

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – PILOT QUESTIONS 2025

PUBLIC SECTOR ACCOUNTING AND FINANCE

**INSTRUCTION:** YOU ARE REQUIRED TO ATTEMPT FIVE OUT OF SEVEN QUESTIONS IN THIS PAPER

**SECTION A:** COMPULSORY QUESTION (30 MARKS)

**QUESTION 1**

- (a) The following information was extracted from the records of the Accountant-General of Harmony State for the year ended December 31, 2024:

	<b>N'000</b>
Share of statutory allocations:	
FAAC	152,319,180
Value added tax (VAT)	40,993,796
Licenses	904,536
Repayment of external loans (including servicing)	1,855,216
Repayment of FGN bonds (restructured commercial loan and salary bailout)	12,016,384
Repayment – General	9,965,696
Re-imbursement	252,000
Direct taxes	28,755,544
Retained earnings of parastatals	43,098,556
Personnel cost (including salaries on CRF charges)	55,807,780
Overhead charges	61,268,380
Mining rents	59,780
Fees	5,621,568
Other transfers (deductions from FAAC and others)	7,275,116
Proceeds from aids and grants	58,467,464
CRF charges (Including service wide votes, pension and gratuity)	60,641,228
Parastatals recurrent cost	48,625,176
Fines	63,376
Proceeds of loans from other funds (commercial bank loan)	3,481,516
Sales	606,828
Earnings	2,896,076

Rent of government buildings	16,436
Other operating activities (JAAC and LGA bailout)	2,528,412
Proceeds from external loan	2,800,000
Rent on lands and others	293,508
Proceeds from internal loan: FGN/State bonds	283,528
Repayment of loans from other funds (commercial bank loan)	9,183,340

**The following additional information was made available:**

- (i) Owing to the inability of the State to fulfil its obligation towards the payment of the salaries of local government staff, a Federal Government bailout of ₦1,204,096,000, was received after fulfilling all necessary criteria set for accessing the fund.
- (ii) During the year, the state government made claims for the repayment of ₦261,932,000 relating to funds spent on the rehabilitation of federal roads and was granted.
- (iii) Details emerging from the Federation Accounts and Allocation Committee (FAAC) showed the following:

	<b>₦'000</b>
Share of the State (Jan. - Dec.)	151,647,588
Deduction at source for loan repayment (Jan. - Dec.)	<u>(21,146,720)</u>
	130,500,868
Sharing of excess petroleum tax by FACC	<u>671,592</u>
	<b><u>131,172,460</u></b>

- (iv) During the year, the Federal Government made a transfer for the refund on reconciliation of Paris Club account amounting to ₦165,240,000.
- (v) Capital expenditure funded from aids, grants and external loan amounted to ₦61,550,992,000.
- (vi) Refund of bank charges to the Ministry of Finance in the state amounted to ₦204,448,000.
- (vii) Cash and cash equivalents as at January 1, 2024 and December 31, 2024 are ₦6,1866,796 and ₦1,206,628,000, respectively.
- (viii) Other revenue sources of the state government during the year also included an exchange difference amounting to ₦1,962,300,000.
- (ix) Details of capital expenditure are categorised as follows:

	<b>₦'000</b>
General public services	4,998,612
Public order and safety	480,000
Economic affairs	25,381,884
Housing and community amenities	3,833,584
Social protection	100,364
Environmental protection	108,000

Health	138,088
Recreation, culture and religion	<u>71,448</u>
Education	<u>3,793,568</u>

**Required:**

Prepare statement of cash flows, using direct method for the Harmony State Government for the year ended December 31, 2024. (20 Marks)

- (b) The Institute of Chartered Accountants of Nigeria (ICAN) Accountability Index (ICAN-AI) is a framework used to assess public finance management and public governance practices across the three tiers of government in Nigeria (federal, state, and local).

**Required:**

Explain **Three** (3) advantages and **Two** (2) disadvantages of ICAN Accountability Index.

(10 Marks)

**(Total 30 Marks)**

**SECTION B: YOU ARE REQUIRED TO ATTEMPT TWO OUT OF THE THREE QUESTIONS IN THIS SECTION (40 MARKS)**

**QUESTION 2**

- (a) IPSAS 48: Transfer Expenses, requires that a transfer provider must disclose information in the financial statements that helps users understand the nature, amount, timing, and uncertainty of expenses and related cash flows resulting from transfer expense transactions.

**Required:**

- (i) Identify **Three** (3) qualitative and quantitative information to be disclosed in respect of the above. (3 marks)
  - (ii) Identify **Four** (4) information an entity will disclose about its transfer binding arrangements, including description. (4 marks)
  - (iii) Explain the disclosures an entity must provide in the absence of a binding arrangement. (3 marks)
- (b) The 'zero-based' budgeting technique requires that every expenditure item be fully justified as though the activity or programme is being initiated for the first time. In contrast, the planning, programming, and budgeting system (PPBS), is a budgeting method grounded in systems

theory, output and objective orientation, with substantial emphasis on resource allocation on the principle of economic analysis.

**Required:**

Identify **Five** (5) main stages involved in preparing zero-based budget and any **Five** (5) main steps in planning, programming and budgeting systems. (10 Marks)

**(Total 20marks)**

**QUESTION 3**

- (a) In accordance with Section 2(1-2) of the Pension Act 2014, both the public and private sectors pension schemes are now contributory. The employers and employees are expected to contribute a minimum of 18% in aggregate towards the retirement of the employee. The rate is subject to review as may be agreed between the employer and employee.

**Required:**

Identify **Three** (3) categories of persons exempted from the scheme and **Four** (4) conditions for the withdrawal from retirement savings account. (10 Marks)

- (b) Tabita Limited is Okokomaiko State Government business enterprises (GBE), dealing with waste disposal. The company has the following financial data for the year ended December 31, 2024:

	<b>N'000</b>
Revenues from operations	1,000,000
Cost of sales	600,000
Operating expenses	?
Interest income	20,000
Interest expenses	?
Tax expenses	40,000

Additional information

- (i) Operating expenses is 25% of the cost of sales.  
(ii) Interest expenses is 20% of operating expenses

**Required:**

Prepare statement of financial performance for the year ended December 31, 2024 (10 Marks)

**(Total 20 Marks)**

#### QUESTION 4

- (a) A budget is a financial and or quantitative statement prepared and approved prior to a defined period of time for the purpose of attaining a given objective. A budget is normally for one year. It is, therefore, a short-term plan.

**Required:**

Explain **Five** (5) factors which militate against the budgeting systems in the public sector in Nigeria. (10 marks)

- (b) IPSAS 35: Consolidated Financial Statements, requires key disclosures to ensure transparency and accountability in financial reporting.

**Required:**

Identify **Five** (5) potential financial and **Five** (5) non-financial benefits that an entity may derive from its association with another entity. (10 marks)

**(Total 20 Marks)**

#### SECTION C: YOU ARE REQUIRED TO ATTEMPT TWO OUT OF THREE

##### QUESTIONS IN THIS SECