	0.321	0.506	0.393	0.349	0.261	0.522
Transfers	0.210	0.060	0.208	0.266	0.164	0.049	0.160	0.144	0.184

Federal Government aggregate expenditure growth (₦' Trillion)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total	**3.533**	**4.409**	**4.760**	**4.879**	**5.151**	**5.152**	**5.711**	**6.397**	**8.302**
Admin.	1.006	1.378	1.494	1.350	1.395	1.222	1.456	1.242	1.606
Social	0.499	0.703	0.878	0.887	0.999	0.886	0.891	0.861	1.052
Economic	0.930	0.975	0.697	0.551	0.797	0.660	0.624	0.519	0.830
Transfers	1.098	1.354	1.691	2.091	1.960	2.383	2.740	3.775	4.813

Recurrent and capital as percentage of aggregate expenditure growth (₦' Trillion)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total	**3.533**	**4.409**	**4.761**	**4.879**	**5.151**	**5.152**	**5.710**	**6.398**	**8.302**
Recurrent	2.380	3.525	3.842	4.004	4.043	4.369	4.892	5.763	7.139
% of Total	0.67	0.80	0.81	0.82	0.78	0.85	0.86	0.90	0.86
Capital	1.153	0.884	0.919	0.875	1.108	0.783	0.818	0.635	1.163
% of Total	0.33	0.20	0.19	0.18	0.22	0.15	0.14	0.10	0.14

From the above tables we can observe the pattern of expenditure growth and the possible impact that such might have on the economy. One notable observation is the abysmally small proportion of capital vis-à-vis recurrent expenditure for a country that is desirous of growth and development. While the data for recurrent expenditure is on the upward trend, the situation is different for capital expenditure that experienced fluctuations (in absolute terms) throughout the period. On the basis of functional classification, it is equally apparent, the near neglect of the productive aspect of public expenditure in Nigeria, as greater attention is given to non-productive expenditure. On the aggregate, both administration and transfers (unproductive) expenditure recorded

higher attention than social and economic services (productive) expenditure. Further explanation will be given on the functional categories of expenditure in different sections of this chapter. However, an undeniable fact, is the steady growth of expenditure over the years which requires explanation.

The continuous increase in public expenditure can be explained by several actors some of which include but not limited to the following:

35.3 Reasons for increase in public expenditure

(a) **Traditional function.** The traditional responsibilities of government such as defence, maintenance of law and order, as well as general administration are becoming extensive and cumbersome. Defence is becoming expensive more than ever. Within the country, administrative set up is increasing both in coverage and intensity, that is, professionals in different fields have to be recruited to handle government machinery (operations). In addition, various complexities of economic and social measures emerge which may cause government to increase expenditure in this area.

(b) **Additional responsibility:** Besides the traditional functions of the state, there is growing awareness of additional responsibilities. Embarking on welfare measures which include measures to enrich the cultural life of the society and those designed to provide social securities to the people such as pensions, old peoples' homes, etc. Furthermore, government involvement in organisation of various socio-cultural and sporting activities also have the consequence of causing increase in government expenditure.

(c) **Population:** Increasing population may also be an important determinant of public expenditure growth. As the population is rising, there will be change in the demand structure of the society which will evoke some changes in the provision of public goods and services. The volume of various public goods and services has to rise in conformity with the growth of population.

(d) **Urbanisation:** It has been argued that urbanisation and the resulting congestion has increased the need for more infrastructure and public goods and services. For example, a number of incidental services like those connected with traffic, roads, sanitation, pollution and so on have to be provided. In some states in Nigeria, we now see street managers sweeping on regular basis to ensure cleanliness of the environment.

(e) **Inflation:** The tendency for prices to go up has equally contributed to the growth of public expenditure. The increase in prices of input and other goods purchased by public sector has resulted in an increase in public expenditure.

(f) **Debt servicing:** Increasing public expenditure can also be explained in terms of increasing cost of debt servicing. Incremental provisions made yearly in the national budget for debt servicing confirms the effect of debt service on expenditure growth.

(g) **Unforeseen occurrence:** Any unanticipated occurrence(s) that exerts pressure on government finance might contribute to increase in public expenditure. The reason being that government would be committed to restoring normalcy to the

environment in addition to providing palliative measures to reduce pain and suffering. This is usually the case for the victims of flood, earthquake and other disasters both natural and man-made.

(h) **Political instability:** The instability in the economic and political terrain of most developing countries may be a potent factor to explaining increase in public expenditure. Such instability will always lead to destruction by each succeeding regime, of structures put in place by the preceding regimes. The lack of continuity in programmes and policies result in wasteful use of public resources.

35.4 Functional classifications of public expenditure

Through functional classification of public expenditure, the economic effects of various government activities can be determined or measured which would also be helpful for proper policy formulation. Usually, two broad classifications of public expenditure can be adopted to show the area of possible impacts on the economy. These are productive and non-productive expenditure. This indicates that some expenditures are in the nature of investments while others are in the form of consumption.

Productive or developmental expenditure are those incurred to create and maintain social overheads. They include expenses on irrigation, road construction, rail building, energy and power, communication, education and healthcare facilities and so on. This category of expenditure increases productive capacity of the economy and bring income to the government. Hence, they are classified as productive or investment expenditure. All expenditure that promotes economic growth and development are termed as developmental expenditure.

Non-productive or non-developmental expenditure comprises expenditure on defence, civil administration (that is, police, judiciary and prisons), interest on borrowing, financial commitment to multilateral agencies, etc. In other words, unproductive (non–development) expenditure do not create any productive asset which brings income to government.

Hitherto, expenditure on education and health were regarded as non-developmental type. However, it has now been realised through the work of Simon Kuznet that expenditure on education and public health promote the growth of human capital which promotes economic growth as much as physical capital. Therefore, expenditure on education, research and health are now regarded as productive, that is, developmental expenditure.

It is equally possible to reclassify expenditure into these four major functional areas as follows:

(a) General services

This category covers both civil and defence expenditure meant to provide basic administrative structure and includes general administration, tax collection, police, currency and mint, external affairs, defence, un-planned provision against natural

calamities, etc. these are indispensable activities performed by the state, the benefits of which cannot be allocated to specific groups, businesses or individuals.

(b) Social and community services

They cover basic social amenities supplied directly to the community, households or individuals, and include education, health care, social security and welfare, housing, community development, recreational and cultural activities. This class of expenditure is required to improve and maintain the living conditions of the people.

(c) Economic services

This category covers all expenditure which directly or indirectly promote economic activity within the country and incorporate expenditure on agriculture, industry, transport and communications and other economic services. They are necessary to create stock of capital that will generate future flow of income for growth and development of the economy.

(d) Transfer services

It covers those items which cannot be classified under the above three heads like interest payments, pensions, food subsidies, statutory grants-in-aid to states, special loans, aid to foreign countries and the like. It is known as transfer because the benefit accrues to a third party.

35.5 Effects of public expenditure

The effects of public expenditure on the economy can be examined by reference to its impacts on a number of macroeconomic and socio-political activities as discussed below:

(a) Public expenditure and economic stabilisation

The philosophy of laissez-faire does not always guarantee automatic achievement of economic objectives of full employment, general price stability, equitable distribution of income, socially desired growth rate as well as soundness of foreign accounts. In fact, the more advanced and freer the market economy, the greater the tendency of fluctuations in macroeconomic variables such as income, employment and general price level. Public expenditure as an anti-cyclical tool can be designed in such a manner as to create effective demand thereby stimulating investment activities. Stimulation of investment will lead to increase in employment, output and reduction in price, other things being equal. It must be emphasised however, that the total demand should be regulated so that the demand flows would match the supply flows otherwise the stimulating effect would result into inflationary pressure.

(b) Public expenditure and production

Public expenditure can help the economy to attain a higher level of production. Through stimulation of investment activities, it can help to create conditions

favourable for market forces to push up production. It can be used to create human skills through education and training and maintenance of social overheads. Expenditure on education and health promotes human capital development and also promotes physical stock of capital for growth. Expenditure on education, health, communication, etc., increases people's productivity at work and hence their incomes. With rise in income, savings also increase and this in turn has a beneficial effect on capital formation and investment. Through research and development, new and effective methods of production can be invented whereby local resources are used.

(c) Public expenditure and economic growth

The goals of planning are growth and social welfare which can be realised only through government expenditure. Consequently, the government allocates funds to various sectors like agriculture, industry, transport, communications, education, energy, health, exports, etc., with a view to achieve impressive growth. Government expenditure has been very helpful in maintaining balanced economic growth in the country. In furtherance of this, government takes keen interest in allocating more resources for development of backward regions. Such efforts reduce regional inequality and promote balanced economic growth. The government propels the growth in an industry by either increasing it's spending in it or supporting it in the forms of subsidies, lower interest rate for investments, etc. For example, the government through the Central Bank had created various funds with differential interest rates to be disbursed to the targeted users with the aim of correcting market failures thereby growing the economy.

(d) Public expenditure and distribution

An important aspect of the market mechanism is the inequalities of income and wealth, which arise on account of natural endowment and get widened through the institutions of private property and inheritance. Welfare consideration favours an equitable distribution of income and wealth since the purpose of economic policy is to attain the maximum level of social benefits possible. A shift towards equality may be achieved through various forms of public expenditure especially those that are meant to help the poorer sector of the society. For instance, items of common consumption may be subsidised and production of those, which are in short supply, can be taken up by the public sector. Public expenditure on social security and subsidies to the poor are aimed at increasing their real income and purchasing power. Expenditure on education, communication and health has a positive impact on productivity of the weaker section of society, thereby increasing their income earning capacity.

35.6 Principles of public expenditure

As with taxation, some scholars have suggested certain principles upon which public expenditure decisions should be based. Some of these principles are in the nature of administrative safeguards while others are of benefit to the society as a whole. Some of the principles are discussed briefly below.

(a) **Principle of economy:** The resources of the economy are limited relative to need. Public expenditure is the financial counterpart of the limited resources, which the government uses up directly, or places at the disposal of certain sections of the society for the purpose of achieving specific objectives. According to this principle, the use of public expenditure must not be more than what is just necessary. Utmost care must be taken to avoid waste of public funds.

(b) **Principle of sanction:** According to this principle, no public funds must be used without proper authorisation and that funds must be applied only for the purpose for which they have been sanctioned. In a democratic setting. It is the responsibility of the legislature to approve expenditure on demand by the executive authorities. The essence of such a measure is to prevent unscrupulous and unwanted use of public expenditure, and hence a check on misappropriation of public fund.

(c) **Principle of benefit:** This is a most fundamental principle of public spending. According to this principle, money is to be spent to promote maximum social advantage (MSA) to the economy. Any public expenditure is to be viewed against the benefit that would accrue from it. Public expenditure is to be incurred, if only it will be beneficial to the society. The beneficial nature of public expenditure can manifest itself in terms of its effects on employment, consumption, savings, investment, output, price, income distribution, and soon.

(d) **Principle of surplus:** This is completely opposed to the practice of deficit budgeting. According to this principle, government should be more prudent in the utilisation of resources and aim at meeting its current expenditure needs out of its current revenue. It should not overspend and run into debt. All efforts should be directed at achieving a moderate surplus. Such moderate surpluses recorded in the past should be used to meet some reasonable but unavoidable deficits during other periods.

(e) **Principle of elasticity:** The principle of elasticity requires that public expenditure should not in any way be rigidly fixed at all times. Rather, it should be fairly elastic. The public authorities should be in a position to adjust the expenditure as the situation demands. During the period of depression, it should be possible for the government to increase expenditure so that the economy is lifted from low level of employment. During boom period, the state should be in a position to curtail expenditure without causing any distress to the people.

(f) **Principle of neutrality:** The public expenditure should be organised in such a way that there would be no adverse effect on production or distribution of wealth in the country. Public expenditure should aim at stimulating production and reducing inequalities of income and wealth distribution. Expenditure programmes should be designed to provide more educational facilities, medical benefits, cheap housing facilities, old age pension and other social security measures to the vulnerable sections of the society. Any expenditure measure that favours the rich more than the poor would be considered inappropriate and contrary to social welfare maxim.

35.7 Justification for public enterprises

Public undertakings are enterprises created and owned either wholly or partly by the public sector as instruments of social control. The main attributes of public sector enterprises are: state ownership; state control and management; public accountability; non-profit motive; state privileges; and regulations.

The need for public undertakings can be justified by a number of factors:

(a) Market failure

The operation of market mechanism presupposes that the economic activities are guided by rational expectation that is, profitability. However, there are differences in endowment which in most cases determines productivity and returns. Therefore, public undertakings are required in areas of the economy which the government deems necessary or very crucial, but which investors may not be willing to touch because of the huge capital and risks involved in such ventures. Furthermore, investment in such areas of the economy may take a longer time to materialise. It is for these reasons that public enterprises are established to operate in such essential industries of the economy

(b) Merit goods

The goods or services considered to be of utmost necessity such as education, health care services, water supply and the likes cannot be left in the hands of private investors. They would be under-supplied because consumers would not be able to pay the market prices of these goods. Generally, the supply of such services should be adequate and should be available at low or near zero prices in order to encourage more consumption. In the case of education, for example, the government may insist that every child up to a certain age must benefit from free education. In some cases, free medical services are provided for certain categories of people such as pregnant women as well as people over 75 years. But when the provision and supply is dominated by private investors, the prices may be beyond the reach of the people. For example, private tertiary institutions in Nigeria embark on aggressive advertisement for students, whereas, public tertiary institutions are burdened with over-population. Hence, the need for these services to be provided by government through the establishment of public enterprises thereby making prices become bearable for the populace.

(c) Strategic or security consideration

Sometimes, governments set up Public Enterprises because of the very nature of the projects. Currency and mint, for example cannot be expected to be left in the hands of private investors. Similarly, some defence industries, certain research and development organisations would be better handled by public enterprises.

(d) Promote growth of the economy

Usually, the objective or goal of the government is that the country should grow and develop at an optimum rate. This happens if the various components of the country have steady access to capital stock which may not be readily available

through market mechanism. Therefore, public undertakings directly add to the capital assets of the economy in the form of roads, bridges, factories and the likes. Without public undertakings, certain areas of the country's economy may be starved of the capital they require to function even though such areas of the economy are very important. Hence, another reason why public enterprises are established is to inject capital into areas of the economy which ordinarily private investors may shy away from. The establishment of an Agriculture Development Bank, Bank of Industry are examples to ensure that capital is provided for investors in those sectors that lack funding.

(e) Monopoly

Another reason for the establishment of public undertakings is where the effective control of the economy is sought to be in the hands of the state rather than individuals. This is the argument of not permitting the emergence of monopoly in the hands of private investors. The authorities might plan to have a strategic control over the workings of the whole economy through controlling of key sectors. This is generally referred to as controlling the commanding heights of the economy from which, indirectly, the movement of the economy can be guided.

(f) Natural resources

One of the potent reasons for public undertakings is the case of some natural resources like forests, mines, and so on. The commercial interest of private investors may be in conflict with those of the state. A private investor, for example, authorised to mine a particular resource may likely want to make more money by extracting more than expected. This may result in a large scale and quick denuding of the land thereby causing soil erosion and upsetting the ecological balance. A public enterprise or undertaking given the same task would operate based on a defined systematic policy of extraction thereby avoiding damage to the soil structure.

35.8 Chapter review

This chapter covers public expenditure, which is the second segment of the budgetary activities used for the purpose of achieving specific objectives. it also discusses the reasons for the increase and the effects of public expenditure on the economy. It further considers the justification for public undertakings – public enterprises.

35.9 Worked example

35.9.1 Examination type questions

1 (a). Public expenditure has been on a continuous upward trend for more than a decade.

Required:

(a) Explain the reasons for such trend.

(b) Differentiate between productive and non-productive expenditure and give **THREE** examples of each.

2 As with taxation, some scholars have suggested certain principles upon which public expenditure decisions should be based.

Required:
Discuss the principles upon which public expenditure decisions should be based.

3 Public undertakings are enterprises created and owned either wholly or partly by the public sector as instruments of social control.

Required:
(a) Differentiate between public sector and public undertakings.

(b) Explain **FOUR** reasons to justify public undertakings in education or health.

4 In Nigeria, oil has become the main driver of the economy as it provides over 65% of government revenue. The reliance on oil revenue led to near neglect of other sectors of the economy, thereby creating structural imbalance in every sphere of social, economic and political conditions of the country. Realising the vulnerability of the economy to external shocks arising from fluctuations in oil prices, measures are being taken to bring about restructuring and diversification of the revenue base of the economy, thereby ensuring growth and development.

Required:
(a) Discuss the macroeconomic objectives of government.

(b) Explain how public expenditure can be used to achieve economic stability and income redistribution.

35.9.2 Suggested solutions

1 (a) Reasons for increase in public expenditure

The continuous increase in public expenditure can be explained by any or combinations of the following factors.

(i) **Traditional function.** The traditional responsibilities of government such as defence, maintenance of law and order, protection of lives and properties as well as general administration are becoming extensive and cumbersome. Defence is becoming more expensive than ever before. Within the country, administrative set up is increasing both in coverage and intensity, that is, professionals in different fields have to be recruited to handle government machinery (operations). In addition, various complexities of economic and social measures emerge which may cause government to increase expenditure in this area.

(ii) **Additional responsibility:** Besides the traditional functions of the state, there is growing awareness of additional responsibilities. Embarking on

welfare measures which include measures to enrich the cultural life of the society and those designed to provide social securities to the people such as pensions, old peoples' homes, etc. Furthermore, government involvement in organisation of various socio-cultural and sporting activities also have the consequence of causing increase in government expenditure.

(iii) **Population:** Increasing population may also be an important determinant of public expenditure growth. As the population is rising, there will be change in the demand structure of the society which will evoke some changes in the provision of public goods and services. The volume of various public goods and services has to rise in conformity with the growth of population.

(iv) **Urbanisation:** It has been argued that urbanisation and the resulting congestion has increased the need for more infrastructure and public goods and services. For example, a number of incidental services like those connected with traffic, roads, sanitation, pollution, etc have to be provided. In some states in Nigeria, we now see street managers sweeping on regular basis to ensure cleanness of the environment.

(v) **Unforeseen occurrence:** Any unanticipated occurrence(s) that exerts pressure on government finance might contribute to increase in public expenditure. The reason being that government would be committed to restoring normalcy to the environment in addition to providing palliative measures to lessen the pains and sufferings of victims. This is usually the case for the victims of flood, earthquake and other disasters both natural and man-made.

(vi) Political instability: The instability in the economic and political terrain of most developing countries may be a potent factor to explaining increase in public expenditure. Such instability will always lead to destruction by each succeeding regime, of structures put in place by the preceding regimes. The lack of continuity in programmes and policies result in waste of public resources.

1 (b) Productive and non-productive expenditure

The two broad classifications of public expenditure that show the area of possible impacts on the economy are productive and non-productive expenditure. This indicates that some expenditures are in the nature of investments while others are in the form of consumption.

Productive expenditure, also known as developmental expenditure are those incurred to create and maintain social overheads. They include expenses on irrigation, road construction, rail building, energy and power, communication, education and healthcare facilities, and so on. This category of expenditure increases productive capacity of the economy and brings income to the government. Hence, they are classified as productive or investment expenditure. All expenditure that promotes economic growth and development are termed as developmental expenditure.

Non-productive or non-developmental expenditure comprises expenditure on defence, civil administration (that is, police, judiciary and prisons), interest on borrowing, financial commitment to multilateral agencies, etc. In other words, unproductive (non– development) expenditure do not create any productive asset which brings income to government.

Hitherto, expenditure on education and health were regarded as non-developmental. However, it has now been realised that expenditure on education and public health promotes the growth of human capital which promotes economic growth as much as physical capital. Therefore, expenditure on education, research and health are now regarded as productive, that is, developmental expenditure

2 Principles of public expenditure

(a) **Principle of economy:** There sources of the economy are limited relative to need. Public expenditure is the financial counter part of the limited resources, which the government uses directly, or places at the disposal of certain sections of the society for the purpose of achieving specific objectives. According to this principle, the use of public expenditure must not be more than what is just necessary. Utmost care must be taken to avoid waste of public funds.

(b) **Principle of sanction:** According to this principle, no public funds must be used without proper authorisation and that funds must be applied only for the purpose for which they have been sanctioned. In a democratic setting, it is the responsibility of the legislature to sanction expenditure on demand by the executive authorities. The essence of such a measure is to prevent unscrupulous and unwanted use of public expenditure, and hence a check on misappropriation of public fund.

(c) **Principle of benefit:** This is a most fundamental principle of public spending. According to this principle, money is to be spent to promote maximum social advantage (MSA) to the economy. Any public expenditure is to be viewed against the benefit that would accrue from it. Public expenditure is to be incurred, if only it will be beneficial to the society. The beneficial nature of public expenditure can manifest itself in terms of its effects on employment, consumption, savings, investment, output, price, income distribution, and so on.

(d) **Principle of surplus:** This is completely opposed to the practice of deficit budgeting. According to this principle, government should be more prudent in the utilisation of resources and aim at meeting its current expenditure needs out of its current revenue. It should not overspend and run into debt. All efforts should be directed at achieving a moderate surplus. Such

moderate surpluses recorded in the past should be used to meet some reasonable but unavoidable deficits during other periods.

(e) **Principle of elasticity:** The principle of elasticity requires that public expenditure should not in any way be rigidly fixed at all times. Rather, it should be fairly elastic. Public authorities should be in a position to adjust the expenditure as the situation demands. During the period of depression, it should be possible for government to increase expenditure so that the economy is lifted from low level of employment. During boom period, the state should be in a position to curtail expenditure without causing any distress to the people.

3 (a) Public sector and public undertakings (Public Enterprises)

Public sector is the segment of the economy whose activities (both economic and non-economic) are under the control and direction of the state. The state owns all the resources and uses them to achieve whatever goals it may desire, for example to promote the economic welfare of the ruling elite or to maximise the well-being of the society as a whole. An important characteristic of public sector is the absence of ownership title, which makes transfer of ownership interest and control somewhat difficult.

Public undertakings on the other hand, constitute a segment of the public sector and cannot be equated with the latter. They are undertakings over which public authorities directly or indirectly exercise dominant influence by virtue of their ownership, financial participation, or the rules which govern them. In other words, they represent commercial ventures of the government or public sector where user fees are charged for services rendered. The tariffs/fees may be market based or subsidised. They are usually fully owned and managed by government such as Railways, Ports, Posts, Defence undertakings, Banks, etc. Public sector enterprises refer to those companies registered under the Companies and Allied Matters Act and predominantly owned by government and are managed by a government appointed Chairman and Managing Director. Government nominees represent the interests of the Government on the board of public sector enterprises. Public sector companies usually compete with private sector enterprises in the domestic as well as international markets.

3 (b) Justification for public undertakings

(i) Market failure

The operation of market mechanism presupposes that economic activities are guided by rational expectation that is, profitability. However, there are differences in endowment which in most cases determines productivity and returns. Therefore, public undertakings are required in areas of the economy which government deems necessary or very crucial but which investors may not be willing to touch because of the huge capital and risks involved in such

ventures. Furthermore, investment in such areas of the economy may take a longer time to materialise. It is for these reasons that public enterprises are established to operate in such essential industries of the economy.

(ii) Merit goods

The goods or services considered to be of utmost necessity such as education, health care services, water supply and the likes cannot be left in the hands of private investors. They would be under-supplied because consumers would not be able to pay the market prices of the goods. Generally, the supply of such services should be adequate and should be available at low or near zero prices in order to encourage more consumption. In the case of education, for example, government may insist that every child up to a certain age must benefit from free education. In some cases, free medical services are provided for certain categories of people such as pregnant women as well as people over 75 years. But when the provision and supply is dominated by private investors, the prices may be beyond the reach of the people.

(iii) Strategic or security consideration

Sometimes, governments set up public enterprises because of the very nature of the projects. Currency and mint, for example, cannot be expected to be left in the hands of private investors. Similarly, some defence industries, certain research and development organisations would be better handled by public enterprises for security reasons.

(iv) Promote growth of the economy

Usually, the object of the government is that the country should grow and development at an optimum rate. This happens if the various components of the country have steady access to capital stock which may not be readily available through market mechanism. Therefore, public undertakings directly add to the capital assets of the economy in the form of roads, bridges, factories and the likes. Without public undertakings, certain areas of the country's economy may be starved of the capital they require to function though such areas of the economy are very important. Hence, another reason why public enterprises are established is to inject capital into areas of the economy which ordinarily private investors may shy away from. The establishment of an Agriculture Development Bank, Bank of Industry and the likes are examples to ensure that capital is provided for investors in those sectors that lack funding.

4(a) Macroeconomic objectives of government

(i) General price stability
(ii) Equitable distribution of income
(iii) Optimum growth rate

(iv) Full employment
(v) Balance of payment equilibrium

(b) Being an instrument of economic management, government can design expenditure for the purpose of achieving any of the economic and welfare objectives.

(i) Public expenditure and economic growth

The goals of planning are growth and social welfare which can be realised only through government expenditure. Consequently, government allocates funds to various sectors like agriculture, industry, transport, communications, education, energy, health, exports, and the likes with a view to achieve impressive growth. Government expenditure has been very helpful in maintaining balanced economic growth in the country. In furtherance of this, government takes keen interest in allocating more resources for development of backward regions. Such efforts reduce regional inequality and promotes balanced economic growth. The government propels the growth in an industry by either increasing its spending in it or supporting it in the forms of subsidies, lower interest rate for investments etc. For example, the government through the Central Bank had created various funds with differential interest rates to be disbursed to the targeted users with the aim of correcting market failure thereby growing the economy.

(ii) Public expenditure and distribution

An important aspect of the market mechanism is the inequalities of income and wealth, which arise on account of nature endowment and get widened through the institutions of private property and inheritance. Welfare consideration favours an equitable distribution of income and wealth since the purpose of economic policy is to attain the maximum level of social benefits possible.

A shift towards equality may be achieved through various forms of public expenditure especially those that are meant to help the poorer sectors of the society. For instance, items of common consumption may be subsidised and production of those, which are in short supply, can be taken up by the public sector. Public expenditure on social security and subsidies to the poor are aimed at increasing their real income and purchasing power. Expenditure on education, communication, health has a positive impact on productivity of the weaker sections of society, thereby increasing their income-earning capacity.

Skills Level
Public Sector Accounting and Finance

CHAPTER 36

PUBLIC DEBT

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36 Public Debt

36.0 Learning objective

The objective of this chapter is to enhance readers' understanding of the types of public debts and the instruments of raising domestic debts.

36.1 Learning outcomes

On successful completion of this chapter, readers will be more familiar with and be able to discuss the following:

(a) public debt;
(b) public debt finance versus tax finance;
(c) types of public debt;
(d) domestic borrowing instruments;
(e) implications of ownership structure of domestic debt;
(f) indicators of external debt burden; and
(g) public debt management strategies.

36.2 Definition

The total amount of money borrowed by government directly or through any of the authorised agencies is known as public debt. The money could be raised within the domestic economy in which case the creditors are mostly citizens or from outside the economy by which the creditors are foreigners. The former is commonly known as domestic or internal debt, while the latter is known as external or foreign debt. Public debt may be bilateral or multilateral. It is bilateral where the creditors are governments and multilateral when multilateral institutions are the creditors.

In other words, public debt can be defined as total outstanding financial obligations of a government during a given period. It is an important source of capital formation, most especially in developing economies like Nigeria where the low level of income is insufficient for consumption and hence does not permit sustainable savings.

As a source of capital formation, the technique is better than taxation in the sense that borrowing is undertaken with a promise to pay at a future date and to pay interest in the interim.

36.3 Deficit financing (to tax or to borrow)

The merits and demerits of debt and tax finance are often debated. It should be noted however that no definite preference could be shown for any one method under all circumstances. The choice of any one method depends on the objective and the overall long-term implications for the economy. It is obvious that a major portion of government expenditure is financed through tax revenue. The real issue therefore is to decide on how to choose between tax and debt to finance that excess of expenditure (deficit).

Under certain circumstances, debt financing becomes either necessary or preferable. For instance, under war and other emergencies, when there is need for large pool of

funds and additional tax revenue cannot be raised, debt financing becomes inevitable. Another reason that necessitates debt financing is where actual tax receipts are falling much below the anticipated volume, while expenditure is not showing a corresponding reduction.

A third good reason for debt financing will be the case tied to a project. Such projects are expected to benefit certain areas or certain sections of the people who can be expected to bear the cost of the project out of the benefit they would receive. For instance, a particular irrigation project might benefit the farmers of a particular area. In this case, the cost of the project can be met through borrowing and then recovered from the beneficiaries through a levy or some other means.

Debt financing as compared with tax financing has its own limitations that might outweigh its advantages. Public debt by definition has to be serviced. Interest has to be paid on it and the principal is also to be repaid. This implies that those who contribute to the financing of expenditure in the first instance really do not lose anything. However, in the case of taxation the tax payer loses some amount of resources in favour of the government without any claim to recovery of these resources. Debt financing therefore adds to the future budgetary commitments of the government.

Ordinarily, the government might be expected to favour tax financing unless other attending considerations are more important. Moreover, since it is the rich only that can subscribe to public debt issues, debt servicing therefore becomes a means of redistributing income in favour of the rich there by widening the gap between the rich and the poor unless counter-balanced through tax measures.

It is equally possible that the projects chosen for debt financing are really not run efficiently enough to generate surplus to pay off their costs. Basically, this is the problem of wrong calculations and mismanagement, which can be avoided.

36.4 Types of public debt

Public debt can take any or combinations of the following:

(a) **Trade arrears.** A trade debt arises when a country trades with other countries and is unable to pay, either partly or wholly, for the goods and services supplied. For example, in the early 1980s Nigeria's inability to settle her import bills resulted in the accumulation of trade arrears amounting to US$9.8 billion between 1983 and 1988.

(b) **Balance of payments support loans.** The overall economic transactions between a country and the rest of the world, classified into current, financial and capital accounts, constitute the balance of payments position which may be favourable when surpluses are recorded or unfavourable if otherwise. However, a persistent unfavourable balance of payments often known as balance of payments disequilibrium, may inform government's decision to seek for balance of payments support loans. Such loans which are in the form of capital inflow and other accommodations are provided by multilateral institutions such as the International

Monetary Fund (IMF), International Finance Corporation (IFC), African Development Bank (ABD), International Development Associations (IDA), etc.

(c) **Project-tied loans:** Sometimes, there are investment opportunities which have good potentials and prospects of accelerating economic growth and development and such may lead government into contracting project-tied loans. As implied, this type of debt which is for the execution of a particular project is supposed to be self-liquidating in the sense that the projects are expected to generate adequate financial surplus from which the borrowed money would be repaid.

(d) **Loans for socio-economic needs:** The provisions of the socio-economic needs of the people such as water supply, flood control, health and education facilities as well as other social amenities may necessitate borrowing by government to finance them. Such projects are not expected to generate financial returns but rather economic and social benefits that would enhance the living conditions of the people.

(e) **Marketable and non-marketable debt:** Marketable debts are those which can be bought and sold in the financial market. In Nigeria, marketable debt includes Treasury Bills, FGN Savings Bonds, FGN Bonds, FGN Development Stocks, Revenue Bonds, etc. They are debts that have been restructured or securitised in order to facilitate trading. Non-market able debts are those which have been issued in favour of particular debt holders and cannot be sold to others. They cannot be traded in the secondary market because they have not been restructured or securitised. Contractor debt is an example of non-marketable debt.

(f) **Funded and unfunded debt.** Funded debt is a long-term debt for a definite period. The interest rate to be paid, with terms and conditions of repayment are clearly spelt out in the debt certificate. Provision is made to facilitate repayment of the debt by the creation of a debt fund also known as sinking fund in which some money is deposited yearly by the government, so as not to unnecessarily erode the financial base of the nation. A funded debt has the additional advantage of simplicity and certainty. It gives room for orderly plan for debt retirement. An Unfunded Debt, on the other hand, is for a short period of less than a year. No separate fund is created by the government to affect its repayment, rather, the debt is repaid out of government current receipts, often by floating new bonds in the money market. In this way, an unfunded debt is also referred to as a floating debt. In view of the obligation to make repayment within twelve calendar months, the debt may impact seriously and negatively on the working capital of the nation.

(g) **Reproductive and deadweight debts:** A debt is productive or reproductive when it is applied to finance a project which has the capacity to generate revenue to the government that would be sufficient to service or repay the debt. For example, debt contracted on railways, irrigations and toll road projects are productive. On the other hand, deadweight or unproductive debt is debt that does not increase the productive capacity of the economy because it does not lead to creation of asset that will generate income for the government. For example, debt contracted to finance war or to be used as safety nets for flood disaster victims or victims of sectarian crisis is a deadweight debt.

(h) **Internal debt and external debt:** Internal or domestic debt is that which the country owes to its citizens. In other words, it is a claim against the government by its citizens, such as individuals, associations and institutions with in the country. Domestic debt consists of debt instruments publicly issued through the monetary authority of the country on the capital market on behalf of the government, direct government borrowing or overdrafts from the monetary authority and outstanding contractual obligations to local contractors and suppliers. External or Foreign Debt, on the other hand, refers to debt owed to foreign individuals, governments (bilateral loans), international organisations like International Monetary Fund (IMF), World Bank Group members such as International Development Association (IDA), International Finance Corporation (IFC), as well as African Development Bank (AfDB).

36.5 Domestic borrowing instruments

There are various instruments that can be used by both federal and sub-national governments for the purpose of raising money within the domestic economy. Some of these instruments may be of short term, medium term and long-term depending on the objective of the government at the time of borrowing. They include:

(a) **Treasury bills**

These are highly liquid financial obligations of the federal government issued on its behalf by the Central Bank. They are issued in multiples of ₦1,000 for 91 days maturity. With a minimum investment ₦10,000 treasury bills are issued and traded on discount basis. The income is the difference between the purchase price and the maturity value.

(b) **Treasury certificates**

They are interest earnings obligations of the Federal Government issued by the Central Bank for maturities ranging from one to two years. Treasury certificate rate is usually higher than that of treasury bills because of its longer tenure. As with the treasury bills, the major investors in treasury certificates are the Central Bank, commercial banks, discount houses and to a lesser extent merchant banks.

(c) **FGN bonds**

These are debt securities (liabilities) issued by the Debt Management Office (DMO) for and on behalf of the Federal Government of Nigeria (FGN). The FGN has an obligation to pay the bondholder the principal and agreed interest as and when due. The FGN bonds are considered as the safest of all investments in the domestic debt market because it is backed by the 'full faith and credit' of the Federal Government, and as such it is classified as a risk-free debt instrument. FGN bonds have minimum tenor of two (2) years while there are bonds with maturities of 3,5,7 and 10years in issue and for the future there may be bonds with maturities of 15, 20,30 years or more.

(d) **FGN savings bond (FGNSB)**

It is issued by the Debt Management Office (DMO), on behalf of the Federal Government of Nigeria (FGN). The bonds are issued for the following objectives:

(i) To deepen the national savings culture;

(ii) To provide opportunity to all citizens irrespective of income level to contribute to national development; and

(iii) To enable all citizens, participate in and benefit from the favourable returns available in the capital market.

It is issued monthly in tenors of 2 and 3 years, with quarterly payment of interest to investors/bondholders. FGNSB is offered to the investing public through offer for subscription at an interest rate announced by the DMO. The offer is usually opened for 5 days from the date of announcement. The minimum subscription amount is ₦5,000 with additions in multiples of ₦1,000, subject to a maximum of ₦50,000,000. The bond is backed by the full faith and credit of the Federal Government of Nigeria. The bond is acceptable as collateral for loans by banks and can be sold for cash in the secondary market before maturity.

(e) **Government development stocks:**

Development stocks are either medium or long-term securities usually issued to finance development projects or for lending to lower levels of government. The yield on government development stocks will be higher, the longer the maturity. The principal investors in development stocks are insurance companies, which are required to invest in them by the virtue of insurance act, commercial and merchant banks, Central Bank, and other savings institutions.

(f) FGN sovereign sukuk

This is an Islamic investment certificate that represents ownership interest of the holder in an asset or pool of assets. It entitles the holder to receive income from the use of the assets. The Federal Government of Nigeria issues Sukuk bond for the purpose of:

(i) funding the construction/rehabilitation of key critical infrastructure projects like roads;

(ii) diversifying the sources of government funding;

(iii) offering ethical investors an opportunity to invest in government issued securities;

(iv) achieving higher level of financial inclusion; and

(v) serving as a reference pricing of sukuk for other issuers especially private sector issuers.

Like other government debt securities, FGN sovereign sukuk is issued in multiples of ₦1,000 with a minimum investment of ₦10,000. It is backed by the full faith and credit of the Federal Government of Nigeria.

(g) **General obligation bonds**

These types of bonds are backed by the full faith and credit of the issuer, in addition to the power of the issuer to introduce tax and take any other steps necessary to repay the bond holders. They are frequently used to pay for the construction of roads, schools, prisons and other public infrastructures.

(h) **Revenue bonds**

They are municipal bonds issued on the premise that both principal and interest will be repaid from the revenue generated from the facilities to be constructed with the proceeds of the issue. In other words, an authority that has constructed

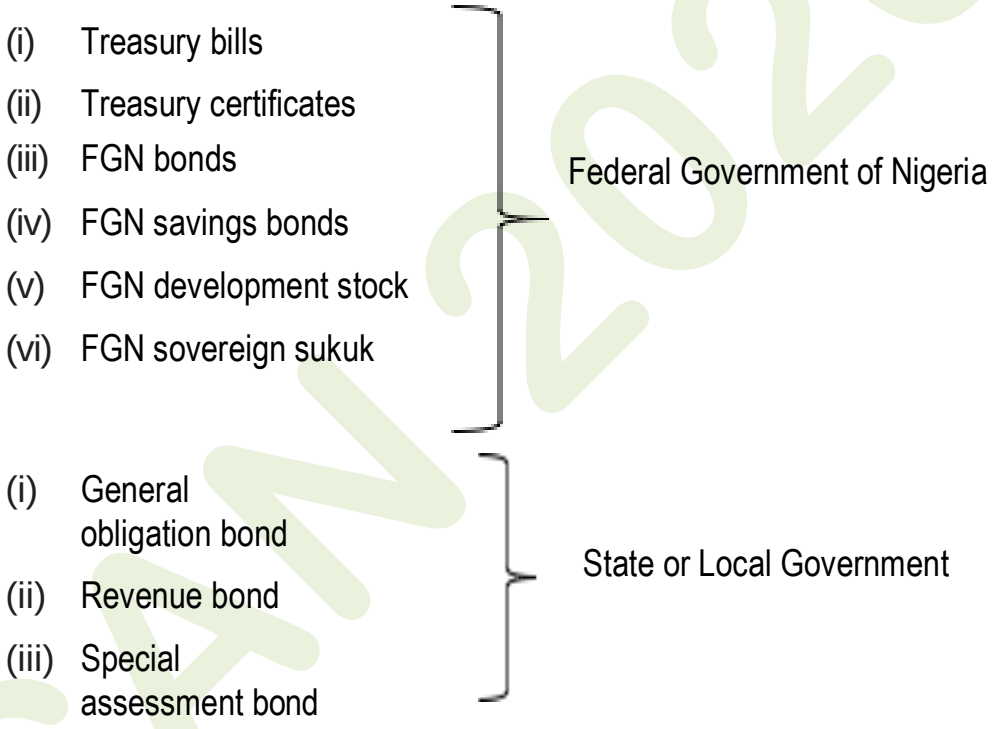
physical assets would charge customers for the use of the assets and then dedicate the revenue to servicing of the associated debt.

(i) **Special assessment bonds**

They are types of bonds for which the payment of interest and principal will be made from a special tax assessed upon the beneficiaries of the facility to be constructed. These types are popular for development of public utilities and service programmes.

36.6 Ownership structure of FGN domestic debt

The above debt instruments can be classified into federal, that is, national and state and local governments, that is sub-national. Below is the composition of domestic debt.



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The ownership structure of, that is, the investors in domestic debt instruments can be classified into two, namely; the banking system and the non-banks public. The banking system comprises, commercial banks, merchant banks, and central bank, while the insurance companies, pension fund managers and high net worth individuals constitute the non-bank public. The table below shows the composition and ownership interest of the Federal Government of Nigeria domestic debt.

Holding of FGN domestic debt outstanding (₦'Billion)							
Year	**CBN**	**Comm. Bank**	**Merchant Bank**	**Sinking Fund**	**Total**	**Non-bank**	**Total**
2008	289.37	1,482.16	0.00	0.00	1,771.53	548.78	2,320.31
2009	323.18	1,274.58	0.00	284.72	1,882.48	1,345.55	3,228.03
2010	343.14	2,605.01	0.00	144.37	3,092.52	1,459.30	4,551.82
2011	348.84	3,790.90	0.00	146.49	4,286.23	1,336.61	5,622.84
2012	398.27	3,580.42	0.00	160.32	4,139.01	2,398.52	6,537.53
2013	468.86	3,293.83	0.00	158.59	3,921.28	3,197.69	7,118.98
2014	180.21	3,982.72	0.00	176.77	4,339.70	3,564.32	7,904.02
2015	877.30	3,067.82	216.19	162.20	4,323.51	4,513.49	8,837.00
2016	1,688.20	3,521.02	215.00	140.45	5,564.67	5,493.53	11,058.00
2017	1,703.81	3,188.36	2,141.68	118.35	7,147.20	5,431.60	12,578.80

The banking system collectively holds about fifty seven per cent (57%) of the FGN domestic debt while the balance of about forty-three per cent (43%) is held by the non-bank public. The above ownership structure has implications for lending to the real sector and hence the growth of the economy. It implies that vital sectors of the economy may be denied access to loanable funds thereby limiting the level of investment and growth of the economy. This will lead to low level of output, rising unemployment and poor living condition. In addition, the burden of interest payments on loans by government will deny citizens access to basic infrastructure. Beside inadequate infrastructural provision, maturing obligations may require refunding operations leading to rising debt stock. Consequently, the future generation will bear the burden of debt service and poor state of infrastructure.

36.7 State or local government borrowing through the capital market

The sub-national governments can access the capital market to raise fund to finance investment opportunities that have potentials to accelerate growth and development in their jurisdictions. However, such sub-national (state or local) government must satisfy

the requirements stipulated by regulatory authorities of the capital market. Below are some of the requirements that must be satisfied before issuance of bond by a state or local government.

36.7.1 Documentation for state or local government bond issuance

The documentation is highlighted as follows:

(a) Profile of the state, showing its population, major industries, their locations and other major projects embarked upon. The information has to be submitted with an application to the Securities and Exchange Commission as well as the Nigerian Stock Exchange;
(b) A profile of the assets and liabilities of the State in the last five years in addition to a 5-year projection;
(c) Sources of revenue for the past 5 years, indicating the percentage contribution of each to the total revenue;
(d) The law of the State authorising it or its agency to borrow from the capital market;
(e) A feasibility report of the project to be financed;
(f) A draft of the Trust Deed in respect of the proposed issue;
(g) The consent of the Federal Ministry of Finance to the State's request to borrow from the capital market;
(h) Letter of authority from the State Government to the Central Bank of Nigeria or the Accountant-General of the Federation, to seek direct recovery of loans and interest from the affected Government's statutory allocations, in case of default; and
(i) Letter of consent from the Central Bank/Accountant General to deduct (quarterly) adequate funds from the State's allocations for the redemption of the loan in case of default.

36.7.2 Problems facing state governments in financing projects through capital market

The problems include:

(a) Poor accounting system on the part of a state government;
(b) Lack of qualified personnel to effectively evaluate, appraise and monitor projects;
(c) Poor performance of existing state government projects which act as disincentive to potential investors;
(d) Inability of government to package and market viable projects to the investing public;
(e) Lack of awareness of the potential investment by the investing public; and
(f) Preference for short-term investments by the public.

36.7.3 Special requirements for revenue bonds

The special requirements are:

(a) Identification of government's authority to borrow and the types of activities to which the enabling legislation applies;

(b) General grant of power to acquire, construct, improve, extend or provide special improvement and to issue revenue bonds and pledge same for the payment of these bonds;
(c) Requirement that the issuing body should establish sufficient charges or rates to operate and maintain the projects and meet principal and interest payments as scheduled;
(d) Guarantee that there venue bonds have all the qualities of a negotiable instrument under the appropriate law of the state;
(e) Provisional design to secure the successful operation of the project; and
(f) Remedies to be initiated where there is default.

36.8 Sources of external debt

Nigeria has contracted a number of debt obligations from various sources, some of which are discussed briefly below.

(a) **Paris club of creditors** - The Club came into existence in 1956 as a result of outstanding balances in the books of Argentina and some European countries. Since then, it has become a common forum where the debtor nations and creditor countries meet to discuss debt repayment problems. The club actually represents only government guaranteed creditors. Membership of the club includes United States of America, United Kingdom, Federal Republic of Germany, France and Canada who guaranteed the export activities of their nationals through their Official Export Credit Guarantee Agencies. When the recipient nation's government is unable to pay the foreign exchange equivalent of the domestic currency cover paid by the importer, it then becomes government owed debt to creditor nations. The first Paris Club of Creditors meeting was held in 1956. Such meetings are scheduled to discuss repayment problems and reach debt relief agreements for debt nations.

(b) **London club of creditors -** These are mainly uninsured and unguaranteed debts extended by commercial banks to nationals of debtor countries. Members of the club are commercial banks mainly of industrialised nations. The first meeting of the London Club was convened in 1976. Such meetings are held to discuss repayment problems and conclude restructuring agreements.

(c) **Multilateral creditors-** These are international institutions funded by member nations. They include the World Bank and its affiliates such as International Monetary Fund (IMF), African Development Bank (AfDB), European Investment Bank (EIB), International Development Assistance (IDA), International Fund for Agricultural Development (IFAD), that provide credit for development purposes, balance of payment support, as well as private ventures.

(d) **Promissory note creditors:** These are uninsured trade credits, arising mainly from trade arrears accumulated between 1982 and 1983.The debts were refinanced by the issuance of promissory notes to the creditors.

(e) **Bilateral creditors-** A bilateral credit is provided by a government to another government. Such credits are intended for development purposes in the recipient countries. Examples are Official Development Assistance (ODA), sometimes provided on bilateral basis with a minimum grant element of 25 percent and export credits guaranteed by export credit agencies of exporting countries.

(f) **Private sector creditors-** These are usually short-term credits extended by commercial banks, institutional investors and individual foreign suppliers in form of suppliers or buyers credits.

36.9 Indicators of external debt burden

External debt does not constitute a burden when contracted loans are optimally deployed and there turn on investment is sufficient to meet maturing obligations as and when due, while servicing of the domestic economy is not undermined. In other word, where marginal return on investment is greater than or equal to the cost of borrowing or where the loan is self-liquidating, a debt service burden would not arise. The magnitude and severity of debt burden cannot be determined on the basis of debt volume only. Rather, the debt volume should be viewed in combination with certain debt ratios for better appreciation of the debt problem. This implies that the severity of debt crisis can be determined only by comparing to national output, the resources committed to debt service. The higher these ratios, the greater the debt burden on the country.

There are four major ratios or indicators commonly used to determine the extent of indebtedness of any country. These ratios are explained briefly below:

(a) **External debt service to export ratio:** This relates total external debt service to export of goods and services. It reflects the level of export earnings committed to servicing external debts. Since external debts are denominated in foreign currency, then servicing and repayment must be in foreign currency which can only be procured through export earnings.

(b) **External debt stock to export ratio:** The ratio relates to the availability of foreign exchange earnings in the economy. It is an important indicator since foreign exchange is needed to pay off foreign debts. It reflects the extent to which total exports of goods and services can be used to liquidate external debt outstanding. The movement in this ratio is an indicator of the nation's debt service capacity.

(c) **External debt stock to nominal gross domestic product ratio:** This ratio measures the extent to which total domestic output can be deployed to wipe out total outstanding external debt obligations. The higher this ratio the greater the degree of external debt burden.

(d) **External debt service to nominal gross domestic product ratio:** This ratio relates to the proportion of total domestic output set aside for servicing externa debt. The ratio will be rising where total domestic output is falling.

The higher these ratios the greater is the debt burden. However, it is important to emphasise that debt service ratios should be interpreted with caution because the ratio will be relatively low if the country continues to default in debt service payment.

36.10 General reasons for borrowing

The following are some of the reasons that have been advanced to justify the need for a country to borrow:

(a) **Huge and persistent budget deficit:** The government borrows when its expenditure is greater than its revenue (budget deficit), especially after its taxing capacity has been stretched to the limit.

(b) **Balance of payments disequilibrium:** Excessive reliance on foreign resources to sustain domestic production processes, and on foreign goods and services beyond the nation's foreign exchange earning capacity may lead government into contracting debt obligations.

(c) **Rapidly increasing population:** In most developing countries, population is growing faster than the level of national output. The need arises for government borrowing to expand public enterprises and public utilities to cater for the welfare of the people.

(d) **Implementation of development programmes:** To promote economic development usually requires provision of new and upgrading of existing social and economic infrastructural facilities like roads, railways, electricity, schools and hospitals. The tax revenue of government may be insufficient to execute such projects, hence the resort to government borrowing.

(e) **Economic instability:** A stable economy naturally provides an enabling environment for economic growth and development. Public debt of the internal type may be contracted to control inflation, while both internal and external borrowings may be used to stimulate economic activities during economic depression.

(f) **Natural disasters:** Government has the responsibility to provide relief to victims of earthquakes, floods and fire disasters, famines, sectarian violence and other natural calamities. Government borrowing may be justified because such occurrences are never expected nor budgeted for.

(g) **Fluctuations in government revenue:** Most countries operate mono cultural economies depending on only one (or very few) export product for foreign exchange earnings. A sudden poor performance of such product in the

international market would reduce income considerably and adversely affect budget implementation. Any country that finds itself in such a situation may have no option than to borrow to bridge the financial resource gap.

(h) **War-time borrowing:** Financial resources needed to prosecute wars are usually beyond the capacity of government. Hence, the need to borrow arises to avoid devastating consequences of defeat.

(i) **Debt servicing:** New debt with favourable terms and conditions may be undertaken to service old debts thereby reducing the burden of debt on the economy.

36.11 Advantages and disadvantages of borrowing

Advantages of borrowing

(a) Rapid economic growth and welfare improvement would be achieved if borrowed funds are utilised to finance economically and socially viable projects.

(b) The confidence of local and foreign investors in the economy would be boosted, if public debt is used to control inflation. New and additional investment would lead to creation of new jobs and greater output of welfare-enhancing goods and services.

(c) If borrowed funds are spent on public works, standards of living will improve, especially via creation of new jobs and the transformation of the environment.

(d) Public debt reduces income inequalities if it is spent on social, security and projects that are of more benefit to the lower income groups.

(e) Those who lend money to government by purchasing government securities, instead of keeping idle savings, will become richer as they acquire additional assets to boost their wealth portfolio.

Disadvantages of borrowing

(a) Excessive government borrowing within the economy tends to crowd out private investments. That is, government competes with private companies in the financial market and deprive them loanable funds they need to grow their activities.

(b) Tax burden on future generation: Public debt imposes unfair tax obligation on future generation especially when borrowed funds are deployed to fund consumption rather than investment programmes or when such funds are diverted to non-self- liquidating projects or projects that are poorly designed, thereby making execution impossible.

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(c) Funding excessive interest rate on public debt in hard currency deprives the nation of foreign exchange needed to procure critical inputs, especially in a country like Nigeria that is highly dependent on import with respect to raw materials required in the industrial sector. This leads to declining industrial capacity utilisation and loss of industrial jobs.

(d) Borrowing comes with conditionalities that may become too stringent for the debtor nation(s), like trade liberalisation, withdrawal of subsidies on essential products, expenditure reduction, non-increase of salary of public servants and other stiff conditions that might have great consequence on living standards of the people.

(e) It is an ineffective way of controlling inflation. As a matter of fact, debt servicing may create inflationary effects at a time of full-employment. Specifically, the financing of domestic debt usually causes aggregate demand to increase when creditors bring the income generated through their investment in government securities into circulation.

(f) Debt-servicing problem is aggravated when short and medium-term loans are committed to long-term projects with amortisation becoming due before projects are completed.

(g) Borrowing tends to widen the level of income inequalities since it is the rich only that can invest in government securities or lend to government and hence benefit from high interest payment.

36.12 Justification for debt burden transfer

If we proceed on the assumption that public services are financed on benefit basis, then each individual (generation) should pay for its own share in the benefit received. If we apply this principle to public capital outlays the benefit of which will extend into the future, it follows therefore that debt burden transfer is justified as a matter of inter-generation equity.

Methods of burden transfer

There are various ways through which burden transfer can be implemented.

(a) **Transfer through reduced capital formation:** The decision of government to withdraw money from the economy will cause a reduction in the level of disposable income, which invariably may affect consumption, or capital formation. In the first case, the welfare of the present generation as measured by consumption is reduced while the income of the future generation will be unaffected. In the second case, the consumption welfare of the present generation is untouched whereas the future generation will inherit a small capital stock and thus enjoy a lower income. In this sense the future generation is burdened.

(b) **Transfer through generation overlap:** Capital formation is the only way through which burden transfer between generations can occur. Assume the existence of two generations with generation one living from years 1 to 50 and generation two lives from 25 to 75. If generation one is requested to pay ₦1.0 million needed to finance a public project with a useful life of 50 years, generation one will do so at the cost of reducing its own consumption by this amount. Only in years 25 to 50 will it be possible to collect taxes of ₦0.5 million from generation two in order to refund generation one. In this way, generation one while initially assuming the entire burden can transfer part onto generation two.

(c) **Transfer with external debt:** In this case, there is no need for generation one to reduce its expenditure. Both consumption and capital formation in the private sector can remain intact as there sources needed for the public outlay are obtained abroad. Loan finances now impose a burden on generation two not only with reduced capital formation but with responsibility to servicing the foreign debts. Taxes must be paid to finance interest paid to foreigners rather than to domestic holders of the debt. This foreign debt burden replaces the loss of capital formation which generation two would have suffered had there been domestic loan finance and a resulting reduction in capital formation.

36.13 Borrowing policy

Sometimes, countries contracting loan obligations are able to choose between different sources of credits and could therefore make a decision based on the most favourable conditions. The criteria for decision making would include the following:

(a) The comparative rates of interest

In using comparative interest rates to decide between loan offers, the nominal rate of interest is rarely used. Instead, comparison of loans from different countries or market sources is based on the real rate of interest which takes into consideration the rate of inflation in the creditor countries. Furthermore, the way the interest on the loan is charged as well as the manner of its calculation is important as these would determine the amount to be charged. Some creditor sources might charge interest at a fixed rate, that is a flat rate percentage of the full loan or at a variable rate which fluctuates over the life of the loan and in accordance with financial market conditions.

(b) The possibility of the loan being project-tied

Where loans are applied for the execution of specific projects, a further consideration of interest rate charges may focus on their turns or benefits from the project to be financed by the loans. In such instances, the project is subjected to appropriate comparative minimum unit-cost tests using national or international yardsticks. If the project is supposed to be profit-yielding, it must be ensured that there is a positive internal rate of return which is at least equal to the cost of borrowing, while projects in the area of social services or infrastructures are considered on the basis of their cost-benefit ratios.

(c) Degree of concessionality

Another criterion for loan selection where several sources of external loans are being considered is the degree of concessionality of such a loan, that is, the extent of "softness" or otherwise of the loan. The degree of concessionality is measured by the percentage of grant element present in the loan. Loans have various degrees of concessionality depending on their source and nature. Where a loan has a grant element of 100 percent, it is regarded as being totally concessional.

(d) Repaymentability

One of the underlying principles on which loan terms and conditions are considered before selection is the repaymentability of the borrowing country. This is of mutual benefit to the donor as well as the recipient of the loan. Before taking a loan, it must be ensured that the projects and programmes for which the loan is being sourced will eventually provide sufficient income from which the debt can be serviced as and when due. A further consideration of the repayment ability is the socio-political condition of the country. Where the government in power does not command popular credibility, it may be difficult for such to access foreign loans.

36.14 Public debt management and strategies

Debt management refers to policy measures designed primarily to curtail debt ratios and ensure effective control on the volume of debt. According to traditional philosophy, debt management should focus on raising of necessary debt at the cheapest cost and paying it back as early as possible. On the other hand, debt management can be defined as the conscious and carefully planned schedule of acquisition, deployment and retirement of loans acquired either for developmental purposes or to support the balance of payments. It incorporates estimate of foreign exchange earnings, sources of finance, the projected returns from the investment as well as the repayment schedule. It also includes an assessment of the country's capacity to service existing debt and a judgement of the desirability of contracting further loans.

Debt management strategies

The debt management strategies of the Federal Government of Nigeria can be decomposed into two broad categories. They are long term debt management strategies and short-term debt management strategies. The long-term strategies entail various economic restructuring and diversification programmes like commercialisation, deregulation, liberalisation, privatisation and globalisation.

On the other hand, the short term strategies cover measures involving debt and debt reduction strategies such as restructuring of the outstanding debt, embargo on new loans, limiting the debt service payments and so on. Some of the short-term strategies are discussed briefly below:

36.14.1 Refinancing is the procurement of new loans by a debtor to pay off an existing debt. The new loan may be procured from the same creditor or new set of creditors as the case may be. Another variant of debt refinancing occurs when the original creditor government or an export agency decides to pay off a debt there by becoming the new creditor. Under the debt re-financing arrangement an amount totalling $4.5 billion was refinanced as at the end of 1990 by the FGN.

36.14.2 Rescheduling is the rearrangement of payment terms of debt with respect to new maturities, grace period and readjustment of the interest rate. The essence is to facilitate convenience in debt repayment. Series of rescheduling arrangements were negotiated with the Paris Club of creditors to which more than half of Nigeria's external debt was owed. About $2.1billion was rescheduled in 1986, $996million in 1989 and $3.2 billion as at 1991.

Principles of debt rescheduling process

There are three main principles that guide the Paris Club rescheduling process. These principles are discussed briefly below:

(a) Imminent default

This principle applies to the debtor country and requires the debtor nation to prove that it will not be able to meet its external debt service obligations unless it is granted a relief. This proof can be shown through accumulation of debt service arrears. The IMF balance of payments projections of the country also serve the purpose, as these projections always provide an indication of the country's economic position. This requirement is very important as a debtor country will be denied access to the rescheduling process without the Club being satisfied that this condition has been fulfilled.

(b) Burden sharing

The principle of burden sharing applies to the creditor countries. It requires the creditors to be prepared to share fairly and equitably the burden of the rescheduling in the proportion of their individual exposure to the debtor countries. In effect, the creditor must agree to provide the debtor country with relief that is commensurate with their exposure. The counterpart, from the point of view of debtors, is the principle of comparability of treatment which extols the need for debtors to treat creditors equitably in meeting the debt service obligations.

(c) Conditionality

This principle which is generally regarded as the "golden rule" of the Paris Club of Creditors also applies to the debtor countries. It requires the debtor nation to put in place an IMF structural adjustment programmes before approaching the Club for rescheduling process. Sometimes such programmes determine the type of

agreement which the official creditors would be prepared to reach with the debtor country.

36.14.3 Restructuring: It occurs when an existing debt stock is converted into various categories of debt. The composition of Nigeria's external debt has been restructured to provide relief. In March 1991, an arrangement in principle was reached with the London club of creditors for the restructuring of debt which totalled $5.8 billion. Three options offered under the scheme are:-debt buy-back, collaterised bonds and new money bonds. One basic advantage of debt restructuring is the eligibility of the debt for conversion.

36.14.4 Debt conversion: This is the exchange of monetary instruments for example promissory notes or par bonds for tangible assets or other financial instruments. It is a mechanism for reducing a country's external debt by changing the character of its debt. Debt conversion may or may not bring in additional money but it is aimed at enhancing debt management and facilitating a country's access to international financial market arena. Under the debt conversion programme, the Central Bank of a debtor nation would agree to repay a foreign currency denominated debt guaranteed by the public in local currency on the condition that the local currency proceeds would be used for specific domestic activities. There are different forms of debt conversion programme which are discussed briefly below:

Types of debt conversion

(a) **Debt for equity conversion:** This is the exchange of a country's foreign denominated debt for local currency which can be used either for the establishment of new enterprise or for the purchase of equity share in an existing private sector concern.

(b) **Debt for debt conversion:** This involves the exchange of foreign currency debt for domestic currency denominated debt for example Government Development Stock (GDS) that can be sold or traded in the domestic secondary market.

(c) **Debt for cash conversion:** It entails the exchange of foreign currency denominated debt for local currency which can be used for local working capital, loan repayments and local tax payments.

(d) **Debt for export conversion:** Under this arrangement, exports are paid for in a combination of cash that is, foreign currency and debts conversion proceeds.

(e) **Debt for nature:** This arises when the domestic currency proceeds of debt conversion are applied for development of conservation, promoting wildlife tourism and other natural resources. Another variant is a situation where by the foreign currency denominated debt is exchanged for a particular natural resource for a given period.

(f) **Debt for development:** In this case, the proceeds of debt conversion are employed for development activities of non-governmental private voluntary organisations such as foundations, trusts and multi-national aid organisations

(g) **Relending:** Under this category, the proceeds of debt conversion are given out as fresh loan(s) to non-governmental private economic entities, mostly multinational corporations. This practice is usually employed whenever the Central Bank does not have adequate foreign exchanges to pay the beneficiaries of debt conversion.

Objectives of debt conversion programme

As stated in the guidelines on debt conversion programme for Nigeria, the scheme is established to:

(i) reduce Nigeria's external debt service thereby reducing the stock of outstanding foreign currency denominated debt in order to alleviate debt service burden;
(ii) improve and make economic environment attractive to foreign investors;
(iii) serve as additional incentive for repatriation of flight capital;
(iv) stimulate employment-generating investments in industries with significant dependence on local input;
(v) encourage the creation and development of export-oriented industries thereby diversifying the export base of the Nigerian economy; and
(vi) increase access to appropriate technology, external market and other benefits associated with foreign investment.

Problems of debt conversion programme

There are some problems associated with this debt management technique. The problems relate to a number of adverse macroeconomic effects associated with designing a workable conversion programme. Some of these are discussed briefly below:

(i) **Inflation:** From the discussion on the types of debt, there is an obvious fact that debt conversion transactions involve the release of domestic currency. As a consequence, there is the possibility of an unplanned increase in money supply thereby leading to inflationary pressure.
(ii) **Round tripping:** Debt conversion offers opportunity for round tripping which involves the conversion of redemption proceeds into foreign currency either in the official foreign exchange market or parallel market for exportation immediately or at a later date. This problem has serious implications not only for foreign exchange rate but also for balance of payment position.
(iii) **Degree of additionality:** This represents the capacity of debt equity swaps to attract foreign equity investment and flight capital into the country which otherwise would not have come in. Thus, the advantages associated with debt conversion depend on the degree of additionality in the absence of which the exercise results only in minimal benefit to the economy.
(iv) **Fear of foreign domination:** Debt conversion programmes tend to increase fear about the possibility of a radical change in the structure of business ownership in favour of foreigners. Such fears tend to generate political sensitivity about the programme.

(v) **Effective transactions exchange rate**: The transactions effective exchange rate is determined by a combination of factors such as discounted purchase price of the debt, tax or conversion charges among other. The transaction's effective exchange rate must be sufficiently attractive to the investors in order to make debt conversion worthwhile. On the other hand, an excessively attractive transaction's exchange rate would constitute a loss to the economy, as it will amount to subsidising inefficiency.

Minimising the problems of debt conversion

The above stated problems can be minimised or eliminated through design of workable conversion programme. Some of the ways include:

(i) Setting of limits on the amount and type of debt to be converted;

(ii) Blocking of the redemption proceeds in an account with the Central Bank from which releases would be made overtime according to the cash requirements of the investment projects;

(iii) Minimal use of debt for cash conversion and maximum use for productive investment or uses which do not create new money but makes use of existing liquidity such as the issue of special long-dated domestic currency denominated debt instruments which can be traded in the domestic secondary market; and

(iv) Domestic credit policy could be used to dampen the inflationary impact of increase in money supply. Demand for credit by already established business would be reduced to the extent that they benefit from redemption proceeds.

Loans pooling and consolidation

Loans pooling refers to an arrangement whereby loans of similar characteristics are acquired from different sources for a specific purpose which may include but not limited to project financing or sale in the secondary market after securitisation. Debt consolidation is similar to debt refinancing in the sense that it involves procurement of new loan in order to pay off an existing obligation. Debt consolidation refers to an arrangement whereby new loan is obtained to pay out a number of smaller loans, debts, or bills on which payments are currently being made. Since this is bringing multiple debts together and combining them into one loan, this is referred to as "consolidating" them. That is why it is called a debt consolidation loan.

Debt repudiation

This involves disowning the debt completely. This approach had been advocated by many economists. Fidel Castro, in his own contribution, did not see any sense in developing countries paying back the debt in view of past colonisation and neo-colonisation experiences. African countries had more than paid for the debts, according to Fidel Castro of Cuba. However, there is the possibility of the imposition of sanctions by the International Monetary Fund and World Bank, if Nigeria should illegally repudiate its indebtedness.

Debt forgiveness relief

This arises where a creditor Nation decides to forgive or write off the liabilities of a debtor nation. The option has been taken by Paris Club in favour of some debtors. In 2006, Paris Club of creditors granted Nigeria a debt relief of about $18bn. This translated to about ₦2.43 trillion at an average exchange rate of ₦130 to $1.

Economic restructuring programme

The idea is a long-term solution. It is believed that the poor performance of the economy led to the debt crisis, hence the adoption of structural adjustment programme in 1986. The objectives which informed the initiative were as follows:

(i) To restructure and diversify the productive base of the economy, in order to reduce dependence on the oil sector and imports.
(ii) To reduce the debt burden and attract the net inflow of foreign capital.
(iii) The adoption of a realistic exchange rate policy.
(iv) Privatisation and commercialisation of public enterprises so as to ensure their efficiency and effectiveness.
(v) Reduction of complex administrative control.

36.15 Chapter review

This chapter covers what public debt is, and why it is a source of capital formation, types of public debt and instruments for raising domestic debt. it also covers the composition and ownership structure of domestic debt, sources of external debt and indicators of external debt burden. Furthermore, the chapter also discusses the advantages and disadvantages of borrowing, debt management, and the strategies for public debt management.

36.16 Worked examples

36.16.1 Examination type questions

1 Governments often face the challenge of balancing revenue generation with expenditure needs, hence the choice of financing mechanisms becomes a pivotal decision. Among the available options, debt financing and tax financing, stand out as two primary approaches.

Required:

(a) Explain public debt.
(b) As the Finance Minister, kindly advance reasons why debt financing should be preferred to tax financing.
(c) Explain **FOUR** reasons to support government borrowing.
(d) Discuss **FIVE** disadvantages of public debt.

2a) In managing national debt, governments often explore various strategies to ease the burden of repayment and improve fiscal sustainability. One of such strategies is debt conversion.

Required:

(a) Explain debt conversion.

(b) Explain **FOUR** problems of debt conversion.

3 Sovereign debt plays a crucial role in a nation's economic development, but excessive indebtedness can pose serious risks to fiscal stability and economic growth. Understanding the factors that determine a country's ability to service its external debt is essential for sound economic planning and international credibility.

Required:

(a) Explain the criteria used to determine the extent of indebtedness of a country or the capacity to meet the external debt servicing obligations.

(b) Discuss the two broad classifications of debt management strategies.

36.16.2 Suggested solutions to examination type questions

1 (a) Public debt refers to the total amount of money borrowed by government either within or outside the economy for the purpose financing development programmes or to support the balance of payments position. In other words, it is the total outstanding financial obligations of government during a given period that is commonly referred to as public debt. It is a good source of capital formation, most especially in developing economies where there is low level of income that is not sufficient for consumption thereby creating poor savings culture.

(b) Debt finance and tax finance

The merits and demerits of debt and tax finance are often debated. It is important to emphasise that each of them has its advantages and disadvantages depending on the prevailing circumstances. The choice of any one method depends on the objective and the overall long-term implications for the economy. It is an undeniable fact that a major portion of government expenditure is financed through tax revenue. However, the real issue therefore is to decide on how to choose between tax and debt to finance that excess of expenditure.

Under certain circumstances debt financing becomes either necessary or inevitable. For instance, under war and other emergencies, when there is need for large pool of funds and additional tax revenue cannot be raised, debt financing becomes inevitable. Another reason that necessitates debt financing is where actual tax receipts are falling much below the anticipated volume especially when the economy is experiencing recession, while expenditure is not showing a corresponding reduction.

A third good reason for debt financing will be the case tied to a project. Such projects are estimated to benefit certain areas or certain sections of the people who can be expected to bear the cost of the project out of the benefit they would receive. For instance, a particular irrigation project might benefit farmers in a

particular area. In this case, the cost of the project can be met through borrowing and then recovered from the beneficiaries through a levy or some other means.

The case of balanced growth of the country may also be a potent factor for debt financing. Since market mechanism would only favour allocation of resources to areas of the country, where returns on investment may be highest, then it behoves government to ensure balanced growth of every segment of the country.

Debt financing as compared with tax financing has its own limitations that might outweigh its advantages. Public debt by definition has to be serviced. Interest has to be paid on it and the principal is also to be repaid. This implies that those who contribute to the financing of expenditure in the first instance really do not lose anything. However, in the case of taxation the tax payer loses some amount of resources in favour of the government without any claim to recovery of these resources. Debt financing therefore, adds to the future budgetary commitments of the government.

Ordinarily, the government might be expected to favour tax financing unless the other attending considerations are more important. Moreover, since it is only the rich that can subscribe to the public debt issues, debt servicing therefore becomes a means of redistributing income in favour of the rich unless counter-balanced through tax measures.
It is equally possible that the projects chosen for debt financing are poorly designed and not run efficiently enough to generate surplus to pay off their cost. Basically, this is the problem of wrong calculations and mismanagement, which can be avoided.

1(c) Reasons for borrowing

(i) **Budget deficit**: Government borrows when its expenditure is greater than its revenue (budget deficit), especially after its taxing capacity has been stretched to the limit.

(ii) **Balance of payments disequilibrium:** Excessive reliance on foreign resources to maintain domestic production processes, and on foreign goods and services beyond the nation's foreign exchange earning capacity may lead government into contracting debt obligations.

(iii) **Rapidly increasing population:** In most developing countries, population is growing faster than national output. The need arises for government borrowing to expand public enterprises and public utilities to cater for the welfare of the people.

(iv) **Implementation of development programmes:** To promote economic development usually requires provision of new and upgrading of existing social and economic infrastructural facilities like roads, railways, electricity, schools and hospitals. The tax revenue of government may be insufficient to execute such projects, hence the resort to government borrowing.

1(d) Disadvantages of public debt

(i) **Crowding out effect**: Excessive government borrowing within the economy tends to crowd out private investments. This means that government competes with private companies in the financial market and deprive them of loanable funds they needed to grow their activities.

(ii) **Tax burden on future generation:** Public debt imposes unfair tax obligation on future generation especially when borrowed funds are deployed to fund consumption rather than investment programmes or when such funds are diverted to non-self-liquidating projects or projects that are poorly designed thereby making execution impossible.

(iii) **Foreign exchange misallocation:** Servicing of external debt with limited foreign exchange deprives the country of foreign exchange resources needed to procure critical inputs, especially in a country like Nigeria that is highly dependent on importation of raw materials required in the industrial sector. This leads to declining industrial capacity utilisation and loss of industrial jobs.

(iv) **Stringent conditionalities:** The terms and conditions of external debt sometimes may be too stringent for the debtor nation(s) thereby making difficult servicing and repayment of public debt. Such conditions as trade liberalisation, withdrawal of subsidies on essential products, expenditure reduction, non-increase of salary of public servants and other stiff conditions that might have great consequence on living standards of the people.

(v) **Income inequalities:** Borrowing tends to widen the level of income inequalities (gap between the poor and the rich) since it is the rich only that invest in government securities or lend to government and hence benefit from high interest payment.

2(a) **Debt conversion**

This is the exchange of monetary instruments for example promissory notes or par bonds for tangible assets or other financial instruments. It refers to a mechanism for reducing a country's external debt by changing the nature of its debt. Debt conversion may or may not bring in additional money but it is aimed at enhancing debt management and facilitating a country's access to international financial market arena. Under the debt conversion programme, the Central Bank of a debtor nation would agree to repay the country's foreign currency denominated debt guaranteed by the public in local currency on the condition that the local currency proceeds would be used for specific domestic activities. The use of the domestic currency proceeds determines the nature or type of the conversion exercise.

2(b) Problems of debt conversion

(i) **Inflation:** From the discussion on the types of debt, there is an obvious fact that debt conversion transactions involve the release of local currency. As a consequence, there is the possibility of an unplanned increase in money supply thereby leading to inflationary pressure.

(ii) **Round tripping:** Debt conversion offers opportunity for round tripping which involves the conversion of redemption proceeds into foreign currency either in the official foreign exchange market or parallel market for exportation immediately or at a later date. This problem has serious implications not only for foreign exchange rate but also for balance of payment position.

(iii) **Degree of additionality:** This represents the capacity of debt equity swaps to attract foreign equity investment and flight capital into the country which otherwise would not have come in. Thus, the advantages associated with debt conversion depend on the degree of additionality in the absence of which the exercise becomes a burden to the country.

(iv) **Fear of foreign domination:** Debt conversion programmes tend to increase fear about the possibility of a radical change in the structure of business ownership in favour of foreigners. Such fears tend to generate political sensitivity about the programme.

(v) **Effective transactions exchange rate:** The transactions effective exchange rate is determined by a combination of factors such as discounted purchase price of the debt, tax or conversion charges among other. The transaction's effective exchange rate must be sufficiently attractive to the investors in order to make debt conversion worthwhile. On the other hand, an excessively attractive transaction's exchange rate would constitute a loss to the economy, as it will amount to subsidising inefficiency.

3. Criteria to determine debt servicing capacity

(a) The extent of indebtedness of any country cannot be determined only on the basis of debt volume but rather by comparing to national output the amount of resources committed to debt service and repayment. This means that the capacity of a country to meet its external debt service obligations depends essentially on the various debt ratios of the country. The higher the debt ratios, the greater the burden of debt on the country. There are four major ratios commonly used to determine the severity of the debt burden or the capacity to meet external debt service obligations.

(b) i. **External debt service to export ratio**: This relates total external debt service to export of goods and services. It reflects the level of export earnings committed to servicing external debts. Since external debts are denominated in foreign currency, then servicing and repayment must be in foreign currency which can only be procured through export earnings.

(b) ii. **External debt stock to export ratio:** This ratio relates to the availability of foreign exchange earnings in the economy. It is an important indicator since foreign exchange is needed to pay off foreign debts. It reflects the extent to which total exports of goods and services can be used to liquidate external debt outstanding. The movement in this ratio is an indicator of the nation's debt service capacity.

External debt stock to nominal gross domestic product ratio: This ratio measures the extent to which total domestic output can be deployed to wipe out total outstanding external debt obligations. The higher this ratio, the greater the degree of external debt burden.

External debt service to nominal gross domestic product ratio: This ratio relates to the proportion of total domestic output set aside for servicing external debt. The ratio will be rising where total domestic output is falling.

It is important to emphasise that debt service ratios should be interpreted with caution because the ratio will be relatively low if the country continues to default in debt service payment.

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Skills Level
Public Sector Accounting and Finance

CHAPTER 37

FISCAL FEDERALISM

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37 Fiscal Federalism

37.0 Learning objective

The objective of this chapter is to enhance the readers' understanding of the concept of fiscal federalism, and principles and challenges of expenditure assignment.

37.1 Learning outcomes

On successful completion of this chapter, the reader should be able to:

(a) explain fiscal federalism;
(b) discuss the advantages and disadvantages of centralisation and decentralisation of fiscal responsibilities;
(c) explain the principles of expenditure assignment;
(d) different types of grant; and
(e) principles of grant design.

37.2 Introduction to fiscal federalism

Fiscal federalism deals with the division of tax and expenditure functions among the various levels of government in a federation. A federal system of administration allows both centralised and decentralised collective choices to be made by each tier of government. In other words, fiscal federalism can be defined as intergovernmental fiscal relations as enshrined in a federal constitution providing for the functional responsibilities to be performed by the multi-levels of government and the financial resources that can be raised and shared for provision of collective goods and services. The basic advantage of this system is that it ensures flexibility and regional or local variation in the provision of public goods and services, when feasible and desirable.

The choice of whether a country becomes a unitary system, confederation or a federation is a political decision. However, such decisions once made have implications for political governance, fiscal management and economic development as well as the attainment of social stability. Fiscal federalism, by specifying the functions to be performed by each tier of governmental so provides for the financial resources to be used in supplying public goods and services.

According to Anwar Shah, "the principles of fiscal federalism is concerned with the design of fiscal constitutions – that is, how taxing, spending, and regulatory functions are allocated among governments and how intergovernmental transfers are structured. A federal form of government promotes both centralised and decentralised decision making and therefore, is conducive to greater freedom of choice, diversity of preferences in public services, political participation, innovation and accountability".

Federal countries broadly conform to one of two models: dual federalism or cooperative federalism. Under dual federalism, the responsibilities of the federal and state Governments are separate and distinct. Under cooperative federalism, the responsibilities of various tiers are mostly inter linked. Under both models, fiscal tiers

are organised so that the national and state governments have independent authority in their areas of responsibility and act as equal partners.

37.3 Principles of expenditure assignment

Expenditure assignment refers to division or sharing of expenditure, regulatory and tax functions or responsibilities among multi-levels of governments in a federation. The basic principles that should guide expenditure assignment as suggested by Anwar Shah are discussed briefly below:

(a) **Efficient provision of public services:** Public services are provided most efficiently "by the jurisdiction having control over the minimum geographic area that would internalise benefits and costs of such provision." In this case, local governments being the closest to the grassroots are better placed to meet the needs of local residents.

(b) **National equity or fairness:** It is commonly argued that effective redistribution of income and wealth is possible only through national programmes, that is, progressive income taxes and transfers to the poor. Allowing sub-national governments to carry out redistributive policies are likely to drive out the rich.

(c) **Provision of quasi-private goods:** Modern governments provide many services that, by nature, are essentially private goods–for example, health, education, and social insurance. The national government's involvement is nevertheless justified to ensure horizontal equity and minimum standards of service in all jurisdictions

(d) **Preservation of the internal common market:** Preservation of an internal common market is an important area of concern to most nations undertaking decentralisation. Sub-national governments, in their pursuit of labour and capital, may indulge in beggar-thy-neighbour policies and, in the process, erect barriers to goods and factor mobility. Decentralisation of government regulatory functions may create the potential for disharmonious economic relations among sub-national units. In order to prevent misuse of power, constitutional guarantees for free domestic flow of goods and services may be the best alternative to assigning regulatory responsibilities solely to the national government.

(e) **Economic stabilisation:** It is customary to argue that the federal government should be responsible for stabilisation policies because such policies cannot be carried out effectively by local jurisdictions. Monetary policy has little scope for being carried out by local governments.

37.4 Centralisation and decentralisation of fiscal responsibilities

37.4.1 Arguments in favour of decentralisation of fiscal responsibilities

(a) Local governments have better understanding of the concerns of local residents being the closest to the people.

(b) Local decision making is responsive to the people for whom the services are intended, thus encouraging fiscal responsibility and efficiency, especially if financing of services is also decentralised.

(c) Unnecessary layers of jurisdiction are eliminated.

(d) Inter-jurisdictional competition and innovation are enhanced.

37.4.2 Arguments in favour of centralisation of fiscal responsibilities

(a) **Spatial externalities:** Spatial externalities arise when the benefits and costs of public services are realised by non-residents. In the case of benefit spill- outs, the jurisdiction providing the service does not consider the proportion of benefits of a public service accruing to non-residents and therefore under- provides such a service. The reverse result is obtained in the case of cost spill-outs, where the public service could not be financed by exporting taxes to other jurisdictions. There are also public services whose benefits are considered national in scope, such as defence and foreign affairs. These services would be best provided by the federal government.

(b) **Economies of scale:** Certain services require areas larger than a local jurisdiction for cost-effective provision, for example, public transportation and sewerage in metropolitan areas.

(c) **Administrative and compliance costs:** Centralised administration generally leads to lower administrative costs associated with financing public services.

37.5 Problems of expenditure assignment

(a) **Lack of formal assignment:** The absence of a formal assignment of responsibilities among the multi-levels of government is a common problem with expenditure assignment. A formal assignment of responsibilities contributes to the stability of the system of inter-governmental finances. From a fiscal management perspective, a formal expenditure assignment also introduces an important element of certainty for budget planning at all levels of government.

(b) **Inefficient assignments:** Another common problem in the assignment of expenditure responsibilities is the inefficiency of the assignments. First is the Issue of capital expenditure responsibilities. The problem has been the assignment of all capital expenditure responsibilities at the central level, independently of the level of government responsible for the provision of the services associated with the capital infrastructure. This assignment is guided either by the capacity to finance large projects or by the belief that only central government officials are qualified to make capital investment decisions. However, the full assignment of capital expenditure responsibilities is inappropriate.

(c) **Ambiguity in certain assignments:** Despite the ambiguity in assignments, there are few open conflicts or disputes that have taken place between the central and sub-national governments in terms of assignment of expenditure responsibilities. For example, there are arguments on whose responsibility it is to maintain internal

security in Nigeria when the police is under the control of the central government while the governors have little or no control over the police.

(d) **Co-sharing of responsibilities:** The co-sharing of responsibilities within a particular public service is likely to cause confusion leading to in efficiencies. In the case of education, it would appear to be for the most part a local (or state) activity, many key decisions in educational policies are carried out at the central level in many countries. For example, the Ministry of Education may be responsible for the construction of school buildings, curriculum design, teacher training, and design and production of textbooks. Activities that are preserved at the local level may be the recruitment and hiring of teachers. However, even in these cases local authority is limited because of the dual subordination of school officials to both the Ministry of Education and to the sub-national government.
Similar issues to those in the education sector arise in other sectors such as health. The co-sharing or fragmentation of responsibilities within a particular public service has the disadvantage that it is likely to cause confusion, leading to inefficiencies.

37.6 Solutions to expenditure assignment problems

(a) **Establishment of a formal assignment of expenditure responsibilities:** Expenditure responsibilities should be specified in the law. Doing so in the Constitution may create difficulty when changes become inevitable due to technological and environmental conditions.

(b) **Reassignment of selected expenditure responsibilities:** The central government should assume full financial responsibility for social welfare expenditure when these are assigned at the sub-national level. Delivery of these services can still be performed through local governments on a reimbursement basis, a grant programme, or any of other several means. The central government should also assume 100 percent responsibility for expenditure in national defence.

(c) **Reassignment of capital investment responsibilities:** Responsibilities for capital infrastructure should be placed at the level of government responsible for the delivery of the specific services including the operations and maintenance of those facilities. This will encourage a more efficient use of resources. Only those capital infrastructure facilities actually desired by sub-national governments will be built and sub-national governments will have an interest in maintaining and repairing the capital infrastructure.

(d) **Facilitating capital investment at the sub-national level:** All types of sub-national borrowing should be closely regulated by the central authorities. Besides enforcing the debt limits established by the law, there should be a certification process of the conditions for any bond issues. The central government, as a general policy should not act as guarantor of regional and local government debt issues.

(e) **Sub-national development funding:** There is considerable merit to the establishment of a sub-national development fund to promote lending to sub-national governments for long-term capital investment. This may be the only effective way to allow small local governments to fulfil their capital investment responsibilities. Other sources of financing include local bond issues. Both should be encouraged.

(i) The need to address minimum standards: Central governments should consider introducing policies that guarantee desired minimum levels of provision for certain services at the local level. National standards can be enforced in several ways such as enticing local governments with a matching grant programme. National standards can also been forced by denying full receipt of block grant money unless certain minimum expenditure and provisions established by the central government are met.

37.7 Principles of tax assignment

The division of revenue sources among federal and sub-national governments constitutes tax assignment. Once expenditure and regulatory assignments have been agreed upon, tax assignment and the design of transfers become critical elements in matching expenditure needs with revenue means at different levels of government.

Although tax assignment can be undertaken independently of expenditure assignment (a common practice in developing countries) the advantages of a centralised tax administration and a decentralised provision of public services become apparent when tax assignment reflects anticipated spending. Such arrangements prevent over-dependence by states and local governments on intergovernmental transfers, which can otherwise distort local spending priorities. Where theoretical guidance on tax assignment is unclear, expenditure assignment can provide a powerful argument for assigning responsibility to the government with the greatest need for more money. Efficiency and equity arguments have to be tempered by administrative considerations, and the exact assignment depends on informed judgment. We can, however, outline the economic principles that come into play in deciding which taxes to assign to what level of government.

Anwar Shah opined that four general principles require consideration in assigning taxing powers to various governments. The principles are discussed briefly below

(a) **Economic efficiency:** This criterion dictates that taxes on mobile factors and tradable goods that have a bearing on the efficiency of the internal common market should be assigned to the national government. Sub-national assignment of taxes on mobile factors may facilitate the use of socially wasteful beggar-thy-neighbour policies to attract resources to own areas by regional and local governments. In a globalised world, even the national assignment of taxes on mobile capital may not be very effective in the presence of foreign tax havens and

the difficulty of tracing and attributing incomes from virtual transactions to various physical spaces.

(b) **National equity:** This demands that progressive redistributive taxes should be assigned to the national government. It limits the possibility of regional and local governments' following perverse redistribution policies using both taxes and transfers to attract high-income people and to repel low-income ones. Doing so, however, leaves open the possibility of supplementary, flat-rate, local charges on residence-based national income taxes.

(c) **Administrative feasibility:** This (lowering compliance and administration costs) is of the opinion that taxes should be assigned to the jurisdiction with the best ability to monitor relevant assessments. This criterion minimises administrative costs as well as the potential for tax evasion. For example, property, land, and betterment taxes are good candidates for local assignment because local governments are in a good position to assess the market values of such assets.

(d) **Fiscal need, or revenue adequacy:** criterion suggests that, to ensure accountability, revenue means (the ability to raise revenues from own sources) should be matched as closely as possible to expenditure needs. The literature also argues that long-lived assets should primarily be financed by raising debt so as to ensure equitable burden-sharing across generations. Furthermore, such large and lumpy investments typically cannot be financed by current revenues and reserves alone.

These four principles suggest that user charges are suitable for use by all levels of government, but the case for decentralising taxing powers is not as compelling as is that for decentralising public service delivery. This is because regional (province/state) and local taxation can introduce inefficiencies into the allocation of resources across the federation and cause inequities among people in different jurisdictions. In addition, collection and compliance costs can increase significantly. These problems are more severe for some taxes than for others, so the selection of which taxes to decentralise must be made with care, balancing the need to achieve and sustain fiscal and political autonomy and accountability at regional and local orders of government against the disadvantages of having a fragmented tax system. The trade-off between increased accountability and increased economic costs from decentralising taxing responsibilities can be mitigated by fiscal arrangements that permit joint occupation and harmonisation of taxes to overcome fragmentation. In addition, fiscal equalisation transfers can reduce the fiscal inefficiencies and inequities that arise from different fiscal capacities across regional and local governments.

37.8 Inter-governmental transfers - grants

The growth of the grant system is an important factor in the development of fiscal federalism. The grant system is concerned not only with the level of grants and the programme areas which should be supported, but also the form in which the grants

are to be given. Intergovernmental transfers, or grants, can be broadly classified into two categories: general-purpose (unconditional) and specific-purpose (conditional or earmarked).

(a) **General-purpose grants:** General-purpose grants are provided as general budget support, with no strings or conditions attached. These transfers are typically mandated by law, but occasionally they may be ad hoc or discretionary. General- purpose grants are termed block grants when they are used to provide broad support in a general area of sub-national expenditure (such as education), while allowing recipient's discretion in allocating the funds among specific uses. General- purpose grants simply augment the recipient's resources. Because the grant can be spent on any combination of public goods or services or can be used to provide tax relief to residents, general non-matching assistance does not affect relative prices.

(b) **Specific-purpose grants:** Specific-purpose, or conditional, grants are intended to provide incentives for governments to undertake specific programs or activities.

These grants may be regular or mandatory in nature or they may be discretionary or ad hoc. Conditional grants typically specify the type of expenditure that can be financed (input-based conditionality). These may be capital expenditure, operating expenditure, or both. Conditional grants may also require attainment of certain results in service delivery (output-based conditionality). Input-based conditionality is often intrusive and unproductive, whereas output-based conditionality can advance grantors' objectives while preserving local autonomy. Conditional grants may be non-matching or matching depending on the objective(s) of the donor.

Conditional non-matching transfers provide a given level of funds without local matching as long the funds are spent for a particular purpose. Conditional non-matching grants are best suited for subsidising activities considered high priority by a national or state government but low priority by local governments.

Conditional transfers may incorporate matching provisions, requiring grant recipients to finance a specified percentage of expenditure using their own resources. Matching requirements can be either open-ended (meaning that the grantor matches whatever level of resources the recipient provides) or closed-ended (meaning that the grantor matches recipient funds only up to a pre-specified limit).

Matching requirements encourage greater scrutiny and local ownership of grant-financed expenditure; closed-ended matching is helpful in ensuring that the grantor has some control over the costs of the transfer program. Matching requirements, however, represent a greater burden for a recipient jurisdiction with limited fiscal capacity. In view of this, it may be desirable to set matching rates in inverse proportion to the per capita fiscal capacity of the jurisdiction in order to allow poorer jurisdictions to participate in grant-financed programmes.

Conditional open-ended matching grants are the most suitable vehicles to induce state and local governments to increase spending on the assisted function. If the objective

is simply to enhance the welfare of local residents, general-purpose non-matching transfers are preferable as they preserve local autonomy. To ensure accountability for results, conditional non-matching output-based transfers are preferable to other types of transfers. Output-based transfers respect local autonomy and budgetary flexibility while providing incentives and accountability mechanisms to improve service-delivery performance.

37.9 Guidelines for grant design

The design of fiscal transfers is critical to ensuring the efficiency and equity of local service provision and the fiscal health of sub-national governments. A few simple considerations can be helpful in designing these transfers:

Guidelines for grant design

(a) **Clarity in grant objectives:** Grant objectives should be specified clearly and precisely.

(b) **Autonomy:** Sub-national governments should have complete independence and flexibility in setting priorities. They should not be constrained by the categorical structure of programs and uncertainty associated with decision making by national officials. Tax-base sharing – allowing sub-national governments to introduce their own tax rates on national bases, formula-based revenue sharing, or block grants– is consistent with this objective.

(c) **Revenue adequacy:** Sub-national governments should have adequate revenues to discharge designated responsibilities.

(d) **Responsiveness:** The grant program should be flexible enough to accommodate unforeseen changes in the fiscal condition of the recipients.

(e) **Equity (fairness):** Allocated funds should vary directly with fiscal-need factors and inversely with the tax capacity of each jurisdiction.

(f) **Predictability:** The grant mechanism should ensure predictability of sub-national governments' shares by publishing five-year projections of funding availability. The grant formula should specify ceilings and floors for yearly fluctuations. Any major changes in the formula should be accompanied by harmless or grandfathering provisions.

(g) **Transparency:** Both the formula and the allocations should be disseminated widely in order to achieve as broad a consensus as possible on the objectives and operation of the program.

(h) **Efficiency:** The grant design should be neutral with respect to sub-national governments' choices of resource allocation to different sectors or types of activity.

(i) **Incentive:** The design should provide incentives for sound fiscal management and should discourage inefficient practices. Specific transfers should not be made to finance sub-national government deficits.

(j) **Accountability for results:** The grantor must be accountable for the design and operation of the program. The recipient must be accountable to the grantor and its citizens for financial integrity and results (that is, improvements in service delivery

performance). Citizens' voice and exit options in grant design can help advance bottom-up accountability objectives.

37.10 Chapter review

This chapter covers the concept of fiscal federalism with the derivable benefits, the principles and challenges of expenditure assignment which are the features of fiscal federalism. It also covers tax revenue assignment of fiscal federalism with its principles and inter-governmental financial transfers – the grants, which is an important factor in the development of fiscal federalism.

37.11 Worked examples

37.11.1 Examination type questions

1. In the realm of public finance and intergovernmental fiscal relations, the efficient delivery of public services hinges on a well-structured system of expenditure responsibilities.

Required:

(a) Explain expenditure assignment function.
(b) Discuss the guiding principles.
(c) Discuss the problems of expenditure assignment.
(d) Identify and explain **FOUR** solutions to problems of expenditure assignment.

2 The growth of the grant system is an important factor in the development of fiscal federalism. The grant system is concerned not only with the level of grants and the programme areas which should be supported, but also the form in which the grants are to be given

Required:

(a) Explain general purpose and specific purpose grants.
(b) Discuss the principles that should guide grant design.

3 The division of revenue sources among federal and sub-national governments constitutes tax assignment. Once expenditure and regulatory assignments have been agreed upon, tax assignment and the design of transfers become critical elements in matching expenditure needs with revenue means at different levels of government.

Required:

(a) Explain tax assignment.
(b) Discuss the guiding principles of tax assignment.

37.11.2 Suggestion solutions

1(a) **Explanations of the assignment function**

Expenditure assignment function is concerned with the allocation of expenditure, regulatory and tax functions and responsibilities among different levels of government, especially with respect to the provision and delivery of public goods and services. Theoretically, and for various rationalised reasons, such as

executive capacity, avoidance of unnecessary duplication, locational advantage like proximity to consumers, economies of scale, etc., the central government should engage in certain forms of expenditure and activities, while lower levels of government should engage in others.

(b) Discussion of the guiding principles

The general set of principles which should guide expenditure assignment includes:

(i) **Efficient provision of public services** - by using the jurisdiction that controls the minimum geographical area that would bear the costs and benefits of the provision of such services;

(ii) **Equitable provision of public services** – through equal treatment of all citizens, irrespective of place of residence or employment (horizontal equity). This can avoid wasteful tax and expenditure competition among jurisdictions. Thus, effective redistribution programmes are best handled nationally in pursuit of equity, but the participation of sub-national governments in implementing specific programmes is essential where such programmes can be tailored to the peculiar circumstances of individual jurisdictions;

(iii) **Preservation of a single internal common market–** when sub-national government try to attract labour, capital and technology, they may erect local incentives that become barriers to the free flow of goods and inputs across governmental jurisdictions. Thus, the decentralisation of government regulatory functions may create the possibility of disharmonious economic relations among levels of government and disrupt national economic and social integration. Hence, the regulation of trade and investment is best assigned to the central government;

(iv) **Economic stabilisation** – it is difficult for a sub-national government to implement successful stabilisation policy because of the openness of its economy and the nature of stabilisation policy, like monetary and exchange rate policies, that require coordination by a Central Bank. For similar reasons, decentralised fiscal policy needs flexibility through the structuring of tax assignment and fiscal policy coordination and through regular meetings of officials of central and sub-national governments;

(v) **Efficient provision of quasi-public goods** – technically, services like health, education, social welfare and social insurance are private goods, but they are provided by the public sector on equity grounds. When they are provided by the central government, this may be in order to satisfy minimum standards across jurisdictions.

(c) Problems of expenditure assignment

(i) **Lack of formal assignment:** The lack of a formal assignment of responsibilities among the multi-levels of government is a common problem with expenditure assignment. A formal assignment of responsibilities contributes to the stability of the system of intergovernmental finances. From a fiscal management perspective, a formal expenditure assignment also

introduces an important element of certainty for budget planning at all levels of government.

(ii) **Inefficient assignments:** inefficiency of the assignments is another common problem in the assignment of expenditure assignments. First is the issue of capital expenditure responsibilities. Assignment of all capital expenditure responsibilities at the central level, independent of the level of government responsible for the provision of the services associated with the capital infrastructure is a problem. This assignment is guided either by the capacity to finance large projects or by the belief that only central government officials are qualified to make capital investment decisions. However, the full assignment of capital expenditure responsibilities is inappropriate.

(iii) **Ambiguity in certain assignments:** Despite the ambiguity in assignments, remarkably few open conflicts or disputes have taken place between the central and sub-national governments in terms of assignment of expenditure responsibilities. For example, in there are arguments on whose responsibility it is to maintain internal security in Nigeria when the police is under the control of the central.

(iv) **Co-sharing of responsibilities:** The co-sharing of responsibilities within a particular public service is likely to cause confusion leading to inefficiencies. In the case of education, it would appear to be for the most part a local (or state) activity, many key decisions in educational policies are carried out at the central level in many countries. For example, the Ministry of Education may be responsible for the construction of school buildings, curriculum design, teacher training, and design and production of textbooks. Activities that are preserved at the local level may be the recruitment and hiring of teachers. However, even in these cases local authority is limited because of the dual subordination of school officials to both the Ministry of Education and to the sub-national government. The co-sharing or fragmentation of responsibilities within a particular public service has the disadvantage that it is likely to cause confusion leading to inefficiencies.

(d) Solutions to the assignment challenges

(i) **Formal assignment of expenditure responsibilities:** Expenditure responsibilities should be specified in the law. Doing so in the Constitution may create difficulty when changes become inevitable due to technological and environmental conditions.

(ii) **Reassignment of selected expenditure responsibilities:** The central government should assume full financial responsibility for social welfare expenditure when these are assigned at the sub-national level. Delivery of these services can still be performed through local governments on a reimbursement basis, a grant program, or another of several means. The central government should also assume 100 percent responsibility for expenditure in national defence.

(iii) **Reassignment of capital investment responsibilities:** Responsibilities for capital infrastructure should be placed at the level of government

responsible for the delivery of the specific services including the operations and maintenance of those facilities. This will encourage a more efficient use of resources. Only those capital infrastructure facilities actually desired by sub-national governments will be built and sub-national governments will have an interest in maintaining and repairing the capital infrastructure.

(iv) **Sub-national development funding:** There is considerable merit to the establishment of a sub-national development fund to promote lending to sub- national governments for long-term capital investment. This may be the only effective way to allow small local governments to fulfil their capital investment responsibilities. Other sources of financing include local bond issues. Both should be encouraged.

2(a) General purpose and specific purpose grant explained

(i) **General-purpose grants:** General-purpose grants are provided as general budget support, with no strings or conditions attached. These transfers are typically mandated by law, but occasionally they may be ad hoc or discretionary. General-purpose grants are termed block grants when they are used to provide broad support in a general area of sub-national expenditure (such as education), while allowing recipient's discretion in allocating the funds among specific uses. General-purpose grants simply augment the recipient's resources.

(ii) **Specific-purpose grants:** Specific-purpose, or conditional grants are intended to provide incentives for governments to undertake specific programs or activities. These grants may be regular or mandatory in nature or they may be discretionary or ad hoc. Conditional grants typically specify the type of expenditure that can be financed (input-based conditionality). These may be capital expenditure, operating expenditure, or both. Conditional transfers may also require attainment of certain results in service delivery (output- based conditionality).

2(b) Guidelines or principles of grant design

(i) **Equity (fairness):** Allocated funds should vary directly with fiscal-need factors and inversely with the tax capacity of each jurisdiction.

(ii) **Predictability:** The grant mechanism should ensure predictability of sub-national governments' shares by publishing five-year projections of funding availability. The grant formula should specify ceilings and floors for yearly fluctuations. Any major changes in the formula should be accompanied by hold harmless or grand fathering provisions.

(iii) **Transparency:** Both the formula and the allocations should be disseminated widely in order to achieve as broad a consensus as possible on the objectives and operation of the program.

(iv) **Efficiency:** The grant design should be neutral with respect to sub-national governments' choices of resource allocation to different sectors or types of activity.

(v) **Simplicity:** Grant allocation should be based on objective factors over which individual units have little control. The formula should be easy to understand so as not to reward grants man ship.

3(a) Explanation of tax/revenue assignment

The division of revenue sources among federal and sub-national governments is commonly described as tax assignment. Once expenditure and regulatory assignments have been agreed upon, tax assignment and the design of transfers become critical elements in matching expenditure needs with revenue means at various orders of government.

Although tax assignment can be undertaken independently of expenditure assignment – a common practice in developing countries – the advantages of a centralised tax administration and a decentralised provision of public services become apparent when tax assignment reflects anticipated spending. Such arrangements prevent an overdependence by state and local governments on intergovernmental transfers, which can otherwise distort local spending priorities.

3(b) Guiding principles of tax assignment

Four general principles require have been suggested for consideration in assigning taxing powers to various governments.

(i). **Economic efficiency:** This is criterion dictates that taxes on mobile factors and tradable goods that have a bearing on the efficiency of the internal common market should be assigned to the national government. Sub-national assignment of taxes on mobile factors may facilitate the use of socially wasteful beggar-thy-neighbour policies to attract resources to own areas by regional and local governments.

(ii) **National equity:** This requires that progressive redistributive taxes should be assigned to the national government. This assignment limits the possibility of regional and local governments' following perverse redistribution policies using both taxes and transfers to attract high-income people and to repel low-income ones. Doing so, however, leaves open the possibility of supplementary, flat-rate, local charges on residence-based national income taxes.

(iii) **Administrative feasibility** criterion (lowering compliance and administration costs) suggests that taxes should be assigned to the jurisdiction with the best ability to monitor relevant assessments. This criterion minimizes administrative costs as well as the potential for tax evasion. For example, property, land, and betterment taxes are good candidates for local assignment because local governments are in a good position to assess the market values of such assets.

(iv) **Fiscal need, or revenue adequacy, criterion suggests that, to ensure accountability**, revenue means (the ability to raise revenues from own sources) should be matched as closely as possible to expenditure needs. There is an argument that long-lived assets should primarily be financed by

raising debt so as to ensure equitable burden-sharing across generations. Furthermore, such large and lumpy investments typically cannot be financed by current revenues and reserves alone.

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Skills Level
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CHAPTER 38

PROJECT APPRAISAL IN PUBLIC SECTOR

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38 Project Appraisal in Public Sector

38.0 Learning objective

The objective of this chapter is to enhance readers' understanding the methods of investment appraisal used in the public sector.

38.1 Learning outcomes

On successful completion of this chapter, readers should have good understanding of the:

(a) reasons for investment/project appraisal;

(b) methods of investment appraisal;

(c) reasons for divergence between private and public appraisal of project; and

(d) externalities.

38.2 Rationale for investment appraisal

When investment resources are scarce, as they are in most developing countries, rational allocation of capital is of greatest importance. For a developing country to be assured that investment resources used in a given project would not have any better alternative use in terms of the country's objective will involve engaging in practical appraisal of projects. National governments do guide the pattern of investment either by direct investment in the public sector or by control on private investment.

To provide rational guidance, government must formulate and evaluate investment projects in such a way as to be able to compare and evaluate alternative projects in terms of their contributions to the objectives of the nation

Evaluation is an important aspect of investment decision. The need for evaluation arises from the necessity to choose among available alternatives, the one which is likely to lead to the attainment of specific objective. It is therefore important to have a clear and operational definition of the objective to be attained by undertaking a project. A clearly stated objective is important not only as a basis for rational choice but also in its absence there cannot be a criterion by which to test the desirability of the proposed action. Project appraisal in public sector does not rest on the set of techniques that can be applied mechanically but it is an approach that must be interpreted analytically.

38.3 Reasons for divergence between private and public appraisal of project

There are many reasons for the divergence between the two systems of appraisal.

(a) The structure of income distribution in the society may cause a divergence between private and social appraisal. Since market prices are essentially determined by income distribution, then it will not reflect the society's evaluation except the income distribution in the society is made equal.

(b) The existence of externalities which may be positive or negative are not considered at all by commercial or private enterprise analysis of projects.

(c) Neglect of consumers' surplus in the commercial evaluation of project. This will result in under-estimation of the benefit from the society's view point.
(d) Price distortion. Through price control, wage control and interest rate regulations government influences the price system.

38.4 Methods of investment appraisal

Investment appraisal is a technique aimed at finding out the least possible costs of an investment and the maximum economic benefits which may accrue from the commitment of resources to it.

There are many techniques available for the appraisal exercises, which can be classified into discounted cash flow (DCF), non-discounted cash flow (NDCF) and for investment decisions in government - cost benefit analysis, cost effectiveness analysis.

These are further classified as follows:
(a) Accounting rate of return (ARR);
(b) Pay-back period (PBP);
(c) Discounted cash flow (DCF);
  (i) Net present value.
  (ii) Internal rate of return.
(d) Profitability index (PI);
(e) Cost-benefit analysis;
(f) Cost-effectiveness analysis; and
(g) Cost outcome analysis.

38.4.1 Accounting rate of return

This is the return on initial outlay or return on average capital. It is computed, using the formula:

$$\text{ARR} = \frac{\text{Average annual accounting profit}}{\text{Average investment}}$$

Where, average investment is:

$$\frac{\text{Initial investment + residual value}}{2}$$

Profit is the 'accounting profit.' To get this, we will take 'income' and deduct all necessary expenses incurred in earning the revenue including depreciation. In using the Accounting Rate of Return as an investment appraisal method, the decision rule is to pick the option which gives the highest rate of return.

Advantages of ARR method

These are the advantages of the method.
(a) It considers the profits of a project throughout its useful life.

(b) It is simple to calculate and understand.
(c) It facilitates expenditure follow-up due to more readily available data on accounting records.

Disadvantages of ARR

The following are the disadvantages associated with the use of the method:

(a) It does not take into account the time value of money.
(b) It ignores the fact that profits from different projects may accrue at an uneven rate.
(c) It fails to cater for risks and uncertainties.

Illustration - 1

Agbede Local Government Council supplied the following information:

Projects:		'X1' ₦	'X2' ₦	'X3' ₦
Accounting profit				
Year	1	1,000	500	5,000
	2	2,000	1,500	4,000
	3	4,000	2,000	500
	4	5,000	2,500	1,000
Initial investment sums		15,000	10,000	15,000
Residual investment		1,000	1,000	2,000

Using the accounting rate of return as performance measurement, in which project should Agbede Local Government Council invest?

Suggested solutions - 1

Computation of the accounting rate of return

Projects:		X1 ₦	X2 ₦	X3 ₦
Accounting profit				
Year	1	1,000	500	5,000
	2	2,000	1,500	4,000
	3	4,000	2,000	500
	4	5,000	2,500	1,000
Total		**12,000**	**6,500**	**10,500**

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Average annual accounting profit:			
Projects:	X1	X2	X3
	12,000	6,500	10,500
	4	4	4
(a) Average annual			

Accounting profit = initial investment + residual value / 2

Projects:		X1 ₦	X2 ₦	X3 ₦
Initial investment		15,000	10,000	15,000
Add residual value		1,000	1,000	2,000
		16,000	11,000	17,000
Average investment:		16,000	11,000	17,000
		2	2	2
(b) Average investment	=	8,000	5,500	8,500
(c) Accounting rate of	=	3,000	1,625	2,625
return (a/b)		8,000	5,500	8,500
	=	0.38	0.30	0.31
		or	Or	or
Accounting rate of return	**=**	**38%**	**30%**	**31%**

Agbede Local Government Council should invest in project x1 because it has the highest accounting rate of return of 38%.

38.4.2 Pay-back period method

The method focuses on the time taken by an investment to recoup the amount of money invested in a project. The method focuses only on cash flow rather than profit from the project. The shorter the pay-back period, the more preferable is the project. A project will be undertaken only if the pay-back-period is shorter, or at worst, equal to the maximum set standard period. For a single project, the pay-back period is compared

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with a set standard. For mutually exclusive projects, they are ranked and the one with the shortest pay-back period is selected.

Advantages of pay-back period method

(a) It is a useful measure of liquidity, since the method ensures the selection of projects that provide the hope of immediate cash recoupment;
(b) It may be used as a safeguard against risk, particularly if the latter increases as pay-back period lengthens;
(c) It is simple to calculate and understand;
(d) The method is popular with public project evaluation where liquidity predominates over-profitability;
(e) It serves as a useful screen to evaluate all projects; and
(f) The approach uses cash flows rather than accounting profits, to appraise.

Disadvantages of the pay-back period:

(a) It does not consider the time value of money;
(b) It ignores variations in the timing of cash inflows within the pay-back period;
(c) Cash inflows outside the payback period are ignored; and
(d) It does not take into consideration risks and uncertainties.

Illustration - 2

Omidan Local Government Council is considering investing in one of the following three available projects. Using the payback period method advise on which of the projects should be selected.

Projects:		**B1** ₦	**B2** ₦	**B3** ₦
Initial investment				
Outlays		100,000	150,000	180,000
Cash inflows:	Year			
	1	70,000	10,000	50,000
	2	30,000	20,000	60,000
	3	20,000	10,000	80,000
	4	10,000	40,000	90,000

Suggested solutions - 2

Omidan Local Government Council Payback period method

Projects:	**B1**	**B2**	**B3**
	₦	₦	₦
Initial investment	(100,000)	(150,000)	(180,000)

Less inflow in year 1	70,000	10,000	50,000
	(30,000)	(140,000)	(130,000)
Less inflow in year 2	30,000	20,000	60,000
	NIL	(120,000)	(70,000)
Less inflow in year 3	-	10,000	80,000
		(110,000)	10,000
Less inflow in year 4		40,000	90,000
Unrelieved investment cost at the end of the Year	NIL	(70,000)	NIL

From the appraisal conducted, project B1 was able to pay off its initial capital injected in year 2. B2 could not generate enough cash inflows for the period of four (4) years. Project B3 made its own in 2.88 years approximately. B1 is therefore more profitable than B3. B2 should be dropped completely.

38.4.3 Discounted cash flow (DCF) criteria

There are two discounted cash flow methods of project appraisal, namely: Net Present Value (NPV) and Internal Rate of Return (RR) which are discussed below.

Net present value (NPV)

This method refers to the equivalents in present value terms of the cash inflows and outflows from a project when discounted at a particular or given cost of capital. The appropriate discount rate chosen is the firm's or Corporation's opportunity cost of capital, which is equal to the required rate of return. The decision criterion is that a project is acceptable if it has a positive NPV, and rejected, if it has a negative NPV. In total, the present value of cash inflows should be greater than that of cash outflows. The positive nature of the net present value is presumed to be the potential increase in consumption made possible by the investment, valued in present day terms. Mutually exclusive projects will be ranked and the one with the highest net present value will be selected.

The formula for the computation of the net present of value is:

$$NPV = \frac{C1 + C2 + C3 + \ldots + Cn}{(1+K)(1+K)2(1+K)3(1+K)} - C0$$

Where C series represents cash inflows, 'K' the opportunity cost of capital, C0 is the initial cost of the investment and 'n' the project's expected life.

Advantages of net present value (NPV)

(a) Timing of cash flows is considered; and
(b) Cash flows on the entire lives of the projects are taken into consideration.

Disadvantages of net present value (NPV)

(a) There is the obligation for management to determine the appropriate cost of capital to use;
(b) It is not suitable where capital rationing situation exists; and
(c) There is the assumption that the cash inflows will come as predicted which may not necessarily be so.

Illustration - 3

The following are the information provided by Yabus Local Government Council. Using the net present value method, advise the Local Government Council on which of the projects 'T', 'M' or 'X', is the most viable and should be picked.

	Project T	Project M	Project X
Cost of initial investment	₦ 100,000	₦ 180,000	₦ 150,000
Inflows from the Projects: Year			
1	40,000	10,000	50,000
2	50,000	30,000	10,000
3	60,000	50,000	90,000
4	70,000	70,000	10,000
5	80,000	120,000	40,000

Assume that the cost of capital is 10%. Use the discount table stated below:

Year	Discount factor
1	0.9090
2	0.8264
3	0.7513
4	0.6830
5	0.6209

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Suggested solutions - 3

Yabus Local Government Council: Investment appraisal - net present value method

Project T			
Year	**Cash flow**	**Discount factor**	**DCF**
	₦	**(10%)**	**₦**
0	(100,000)	(1,000)	(100,000)
1	40,000	0.9090	36,360
2	50,000	0.8264	41,320
3	60,000	0.7513	45,078
4	70,000	0.6830	47,810
5	80,000	0.6209	49,672
		NPV	120,240
Project M			
Year	**Cash flow**	**Discount factor**	**DCF**
	₦	**(10%)**	**₦**
0	(180,000)	(1,000)	(180,000)
1	10,000	0.9090	9,090
2	30,000	0.8264	24,792
3	50,000	0.7513	37,565
4	70,000	0.6830	47,810
5	120,000	0.6209	74,508
		NPV	13,765
Project X			
Year	**Cash flow**	**Discount factor**	**DCF**
	₦	**(10%)**	**₦**
0	(150,000)	(1,000)	(150,000)
1	50,000	0.9090	45,450
2	10,000	0.8264	8,264
3	90,000	0.7513	67,617
4	10,000	0.6830	6,830
5	40,000	0.6209	24,836
		NPV	2,997

The local government council is advised to invest in project 'T' because it has the highest net present value of ₦120,240. Projects 'M' and 'X' have net present values of ₦13,765 and ₦2,997, respectively.

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Internal rate of return (IRR)

This approach is also known as "discounted cash flow yield." The "internal rate of return" is the discount rate, which when applied, gives zero net present value. It can be found by either drawing a "present value profile" or graph, or mathematically through linear interpolation, using the formula stated thus:

R1+P(R2 - R1)

P + N

where: R1 is positive rate

R2 is negative rate

P is positive net present value (NPV) N is negative net present value (NPV)

In using the internal rate of return model, the 'decision rule' is to accept the project appraised where the calculated rate is greater than the company's cost of capital. The project with the highest percentage of internal rate of return should be selected where two or more mutually exclusive investments are being considered.

Illustration - 4

SAB Aviation Authority (SAA) is preparing the capital budget for the forthcoming year. Three (3) mutually exclusive projects are being considered. The projected performance of each of the projects is as follows:

Project:	**A**	**B**	**C**
	₦ '000	**₦ '000**	**₦ '000**
Initial Cash Outlays	3,450	3,563	3,938
Cash inflows:			
Year 1	1,500	2,250	375
Year 2	1,500	1,125	375
Year 3	1,500	1,125	4,875

The authority's cost of capital is 10% per annum.

As the management accountant of the authority, advise on the desirability or otherwise of choosing any of the three projects, using the internal rate of return method.

The following discount factor table is applicable for use:

Year	**10%**	**15%**
1.	0.91	0.87
2.	0.83	0.76
3.	0.75	0.66
4.	0.68	0.57
5.	0.62	0.50

Suggested solutions

Project A

(i) Using 10% Discount factor(rate)

Year	Cash flows	Discount factor	PV
	₦ '000	**(10%)**	**₦ '000**
0	(3,450)	(1.00)	(3,450)
1	1,500	0.91	1,365
2	1,500	0.83	1,245
3	1,500	0.75	1,125
		NPV	285

Project A

(ii) Using 15% Discount factor(rate)

Year	Cash-flows ₦ '000	Discount factor (15%)	PV ₦'000
0	(3,450)	(1.00)	(3,450)
1	1,500	0.87	1,305
2	1,500	0.76	1,140
3	1,500	0.66	990
		NPV	(15)

IRR $= R1 + \left|\frac{P}{P+N}\right| (R^2 - R^1)$

$= 10 + \left|\frac{285}{285+15}\right| (15 - 10)$

$= 10 + \left|\frac{285}{300}\right| (5)$

= 10 + 0.95 x 5

= 10 + 4.75

IRR = 14.75%

Project B

(i) Using 10% discount rate

Year	Cash flows	Discount factor	PV
	₦ '000		**₦ '000**
0	(3,563)	(1.00)	(3,563.00)
1	2,250	0.91	2,047.50
2	1,125	0.83	933.75
3	1,125	0.75	843.75
		NPV	262.00

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(ii) Using 15% discount rate

Year	Cash flows	Discount factor	DCF
	₦ '000		₦ '000
0	(3,563)	(1.00)	(3,563)
1	2,250	0.87	1,957.50
2	1,125	0.76	855.00
3	1,125	0.66	742.50
		NPV	(8)

IRR $= R1 + \left|\frac{P}{P+N}\right| (R^2 - R^1)$

$= 10 + \left|\frac{262}{262+8}\right| (15 - 10)$

$= 10 + \left|\frac{262}{270}\right| (5)$

= 10 + 0.970 x 5

= 10 + 4.85

IRR = 14.85%

Project C

(i) Using 10% discount rate

Year	Cash flows	Discount factor	NPV
	₦ '000		₦ '000
0	(3,938)	(1.00)	(3,938.00)
1	375	0.91	341.25
2	375	0.83	311.25
3	4,875	0.75	3,656.25
		NPV	370.75

(ii) Using 15% discount rate

Year	Cash flows	Discount factor	DCF
	₦ '000		₦ '000
0	(3,938)	(1.00)	(3,938.00)
1	375	0.87	362.25
2	375	0.76	285.00
3	4,875	0.66	3,217.50
		NPV ₦	(109.25)

IRR $= R1 + \left|\frac{P}{P+N}\right| (R^2 - R^1)$

$= 10 + \left|\frac{370.75}{370.75+109.25}\right| (15 - 10)$

$= 10 + \left|\frac{370.75}{480}\right| (5)$

= 10 + 0.772 x 5

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$= 10 + 3.86$

IRR = 13.86%

Note:
The two vertical lines in the formula are known as **MODULUS SIGNS or ABSOLUTE VALUE SIGNS**. As a matter of mathematical principle, any figure inside the modulus sign **MUST** be seen as a **POSITIVE FIGURE**.

Based on the above computations, the authority is advised to pick project 'B' with the highest IRR of 14.85%. The other projects have lower figures of 14.75% and 13.86%, respectively, and should be rejected.

Profitability index technique
This is another investment appraisal technique which compares the present value of cash inflows with the present value of cash outflows in ratio terms.

The formula is given as:

(i) $PI = \frac{\text{Present value of cash inflows}}{\text{Present value of cash outlay}}$

or

(ii) $PI = \frac{\text{Net present value of cashinflows}}{\text{Present value of cash outlay}}$

The decision rule in profitability index is to accept every project whose PI is greater than 1 using (i) above and whose PI is positive using (ii) above.

i.e. Accept project if PI = 1 or > 1
Reject project if PI = 0 or <1

Illustration
Omuro Local Government, in an effort to boost its revenue base decided to acquire a tractor that will be hired out to farmers at affordable charges. The tractor will cost ₦600,000 and will generate an annual net cash inflow of ₦80,000 for six years. The cost of borrowing to procure the tractor is 10%.

Required:
Advise the chairman of Omuro Local Government, using the profitability index technique of investment appraisal.
Discount factors to be used are:

Year	Discount factor
1	0.9091
2	0.8264
3	0.7513
4	0.6830
5	0.6209

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6		0.5645	
Suggested solutions			
Year	Cash flows	Discount factor	Present value
	₦	@ 10%	₦
0	600,000	1.0000	(600,000)
1	180,000	0.9091	163,638
2	180,000	0.8264	148,752
3	180,000	0.7513	135,234
4	180,000	0.6830	122,940
5	180,000	0.6209	111,762
6	180,000	0.5645	101,610

	Net present value =	183,936
Present value of cash inflows	=	783,936
Present value of cash outflow	=	600,000
Profitability index	=	783,936 600,000
	=	1.31 approximately

Decision: Since PI > 1 the project should be accepted for implementation

Advantages of profitability index

(a) It recognises time value of money.
(b) It is a variant of the NPV method. It therefore requires the same computation as in NPV method.
(c) It is a relative measure of a project's profitability since the present value of cash inflows is divided by the present value of cash outflows.
(d) It is generally consistent with the wealth maximisation principle.

Disadvantages of profitability index

(a) It can only be used to choose projects under simple, one period, capital constraint situation.
(b) It does not work with mutually exclusive projects as only dependent projects are being considered.
(c) The technique is not popular in public sector project appraisal.

38.4.4 Cost-benefit analysis

Cost-benefit analysis defined as an analytical tool in decision-making, enables a systematic comparison to be made between the estimated cost of undertaking a project and the estimated value of benefits, which may be obtained from its execution. Cost-benefit analysis is the most popular technique used for project evaluation in the public sector. The technique seeks, as a minimum, the point of equilibrium between

costs and benefits of a proposed project, initiated by either the Government or demanded by the populace.

It is applied in such areas as transportation, postal services, communication, educational and healthcare projects, and road construction. For example, A CBA might assess the benefits and costs of a new highway project, including the cost of construction, the value of time saved by commuters, and the impact on the environment. Where it is difficult to estimate the benefits of a project, "shadow prices" are used. A shadow price is the measure of the maximum contribution foregone, in consequence of the failure to obtain one additional unit of limited capacity in a defined situation. Cost-benefit analysis can be used in the allocation of resources among the three-tiers of government

It consists of the following:

(a) **Externalities,** which may be either positive or negative. An externality is the effect arising from production or consumption activity by one entity impacting on the utility satisfaction of a third party that is not involved in making the decision. It may have direct or indirect effects on the communities, towns, or society at large. An externality can be beneficial (positive) or harmful (negative). An externality represents the cost or benefits to the third parties.

(b) **Income redistribution** in the society: It is a technique which aims at assisting decision makers by identifying and measuring the social and other costs and advantages which may accrue. It measures the social costs and benefits of a plan by translating them into monetary values. It quantifies the economic intangibles by assessing the effects of actions taken not only on the decision-maker, but also on the society as a whole.

Procedure for conducting cost-benefit analysis

The steps involved in carrying out a cost benefit analysis are as follows:

(a) examine the problem with the proper definition of the objectives of the analysis in focus;
(b) consider alternative courses of actions, which would achieve the defined objectives in (a) above;
(c) enumerate the costs involved and the benefits, which would accrue from the particular courses of action, to the establishment and the society;
(d) evaluate the costs and benefits;
(e) draw conclusions as to the economic and social effects of a particular choice; and
(f) re-examine the problem and the chosen objectives to determine accomplishment.

Cost-benefit analysis and commercial investment appraisal: Consideration of the procedure above may indicate that cost-benefit analysis is synonymous with commercial investment appraisal techniques, thereby suggesting that they may be used interchangeably. Deep examination of the procedure involved however, will clearly highlight the areas of similarities and dissimilarities of the two approaches.

Similarities between cost-benefit analysis and commercial investment appraisal methods

The areas of similarities are:

(a) They adopt a common approach in basic model formulation;

(b) Consideration of the effective allocation of costs and benefits to periods in which they occur is the same;

(c) They both focus on the justification of present investment cost in terms of its future return;

(d) They apply discounting techniques which take time value of money into consideration; and

(e) They apply decision rules for selecting investments.

Dissimilarities between cost-benefit analysis and commercial investment appraisal methods

(a) The application of cost-benefit analysis focuses more on the macro- economy and the attendant benefits, while commercial investment appraisals address evaluation on micro-perspective level.

(b) Cost-benefit analysis considers all factors, including the cost of 'harms' done to the environment, unhealthy competition, the effects on the work force, etc. The only cost relevant in commercial appraisal is that falling directly on the enterprise.

(c) On the principle of preparedness to pay, cost benefit analysis adopts wider definition to include what can be above or below the commercial price. On the other hand, commercial appraisal considers only the effective demand, that is, buying more at lower price or less at higher price.

Cost-benefit analysis and project evaluation

The following methods are adopted in the selection of projects under cost-benefit analysis:

(a) Benefit/cost comparison

This method compares estimated benefits and costs of project to be undertaken. The decision criterion is that if benefits are greater than the costs of a project, it should be accepted for implementation, otherwise, it should be rejected.

The major weaknesses of this method are:

(i) It ignores the effect of inflation on values used in the computation; and

(ii) The figures and other details used are not relative.

(b) Benefit-cost ratio

This method assesses estimated benefits as a ratio of estimated cost. The decision rule is that if the ratio is greater than one (1) the project should be accepted, otherwise, it should be rejected.

Advantages of the benefit-cost ratio

(i) It produces comparable results.

(ii) The benefits/costs used in the calculations are discounted.

Disadvantages of the method

The method ignores the time-value of money as in Benefit/Costs Comparison approach.

(c) **Merits and demerits of cost-benefit analysis**

Merits of the technique.

The advantages of the approach are as follows:

(i) It takes into consideration monopolistic power of government over vital public projects;

(ii) It considers not only financial commitments on a project but also favourable and unfavourable impacts of the project on the society. Non-consideration of these impacts may jeopardise the lofty goals of the project despite the size of financial commitment;

(iii) Cost-benefit analysis is a viable option for project appraisal in government, bearing in mind its service-rendering goal;

(iv) This appraisal technique serves as a check on the excesses of political decisions which most of the time ignore economic and social costs and benefits of a project on the society; and

(v) It is easy to apply.

Demerits of the approach

(i) Dissimilar projects are not, most of the time, evaluated and considered together, for example cost-benefit of constructing a road and school will not be considered, but only similar items.

(ii) Final selection may be based on unjustifiable factors, for example political, social, geographical and historical factors.

(iii) It requires comprehensive and intelligent data collection and analysis for which the public sector is noted to be deficient.

(iv) **Indirect user benefits:** Alternative methods of valuing benefits result in different outcomes. Given the different approaches, there is difficulty in choosing an appropriate monetary measure. One has to contend, therefore, with the problem of whether or not to use the technique as a means of investment appraisal.

(v) **Spill-over effects:** There is the necessity to distinguish between technological and pecuniary 'spill-overs'. The decision maker faces the problem of how to include these effects in the analysis. "Spill-over" is a situation where an action or project has a lot of indirect benefits. For example, a raw material supplier may install a modern and efficient machinery for production. Apart from the availability of cheap raw materials,

other benefits derivable may include standardised, quality and timely supply always.

(vi) **Double counting:** A difficult problem to address is 'double counting'. This is a situation in which the cost may be counted twice or more, in the process of compilation. For example, the cost may be taken into account as raw material and later as finished product.

(vii) **Rate of interest chosen for discounting:** The problem here is the ability to determine the appropriate interest rate to apply for discounting future costs and benefits. "The market rate" and "the social rate" have to be considered. 'social rate' of interest is that fixed for some other reasons, such as connection, it is lower than the market rate and may be fixed for a group of individuals. The market rate is for the supply and demand of money in the money market. It is the commercial rate which reflects the worth of money.

(viii) **Uncertainty:** The problem is how to reach decisions in situations where trend analysis affords little or no guidance for the future. Situations of uncertainties, unlike risks, do not offer themselves for mathematical manipulation.

(ix) **Evaluating the distributional effects:** The idea of formal cost benefit analysis does not distinguish between benefits received by 'different individuals' or groups of people. It does not take position with regards to who benefits and who bears the cost. There is a misgiving that prevailing fashions and human behaviour may blur the interpretation of the distribution effects.

(x) **Subjectivity:** Measuring costs and benefits may involve using subjective indices to draw conclusions.

38.4.5 Cost-effectiveness analysis - (CEA)

The cost effectiveness analysis (CEA) is an approach for picking among alternative lines of action in public sector organisations regarding their effectiveness in attaining specified objectives. The approach identifies either the least cost method of realising an objective or the maximum output attainable at a given cost. In contrast to cost-benefit analysis (CBA), the focus is on cost and not so much on the benefit. Cost effectiveness analysis does not attempt to supply information on the benefits of achieving goals. Rather, the emphasis is on the least or minimal cost of achieving the specific objective of a public sector project. For example, CEA might compare the cost of two different treatments for a disease, measuring the outcomes in terms of life years gained or quality of life improvement.

Procedure of cost effectiveness analysis in the appraisal of a public project

The steps are:

(a) **Objective definition:** to determine the actual target. What are the projects?

(b) **Sourcing and assessment of alternatives:** After the public project has been determined, what are the cost alternatives that are available? The information in this regard must be collated.

(c) **Selection of measure to be adopted:** It must be determined what types of approaches will enable management to achieve the set objectives within a reasonable period of time.

(d) **Development of cost estimates:** Cost estimates should be collated, addressing the issues of what to include and how to measure them.

(e) **Having ascertained the adequacy of cost effectiveness** measures and relying on the information on cost estimates, the public sector organisation evolves the final decision, based on the principle of least cost.

Limitations of cost-effectiveness analysis

(a) Procedures are subjective, since they are based on the personal judgment of the decision-maker.

(b) What is an appropriate measure of effectiveness cannot be easily resolved.

(c) It may lead to wrong decisions resulting from imperfect information on which costs are based and benefits derived.

38.4.6 Key differences and similarities between cost benefit analysis and cost effectiveness analysis

(a) **Monetary vs. non-monetary:**

CEA focuses on outcomes expressed in natural units, while CBA expresses all costs and benefits in monetary terms.

(b) **Focus:**

CEA focuses on efficiency (cost per unit of outcome), while CBA focuses on net benefits.

(c) **Decision-making:**

Both CEA and CBA can be valuable tools for decision-making, helping to determine which interventions are most cost-effective or which interventions offer the greatest net benefits.

(d) **Application:**

CEA is often used in healthcare to compare different treatments, while CBA is used in broader economic contexts, such as infrastructure projects.

In summary: CEA is a valuable tool for evaluating the efficiency of interventions by comparing costs to outcomes, while CBA is used to determine the net monetary benefits of a project or action. Both analyses can inform decision-making and help prioritise interventions that are most effective and efficient.

38.4.7 Cost outcome analysis

Cost outcome analysis encompasses different methods for evaluating interventions, focusing on either cost, outcomes, or both. Key types include cost-benefit analysis

(CBA), cost-effectiveness analysis (CEA), cost-utility analysis (CUA), and cost-minimisation analysis (CMA).

Types of cost outcome analysis

(a) **Cost-Benefit Analysis (CBA):**

This method compares the costs of an intervention to the monetary benefits it generates, expressed in monetary units. It is useful for evaluating projects where both costs and benefits can be quantified in monetary terms, such as infrastructure projects or investments.

(b) **Cost-Effectiveness Analysis (CEA):**

CEA assesses the cost of an intervention in relation to its effectiveness, which is measured in non-monetary units (for example, improved health outcomes, increased productivity). It is particularly valuable in healthcare and public health, where the focus is on comparing the cost of different interventions to achieve similar outcomes.

(c) **Cost-Utility Analysis (CUA):**

CUA builds on CEA by considering the quality of life associated with the outcomes. It uses measures like Quality-Adjusted Life Years (QALYs) to reflect both the quantity and quality of life gained from an intervention. CUA is often used in healthcare to compare interventions with varying effects on quality of life.

(d) **Cost-Minimisation Analysis (CMA):**

CMA assumes that all interventions have equivalent outcomes, so the focus is on selecting the least costly option. It is used when the effectiveness of different options is considered to be the same, allowing for a focus on reducing costs.

(e) **Cost-Consequence Analysis:**

This type of analysis examines the costs and consequences of alternatives, but does not explicitly compare them or recommend a preferred option.

In summary, cost outcome analysis involves various approaches to assess the economic efficiency of interventions, ranging from comparing costs and benefits to considering the quality of life alongside effectiveness.

38.5 Externalities

The term externalities refers to economic effects, which may be positive (gains) or negative (losses) flowing from production or consumption of goods and/or services by one economic unit into the utility function of another economic unit. In other words, it is a situation whereby consumption benefit cannot be limited and charged to a consumer or where economic activity results in social cost which need not be paid for by the producer/consumer who causes them; that is, the externality generator. The essence of the above condition is that interdependence between two or more economic agents arises from the presence of real variables in the receiving party's utility function.

38.5.1 Nature of externalities

(a) Externalities are unintended effects or involuntary transactions.
(b) Externalities cannot be adequately priced or valued through the market system

38.5.2 Causes of externalities

There are two principal causes of externalities. They are:

(a) Production activities
(b) Consumption activities
    (i) **Production externalities**. It exists where production activities result into gains or losses to the people within a locality without any form of price or compensation paid. For example, oil exploration will generate hazardous effects (losses) and employment and business opportunities (gains) to the people within the precinct of production activities. This shows that the profit that a firm makes does not only depend on its activities but is influenced by the activities of other economic units in the business environment.

    (ii) **Consumption externalities.** This occurs when consumption benefit cannot be limited and charged to a particular consumer. This arises when there is interdependence in the consumption activities of individuals within an area without any form of compensation or price paid to the externality generator. This implies that the utility of individual consumption activities will impact on the utility of another within the community.

38.5.3 Types of externalities

Externalities may be either of these types:

(i) **Negative externalities.** This refers to the losses suffered by an economic entity because of the activities of another economic unit. For example, an airplane flying or train moving will evoke a great deal of noise that will disturb the peace of the environment.

(ii) **Positive externalities.** It is the gain or benefit realized from the activities of another economic unit without the externality generator being compensated. For instance, construction of an expressway will create new market to the villages around the corridor. Positive externalities will lead to increase in production and consumption of goods and services.

38.6 Chapter review

This chapter covers how organisations make investment decisions when faced with limited resources that have alternative uses and the different techniques of investment appraisal.

38.7 Worked examples

38.7.1 Examination type questions

1 Omuro Local Government Council is considering investing in one of three available projects of 'A', `B', and 'C'. The following information are available:

	Project A	Project B	Project C
	₦	₦	₦
Initial investment sums	15,000	20,000	20,000
Residual value	1,000	1,000	1,000
Cash inflows: Year 1	6,000	10,000	1,000
Year 2	7,000	10,000	6,000
Year 3	8,000	1,000	10,000
Year 4	9,000	1,000	20,000

Assume the cost of capital to be 10%.

Required:

(a) Advise as to which of the projects should be selected under each of the scenarios stated above, using the 'pay-back period', 'net present value' and 'accounting rate of return' methods of appraisal.

(b) Differentiate between cost-benefit analysis and cost-effectiveness analysis.

2 Owode Water Board of Yelwa State decided to expands its facilities to make portable water available to the community. The state government expressed interest in the project and invited the Federal Government and the World Bank to participate in it. Eventually, it was agreed that the project which would span over three (3) years, would be financial, as follows:

	%
Owode Water Board	20
Yelwa State Government	25
Federal Government	25
World Bank	30
	100

Experts estimated that the project will cost N20 billion, at today's monetary value. The World Bank is ready to pay its own contribution immediately. The Federal Government will pay in one year's time while Yelwa State Government and Owode Water Board will pay their own contribution in 2 years' time.

The project was contracted to BABLOD Work Limited based on the agreed schedule of contributions. Additionally, an extra amount of N5million will be paid to the contractor on the completion of the water-project in year 4 by the Water Board. Payments not made immediately will attract interest at 14% per annum.

Required:

(a) Ascertain the cash payable and actual payments made by each contributor, showing the year of payment applicable in view of the time value of money.

(b) Compute the eventual cost of the project in present value terms.

3Given the data on costs and benefits of alternative health care projects being proposed by Ipare local government area with a fixed budget constraints of ₦7 million naira.

Projects	Costs (₦'000)	Benefit (₦'000)
a.	3,000	4,200
b.	1,250	1,000
c.	500	1,250
d.	800	1,040
e.	2,000	4,000
f.	3,050	3,300
g.	1,450	1,750

Required:

(a) Rank the projects based on benefit-cost ratio and select projects with highest benefit within the budget constraint.

(b) Determine the mix of projects which yield the largest net benefit.

(c) Determine the project mix that minimise the amount left over subject to the constraint that project must have benefit-cost ratio in excess of 1(one).

4 In economics, the decisions of individuals, firms, or governments often have unintended consequences on others who are not directly involved in the transaction. These side effects, known as externalities, can either benefit or harm third parties. Understanding externalities is crucial for designing effective public policies .

Required:

(a) Explain externalities.

(b) Differentiate between the following pairs:

(i) Consumption and production externalities

(ii) Positive and negative externalities.

Give **ONE** example of each.

38.7.2 Suggested solutions

1 (a) Omuro Local Government

(i) Using pay-back period method

Project:	A ₦	B ₦	C ₦
Outflow initial investment	(15,000)	(20,000)	(20,000)
Less: inflow in Year 1	6,000	10,000	1,000
	(9,000)	(10,000)	(19,000)
Less: inflow in Year 2	7,000	10,000	6,000
	(2,000)		(13,000)
Less: inflow in Year 3	8,000		10,000
	6,000		10,000

Based on the above method, project B was able to offset its initial capital injected, in two (2) years. It should therefore be selected in preference to project B. 'C' should be rejected.

(ii) Using the net present value method

Project A	Year	Cash flows ₦	Discount factor 10%	NPV ₦
	0	(15,000)	1.0000	(15,000)
	1	6,000	0.9090	5,454
	2	7,000	0.8264	5,785
	3	8,000	0.7513	6,010
	4	9,000	0.6830	6,147
	Residual	1,000	0.6830	683
	value		NPV	9,079

Project B	Year	Cash flows ₦	Discount factor 10%	DCF ₦
	0	(20,000)	1.0000	(20,000)
	1	10,000	0.9090	9,090
	2	10,000	0.8264	8,264
	3	1,000	0.7513	751
	4	1,000	0.6830	683
	Residual	1,000	0.6830	683
	value		NPV	(529)

Project C Year	Cash flows ₦	Discount factor 10%	DCF ₦

0	(20,000)	1.0000	(20,000)
1	1,000	0.9090	909
2	6,000	0.8264	4,958
3	10,000	0.7513	7,513
4	20,000	0.6830	13,660
Residual	1,000	0.6830	683
value		NPV	7,723

Based on net present value method, the local government is advised to invest in project A because it has the higher net present value of ₦9,079. Project C has negative net present value of ₦529 and is completely rejected. Project C offers positive net present value of ₦7,723 and is acceptable after 'A'.

(iii) Using accounting rate of return

Project Year	Inflow	A Dep.	Acct profit	Inflow	B Dep.	Acct profit	Inflow	C Dep.	Acct profit
	₦	₦	₦	₦	₦	₦	₦	₦	₦
1	6,000	3,500	2,500	10,000	4,750	5,250	1,000	4,750	(3,750)
2	7,000	3,500	3,500	10,000	4,750	5,250	6,000	4,750	1,250
3	8,000	3,500	4,500	1,000	4,750	(3,750)	10,000	4,750	5,250
4	9,000	3,500	5,500	1,000	4,750	(3,750)	22,000	4,750	17,250
Total	**30,000**		**16,000**	**22,000**		**3,000**	**37,000**		**20,000**

Depreciation	$\frac{15,000-1,000}{4}$ = ₦3,500	$\frac{20,000-1,000}{4}$ = ₦4,750	$\frac{20,000-1,000}{4}$ = ₦4,750
Av. Acct. Profit	$\frac{16,000}{4}$ = ₦4,000	$\frac{3000}{4}$ = N750	$\frac{20,000}{4}$ = ₦5,000
Av. Inv.	$\frac{15,000+1,000}{2}$ = ₦8,000	$\frac{20,000+1,000}{2}$ = ₦10,500	$\frac{2,0000+1,000}{2}$ =₦10,500
ARR= AAP/ AI	$\frac{4,000}{8,000}$ =0.50 or 50%	$\frac{750}{10,500}$ =0.0714 or 7.14%	$\frac{5,000}{10,500}$ =0.4762 or 47.62%

The Omuro Local Government Council should invest in project A because it has the highest accounting rate of return of 0.50 or 50% approximately. 'C' ranks second whilst 'B' comes third.

(b) Cost-benefit analysis is an analytical tool in decision-making which enables a systematic comparison to be made between the estimated total cost (financial and social costs) of undertaking a project and the estimated value of total benefit (revenue and social benefits) which may be obtained from its execution. The technique seeks as a minimum the point of equilibrium between costs and benefits of a proposed project initiated by either the Government or demanded

by the populace. Cost effectiveness analysis identifies either the least cost method of realising an objective or the maximum output attainable at a given cost. Cost effectiveness manages only cost and not so much the benefit, in contrast to Cost-benefit analysis. Cost effectiveness analysis does not attempt to supply information on the benefit of achieving goals.

2(a) (i) Owode Water Board

Cost of expansion of water facilities Determination of proportionate cash payable Total project cost = ₦20,000,000,000

Contributors	**Contribution %**	**Amount ₦'000**
Owode Water Board	20	4,000,000
Yelwa State Government	25	5,000,000
Federal Government	25	5,000,000
World Bank	30	6,000,000
	100	20,000,000

(b i.) (ii) Schedule of actual payments made

Contributors	**Year**	**Amount ₦'000**
World Bank	0	6,000,000
Federal Government (amount due one-year interest) (N5,000,000,000 x 1.14) Yelwa State Government	1	5,700,000
(amount due + 2 years interest)	2	6,498,000
Owode Water Board (amount due + 2 years interest) (N4,000,000,000 x 1.142)	2	5,198,400
Total payment made		**23,396,400**

(b ii.) **Net present value of the project cost**

Contributor	**year**	**Amount ₦'000**	**PV**	**NPV ₦'000**
World Bank	0	(6,000,000)	1.000	(6,000,000)
Federal Government	1	(5,700,000)	0.877	(4,998,900)
Yelwa State Government	2	(6,498,000)	0.769	(4,996,962)
Owode Water Board	2	(5,198,400)	0.769	(3,997,569.6)
Additional payment Bablod Ltd.	4	(5,000)	0.592	(2,960.00)
Net present value (of the project cost)				19,996,391.6

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3(a) Ranking the projects based on benefit cost ratio

Projects	Costs ₦'000	Benefit ₦'000	Net Benefit ₦'000	B/C	Ranking
A	3000	4200	1200	1.4	3
B	1250	1000	-250	0.8	7
C	500	1250	750	2.5	1
D	800	1040	240	1.3	4
E	2000	4000	2000	2.0	2
F	3050	3300	250	1.1	6
G	1450	1750	300	1.2	5

Projects with highest benefit by B-C-R ranking

Projects	Costs ₦'000	Benefit ₦'000	Net Benefit ₦'000
C	500	1250	750
E	2000	4000	2000
A	3000	4200	1200
D	800	1040	240
Total	6,300	10,490	4,190
Budget	7,000		
Left over	700		

From the above table, there is an amount of N700,000 that left over which is not sufficient for execution of another project. Hence there is need to alternative mix of project that will minimise left and more benefit

3(b) Projects with highest net benefit

Projects	Costs ₦'000	Benefit ₦'000	Net Benefit ₦'000
E	2000	4000	2000
A	3000	4200	1200
C	500	1250	750
G	1450	1750	300
Total	6,950	11,200	4,250
Budget	7,000		
Left over	50		

In this case, there is increased benefit with minimal left over amount. This combination is preferred to the previous selection.

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3(c) Projects that minimise left over amount with b-c ratio >1

Projects	Costs ₦'000	Benefit ₦'000	Net Benefit ₦'000
C	500	1,250	750
G	1,450	1,750	300
F	3,050	3,300	250
E	2,000	4,000	2,000
Total	7,000	10,300	3,300
Budget	7,000		
Left over	nil		

This mix of projects used the entire budget size but with less benefits as compared with the two previous mixes. Since the benefits in this last selection are less than the previous, it should not be considered. Therefore, the options should be between the first two project selections. The second project mix should be preferred; however, it violates the ranking rule by choosing projects e and a over c. But it can be considered because of the higher benefit.

4 (a) **Externalities**

The term externalities refer to economic effects, which may be positive (gains) or negative (losses) flowing from production or consumption of goods and/or services by one economic unit into the utility function of another economic unit. In other words, it is a situation whereby consumption benefit cannot be limited and charged to a consumer or where economic activity results in social cost which need not be paid for by the producer/consumer who causes them; that is, the externality generator.

The internal effects of the economic actions are referred to as private benefits and costs while the external effects are called social benefits and costs which are not included in the market prices of goods and prices. This means that the external effects cannot be priced in the market with respect to demand and supply behaviour.

4 (b) **Forms of externalities**

(i) Consumption and production externalities. This occurs when consumption benefit cannot be limited and charged to a particular consumer. This arises when there is interdependence in the consumption activities of individuals within an area without any form of compensation or price paid to the externality generator. Smoking is a consumption activity that may become harmful not only to the smoker but also to those around during the period the activity is taking place. Garlic is a plant considered medicinal. However, eating or chewing it by an individual may cause others around some discomfort.

(ii) **Production externalities** on the other hand, exist where production activities result into gains or losses to the people within a locality without any form of price or compensation paid. For example, oil exploration will generate hazardous effects (losses) and employment and business opportunities (gains) to the people within the precinct of the production activities. This shows that the profit that a firm makes does not only depend on its activities but is influenced by the activities of other economic units in the business environment.

(iii) **Positive and negative externalities**

i. **Positive externalities.** It is the gain or benefit realised from the activities of another economic unit without the externality generator being compensated. For instance, construction of an expressway will create new markets for villages around the corridor. Positive externalities will lead to increase in production and consumption of goods and services.

ii. **Negative externalities** refer to the losses suffered by an economic entity because of the activities of another economic unit. For example, an airplane flying or train moving will evoke a great deal of noise that will disturb the peace of the environment at that moment.

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Skills Level
Public Sector Accounting and Finance

CHAPTER 39

EMERGING ISSUES IN PUBLIC FINANCE

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39 Emerging Issues in Public Finance

39.0 Learning objective

The objective of this chapter is to enhance readers' understanding of business cycle or economic cycle and reasons for privatisation.

39.1 Learning outcomes

On successful completion of this chapter, the reader should be able to understand:

(a) the concept of business or economic cycle;
(b) the characteristics of the phases of the cycle;
(c) the private finance initiatives; and
(d) the privatisation and commercialisation.

39.2 Business cycle

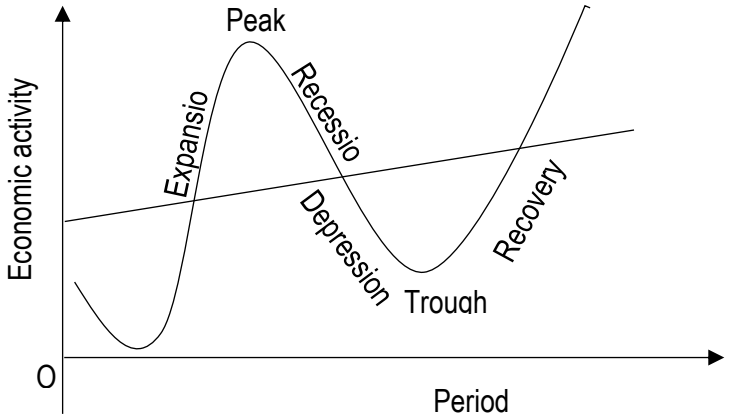
Business cycle is also known as economic cycle or trade cycle, describes the alternating periods of boom and depression in an economy during a given period. In other words, it refers to the upward and downward movements (fluctuations) as revealed in the national gross domestic product during a given period. The business cycle in its general sense may be defined as an alternation of periods of prosperity and depression; and of good and bad trade. It is the type of fluctuation found in aggregate economic activities of nations that organise their work mainly in the form of business enterprises. A business cycle consists of expansions occurring at about the same time in many economic activities followed by similarly general recessions, contractions and revivals or recoveries which merge into the expansion phase of the next cycle. This sequence of changes is recurrent but not periodic.

This implies that they do not have a fixed rhythm, but they are cycles in that the phases of contraction and expansion recur frequently and in fairly similar patterns. An important point to be noted in the case of business cycle is that no cycle is perfectly regular with uniform frequency and amplitude, that is, the time taken to move from one peak level of output to the next would not always be the same, nor the level of output and employment would always vary in the same proportion between the upper and lower turning-points. Business cycles are recurrent fluctuations in aggregate employment, income, output and price level.

A typical business or economic cycle is generally divided into different phases:

(a) Expansion or prosperity
(b) Peak or boom
(c) Recession
(d) Depression
(e) Trough; and
(f) Recovery.

The phases of a business or economic cycle is illustrated graphically:



(a) Expansion

In the expansion phase, there is an increase in various economic factors, such as employment, output, wages, profits, demand and supply of products and sales. In addition, the prices of factors of production and output increase simultaneously. In this phase, debtors are generally in good financial condition or pay their debts; therefore, creditors lend money at higher interest rates. This leads to an increase in the flow of money. Due to increase in investment opportunities, idle funds of organisations or individuals are utilised for various investment purposes. Consequently, the cash inflow and outflow of businesses equilibrate. This expansion continues till the economic conditions become favourable.

(b) Peak

The growth in the expansion phase eventually slows down and reaches to its peak. This phase refers to the point at which the increase in growth rate of business activities attains its maximum limit. In the peak phase, the economic factors, such as output, profit, sales, income and employment, are higher, but do not increase further. There is a gradual decrease in the demand of various products due to increase in the prices of input. The increase in the prices of input leads to an increase in the prices of final products, while the income of individuals remains constant. This causes consumers to restructure their monthly budgets. Consequently, the demand for products, such as jewelleries, homes, automobiles, refrigerators and other durables, starts falling.

(c) Recession

As discussed above, in the peak phase, there is a gradual decrease in the demand of various products due to increase in the prices of input and budget adjustment by consumers. When the decline in the demand for products becomes rapid and steady, recession phase sets in. In this phase, all the economic factors, such as output, prices, savings and investment, start declining. Generally, producers are unaware of decrease in the demand for products and they continue

to produce goods and services. In such a case, the supply of products exceeds the demand.

(d) Depression

Over time, producers realise the surplus of supply when the cost of manufacturing of a product is more than revenue generated. This condition is firstly experienced by few industries, but slowly spreads to all industries. This situation is firstly considered as a small fluctuation in the market, but as the problem persists for a longer period, producers start noticing it. Consequently, producers cut down on further investment in factors of production, such as labour, machinery, and furniture. This leads to the reduction in the prices of factors, which results in the decline of demand of inputs as well as output.

(i) **Trough:**

During the trough phase, economic activities of a country decline below the normal level. In this phase, the growth rate of an economy becomes persistently negative. In addition, there is a rapid decline in national income and expenditure. In this phase, it becomes difficult for debtors to pay off their debts. As a result, the rate of interest decreases; therefore, banks reduce lending. Consequently, banks face the situation of increase in their cash balances.

Apart from this, the level of economic output of the country becomes low and unemployment becomes high. In addition, in-trough phase, investors do not invest in stock markets and many weak organisations leave the industries or collapse. At this point, an economy reaches the lowest level of shrinking.

(ii) Recovery:

In the trough phase, the economy reaches the lowest level of shrinking. Once the economy touches the lowest level, it happens to be the end of negativism and beginning of positivism. In this phase, there is a turnaround at the trough and the economy starts recovering from the negative growth rate. Demand starts to pick up due to the lowest prices and consequently, supply starts reacting, too. The economy develops a positive attitude towards investment and employment and hence, production starts rising. Employment also begins to rise and due to the accumulated cash balances with bankers, lending also shows positive signals. In this phase, depreciated capital is replaced by producers, leading to new investment in production processes. Recovery continues until the economy returns to steady growth levels. This completes one full business cycle of boom and contraction. The extreme points are the peak and the tough.

39.3 Public private partnership (3Ps)

A public–private partnership (PPP 3 Ps or P3) is a cooperative arrangement between two or more public and private sector entities, typically of a long-term nature. Governments have used such a mix of public and private endeavours throughout history.

A public private-partnership typically involves a private entity financing, constructing, or managing a project in return for a promised stream of payments directly from government or indirectly from users over the projected life of the project or some other specified period of time. Public-private partnership often involves a contract between a public sector authority and a private entity, in which the private entity provides a public service or project and assumes substantial financial, technical and operational risk init.

Types of private finance initiative

(a) **Design-build (DB):** The private-sector partner designs and builds the infrastructure to meet the public-sector partner's specifications, often for a fixed price. The private-sector partner assumes all risk.

(b) **Operation and maintenance (O & M):** The private-sector partner, under contract, operates and maintains a publicly-owned asset for a specific period of time. The public partner retains ownership of the assets. Concessioning of port terminals, Bus Rapid Transit (BRT) and Asaba International Airport are examples under this category.

(c) **Design-build-finance-operate and transfer (DBFOT):** The private-sector partner designs, finances and constructs a new infrastructure component and operates/maintains it under a long-term lease. The private-sector partner transfers the infrastructure component to the public-sector partner at the expiration of the lease. Lekki Epe expressway is a good example of this type of private finance initiative.

(d) **Build own-operate (BOO):** The private-sector partner finances, builds, owns and operates the public sector infrastructure component in perpetuity. The public-sector partner's constraints are stated in the original agreement and through on-going regulatory authority.

(e) **Build-operate-transfer (BOT):** The private-sector partner is granted authorization to finance, design, build and operate an infrastructure component (and to charge user fees) for a specific period of time, after which ownership is transferred back to the public-sector partner. Murtala Muhammed Airport 2 (MM2), rehabilitation and upgrade of Murtala Muhammed Airport Road, development of Katampe District are some examples of this type of public.

Advantages of private finance initiatives

(a) **Efficiency:** There is the belief that the private sector is better at managing investment projects and achieving overall cost efficiencies than the public sector which is bedevilled with unnecessary bureaucracies

(b) **Extra investment:** Extra funding can kick-start more projects thereby bringing about economic and social benefits. The private finance initiatives (PFI) provide private sector funds for projects that might prove difficult for government to finance through higher borrowing and taxes. Projects supporting health or education will improve productive capacity, increase economic growth and can therefore be funded out of future incomes that the projects help to generate.

(c) **Delivery:** The private sector is not paid until the asset has been delivered, which encourages timely delivery. PFI construction contracts are fixed price contracts with financial consequences for contractors, if delivered late.

(d) **Dynamic efficiency:** Private sector is better placed to bring innovation and good design to projects, higher quality of delivery and lowering of maintenance costs. The bidding process for PFI projects creates competition at the point of tendering.

Disadvantages of private finance initiatives

(a) **Debt costs:** Private finance has always been more expensive than government borrowing, but, since the financial crisis the difference between the costs has widened significantly. The difference in finance costs means that PFI projects are significantly more expensive to fund over the life of a project. This represents a significant cost to taxpayers.

(b) **Inflexibility and poor value for money:** Long service contracts may be difficult/costly to change – especially when the management of a project seems to have gone wrong. There have been many stories of flawed projects for example private firms contracted out to provide car parking, cleaning and other services in hospitals built and run as part of a PFI. Infrastructure may not be designed to last more than the length of the contract and will need replacing or maintenance at high costs.

(c) **Risk:** The ultimate risk with a project lies with the public sector (government). Private finance agreements are complicated to organize and there is no guarantee that the private sector will make a better cost benefit analysis of a project than the public sector.

(d) **Administration:** High spending on advisors, lawyers and the costs of the bidding process. The cost of bidding for a PFI project may be unnecessarily too high for the public sector, thereby increasing the estimated budgetary provision.

(e) **Addiction:** Governments can become addicted to PFI - "the only game in town" rather than using government borrowing for key projects. The PFI have added to public sector debt, but, created many private sector fortunes.

39.4 Privatisation and commercialisation

Privatisation involves redefining the role of the government in economic management by having it disengage from those activities which are best handled by the private sector with the overall objective of achieving economic efficiency. Privatisation may involve divestment option and non-divestment option. Whereas the former is the privatisation of capital, the latter relates to privatisation of management and the

contracting out of public services (Commercialisation). Privatisation is defined as the economic restructuring that involves transfer of ownership interest and control from an enterprise hitherto public to private individuals, institutions and/or associations. In other words, it is the process whereby the size of an ineffective and inefficient public sector is reduced by transferring some of its functions to a relatively more efficient private sector.

Commercialisation, on the other hand, can be defined as the re-organisation of enterprises, or partially owned by government, thereby making such commercialised enterprises operate as profit-making commercial ventures without subvention from government.

It is a sensitive national issue, which requires that the government must be able to articulate its privatisation objectives so clearly as to enlist the support of the various sections of the society, who are going to be affected directly by the exercise. These groups of people include workers and managers of public enterprises, bureaucrats, politicians and the general public. They will have to be convinced of the benefits of privatisation, if a broad-based consensus is to be achieved.

Privatisation may take the following forms:

(a) **Full privatisation** implies complete divestment by the government of the ownership and control of the designated enterprises. Examples of enterprises with full privatisation include Flour Mills of Nigeria Plc., United Bank for Africa Plc., etc.

(b) **Partial privatisation** means that the government will sell only a part of its interest in equity in the designated enterprises in order to inject profit motive into the business.

(c) **Fully commercialised,** the government would cease to grant subventions, as such companies would be allowed to charge economic tariffs for services provided. The government still owns all the equity holdings. Example here includes Nigeria Airways Plc.

(d) **Partial commercialisation,** the enterprises will continue to enjoy some support from the government towards operating cost and future capital investment. The whole equity holdings still belong to the government. Included in this category was NEPA.

Why privatising?

The government's decision to privatise is informed by the relatively poor performance of government enterprises.

The identifiable reasons for poor performance of government enterprises

(a) The seemingly over-protection by government, for example, enjoyment of monopoly power;

(b) Lack of accountability, as financial statements of many public enterprises were not audited for years;

(c) The comparatively easy access to capital as government either provided loans and/ or subventions and banks did not subject loan applications by public enterprises to the usual rigorous evaluations;
(d) Lack of managerial autonomy and flexibility in pricing and investment decisions;
(e) Lack of competitive remuneration or adequate incentives to attract good managers;
(f) Also, there are no incentives to encourage introduction of new technology to modernize operations and introduce cost-saving measures; and
(g) Political interference which turned enterprises into employment agencies for political patronage.

These and many more factors resulted in the frustrating experience which the nation had to endure as a result of the poor performance of public sector enterprises since the attainment of independence in 1960.

Challenges of privatisation

To some critics, divestment by government will only worsen the plight of the poor and widen income inequalities. There is the fear that only few wealthy Nigerians would benefit from the exercise to the detriment of the masses. There is also the fear that foreign and/ or certain ethnic groups would buy up most of the shares offered, thereby consolidating their control and dominance of the economy.

Another major impediment to privatisation is the state of under development of the economy. With the down-turn of the economy, and inadequate loanable funds, there are limited capital funds and financial resources available to the generality of the private sector entities with which to purchase shares of public sector enterprises which will be privatised.

Another major constraint is the preparedness of the money and capital markets in the country for this exercise. Judging from the number and size of the companies that are slated for full or partial privatisation, it is very clear that the exercise will prove to be the biggest mass transfer of share ownership in the history of the Nigerian capital market.

Other constraints envisaged include the possibility of not valuing the shares properly. It is also possible that consumer so the products of the privatised companies may be unduly exploited in the type of prices charged.

Benefits of privatisation

(a) The programmes of privatisation and commercialisation have relieved the Federal Government of what used to be the huge and growing burden of financing the investment needs and operating deficits of the privatised enterprises.
(b) The performance of privatised enterprises so far has contributed considerable improvement in tax revenue to the government.
(c) Privatisation has greatly minimised the scope of political patronage in the form of board appointments. For example, under the first phase of the privatisation

programme, the Federal Government relinquished about 380 directorship positions in the privatised enterprises.

(d) Floatation of shares of privatised enterprises have greatly stimulated rapid growth of the Nigerian capital market. Such floatations had contributed to the deepening and broadening of the capital market.

(e) By reducing the reliance of public enterprises on the government for finance, the programme of privatisation has encouraged new investment in the enterprises concerned.

(f) The new operational autonomy of privatised enterprises and freedom from interference in the day-to-day management has somewhat improved the internal efficiency of these enterprises, allowing them to liberalise purchases and rationalise labour practices so as to increase profitability.

(g) Privatisation has massively expanded personal share ownership in Nigeria. The programme has also demystified the operations of the capital market, created awareness in the virtues of shareholding as a form of savings, rather than an elitist past time which it was thought to be. This is good for capital formation and development of the economy.

Unlike privatisation, commercialisation does not involve alienation of government shareholding to the private sector. However, it is aimed at improving efficiency in the management of the public enterprises resulting in less dependency on the government for funding. The main thrusts of the commercialisation programme under Decree 25 of 1988 were, to:

(a) provide enhanced operational autonomy at enterprise level;

(b) provide competitive remunerations system to be able to attract, recruit and retain suitably qualified personnel;

(c) evolve a more result-oriented and accountable management based on performance contracts;

(d) strengthen financial and accounting controls at the enterprise level;

(e) upgrade the management information system of the affected enterprises;

(f) ensure financial solvency of the public enterprises through effective cost recovery, cost control and prudent financial management; and

(g) remove bureaucratic bottlenecks and political interference through clear role definitions between the supervising Ministry, the board of directors and the management of public enterprises.

39.5 Bureau of Public Enterprises (BPE)

The Bureau of Public Enterprises (BPE) took over from the Technical Committee on Privatisation and Commercialisation (TCPC) after the latter had concluded its assignment. The main assignment of the BPE is to implement the privatisation programme. Privatisation in Nigeria was formally introduced by the Privatisation and Commercialisation Act of 1988, which later set up the Technical Committee on Privatisation and Commercialisation (TCPC) chaired by Dr. Hamza Zayyad with a mandate to privatise 111 public enterprises and commercialise 34 others. In 1993,

having privatised 88 out of the 111 enterprises listed in the decree, based on the recommendation of the TCPC, the Federal Military Government promulgated the Bureau of Public Enterprises Act of 1993, which repealed the 1988 Act and set up the Bureau of Public Enterprises (BPE) to implement the privatisation programme in Nigeria. In 1999, the Federal Government enacted the Public Enterprises (Privatisation and Commercialisation) Act; which created the National Council on Privatisation

The functions of the Bureau are categorised into two parts namely,

Privatisation functions

The functions of the Bureau with respect to privatisation are to:

(a) implement the council's policy on privatisation;
(b) prepare public enterprises approved by the council for privatisation;
(c) advise the council on further public enterprises that may be privatised;
(d) advise the council on the capital restructuring needs of the public enterprises to be privatised;
(e) carry out all activities required for the successful issue of shares and sale of assets of the public enterprises to be privatised;
(g) make recommendations to the council on the appointment of consultants, advisers, investment bankers, issuing houses, stock brokers, solicitors, trustees, accountants and other professionals required for the purposes of privatisation;
(h) advise the council on the allotment pattern for the sale of the shares of the public enterprises set out for privatisation;
(e) oversee the actual sale of shares of the public enterprises to be privatised by the issuing houses, in accordance with the guidelines approved, from time to time, by the council;
(i) ensure the success of the privatisation exercise taking into account, the need for balance and meaningful participation by Nigerians and foreigners in accordance with the relevant laws of Nigeria; and
(j) perform such functions with respect to privatisation as the council may, from time to time, assign to it.

Commercialisation functions

The functions of the Bureau in respect of commercialisation are to:

(a) implement the council's policy on commercialisation;
(b) prepare public enterprises approved by the council for commercialisation;
(c) advise the council on further public enterprises that may be commercialised;
(d) ensure the updating of the accounts of all commercialised enterprises to ensure financial discipline;
(e) ensure the success of the commercialisation exercise and monitor, on a continuous basis for such period as may be considered necessary, the operations of the public enterprises after commercialisation;
(f) review the objectives for which public enterprises were established in order to ensure that they adapt to the changing needs of the economy;

(g) ensure that public enterprises are managed in accordance with sound commercial principles and prudent financial practices;
(h) interface with the public enterprises, together with the supervising Ministries, in order to ensure effective monitoring and safeguard of the public enterprises' managerial practices;
(i) ensure that the board and management of each commercialised enterprise and the government of the federation keep to the terms and conditions of the performance agreements, if any, between the public enterprise concerned and the government of the federation;
(j) maintain and review on a continuous basis, any performance agreement between a public enterprise and the government of the federation;
(k) evaluate and recommend to the council whether or not a public enterprise is eligible for funding through grants, loans, subventions or equity; and
(l) perform such functions with respect to commercialisation as the Council may, from time to time, assign to it.

Powers of the Bureau

The Bureau shall, subject to the overall supervision of the Council, have power to:
(a) acquire, hold and manage movable and immovable property;
(b) enter into contracts or partnerships with any company, firm or person which in its opinion will facilitate the discharge of its functions;
(c) request for and obtain from any public enterprise statistical and other information including reports, memoranda, audited accounts and other information relevant to its functions under this act; and
(d) liaise with relevant bodies or institutions locally or overseas for effective performance of its functions under this Act.

Establishment of privatisation proceeds account

(1) There is hereby established in the Central Bank of Nigeria an account to be known as the privatisation proceeds account into which shall be paid all proceeds received from the privatisation of public enterprises before and after the commencement of this Act.
(2) The funds in the account established under subsection (1) of this subsection shall be utilised for such purposes as may be determined by the Government of the Federation from time to time.

Fund of the Bureau

(1) The Bureau shall establish and maintain a fund, to be approved by the Council, from which shall be defrayed all expenditure incurred by it.
(2) There shall be paid and credited to the fund established pursuant to subsection (1) of this section:
    (a) The annual subvention received from the Government of the Federation;
    (b) Such money as may, from time to time, be lent, deposited with or granted to the Bureau by the Government of the Federation, or of a state, or a local government;

(c) All subventions, fees, and charges for services rendered or publications made by the Bureau; and
(d) All other assets which may, from time to time, accrue to the Bureau.

(3) The fund shall be managed in accordance with rules made by the Council and without prejudice to the generality of the power to make rules under this subsection, the rules shall in particular contain provisions:
(a) specifying the manner in which the assets or the fund of the Bureau are to be held and regulating the making of payments into and out of the fund; and
(b) requiring the keeping of proper accounts and records for the purposes of the fund in such form as may be specified in the rules.

39.6 Chapter review

This chapter covers business cycle (economic cycle), alternative means of funding public sector infrastructure through private finance initiatives, and different forms of 3Ps, including their advantages and disadvantages. The chapter also covers privatisation and commercialisation.

39.7 Worked examples

39.7.1 Examination type questions

1 In the study of macroeconomics, understanding the fluctuations in economic activity over time is essential for policymakers, businesses, and individuals alike.

Required:
(a) Discuss business cycle.
(b) Explain the various phases of business cycle.

2. It has been established that government alone cannot finance the infrastructural needs of the society, hence admittance of private initiative into the funding space is gaining prominence.

Required:
(a) Explain public private partnership.
(b) Explain **FOUR** types of public private partnership.
(c) Discuss **FOUR** benefits of public private partnership.

3 In the evolving landscape of public sector reform, governments around the world have adopted various strategies to improve service delivery, enhance efficiency, and stimulate economic growth. These include privatisation and commercialisation.

Required:
(a) Explain privatisation and commercialisation.
(b) Explain the following concepts:
(i) Full privatisation;
(ii) Partial privatisation;

(iii) Full commercialisation; and
(iv) Partial commercialisation.

(c) Discuss challenges associated with privatisation.

(d) Discuss **FIVE** benefits of privation/commercialisation.

39.7.2 Suggested solutions

1 (a) **Business cycle**

It refers to the alternating periods of boom and depression in an economy or the upward and downward movements (fluctuations) as revealed in the national gross domestic product. In its general sense, business cycle may be defined as an alternation of periods of prosperity and depression, and of good and bad trade. It is the type of fluctuation found in aggregate economic activities of nations that organise their work mainly in the form of business enterprises. A business cycle consists of expansions occurring at about the same time in many economic activities followed by similarly general recessions, contractions and revivals or recoveries which merge into the expansion phase of the next cycle. This sequence of changes is recurrent but not periodic. This implies that they do not have a fixed rhythm, but they are cycles in that the phases of contraction and expansion recur frequently and in fairly similar patterns. An important point to note in the case of business cycle is that no cycle is perfectly regular with uniform frequency and amplitude.

1 (b) Phases of business cycle Expansion

This phase is characterised by an increase in various economic factors, such as employment, output, wages, profits, demand and supply of products, and sales. In addition, the prices of factors of production and output increase simultaneously. In this phase, debtors are generally in good financial condition to repay their debts, therefore, creditors lend money at higher interest rates. Due to increase in investment opportunities, idle funds of organisations or individuals are utilised for various investment purposes. Consequently, the cash inflow and out flow of businesses equilibrate.

Peak

The growth in the expansion phase eventually slows down and reaches to it speak. This phase refers to the point at which the increase in growth rate of business activities attains its maximum limit. In the peak phase, the economic factors, such as output, profit, sales, income and employment, are higher, but do not increase further. There is a gradual decrease in the demand of various products due to increase in the prices of input.

Recession

When the decline in the demand for products becomes rapid and steady, the recession phase takes place. In this phase, all the economic factors, such as

output, prices, savings and investment, starts declining. Generally, producers are unaware of decrease in the demand for products and they continue to produce goods and services. In such a case, the supply of products exceeds the demand. Consequently, producers cut down on further investment in factors of production, such as labour, machinery, and furniture. This leads to reduction in the prices of factor, which results in the decline of demand of inputs as well as output.

Trough

During the trough phase, the economic activities of a country decline below the normal level. In this phase, the growth rate of an economy becomes persistently negative. In addition, there is a rapid decline in national income and expenditure. In this phase, it becomes difficult for debtors to pay off their debts. As a result, the rate of interest decreases, therefore, banks reduce lending. Consequently, banks face situation of increased cash balances.

Recovery

In the trough phase, the economy reaches the lowest level of shrinking. Once the economy touches the lowest level, it happens to be the end of negativism and beginning of positivism. In this phase, there is a turnaround at the trough and the economy starts recovering from the negative growth rate. Demand starts to pick up due to the lowest prices and consequently, supply starts reacting, too. The economy develops a positive attitude towards investment and employment and hence, production starts rising. Employment also begins to rise and due to the accumulated cash balances with bankers, lending also shows positive signals. Recovery continues until the economy returns to steady growth levels.

2(a) Public private partnership

This is a cooperative arrangement between the private sector and the public sector, where by the former undertakes to provide public services based on certain terms and conditions. A public private partnership typically involves a private entity financing, constructing, or managing a project in return for a promised stream of payments directly from government or indirectly from users over the projected life of the project or some other specified period of time. Public private partnership often involves a contract between a public sector authority and a private entity, in which the private entity provides a public service or project and assumes substantial financial, technical and operational risk in the project.

2(b) Types of private finance initiatives (PFIs)

(i) **Operation and maintenance (O & M):** The private-sector partner, under contract, operates and maintains a publicly-owned asset for a specific period of time. The public partner retains ownership of the assets.

(ii) **Design-build-finance-operate and transfer (DBFOT):** The private-sector partner designs, finances and constructs a new infrastructure component and operates/maintains it under a long-term lease. The private-sector

partner transfers the infrastructure component to the public-sector partner at the expiration of the lease.

(iii) **Build-own-operate (BOO):** The private-sector partner finances, builds, owns and operates the public sector infrastructure component in perpetuity. The public-sector partner's constraints are stated in the original agreement and through on-going regulatory authority.

(iv) **Build-own-operate-transfer (BOOT):** The private-sector partner is granted authorisation to finance, design, build and operate an infrastructure component (and to charge user fees) for a specific period of time, after which ownership is transferred back to the public-sector partner.

2 (c) Advantages of private finance initiatives

(i) **Efficiency:** There is the belief that the private sector is better at managing investment projects and achieving overall cost efficiencies than the public sector which is be devilled with unnecessary bureaucracies.

(ii) **Extra investment:** Extra funding can kick-start more projects, thereby bringing about economic and social benefits. The private finance initiatives (PFI) provide private sector funds for projects that might prove difficult for the government to finance through higher borrowing and taxes. Projects supporting health or education will improve productive capacity, increase economic growth and can therefore be funded out of future incomes that the projects help to generate.

(iii) **Delivery:** The private sector is not paid until the asset has been delivered, which encourages timely delivery. PFI construction contracts are fixed price contracts with financial consequences for contractors, if delivered late.

(iv) **Dynamic efficiency:** Private sector is better placed to bring innovation and good design to projects, higher quality of delivery and lowering of maintenance costs. The bidding process for PFI projects creates competition at the point of tendering.

3 (a) Privatisation and commercialisation

Privatisation involves redefining the role of the government in economic management by disengaging from those activities which are best handled by the private sector with the overall objective of achieving economic efficiency. Privatisation may involve divestment option and non-divestment option. Whereas the former is the privatisation of capital, the latter relates to privatisation of management and the contracting out of public services (commercialisation). Privatisation is defined as the economic restructuring that involves transfer of ownership interest and control from an enterprise hitherto public to private

individuals, institutions and or associations. In other words, it is the process whereby the size of an ineffective and inefficient public sector is reduced by transferring some of its functions to a relatively more efficient private sector. Whereas commercialisation, deals with the re-organisation of enterprises, wholly or partially owned by government, thereby making such commercialised enterprises operate as profit-making commercial ventures without subvention from the government.

3 (b) Privatisation may take the following forms:

(i) **Full privatisation** implies complete divestment of the ownership and control of the designated enterprises by the government. Examples of such enterprises for which full privatisation took place include Flour Mills of Nigeria Plc, United Bank for Africa Plc, etc;

(ii) **Partial privatisation** means that the government will sell only a part of its interest in equity in the designated enterprises in order to inject profit motive into the business;

(iii) **Full commercialisation** means the government would cease to grant subventions, as such companies would be allowed to charge economic tariffs for services provided. The government still owns all the equity holdings.
Example here includes Nigeria Airways Plc; and

(iv) **Partial commercialisation** means that enterprises will continue to enjoy some support from government towards operating cost and future capital investment. The whole equity holdings still belong to the government.

3 (c) Challenges of associated with privatisation

(i) **Geo-political spread:** It is believed that divestment by government will only worsen the plight of the poor and widen income inequalities. There is the fear that only few wealthy Nigerians would benefit from the exercise to the detriment of the masses. There is also the fear that foreign and/or certain ethnic groups would buy up-most of the shares offered, thereby consolidating their control and dominance of the economy.

(ii) I**nadequate loanable funds:** With the down-turn of the economy, and the inadequate loanable funds, there are limited capital funds and financial resources available to the generality of private sector entities with which to purchase shares of public sector enterprises that will be privatised.

(iii) **Depth of the financial market:** The capacity of the financial market, especially capital market to be able to absorb the shares to be released was a major constraint. Judging from the number and size of the companies that are slated for full or partial privatisation, it is very clear that the exercise will prove to be the biggest mass transfer of share ownership in the history of Nigerian capital market.

(iv) **Valuation issues:** There is the concern of improper valuation of enterprises to be privatized thereby depriving the public of their right benefits (maximum social advancement). It is also possible that consumers of the products of the privatised companies may be unduly exploited in the type of prices charged.

3 (d) Benefits of privatisation and commercialisation

(i) The programmes of privatisation and commercialisation have relieved the Federal Government of what used to be the huge and growing burden of financing the investment needs and operating deficits of the privatised enterprises.

(ii) The performance of privatised enterprises so far has contributed considerable improvement in tax revenue to the government.

(iii) Privatisation has greatly minimised the scope of political patronage in the form of board appointments. For example, under the first phase of the privatisation programme, the Federal Government relinquished about 380 directorship positions in the privatized enterprises.

(iv) Floatation of shares of privatised enterprises have greatly stimulated the rapid growth of the Nigerian capital market. Such flotations had contributed to the deepening and broadening of the capital market and as well created new crop of investors.

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CHAPTER 40

PUBLIC FINANCE MANAGEMENT AND ACCOUNTABILITY

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40 Public Finance Management and Accountability

40.0 Learning objective

The objective of this chapter is to enhance the readers' understanding of the provisions of the five pillars of ICAN-Accountability Index.

40.1 Learning outcomes

On successful completion of this chapter, the readers will be able to:

(a) discuss the ICAN Accountability Index of (ICAN-AI) as it relates to public financial management;
(b) explain the key pillars of accountability index of ICAN;
(c) state how accountability index of ICAN is conducted; and
(d) identify all the key indicators for the assessment of the Accountability index of the ICAN.

40.2 Introduction:

The Institute of Chartered Accountants of Nigeria Accountability Index (ICAN-AI) is a framework for assessing public finance management and public governance practices across the three tiers of the nation's public sector. However, accountability Index is the percentage of points earned across all available indicators.

Accountability: The management of public finance is a sensitive aspect of the activities of government at all levels. In Nigeria, lack of accountability and transparency in public finance has stunted the growth and development in every sector of the economy.

In Nigeria, accountability and transparency have become an aberration especially by those holding positions of responsibility in the public sector.

ICAN's response to this situation is the development and launching of the ICAN Accountability Index (ICAN-AI).

The ICAN-AI is one-of-a-kind mechanism for assessing public finance management and public governance practices.

In operationalising the ICAN-AI, credibility was considered of great essence and as such the entire process was guided by the fundamental principles of the accounting profession as contained in the ICAN Professional Code of Conduct for members. Further credibility relied on relevant sections of the 1999 Constitution of the Federal Republic of Nigeria (as amended), such as Section 23, which deals with National Ethics, Section 162-168 which focuses on how revenue and expenditure are to be defrayed; as well as other extant Public Finance Management (PFM) legislations in Nigeria.

The primary focus of the ICAN-AI is the Federal, State and Local Governments. This is premised on the logic that governments at all levels should be instruments of improving the welfare of society.

40.3 Accountability index pillars and indicators

The ICAN Accountability Index (ICAN-AI) focuses on public finance management and assesses performance across five key pillars:

(a) Policy-based fiscal strategy and budgeting;
(b) Budget credibility;
(c) Assets and debts management;
(d) Control in budget execution, accounting, and reporting; and
(e) External audit & legislative scrutiny.

40.3.1 Pillar 1- Policy-based fiscal strategy and budgeting

A fiscal strategy clearly articulates to the legislature and the public governments medium term financial objectives, policies in the medium term relating to taxation, recurrent (non-debt) expenditure debt expenditure, capital expenditure, borrowings and other liabilities, lending and investment, its strategic economic, social and developmental priorities for the next three financial years, and explanations on how the financial objectives, strategic, economic, social and developmental priorities and fiscal measures set out relate to the economic objectives set out in Section 16 of Nigerian Constitution.

(a) Macroeconomic and fiscal forecasting: This indicator measures the ability of governments to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It also assesses the government's capacity to estimate the fiscal impact of potential changes in economic circumstances

(b) Fiscal strategy: This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the government's fiscal goals.

(c) Medium term perspective in expenditure budgeting: This indicator examines the extent to which expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings. It also examines the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans.

(d) Budget preparation process: This indicator measures the effectiveness of participation by relevant stakeholders in the budget preparation process, including political leadership, and whether that participation is orderly and timely. It contains two dimensions and uses the M2 (AV) method for aggregating dimension scores.

(e) Legislative scrutiny of budgets: This indicator assesses the nature and extent of legislative scrutiny of the annual budget. It considers the extent to which the legislature scrutinises, debates, and approves the annual budget, including the extent to which the legislature's procedures for scrutiny are well established and adhered to. It contains three dimensions and uses the M1 (WL) method for aggregating dimension scores.

40.3.2 Pillar- 2 Budget credibility:

Budget credibility seeks to measure the consistency of budget input and actual implementation over time. It is about actual expenditure compared with the originally approved budget estimates. This aspect covers capital and recurrent expenditure, as well as revenue generation. It covers the following

(a) **Total expenditure implementation:** This Indicator measures the actual budget expenditure and the originally approved budget expenditure in the last fiscal year. It contains three dimensions and uses the M1 (WL) method for aggregating dimension scores.

(b) **Revenue generation:** This indicator measures budgeted revenue and actual collection, as well as the composition of revenue types.

(c) **Budget documentation:** This Indicator assesses the comprehensiveness of the information provided in the annual budget documentation, as measured against the Medium-Term Expenditure Framework (MTEF) guidelines and Fiscal Strategy Paper. There is one dimension for this indicator.

(d) **Government operations outside the budget:** This indicator measures the extent to which government revenue and expenditure are communicated to the public outside the financial reports.

(e) **Public access to fiscal information:** This indicator assesses the comprehensiveness of fiscal information available to the public based on specified elements of information to which public access is considered critical. There is one dimension for this indicator.

(f) **Local governments aggregate budget implementation:** This dimension measures the actual total expenditure for each Local Government in the State and the originally approved budget estimate in the last fiscal year and in subsequent years. The total actual expenditure is the sum of the capital and recurrent expenses of each Local Government in a year, excluding suspense accounts or miscellaneous expenses.

40.3.3 Pillar 3 - Assets and debts management

This covers the management of public tangible and intangible assets, as well as public debt and liabilities.

(a) **Public Investment Management** This indicator assesses the economic appraisal, selection, costing, and monitoring of capital projects by the government, such as roads, bridges, schools, hospitals, and power infrastructures.

(b) **Public Asset Management** This indicator assesses the management and monitoring of government assets and the transparency of asset disposal. It contains three dimensions and uses the M2 (AV) method for aggregating dimension scores.

(c) **Debt Management** This indicator assesses the management of domestic and foreign debt and guarantees. Domestic Debt includes liabilities owed to contractors, pensions and intervention funds. It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective arrangements. It contains three dimensions and uses the M2 (AV) method for aggregating scores.

40.3.4 Pillar 4- Control in budget execution, accounting, and reporting

This pillar focuses on the accuracy, completeness, and timeliness of financial reporting, including the use of appropriate accounting standards, the preparation of financial statements, and the disclosure of relevant information.

(a) **Salary payroll controls:** This indicator is concerned with the payroll for public servants only; how it is managed, how changes are handled, and the consistency with which personnel records management is achieved. This indicator contains three dimensions and uses the M1 (WL) method for aggregating dimension scores.

(b) **Pension controls:** This indicator is concerned with the payroll of pensions of the public servants only; how it is managed, how changes are handled, and the consistency with which pension records management is achieved. This indicator contains three dimensions and uses the M1 (WL) method for aggregating dimension scores.

(c) **Procurement:** This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements. It contains five dimensions and uses the M2 (AV) method for aggregating dimension scores

(d) **Internal audit:** This indicator assesses the standards and procedures applied in internal audit. It contains four dimensions.

(e) **Accounts reconciliation:** This indicator assesses the extent to which treasury bank accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data. It contains two dimensions and uses the M1 (WL) method for aggregating dimension scores.

(f) **Year budget reports:** This indicator assesses the comprehensiveness, accuracy and timeliness of information on budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow monitoring of budget performance and, if necessary, timely use of corrective measures. This indicator contains two dimensions and uses the M1 (WL) method for aggregating dimension scores.

(g) **Annual financial reports:** This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the PFM system. It contains three dimensions and uses the M1 (WL) method for aggregating dimension scores.

(h) **Local governments annual financial reports:** This indicator assesses the extent to which annual financial statements of the Local Governments are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the PFM system of Local Governments. It contains three dimensions and uses the M1 (WL) method for aggregating dimension scores.

40.3.5 Pillar 5 - External audit and legislative scrutiny

This pillar covers the roles of the external auditor and legislature in scrutinising the financial statements submitted and their reports on them.

(a) **External audit:** This indicator assesses key elements of external audit in terms of the scope and coverage of audit, as well as adherence to auditing standards. It contains three dimensions and uses the M1 (WL) method for aggregating dimension scores.

(b) **Legislative scrutiny of audit reports:** This indicator focuses on legislative scrutiny of the audited financial reports of government. It has three dimensions and uses the M2 (AV) method for aggregating dimension scores.

(c) **Local governments external audit:** This indicator assesses key elements of external audit in terms of the scope and coverage of audit as well as adherence to auditing standards for local governments. It contains three dimensions and uses the M1 (WL) method for aggregating dimension scores.

40.4 Conduct of the accountability index

(a) The assessment is always carried out under the supervision of the ICAN-AI Steering Committee.

(b) The Federal and State Governments were ranked according to their level of performance on the basis of a number of indicators mentioned in paragraph 40.2 above.

Assessment of PFM Performance was quite comprehensive as the Federal, States and Local Governments participated, with improving responses to data collection, despite initial apathy.

40.5 Chapter review

This chapter discusses the ICAN Accountability Index (ICAN-AI).

40.6 Worked examples

40.6.1 Examination type questions

1. The ICAN Accountability Index (ICAN-AI) focuses on public finance management and assesses performance across five key pillars.

   Required:

   a. Explain the pillars of Accountability Index of ICAN.
   b. Identify the key indicators used in the assessing the accountability index pillars.
   c. Explain Pillar 1 on policy-based fiscal strategy and budgeting; and Pillar 4 on control in budget execution, accounting, and reporting.

40.6.2 Suggested solutions

1(a). These are the detailed breakdown of each pillar:

(i) **Policy-based fiscal strategy and budgeting:** This pillar evaluates the quality of the fiscal framework, including the consistency and effectiveness of fiscal policies, budget planning processes, and the use of fiscal instruments.

(ii) **Budget credibility:** This pillar assesses the reliability and transparency of the budget process, including the accuracy of budget forecasts, the clarity of budget documents, and the mechanisms for monitoring and evaluating budget performance.

(iii) **Budget execution:** This pillar examines the efficiency and effectiveness of the budget implementation process, including the timely and accurate execution of the budget, the management of cash flow, and the monitoring of expenditures.

(iv) **Accounting and reporting:** This pillar focuses on the accuracy, completeness, and timeliness of financial reporting, including the use of appropriate accounting standards, the preparation of financial statements, and the disclosure of relevant information.

(v) **Asset and debt management:** This pillar assesses the sustainability of public finances, including the management of public assets, the control of public debt, and the effectiveness of debt management strategies.

(b) The following are the indicators for assessing the accountability Index pillars.

(i) **Policy-based fiscal strategy and budgeting:**
Indicators:

- Macroeconomic and fiscal forecasting
- Fiscal strategy
- Medium-term perspective in expenditure budgeting
- Budget preparation process
- Legislative scrutiny of budgets

(ii) **Budget credibility:**
Indicators:

- Total expenditure implementation
- Revenue generation
- Budget documentation
- Government operations outside the budget
- Public access to fiscal information

(c) Management of assets:

Indicators:

(i) Asset management policies and procedures,
(ii) Asset valuation and recording, and
(iii) Asset utilisation.

Financial Management and Control:
Indicators:

(i) Internal audit and control systems,
(ii) Financial reporting and accounting, and
(iii) Procurement management.

(e) Public Financial Governance and Accountability:
Indicators:

(i) Transparency and disclosure,
(ii) Citizen participation, and
(iii) Anti-corruption measures.

3 Pillar 1 - Policy-based fiscal strategy and budgeting

A fiscal strategy clearly articulates to the legislature and the public governments medium term financial objectives, policies in the medium term relating to taxation, recurrent (non-debt) expenditure debt expenditure, capital expenditure, borrowings and other liabilities, lending and investment, its strategic economic, social and developmental priorities for the next three financial years, and explanations on how the financial objectives, strategic, economic, social and developmental priorities and fiscal measures set out relate to the economic objectives set out in Section 16 of Nigerian Constitution.

(a) Macroeconomic and fiscal forecasting: This indicator measures the ability of governments to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It also assesses the government's capacity to estimate the fiscal impact of potential changes in economic circumstances

(b) Fiscal strategy: This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the government's fiscal goals.

(c) Medium term perspective in expenditure budgeting: This indicator examines the extent to which expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings. It also examines the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans.

(d) Budget preparation process: This indicator measures the effectiveness of participation by relevant stakeholders in the budget preparation process, including political leadership, and whether that participation is orderly and timely. It contains two dimensions and uses the M2 (AV) method for aggregating dimension scores.

(e) Legislative scrutiny of budgets: This indicator assesses the nature and extent of legislative scrutiny of the annual budget. It considers the extent to which the legislature scrutinizes, debates, and approves the annual budget, including the extent to which the legislature's procedures for scrutiny are well established and adhered to. It contains three dimensions and uses the M1 (WL) method for aggregation

Pillar 4 - Control in budget execution, accounting, and reporting

This pillar focuses on the accuracy, completeness, and timeliness of financial reporting, including the use of appropriate accounting standards, the preparation of financial statements, and the disclosure of relevant information.

(a) **Salary payroll controls:** This indicator is concerned with the payroll for public servants only; how it is managed, how changes are handled, and the consistency with which personnel records management is achieved. This indicator contains three dimensions and uses the M1 (WL) method for aggregating dimension scores.

(b) **Pension controls:** This indicator is concerned with the payroll of pensions of the public servants only; how it is managed, how changes are handled, and the consistency with which pension records management is achieved. This indicator contains three dimensions and uses the M1 (WL) method for aggregating dimension scores.

(c) **Procurement:** This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements. It contains five dimensions and uses the M2 (AV) method for aggregating dimension scores

(d) **Internal audit:** This indicator assesses the standards and procedures applied in internal audit. It contains four dimensions.

(e) **Account reconciliation:** This indicator assesses the extent to which treasury bank accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data. It contains two dimensions and uses the M1 (WL) method for aggregating dimension scores.

(f) **Year budget reports:** This indicator assesses the comprehensiveness, accuracy and timeliness of information on budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow monitoring of budget performance and, if necessary, timely use of corrective measures. This indicator contains two dimensions and uses the M1 (WL) method for aggregating dimension scores.

(g) **Annual financial reports:** This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the PFM system. It contains three dimensions and uses the M1 (WL) method for aggregating dimension scores.

(h) **Local governments annual financial reports:** This indicator assesses the extent to which annual financial statements of the Local Government are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the PFM system of Local Governments. It contains three dimensions and uses the M1 (WL) method for aggregating dimension scores.

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CHAPTER 41

SUSTAINABLE DEVELOPMENT GOALS (SDGs)

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41 Sustainable Development Goals (SDGs)

41.0 Learning objective

The objective of this chapter is to enhance readers' understanding of the seventeen Sustainability Development Goals of UN and the goals prioritised by the Federal Government of Nigeria.

41.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

(a) discuss the main purpose of the Federal Government Sustainable Development Goals (SDGs);
(b) itemise the Sustainable Development Goals (SDGs);
(c) explain the sustainability reporting in the public sector;
(d) identify the areas and elements of sustainability report focuses on;
(e) state the components of sustainability report; and
(f) distinguish amongst economic, social, and environmental and sustainability reporting.

41.2 Introduction

Sustainable development is defined as ''development that meets the needs of the present, without compromising the ability of future generations to meet their own needs.'' The concept of needs goes beyond material needs, and includes values, relationships, freedom to think, act, and participate, all amounting to sustainable living, morally, and spiritually. Achieving sustainable development in the 2lst Century led to the adoption of diverse programmes and policies, which include agenda 21, millennium development goals (MDGs) which were not able to achieve their targets. The inability of MDGs to achieve the set targets led to adoption of Sustainable Development Goals (SDGs), which span 2015-2030. In 2015, the United Nations General Assembly adopted the Sustainable Development Goals (SDGs), which constitute the centre-piece of the 2030 Agenda for Sustainable Development. The agenda's 17 core goals are broken down into 169 associated targets to direct global development strategies until 2030. These goals and targets encompass economic, social, and environmental aspects of sustainable development in an unprecedented way. One outstanding principle of the 2030 Agenda is its indivisibility, that is, the understanding that the development objectives formulated by the SDGs and their targets are fundamentally interdependent and interlinked.

41.3 United Nations seventeen (17) Sustainable Development Goals (SDGs)

The 17 SDGs are structured around the five pillars of the 2030 Agenda, namely: people; planet; prosperity; peace and partnerships. These 5 pillars highlight how the SDGs are an intertwined framework instead of a group of solo goals. The progress on one pillar must balance and support the progress on another.

The SDGs is built upon the achievements of the Millennium Development Goals (MDGs), which were adopted in 2000 and focused on improving living conditions in

developing countries (UN 2016). The SDGs apply to all countries and many countries have already begun to disseminate data. The 17 goals are listed below:

SDG 1 - No poverty

It aims to end poverty in all its forms everywhere by 2030. Its objectives include ensuring that the entire population and especially the poorest and most vulnerable have equal rights to economic resources, access to basic services, property and land control, supporting communities affected by conflict and climate-related disasters, natural resources and new technologies. Some of its indicators include proportion of population living below the national poverty line, by sex and age, the proportion of population living in households with access to basic services.

SDG 2 - Zero hunger

It focuses on finding sustainable solutions to stop world hunger. The goals of the zero-hunger initiative are to end hunger and make sure that enough nutritious foods are available to people by 2030. It aims to end the world hunger by 2030. Hunger is not caused by food shortage alone, but by a combination of natural, social, and political forces. Some of its indicators are the prevalence of under-nourishment. The goals of the zero -hunger initiative are to end hunger and make sure that enough nutritious foods are available to people by 2030. Other aspects of the goal include ending all forms of malnutrition and promoting sustainable agriculture. Some of the indicators are prevalence of under-nourishment, prevalence of stunting.

SDG 3 - Good health and well-being

It seeks to ensure health and well-being for all by 2030, including a bold commitment to end the epidemics of AIDS, tuberculosis, malaria and other communicable diseases by 2030. It also aims to achieve universal health coverage, and provide access to safe and effective medicines and vaccines for all. The Goal addresses all major health priorities, including reproductive, maternal and child health; communicable, non-communicable and environmental diseases; universal health coverage; and access for all to safe, effective, quality and affordable medicines and vaccines. It also calls for more research and development, increased health financing, and strengthened capacity of all countries in health risk reduction and management. The indicators for SDG 3 include maternal mortality ratio, under-five mortality ratio.

SDG 4 - Quality education

It aims at ensuring inclusive and equitable quality education and promote lifelong learning opportunities for all. This goal ensures that all girls and boys complete free primary and secondary schooling by 2030. It also aims to provide equal access to affordable vocational training, to eliminate gender and wealth disparities and achieve universal access to a quality higher education. Indicators include proportion of teachers in: (a) pre-primary; (b) primary; (c) lower secondary; and (d) upper secondary education who have received at least the minimum organised teacher training.

SDG 5 - Gender equality

It seeks to achieve gender equality and empower all women and girls by 2030. Gender equality and women's empowerment have advanced in recent decades. Women's and girls' access to education has improved; the rate of child marriage has fallen and progress has been made in the area of sexual and reproductive health and reproductive rights, including fewer maternal deaths. Nevertheless, gender equality remains a persistent challenge for countries worldwide and the lack of equality is a major obstacle to sustainable development, as gender and wealth disparities persist and obstruct universal access to a quality higher education. Indicators for SDG 5 include proportion of time spent on unpaid domestic and care work, by sex, age and location, proportion of women in managerial positions.

SDG 6 - Availability and sustainability of water and sanitation for all

It aims to ensure availability and sustainable management of water and sanitation for all by 2030. Clean, accessible water for all is an essential part of the world we want to live in. There is sufficient fresh water on the planet to achieve this. However, every year millions of people, most of them children, die from diseases associated with inadequate water supply, sanitation and hygiene. Clean water, basic toilets and good hygiene practices are essential for the survival and development of children. Indicators for SDG 6 include proportion of wastewater safely treated, Change in water-use efficiency over time.

SDG 7 - Affordable, reliable, sustainable and modern energy for all.

It aims at ensuring access to affordable, reliable, sustainable and modern energy for all. Energy is central to nearly every major challenge and opportunity the world faces today. Sustainable energy is an opportunity to transform lives, economies and the planet. Still, one in five people lack access to electricity and, as demand continues to rise, there needs to be a substantial increase in the production of renewable energy across the world. The proportion of the world's population with access to clean fuels and technologies for cooking increased from 51% in 2000 to 58% in 2014, although there has been limited progress since 2010. Indicators include proportion of population with access to electricity, proportion of population with primary reliance on clean fuels and technology.

SDG 8 - Promotion of sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

Roughly half the world's population still lives on the equivalent of about US$2 a day, and in too many places, having a job does not guarantee an escape from poverty. Slow and uneven progress in this area requires us to rethink and retool our economic and social policies aimed at eradicating poverty. A continued lack of decent work opportunities, insufficient investments and under-consumption lead to an erosion of the basic social contract underlying democratic societies: that all must share in progress. Sustainable economic growth will require societies to create the conditions that allow people to have quality jobs that stimulate the economy, while not harming the environment. Indicators include annual growth rate of real GDP per capita, annual growth rate of real GDP per employed person.

SDG 9 - Resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation by 2030

This SDG encompasses three important aspects of sustainable development: infrastructure, industrialisation and innovation. Infrastructure provides the basic physical systems and structures essential to the operation of a society or enterprise. Industrialisation drives economic growth, creates job opportunities and thereby reduces income poverty. Innovation advances the technological capabilities of industrial sectors and prompts the development of new skills. Inclusive and sustainable industrial development is the primary source of income generation, allows for rapid and sustained increases in living standards for all people, and provides the technological solutions needed for environmentally sound industrialisation. Indicators include proportion of the rural population who live within 2 km of an all-season road, manufacturing value added as a proportion of GDP and per capita.

SDG 10 – Reduction in inequality within and among countries

It aims at reducing inequality within and among countries by 2030. This SDG calls for reducing inequalities in income as well as those based on age, sex, disability, race, ethnicity, origin, religion or economic or other status within a country. The goal also addresses inequalities among countries, including those related to representation, migration and development assistance. Indicators include labour share of GDP, comprising wages and social protection transfers, financial Soundness Indicators.

SDG 11- Make cities and human settlements inclusive, safe, resilient and sustainable by 2030

It focuses on cities, as more than half of the world's population lives in them. Cities are hubs for ideas, commerce, culture, science, productivity, social development and much more. They have enabled people to advance socially and economically. However, many challenges exist to maintaining cities in a way that continues to create jobs and prosperity without straining land and resources. Some of its indicators are ratio of land consumption rate to population growth rate, proportion of urban population living in slums, informal settlements or inadequate housing.

SDG 12 - Aims at ensuring sustainable consumption and production patterns by 2030

SDG 12 is about promoting resource and energy efficiency, sustainable infrastructure, and providing access to basic services, green and decent jobs and better quality of life for all. Its implementation helps to achieve overall development plans, reduce future economic, environmental and social costs, strengthen economic competitiveness and reduce poverty. Sustainable consumption and production aims at "doing more and better with less", increasing net welfare gains from economic activities by reducing resource use, degradation and pollution along the whole lifecycle, while increasing quality of life. Its indicators include food loss index and (b) food waste index, material footprint, material footprint per capita, and material footprint per GDP.

SDG 13-To take urgent action to combat climate change and its impacts Climate change is now affecting every country on every continent. It is disrupting national economies and affecting lives, costing people, communities and countries dearly today and even more tomorrow. People are experiencing the significant impacts of climate change, which include changing weather patterns, rising sea levels, and more extreme weather events. Greenhouse gas emissions from human activities are driving climate change and are continuing to rise. They are now at their highest levels in history. Without action, the world's average surface temperature is projected to rise over the 21st century and is likely to surpass 3ºC this century, with some areas of the world expected to warm even more. Proportion of local governments that adopt and implement local disaster risk reduction strategies in line with national disaster risk reduction strategies is one of its indicators

SDG 14 - Pursues to conserve and sustainably use the oceans, seas and marine resources for sustainable development

The world's oceans - their temperature, chemistry, currents and life - drive global systems that make the Earth habitable for humankind. Our rainwater, drinking water, weather, climate, coastlines, much of our food, and even the oxygen in the air we breathe, are all ultimately provided and regulated by the sea. They are particularly crucial for people living in coastal communities, who represented 37% of the global population in 2010. Oceans provide livelihoods and tourism benefits, as well as subsistence and income. They also help regulate the global ecosystem by absorbing heat and carbon dioxide from the atmosphere and protecting coastal areas from flooding and erosion. In fact, coastal and marine resources contribute an estimated $28 trillion to the global economy each year through ecosystem services.

SDG 15 - Seeks to protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

Preserving diverse forms of life on land requires targeted efforts to protect, restore and promote the conservation and sustainable use of terrestrial and other ecosystems. Goal 15 focuses specifically on managing forests sustainably, restoring degraded lands and successfully combating desertification, reducing degraded natural habitats and ending biodiversity loss.

SDG 16 - Promotes peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

Peace, justice, and effective, accountable and inclusive institutions are at the core of sustainable development. Several regions have enjoyed increased and sustained levels of peace and security in recent decades. But many countries still face protracted armed conflicts and violence, and far too many people struggle as a result of weak institutions and the lack of access to justice, information and other fundamental freedoms.

SDG 17 - Seeks to strengthen the means of implementation and revitalise the Global Partnership for Sustainable Development

A successful sustainable development agenda requires partnerships between governments, the private sector and civil society. These inclusive partnerships, built upon principles and values, a shared vision, and shared goals that place people and the planet at the centre, are needed at the global, regional, national and local levels.

41.4 Federal Government Sustainable Development Goals (SDGs)

Nigeria has an 8-point agenda focusing on sustainable development, which aligns with SDG 17 (Partnerships for the Goals) and other SDGs. This agenda aims to address key challenges and leverage partnerships for inclusive and sustainable growth, promoting both economic and social progress.

41.4.1 Key aspects of Nigeria's 8-point agenda:

(a) **Economic growth and diversification**

The agenda prioritises economic growth by fostering private sector-led development and diversifying the economy beyond oil, aligning with SDGs 8 (Decent Work and Economic Growth) and 9 (Industry, Innovation, and Infrastructure).

(b) Human capital development

A significant focus is on investing in education, healthcare, and skills development to improve human capital, supporting SDGs 4 (Quality Education), 3 (Good Health and Well-being), and 1 (No Poverty).

(c) Infrastructure development

The agenda aims to improve infrastructure, including transportation, energy, and ICT, to support economic activities and improve quality of life, aligning with SDG 9 (Industry, Innovation, and Infrastructure) and SDG 7 (Affordable and Clean Energy).

(d) **Social inclusion and equity**

Nigeria's agenda emphasises reducing inequalities, ensuring equal opportunities for all, and promoting social inclusion, aligning with SDGs 10 (Reduced Inequalities) and 5 (Gender Equality).

(e) Combating corruption and good governance

The agenda highlights the importance of good governance, fighting corruption, and strengthening institutions to create a conducive environment for development, aligning with SDG 16 (Peace, Justice, and Strong Institutions).

(f) Sustainable environmental management

The agenda addresses environmental concerns, including climate change, deforestation, and pollution, promoting sustainable practices and resource management, aligning with SDGs 13 (Climate Action), 15 (Life on Land), and 12 (Responsible Consumption and Production).

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(g) Partnerships for development

The agenda recognises the importance of partnerships with the private sector, civil society, and international organisations to leverage resources and expertise for development, directly addressing SDG 17 (Partnerships for the Goals).

(h) Data-driven development:

The agenda emphasises the use of data and statistics to monitor progress, inform decision-making, and improve accountability, aligning with SDG 17 (Partnerships for the Goals) and ensuring effective implementation of other SDGs.

41.4.2 Challenges of Sustainable Development Goals (SDGs) in Nigeria

Nigeria faces numerous challenges in achieving the Sustainable Development Goals (SDGs), including insecurity, corruption, poverty, a mono-cultural economy, and inadequate educational opportunities. These issues, coupled with rapid population growth and implementation inefficiencies, hinder progress towards sustainable development.

Specific challenges:

(a) I**nsecurity**

Insurgency, terrorism, and general insecurity create instability and hinder economic development, making it difficult to implement SDG-related projects.

(b) Corruption and mismanagement

Corruption and the misuse of public funds divert resources away from development initiatives, undermining the effectiveness of SDG programmes.

(c) Poverty and inequality

High poverty rates and significant socioeconomic disparities create a challenging environment for achieving inclusive development goals.

(d) Monoculture economy

Nigeria's heavy reliance on oil revenue leaves the economy vulnerable to global price fluctuations and hinders diversification efforts, making it harder to achieve sustainable economic growth.

(e) Inadequate education and infrastructure

Lack of quality education, inadequate infrastructure (including basic water and sanitation), and access to technology hinder human development and economic progress.

(f) Rapid population growth

Rapid population growth exacerbates existing challenges like resource scarcity and infrastructure strain, making it difficult to achieve sustainable development.

(g) Implementation inefficiencies

Lack of effective monitoring and evaluation mechanisms, coupled with poor coordination among different government agencies, can lead to ineffective SDG implementation.

(h) Environmental degradation

Deforestation, pollution, and climate change threaten Nigeria's natural resources and contribute to climate change, impacting various SDGs.

(i) Social and political instability

Ethno-religious conflicts, secessionist agitations, and political instability disrupt development efforts and create an environment where sustainable development goals are difficult to achieve.

41.4.3 Addressing the challenges:

To overcome these challenges, Nigeria needs to:

(a) Strengthen governance

Improve transparency, accountability, and good governance practices to combat corruption and ensure effective resource allocation.

(b) Diversify the economy

Reduce dependence on oil and promote diversification into other sectors, like agriculture, manufacturing, and technology.

(c) Improve education and skills development

Invest in quality education, vocational training, and skills development to improve human capital and increase productivity.

(d) Invest in infrastructure

Develop adequate infrastructure, including roads, electricity, water, and sanitation, to support economic growth and improve living standards.

(e) Address Insecurity

Take decisive action to combat insurgency, terrorism, and other forms of insecurity.

(f) Promote inclusive development

Focus on reducing poverty and inequality through social programmes, targeted interventions, and policies that promote equitable access to resources and opportunities.

(g) Enhance monitoring and evaluation

Establish effective monitoring and evaluation mechanisms to track progress towards the SDGs and identify areas for improvement.

(h) Foster partnerships

Engage with non-state actors, NGOs, civil society organisations, and the private sector to promote awareness, participation, and the implementation of SDG-related projects.

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41.5 Sustainability reporting in public sector

Public sector sustainability reporting will encourage transparency, allowing governments to be held accountable for the long-term impacts of their interventions, enabling better-informed decision-making and access to critical financing streams, including access to capital market inflows.

Sustainability reporting involves the disclosure of an organisation's non-financial performance in areas, such as environmental protection, social responsibility, governance practices, and ethical management. This goes beyond the traditional financial reporting to provide stakeholders with insight into how businesses manage resources, engage with communities, and align their operations with sustainable development goals (SDGs).

Economic, Social, and Governance (ESG) represents an external investment framework or set of metrics that enables companies to communicate their strategic initiatives and allows investors to evaluate performance and risk exposure. In contrast, sustainability functions as an internal guiding framework, shaping how an organization allocates capital and makes long-term investment decisions.

41.5.1 Regulatory landscape in Nigeria

While sustainability reporting is not yet mandatory for all organisations in Nigeria, several regulators have taken steps to encourage or require certain sectors to adopt sustainability practices.

(a) **Nigerian Stock Exchange (NSE):** In 2018, the NSE introduced the Sustainability Disclosure Guidelines, which mandate listed companies, including listed public sector entities to report on their Economic, Social and Governance (ESG) practices. This was a significant milestone in encouraging corporate transparency on sustainability issues. The guidelines are aligned with global best practices and provide a roadmap for companies to disclose how their operations affect the environment and society.

(b) **Central Bank of Nigeria (CBN):** The CBN has issued sustainability principles, particularly targeting financial institutions, as part of its Sustainable Banking Principles (SBP). These guidelines encourage banks and other financial institutions to integrate ESG considerations into their operations and lending practices, ensuring that projects financed by them are environmentally and socially responsible.

(c) **Corporate Affairs Commission (CAC):** Through the Companies and Allied Matters Act (CAMA) 2020, Nigeria introduced provisions that emphasise corporate governance, which includes elements of ESG reporting. These requirements push organisations to prioritise sustainability as part of their overall corporate governance framework.

(d) **Nigerian Extractive Industries Transparency Initiative (NEITI):** Companies in Nigeria's extractive industries are required to follow NEITI guidelines, which include disclosing their impact on the environment and the communities in which they operate. This aligns with global trends where the extractive sector is a focal point for sustainability due to its significant environmental footprint.

41.5.2 Elements of sustainability reporting

Public sector sustainability reporting should include disclosures on environmental, social, and governance (ESG) aspects, along with progress towards sustainability goals. It should also address financial elements and be tailored to the specific context of public sector bodies. Key elements include governance, management approach, strategy, performance, and targets, with a focus on transparency and accountability.

Key elements of public sector sustainability reporting:

(a) **Environmental sustainability**

Reporting on the environmental impacts of public sector activities, including resource consumption, emissions, waste management, and climate change adaptation and mitigation efforts.

(b) **Social sustainability**

Disclosing the social impacts of public sector actions, such as access to education, healthcare, housing, and social inclusion initiatives, alongside addressing potential social inequalities.

(c) **Economic sustainability**

Communicating the economic impact of public sector activities, including fiscal sustainability, job creation, and economic growth, along with strategies for long-term financial stability.

(d) Governance

Clearly outlining the governance structure and processes related to sustainability reporting, including stakeholder engagement, oversight mechanisms, and accountability structures.

(e) **Management approach**

Describing the public sector body's approach to managing sustainability, including policies, procedures, and organisational structures.

(f) **Strategy**

Presenting the public sector body's sustainability strategy, including its vision, goals, and key priorities.

(g) **Performance and targets**

Providing data on the performance of the public sector body in achieving its sustainability goals, including key performance indicators (KPIs) and progress towards targets.

(h) **Materiality assessment**

Identifying and addressing the most relevant sustainability issues for the public sector body and its stakeholders.

(i) **Stakeholder engagement**

Involving stakeholders in the sustainability reporting process and ensuring their input is considered.

(j) **Transparency and accountability**

Ensuring that sustainability reports are clear, concise, and accessible to the public, and that the public sector body is accountable for its actions.

(k) **Financial disclosures**

Integrating sustainability reporting with financial reporting, including disclosures on climate-related financial impacts and other relevant financial information.

(l) **Contextualisation**

Tailoring the sustainability reporting framework to the specific context of the public sector body, including its mission, objectives, and the needs of its stakeholders.

By incorporating these elements, public sector sustainability reporting can contribute to a more transparent, accountable, and sustainable public sector.

41.5.3 Components of sustainability reporting

Public sector sustainability reporting focuses on disclosing an organisation's environmental, social, and governance (ESG) performance to demonstrate its commitment to sustainable development. It includes elements like environmental disclosures, social responsibility initiatives, and governance structures, with a strong emphasis on transparency and accountability.

Here is a more detailed breakdown of the components:

(a) **Environmental performance:** This includes reporting on environmental impacts, such as energy consumption, waste management, water usage, and greenhouse gas emissions.

(b) **Social responsibility:** This section focuses on demonstrating the organisation's commitment to social well-being, including employee relations, community engagement, and human rights.

(c) **Governance:** This component covers the organisation's governance structure, ethical practices, and risk management processes.

(d) **Accountability:** Public sector organisations have a primary objective of demonstrating accountability to the public. This involves disclosing information on how they are achieving their sustainability goals and addressing any adverse impacts.

(e) **Materiality assessment:** This process helps identify the most significant sustainability issues for the organisation, ensuring that the report focuses on the most relevant and impactful areas.

(f) **Performance metrics**: Public sector sustainability reports often include specific metrics and targets to track progress towards sustainability goals, such as reducing energy consumption or improving employee diversity.

(g) **Disclosure statement**: This section provides context for the report, outlining the organisation's sustainability vision, values, and approach to reporting.

(h) **Frameworks and standards**: Organisations may use established frameworks like the Global Reporting Initiative (GRI) or the Task Force on Climate-related Financial Disclosures (TCFD) to guide their reporting, ensuring consistency and comparability.

(i) **Sustainability network:** Engaging with stakeholders and building a sustainability network can help identify relevant issues and ensure that the report is tailored to the needs of different audiences.

(j) **Sustainability performance:** This component provides a summary of the organisation's overall sustainability performance, highlighting achievements and areas for improvement.

41.5.4 Factors affecting adoption of sustainability reporting in Nigeria

Several factors as detailed below are driving the increasing adoption of sustainability reporting in Nigeria:

(a) **Global investor demand:** International investors are becoming more focused on ESG metrics when making investment decisions. Nigerian companies, particularly those seeking foreign investments, are under pressure to align with global sustainability standards to attract and retain international capital.

(b) **Corporate reputation and brand value:** Organisations in Nigeria are recognising the importance of building a positive corporate image. Sustainable practices and transparency through reporting enhance a company's reputation and build trust among consumers, investors, and regulatory bodies.

(c) **Regulatory compliance:** With the growing regulatory requirements on sustainability, businesses are moving towards compliance to avoid penalties and ensure their operations align with national and international frameworks.

(d) **Public awareness and stakeholders' expectations:** Nigerian consumers, employees, and communities are becoming more aware of sustainability issues. Organisations are responding to this shift by being more transparent about their ESG performance, as stakeholders increasingly demand businesses to contribute to sustainable development.

41.5.5 Challenges facing sustainability reporting in Nigeria

Despite the progress, sustainability reporting in Nigeria faces several challenges:

(a) **Lack of awareness and expertise:** Many companies, especially small and medium-sized enterprises (SMEs), lack the knowledge and expertise to prepare comprehensive sustainability reports. There is a need for capacity-building initiatives to educate businesses on the importance of sustainability and how to report effectively.

(b) **Cost implications:** Sustainability reporting requires resources, including financial investments and skilled personnel, which can be challenging for businesses operating in a tough economic environment. Smaller businesses may find it difficult to allocate resources to ESG reporting.

(c) **Limited regulatory enforcement:** While frameworks and guidelines exist, enforcement is still a challenge in Nigeria. Regulatory bodies need to strengthen their oversight and ensure that companies comply with the existing sustainability reporting requirements.

(d) **Data collection issues:** The process of gathering accurate data for sustainability reporting can be cumbersome, especially in industries where ESG metrics are not easily quantifiable. Companies may struggle to collect reliable information on their environmental and social impact.

41.5.6 Future of sustainability reporting in Nigeria

The future of sustainability reporting in Nigeria looks promising, with growing adoption across different sectors. As businesses become more attuned to the benefits of transparent ESG reporting, and as regulatory frameworks evolve, the practice will likely become more widespread and sophisticated. To accelerate this growth, the following steps are essential:

(a) **Capacity building**: There is a need for continuous training and development of expertise within Nigerian companies to understand and implement effective sustainability reporting.

(b) **Enhanced regulatory framework:** Regulatory bodies should enforce existing sustainability reporting guidelines more stringently and consider expanding mandatory ESG reporting requirements to a broader range of sectors.

(c) **Integration with business strategy:** Organisations must move beyond viewing sustainability reporting as a compliance exercise and instead integrate it into their overall business strategy. This shift will help them realise the long-term benefits of sustainability, including risk management, improved financial performance, and enhanced corporate reputation.

41.6 Chapter review

This chapter discusses the global 17 sustainable development goals, the 2030 agenda for sustainable development, and sustainability reporting in public sector and its importance.

41.7 Worked examples

41.7.1 Examination type questions

1. Sustainable development is defined as ‘‘development that meets the needs of the present without compromising the ability of future generations to meet their own needs.’’

Required:
Explain the following UN development goals:
(a) SDG 1 – No poverty
(b) SDG 4 – Quality education
(c) SDG 6 - Availability and sustainability of water and sanitation for all
(d) SDG 7 - Affordable, reliable, sustainable and modern energy for all

2. While sustainability reporting is not yet mandatory for all organisations in Nigeria, several regulators have taken steps to encourage or require certain sectors to adopt sustainability practices.

Required:
Identify the regulatory landscape that guide sustainability reporting in Nigeria.

3. Public sector sustainability reporting will encourage transparency, allowing governments to be held accountable for the long-term impacts of their interventions, enabling better-informed decision-making and access to critical financing streams including access to capital market inflows.

Required:
Identify and explain the factors affecting adoption of sustainability reporting in Nigeria

41.7.2 Suggested solutions

1 (a) **SDG 1 - No poverty**:
It aims to end poverty in all its forms everywhere by 2030. Its objectives include ensuring that the entire population and especially the poorest and most vulnerable have equal rights to economic resources, access to basic services, property and land control, supporting communities affected by conflict and climate- related disasters, natural resources and new technologies. Some of its indicators include proportion of population living below the national poverty line, by sex and age, the proportion of population living in households with access to basic services

(b) **SDG 4 - Quality education.**
It aims at ensuring inclusive and equitable quality education and promote lifelong learning opportunities for all. This goal ensures that all girls and boys complete free primary and secondary schooling by 2030. It also aims to provide equal access to affordable vocational training, to eliminate gender and wealth disparities and achieve universal access to a quality higher education. Indicators include proportion of teachers in: (a) pre-primary; (b) primary; (c) lower secondary; and (d) upper secondary education who have received at least the minimum organised teacher training.

(c) SDG 6 - Availability and sustainability of water and sanitation for all.
It aims to ensure availability and sustainable management of water and sanitation for all by 2030. Clean, accessible water for all is an essential part of the world we want to live in. There is sufficient fresh water on the planet to achieve this. However, every year millions of people, most of them children, die from diseases associated with inadequate water supply, sanitation and hygiene. Clean water, basic toilets and good hygiene practices are essential for the survival and development of children. Indicators for SDG 6 include proportion of wastewater safely treated, Change in water-use efficiency over time.

(d) SDG 7 - Affordable, reliable, sustainable and modern energy for all.
It aims at ensuring access to affordable, reliable, sustainable and modern energy for all. Energy is central to nearly every major challenge and opportunity the world faces today. Sustainable energy is an opportunity to transform lives, economies and the planet. Still, one in five people lack access to electricity and, as demand continues to rise, there needs to be a substantial increase in the production of renewable energy across the world. The proportion of the world's population with access to clean fuels and technologies for cooking increased from 51% in 2000 to 58% in 2014, although there has been limited progress since 2010. Indicators include proportion of population with access to electricity, proportion of population with primary reliance on clean fuels and technology.

2 **Regulatory landscapes in Nigeria**

(a) **Nigerian Exchange Group (NGX):** In 2018, the NGX (formerly known as Nigeria Stock Exchange) introduced the Sustainability Disclosure Guidelines, which mandate listed companies including listed public sector entities to report on their Economic, Social and Governance (ESG) practices. This was a significant milestone in encouraging corporate transparency on sustainability issues. The guidelines are aligned with global best practices and provide a roadmap for companies to disclose how their operations affect the environment and society.

(b) **Central Bank of Nigeria (CBN):** The CBN has issued sustainability principles, particularly targeting financial institutions, as part of its Sustainable Banking Principles (SBP). These guidelines encourage banks and other financial institutions to integrate ESG considerations into their operations and lending practices, ensuring that projects financed by them are environmentally and socially responsible.

(c) **Corporate Affairs Commission (CAC):** Through the Companies and Allied Matters Act (CAMA) 2020, Nigeria introduced provisions that emphasise corporate governance, which includes elements of ESG reporting. These requirements push organisations to prioritise sustainability as part of their overall corporate governance framework.

(d) **Nigerian Extractive Industries Transparency Initiative (NEITI):** Companies in Nigeria's extractive industries are required to follow NEITI

guidelines, which include disclosing their impact on the environment and the communities in which they operate. This aligns with global trends where the extractive sector is a focal point for sustainability due to its significant environmental footprint.

3. **Factors affecting adoption of sustainability reporting in Nigeria**

Several factors as detailed below are driving the increasing adoption of sustainability reporting in Nigeria:

(a) **Global investor demand:** International investors are becoming more focused on ESG metrics when making investment decisions. Nigerian companies, particularly those seeking foreign investments, are under pressure to align with global sustainability standards to attract and retain international capital.

(b) **Corporate reputation and brand value:** Organisations in Nigeria are recognising the importance of building a positive corporate image. Sustainable practices and transparency through reporting enhance a company's reputation and build trust among consumers, investors, and regulatory bodies.

(c) **Regulatory compliance:** With the growing regulatory requirements on sustainability, businesses are moving towards compliance to avoid penalties and ensure their operations align with national and international frameworks.

(d) **Public awareness and stakeholders' expectations:** Nigerian consumers, employees, and communities are becoming more aware of sustainability issues. Organisations are responding to this shift by being more transparent about their ESG performance, as stakeholders increasingly demand businesses to contribute to sustainable development.

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APPENDIX I: GLOSSARY OF TERMS

Accountant General of the Federation (AGF)
The chief accounting officer of the receipts and payments of the Federal Government, saddled with the responsibility of general supervision of the accounts of all ministries and extra-ministerial departments, and preparation of annual financial statements of the Federation.

Accounting rate of return
Approach of appraising performance which divides an accounting measure of income (or profit) by an accounting measure of investment. This is also known as accrual accounting rate of returns.

Accrual basis
The basis under which revenues are recorded when earned and expenditure acknowledged as liabilities when known or benefits received, notwithstanding the fact that the receipt or payment of cash could take place wholly or partly in other accounting periods.

Actual costs
Amounts ascertained on the basis of historical costs incurred.

Adjustment voucher
Adjustment voucher is an amendment by way of transfer from one account to another, without movement of cash. It is in the form of a journal entry.

Advances
Advances are cash sums of money such as “short-term” loans, granted to employees in the service of an organisation.

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

Annuity
A series of equal naira payments for a given number of years.

Audit
An audit is an independent appraisal process often governed by statute, for examining, investigating and verifying the financial statements of any organisation or entity by

a competent and qualified person (the Auditor), so appointed. The auditor seeks to establish an opinion concerning the truth, accuracy, reliability and fairness or otherwise of the financial statements and the underlying records which are under review.

Audit queries
Audit queries are observations raised by the auditor about missing links in a particular financial transaction.

Auditor General for the Federation (AuGF)
This is the officer responsible under the 1999 Constitution of the Federal Republic of Nigeria, for the audit and report on the public accounts of the Federation, including all persons and bodies established by law entrusted with the collections, receipts, custody, issue, sale, transfer or delivery of any stamps, securities, stores, or other properties of the Government of the Federation and for the certification of the Annual Accounts of Government.

Accounting officer
Accounting officers are the Permanent Secretaries of the Ministries and Heads of Extra-Ministerial Departments. They are saddled with the responsibility of the day-to day financial affairs of the ministries or extra-ministerial departments by ensuring proper budgetary and accounting systems and safeguarding assets.

"Above-the-Line" accounts
These are the expenditure budgeted for in the estimates. At the time of the preparation of the budget one can reasonably ascertain the anticipated amount of incomes receivable and expenditure incurable. Examples of costs which may be budgeted for are salary expenditure and overhead expenses. Revenues anticipated include collections from customs and excise duties.

"Below-the-Line" accounts
These are the accounts created and controlled by the Accountant General of the Federation, of which at the time of preparation of the budget, one cannot reasonably ascertain the exact amount of incomes receivable and expenditure incurable. The expenditure under these accounts are not budgeted for in the Estimates. Examples are all advances granted.

Carrying Book value
Also called "net book value." It is original cost, less any accumulated depreciation, depletion or amortisation.

Breakeven point
Point of sales volume (or activity) where total revenues and total expenses converge or intersect.

Budget
A budget is a financial and/or quantitative statement prepared and approved prior to a defined period of time, for the purpose of attaining a set of given objectives.

Budgetary control
This is concerned with ensuring that incomes and expenditure are in line with the budgets and that wastages are reduced to the barest minimum.

Concepts
Concepts are broad basic assumptions underlying the preparation of financial statements of an enterprise. They include 'Consistency', 'Materiality', 'Periodicity', 'Duality', 'Entity', 'Historical Cost' and 'Going Concern' assumptions.

Cash basis
The basis of accounting under which revenue is recorded only when cash is received and expenditure recorded only when cash is paid, irrespective of the fact that the transactions might have occurred in the previous accounting period.

Cash budget
Schedule of anticipated cash receipts and payments

Cash control
Relates to the series of coordinated actions which have to be undertaken in order to ensure that all incomes due to Government are collected on a timely basis and that fraud is prevented.

Cash flow statement
Statement which reveals the cash generated (inflows) and cash expended (outflows), confirming the affordability or otherwise of liquid resources.

Certainty
One hundred percent (100%) assurance about which event will take place

Certificate of cash and bank balances
A statement which certifies that the actual cash balance agrees with that indicated on the Transcript.

Commitment basis
Under this basis, financial transactions are recorded right from the boardroom where management takes decision to spend. Once such decisions are taken money will be set aside, and such fund cannot be expended for other purposes. It is a basis that records an anticipated expenditure evidenced by a contract or a local purchase order as determined by the administration.

Contribution margin
Revenue minus variable costs; may be expressed as a total, per unit or a ratio.

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Consolidated revenue fund (CRF)
Consolidated Revenue Fund established by Section 80 of the 1999 Constitution of the Federal Republic of Nigeria pools together all revenues, except those which are specifically designated to other Funds.

Cost-benefit analysis
Primary criterion for picking among alternative systems. As a system is changed, its additional benefits should outrun its excepted additional costs.

Cost of capital
A synonymy for required rate of return.

Contingency fund
Contingency Fund has its legality under Section 83 of the 1999 Constitution. It is to meet unforeseen, unbudgeted and urgent situations such as natural disasters.

Counter-trade
Counter-Trade represents a commercial arrangement between two countries under which a nation makes available its major exports to another country in exchange for major imports.

Debt-forgiveness
Arises where a creditor nation decides to forget or write off the liabilities of a debtor nation.

Debt management
Refers to how the central government is able to operate the public debt stock without adverse economic effects. It includes sourcing for debt finance, judicious repayment terms, etc.

Debt repudiation
A situation where a debtor country completely disowning the outstanding debt.

Development fund
The existence of the development fund was strengthened by the 1999 Constitution of the Federal Republic of Nigeria, although created earlier by Section 25 of the Finance (Control and Management) Act of 1958. The fund is established for the purpose of executing capital development projects such as construction of roads and bridges.

Expected value
Arithmetic and weighted average, using probabilities as weights.

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Expenditure control
Expenditure control is the string of coordinated actions which have to be taken to ensure that all expenditures are 'wholly', 'necessarily', 'reasonably' and 'exclusively' incurred for the purposes for which they are meant.

Extra-budgetary spending concept
States that government should not undertake any action without a prior budget on it. It assumes that all government revenues and expenditure must be budgeted for.

External reserves
The financial assets standing to the credit of a country at a particular point in time.

Fixed cost
A cost which remains unchanged in total for a given period of time, in spite of wide activity changes.

Fund
'Fund' is "a separate fiscal and accounting entity in which resources are held, governed by special regulations, separated from other funds and established for specific purposes. It keeps separate accounting records."

Federation account revenue heads
Federation account is a distributable pool established by Section 162 of the 1999 Constitution of the Federal Republic of Nigeria from which allocations are made to the Federal, State and Local Government Councils on such terms and in a manner prescribed by the law. The Federation account is one into which shall be paid all revenues collected by the Government of the Federation, except the proceeds from the PAYE of the personnel of the Armed Forces of the Federation, The Nigeria Police Force, foreign service officers and residents of the Federal Capital Territory, Abuja.

Federal pay officer
An officer in charge of a Federal pay office in a state. He performs the same functions as those of the sub-accounting officer.

Financial regulations/accounting manual
Rules governing the management of public funds. These rules deal with the procedures to be adopted for the receipt and disbursement of public funds and how to ensure accountability.

Foreign aid
The international transfer of public funds in the form of grants either directly from one government to another (bilateral assistance) or indirectly through the vehicle of an international body, such as the World Bank (multilateral assistance).

Gratuity

Lump sum paid once to a retired officer who has served for a minimum of 5 years in service.

Imprest holder
An officer other than a sub-accounting officer entrusted with the disbursement of public monies whose vouchers cannot be presented immediately to a sub-accounting officer. He is required to keep an imprest cash book.

Imprest
A small amount of money set aside to meet petty cash payments, the vouchers of which cannot be presented to a sub-accounting officer immediately.

Incremental cost
The variation in total cost between two alternative decisions.

Internal rate of return
The rate of interest at which the present value of expected cash inflows from an investment equals the present value of expected cash outflows of the project or decision variable.

Investment appraisal
A technique directed at finding out the least possible cost of an investment and the maximum economic benefit which may accrue from the investment of resources in it.
Investigation
An enquiry commissioned by a client firm or government to find the cause or causes of an event, so that remedial actions may be taken.

Modified cash basis
Under this basis, the books of accounts are left open for a maximum period of three months after the end of the year, in order to capture substantial amount of incomes or expenses relating to the previous year which had just ended.

Modified accrual basis
Under this basis, both the cash and the accrual bases are employed simultaneously where applicable, in order to ascertain the financial viability of a specific unit of a Ministry. For example, the government may wish to ascertain the financial viability of say, Family Advancement Unit of the Ministry of Women's Affairs.

Net present value (NPV)
Approach of computing the expected value or utility of a given investment by discounting all anticipated future cash flows to the present moment, using some predetermined minimum desired rate of return.

Next-of-kin
Person whose name was furnished by a decreased officer on his record of service kept in the office of the establishment or furnished by him to the ministry, in writing, at any time before his death.

Non-self accounting unit
A ministry or extra-ministerial department which has no control whatsoever over any of its accounting records. The unit prepares vouchers but has to make payments through the Treasury.

Officer controlling expenditure
An officer in charge of the various votes - heads of each ministry or extra-ministerial department. He is saddled with the responsibility of monitoring government expenditure and ensuring that there is no extra-budgetary spending.

Opportunity cost
The maximum amount which could have been obtained if the productive good or service had been put to an alternative use.

Parastatals
Agencies established by Government with the main aim of carrying out certain projects or performing services to the nation, at the least possible, or sometimes prescribed, fees.

Pension
It is a monthly salary paid to a retired officer who has served for a statutory period. Pension is payable for the minimum period of five years or till death.

Public debt
That part of money owed by government to various creditors, institutions, other governments and individuals' resident in and outside Nigeria.

Ratio analysis
Involves expressing one figure as a ratio or percentage of another, to bring out the weakness or strength in any organisation's financial affairs.

Retirement
The cessation of service after an officer has served for a minimum of 10 years, qualifying the person for gratuity and pension.

Revenue collector
He is an officer other than a sub-accounting officer, entrusted with official receipts, licences or ticket booklets for regular collection of some particular forms of revenue on behalf of the government, and must keep a cash book.

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Revenue control
Concerned with the procedures which safeguard the collection and monitoring of revenues, and ensuring resultant accountability.

Risk
Relative dispersion around an expected value.

Shadow price
A measure of the maximum amount of contribution foregone by failing to have one more units of scarce capacity in a specified environment. It is a type of opportunity loss.

Self-accounting unit
A ministry or department which has full control over all its accounting records. The unit relates to the Treasury (i.e. the Accountant General's office), through the preparation of monthly transcripts.

Standing imprest
May be reimbursed from time to time during the financial year by submitting paid vouchers to the sub-accounting officer.

Special imprest
Operated from the commencement of a financial year until the objectives for which it is set up has been achieved, after which an account is rendered and all unspent balances lapse.

Sub-accounting officer
An officer entrusted with the receipt, custody and disbursement of public money, and required to maintain one of the recognised cash books, together with such other books that may be required by the Accountant General.

Statement No.1: Statement of Cash Flow
This is a statement which 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.

Statement No. 2: Statement of Financial position
This is the balance sheet of the Federal Government, showing the various fund accounts on the liability side and investments and cash held against such funds on the asset side, with comparative figures for the previous year.

Statement No.3: Statement of Consolidated Revenue Fund/Financial performance
The Fund derives its existence from Section 80(1) of the 1999 Constitution, which says that all collections made by and accruing to the Central (Federal) Government by way of taxing and sharing of the Federation Account shall be paid into the

Consolidated Revenue Account. The statutory outflows from this Fund are Consolidated Revenue Charges, such as the salaries due to judges, Auditor General for the Federation and the Nigeria Police Personnel.

Statement No. 4: Statement of Capital Development Fund
The Fund is meant to finance capital projects such as the building of public hospitals.

Stores/Inventories
All moveable property purchased from public funds, or otherwise acquired by government. Stores, in public sector accounting refer to stocks of materials and equipment purchased with government fund.

Token vote
Nominal provision for a head or sub-head of an expenditure or revenue in an estimate. 'Token vote' is often represented by the symbol 10e. It is a reminder to provide money for the activity function as soon as possible.

Transcript
The summary of the total payments and receipts as posted in the cash book. It is the final accounts of all self-accounting and limited self-accounting units.

Treasury inspection questionnaire
A set of standard questions to be answered and a list of documents to be inspected during visits to the different accounts departments, by treasury officers.

Unallocated stores
Those purchased for general stock rather than for a particular work or service, for which the final vote of charge cannot be stated at the time of purchase.

Uncertainty
Possibility that an actual amount will deviate from an expected value. Probability of occurrence is un-ascertainable.

Value-for-money audit
The review of the financial transactions to confirm that the organisation has received value economically, efficiently and effectively.

Vote book
A memorandum accounts book used for monitoring government expenditure and ensuring that there is no extra-budgetary spending.

Voucher
A voucher is a document showing evidence of receipt or payment of money.

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Warrants
Financial authorities issued by the Minister of Finance through which expenditure of government are incurred.

Zero-based budgeting
Budgeting from the 'basement' or 'ground-up' as if the budget were being introduced for the first time.

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APPENDIX II: STUDY AND EXAMINATION TECHNIQUES

This appendix contains notes on:

(a) Using the questions and answers provided in the manual;
(b) Effective study; and
(c) Examination technique.

2.1 Questions and answers

1. These questions are either
   (a) Questions intended to test the understanding of the points arising out of the particular Chapter; or
   (b) Examination questions inserted at a stage where it is considered the student will be best able to give a reasonable answer.
2. Most answers are given in outline, but some examination answers go a little further, in order to provide greater guidance and provide students with the basis for study.
3. When answers are comprehensive, you could not be expected to write them in the time allowed. Do not worry, if you feel you cannot write such answers; you are not expected to. But you must grasp the main points or principles involved, which will form the basis for good marks in an examination.
4. Do not worry, if your answer differs, there is often more than one approach. You must satisfy yourself however, that it is only the approach that differs, and that you have not missed the fundamental principles.
5. Authors' Comments. These have been included, to give additional points or elaborate on matters arising out of the subject covered by the question, to which it is felt, you should give some thought.

Using the answers

1. Have a shot at each question yourself, before consulting the answer, you will achieve nothing if you do not do this. Write your answer out in full or jot down the main points. Do not hurry to the answer.
2. Look at the answer. (See paragraph 5 in the case of examination answers).
3. Study the particular area thoroughly now, making sure of your understanding. Repeat the process outlined in paragraph 7 and this paragraph, after a suitable interval. You must do this, to get any benefit at all. Make sure the main points stick.
4. Just browsing through the answers will really get you nowhere. You must test yourself, by writing down your version of the answer.

2.1 Effective study

Introduction

1. These notes are intended for those who are new to studying for examination subjects, although those who are not, may also benefit. They have been written in relation to study, involving the reading of textbooks, and they apply to all subjects.

It is often very difficult to pick out the important principles from such books. Careful reading of these notes will be of benefit, even in studying this manual.

General

2. Study, means more than just reading a piece of literature. It means, close, concentrated reading, with a notebook at your side. Unless you are one of a few people who can absorb materials by just one general read through.
3. Read a small area, making notes as you go along. Then ask yourself – "what have I just learnt? "Write down what you think it was all about. Then look again and you may be surprised to find you have missed a key point or points – they must be down in your notebook and eventually in your head.

Compilation of notebook

4. A well-compiled NOTEBOOK is a must. Use block capitals or different colour inks, to headline the main areas and subdivisions of those areas. Notes made during lectures or private study, should not go straight into your NOTEBOOK. Take them down on a "rough" paper and write them in your NOTEBOOK, as soon as possible after the lecture or study period, thinking about what you are writing.

Memory aids

5. Mnemonics are very useful – if the sequence of points in the textbook is not significant, change it if it makes for a better mnemonic.
6. Association of the points with familiar objects, which will serve to recall them, is also useful.
7. Some people memorise things by saying them over and over out loud, others have to write them down time after time.
8. Many students have small blank cards and using one side of each card for each study area, put down the main points. They carry the cards everywhere with them and use every opportunity to study them. As they are small they are easily carried. It is surprising how much of your day can be utilised this way.

Programme

9. Map out a programme for yourself; set targets and achieve them. One thing is certain, studying is not easy, but it is not too difficult, if you go about it in an orderly purposeful way. Many students fail their examinations through bad preparation. Tackle your studies as you would a project at work, systematically. Allocate a number of hours each week to each subject. Try fixing specific times for each subject, then keep to them, by refusing to let anything keep you from your planned task.

Revision

10. Revise periodically. The nearer the examination gets, the more you should concentrate on the major headlines in your notebook and less with the supporting details.

2.2 Examination technique

First impressions

1. However well prepared you may be, you are still likely to look at the paper on the day and say to yourself, after a quick look at the questions, "There's not much here I can do".
2. The atmosphere of the exam room has something to do with this. Try to blot everything from your mind, other than the job in hand. Concentrate hard. If you feel a bit panicky (most people do – despite the apparent look of serenity around you) grip the table, take a deep breath, and get on with it. Remember things are never as bad as they seem!

Time allocation

3. Allocate each question time appropriate to the number of marks after first setting aside 15 - 20 minutes (of a 3 hour paper say), for initial reading of the questions, and final review of your answers. At the end of the allotted time for a question, go on to the next – remember, the first 5 or 10 marks on the new question are more readily picked up than the last 1 or 2 on the previous question.
4. The temptation will be to say "I'll write just one more sentence", but before you know where you are, you would have written several more and probably just managed to scrape another mark, whereas the same time on the next question, could have earned 5 or 6 marks. TIME ALLOCATION IS IMPORTANT.
5. Always leave some writing space, between your answers to each question, as you move on, because you may recall part of the answers to earlier questions, as you answer latter questions. Then you can quietly go back to update in the space reserved.
6. If you are running out of time write down the main headings first, leaving a few lines between each – at least the examiner will see that you had
the overall picture. Then go back putting in as much supporting detail as you can.

General approach

7. Read the instructions at the top of the paper
8. Read the question paper once through. Make your choice of questions quickly. Pick the easiest (if one appears so) and get on with it.

Individual question

9. Read the question again carefully. The question will involve a key principle or set of principles. What are they? It is so easy to make the wrong decision at this stage, so read the question, underlining what appear to be the key words. This should help you. Irrelevancy has been heavily criticised by examiners.
10. Do not rush into action with your pen yet. Jot down on a piece of scrap paper, the main headings you will use in your answer. All this will take time – about 5 minutes or more, but the careful thought and outline answer represent marks already earned.
11. If the question is set out in a particular sequence, that is:

a.……
b. ……
c. ..... etc.

then answer it in that sequence or you'll have a hostile examiner to cope with.

12. Use the particular terminology used in the question, the examiner can then link the points in your answer, to the relevant parts of the question.
13. Assumptions are sometimes required (for example because of the lack of standardisation of terminology in this subject). Having stated your assumptions, make sure that what you write is consistent with them. Do ensure, however, that

your assumptions are valid and are not just a device for changing the meaning of the question to suit your knowledge!

14. Tabulate where appropriate, using block capitals, for your main headings and underline sub headings. Underline words or phrases which require emphasis. Use a ruler.
15. Leave a line between your paragraphs and subparagraphs. This makes for a good layout. However, do not write one very other line within paragraphs, or on one side of the paper only – examiners are waste conscious!
16. Write out each word clearly, don't forget you are not the examiner reading your answers. In your hurry, be legible.

Layout of answers

17. Tabulate where appropriate, using block capitals, for your main headings and underline subheadings. Underline words or phrases which require emphasis. Use a ruler.
18. Leave a line between your paragraphs and subparagraphs. This makes for a good layout. However, do not write on every other line within paragraphs, or on one side of the paper only - examiners are waste conscious!
19. The use of different colour pens, where appropriate, is useful but do not overdo it. In fact, one black and red felt-tip pen would be sufficient (use the felt-tip pens which have a fine point).

Charts and diagrams

20. A descriptive heading or title must be given to each diagram (using the one in the question if indicated).
21. Do not squeeze a diagram into a corner – spread it out.
22. Do not clutter your diagram up with too much detail – this defeats the object, which should be clarity.
23. Give a key to the symbols and the different lines you've used, and again – use a ruler.

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End of examination procedure

24. Have a quick look at each answer, checking for grammatical errors and badly formed letters.
25. Ensure each answer sheet has your number on it and do not leave any lying on the table.

Conclusion

26 Good technique plays a large part in examination success; this is a fact. Refuse to be panicked, keep your head, and with reasonable preparation you should make it.
27 Remember – you do not have to score 100% to pass.
28 A final point; once you're in the examination room, stay there and make use of every minute at your disposal.
29 Practice your technique, when answering the questions set in the manual.

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APPENDIX III: CASE STUDY WITH SUGGESTED SOLUTIONS

1. The following extracts from the Sunday Punch of March 15, 2009, "NIGERIA'S DEBT STILL $3.72BN" relates to the external debt position of Nigeria.

Nigeria's external debt after three years of exiting Paris Club of debtors' list remains at $3.72 billion. SUNDAY PUNCH investigations show.

Figures obtained from the Debt Management Office by our correspondent in Abuja on Friday put the Federal Government's share of the Nation's current debt stock as at December 31, 2008 at $2.5bn, while the 36 States and the Federal Capital Territory jointly owe $1.67bn, consisting mainly of multilateral debts.

The Federal Government also owes a separate $547.5m classified as "Non-Paris" loan. A debt relief deal by the former President Olusegun Obasanjo's administration in 2005 resulted in writing off $18bn debt by the Paris Club of creditors. The Obasanjo government also paid a whopping $12bn in one fell swoop to Nigerian foreign creditors as part of the desperate bid to exit the club of chronic debtor nations. The Federal and State Governments as at December 2004 owed Paris Club $25.4bn and USD 5.4 billion, respectively.

Dr Abraham Nwankwo, the Director-General of the DMO, told SUNDAY PUNCH that about 84 percent of the debts currently owed by the Nigerian Governments are multi-lateral loans sourced from credit organisations, including the International Bank for Reconstruction and Development, African Development Bank, International Fund for Agricultural Development and ECOWAS FUND.

A breakdown of the figures shows Lagos State topping the chart with a debt burden of $279.7m followed by Oyo and Kaduna States which are indebted to the tune of $110.04m and $109.1m, respectively. From the rear, the FCT, Borno and Jigawa States owe $14.2m and $16.9m, respectively.

The DMO Director-General described the current national debt profile as normal, since, according to him, "Nigerians'" traditional reasoning and inclination to avoid debt is not reasonable for any modern economy".

Assuring that the DMO is assisting the Federal Government and the States to effectively manage their debts through reliable data base, Dr. Nwankwo said that government needed the debts to provide water, education and other basic amenities.

The Lagos State Commissioner for Finance, Mr. Rotimi Oyekan's view of the debt owed by the Federal and State Governments was similar to Nwankwo's, arguing that the most important thing is for the money to be used for projects that are beneficial to the people "as we are doing in Lagos". "You don't talk about debt for

the sake of debt but for a specific purpose and for management. For us, we have started a debt issuance programme to supplement our resources every year to ensure that we can do more for the people", Oyekan said.

REQUIRED:

(a) Distinguish between Paris Club of Creditors and London Club of Creditors.

(b) State and explain TWO (2) reasons why Nigeria had to borrow from the Paris Club of Creditors.

(c) "Reproductive Debt" and "Deadweight Debt" are terms which occur in National Public Debt matters. What do the terms mean?

(d) As a potential Federal Minister of Finance, state the advice you will offer the President on the ways out of a debt trap.

Suggested solutions

(a) The Paris Club of Creditors consists of nineteen creditor countries from which developing nations have been borrowing to finance their socio-economic development. The Club came into existence informally in 1956. It is, therefore, an informal group. Membership is not permanent. The Club operates on the basis of concensus. Its members informally meet with debtor countries which could not meet their debt obligations for debt rescheduling. Members of the club include United States of America, United Kingdom, France, Canada, Germany, etc.

London Club of creditors on the other hand is made up of Commercial Banks from all over the world, Multilateral Creditors like the World Bank, International Monetary Fund (IMF), African Development Bank (AfDB) and European Investment Bank (EIB), promissory note holders and other bilateral creditors.

(b) Reasons why Nigeria had to borrow from the Paris Club of Creditors include the following;

(i) Population explosion and increased urbanisation required greater care for people's welfare and provision of infrastructural facilities in cities and villages.

(ii) Need for industrial development required financing of assets which benefits spread over several years.

(iii) Expansion of governmental activities requiring expanded facilities.

(iv) Need to finance self-liquidating projects which would benefit the masses.

(v) There was the need to finance budget deficit.

(vi) Need to provide social, health, security as well as educational facilities.

(vii) It was necessary to achieve economic development and stabilisation.

(viii) Low level of national revenue as a result of the oil glut of the 80's

(ix) Need to provide employment, improved living standard and general economic wellbeing of the people.

(x) Need to avoid increased tax burden.

(xi) Need to meet emergency situations.

(c) Reproductive Debt is one which is fully covered or balanced by the possession of assets of equivalent value. Proceeds of this type of debt is deployed to investment projects. Income derived from the operation of the projects is used to pay back the debt and interest there on.

Deadweight Debt is one which does not have any corresponding assets. The principal sum and the interest on the debt are normally sourced from taxation. While reproductive debt does not create additional burden for the people,

Dead weight debt causes increased burden since additional tax has to be levied on the populace to repay the debt.

(d) As a potential Federal Minister of Finance the following advice will be offered to the President on ways and means to get out of a debt trap:

(i) Ensuring consistent balanced or surplus budgets.
(ii) Diversifying the economy. Stop relying on oil revenue only.
(iii) Reducing importation of non-essential items or placing embargo on new loans.
(iv) Adopting any of the following debt management techniques;
(v) Debt rescheduling;
(vi) Debt equity conversions;
(vii) Using counter trade system;
(viii) Pursuing debt relief; and
(ix) Looking for foreign aid.

"WE CAN'T IMPLEMENT BUDGET."

2. President Umaru Yar'Adua said, on Thursday, that his administration would not be able to fully implement the 2009 budget because of the dwindling government revenue, which he said, had dipped by 30 percent in three months.

The President stated this in a letter which he wrote to the Speaker, House of Representatives, Honourable `Dimeji Bankole, and which was read on the floor of the chamber by the Deputy Speaker, Honourable Usman Bayero Nafada, who presided over the session.

President Umaru Yar'Adua wrote the letter based on the motion moved on the floor of the House last Wednesday, accusing the Presidency of implementing the 2009 budget in a selective manner. In the letter, the President who lamented the poor revenue base of the country, as a result of the drastic fall in revenue from crude oil, disclosed that his government was proposing a comprehensive review of the 2009 budget with a view to dropping some of the projects embedded in the document.

President Umaru Yar'Adua also, in the letter, highlighted a four-pronged approach in reviewing the budget, including aligning and rationalising government spending with revenue flows and prioritising expenditure to focus on projects central to the

realisation of the administration's seven-point Agenda. According to him, the approach also included virement proposals to reallocate resources from projects for which "we do not have capacity for implementation and effective supervision to critical projects."

Others include "submission of a Supplementary Budget to the National Assembly to fund particularly critical projects that were left out of the 2009 budget and initiating dialogue with the National Assembly to address issues of constitutional separation of powers in relation to budget execution. "This revenue shortfall has been exacerbated by the challenge of financing the fiscal deficit." We had identified sources of financing the deficit, such as accessing the international and local capital markets." "However, we have stepped down plans to issue the $500 million denominated international bond due to the ongoing global financial crisis, which has adversely affected international liquidity. The administration is also being cautious in-excessively accessing the domestic financial markets to avoid the risk of crowding out the private sector and stifling economic growth."

"Finally, although we have introduced measures to improve internally-generated revenue, including customs reforms and audit of MDAs' internally-generated revenues, there are still challenges in meeting our financing needs," the President said.

The President stated in the letter that even some of the projects that were crucial for the attainment of his seven-point Agenda had been slashed or completely removed from the budget, disclosing those affected as including provisions for power-related projects critical to the attainment of targeted 600 megawatts by the end of 2009; allocations for the Multi Year Tariff Order (MYTO) which he said was critical to the ongoing power sector reforms. He also disclosed that vote for security of oil and gas assets to improve the security around oil installations; arrears for parastatal agencies monetisation; provision for public sector wage adjustment; provision for FCT water treatment plant; construction of soldiers' accommodation necessary to improving security under the seven-point Agenda and the President's contingency, which is a vital provision that provides the administration with the necessary resources to promptly respond to urgent and unanticipated expenditure were affected as well.

Members, who reacted to the letter on the floor, urged that copies of the document be made available to every member of the House while a date be set aside to deliberate on it.

Sources: Nigerian Tribune, Friday 15 May, 2009. The Nation, Friday 15 May, 2009.

Required:

(a) What is the major reason for government's dwindling revenue?

(b) State the steps the President intends to take regarding the 2009 budget.

(c) How does the Government intend to finance the 2009 budget hundred percent? What constraints does the Government face in carrying out this intention?

(d) What is the position of the Fiscal Responsibility Act in relation to deficit financing?

(e) What advice would you offer the Federal Government to stem the negative impact of the global economic meltdown and poor revenue base?

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SUGGESTED SOLUTIONS

(a) The dwindling Government revenue in recent months is mainly due to a drastic fall in the price of crude oil from over $150 per barrel in January 2008 to $37 per barrel in December 2008. Output of crude oil also went down as a result of the crisis in the Niger Delta area. Besides, non-oil revenue projections remain out of tune with reality.

(b) The President intends to carry out a review of the 2009 budget by:

(i) aligning and rationalising government spending with revenue inflows;

(ii) prioritising expenditure to focus on projects central to the realisation of the administration's seven-point agenda;

(iii) virement proposals to re-allocate resources from projects for which Government does not have the capacity to implement and effectively supervise to other critical projects; and

(iv) submitting a supplementary budget to the National Assembly to fund such critical projects which were left out of the 2009 budget.

(c) Year 2009 budget is a deficit budget. The deficit is to be financed by borrowing through international and local capital markets. Initial proposal was to issue $500 million denominated international bond. The ongoing global financial crisis has however affected international liquidity adversely, hence the need to put the proposal on hold. Excessively accessing the domestic financial markets on the other hand could lead to the risk of crowding out the private sector and stifling economic growth.

(d) The position of the Fiscal Responsibility Act, 2007 on borrowing to finance any budget deficit is that debt can be incurred only to finance capital expenditure and human development. Such borrowing should also be at concessional low rate of interest with a long repayment period.

(e) Government can stem the negative impact of the global economic meltdown and poor revenue base by diversification and paying greater attention to agriculture and other revenue generating economic activities. The crusade against corruption, resource wastage, ineptitude and political instability should be accentuated.

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Annexure B

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5. Financial Regulations (Revised) 2009.
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9. Local Government Basic Constitutional and Transitional Provision Act No.23 of 1998.
10. Finance Acts, 2019, 2020, 2021 and 2023.
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15. Money Laundering (Prevention and Prohibition) Act, 2022
16. Advance Fee Fraud and Other Related Offences Act, 2006
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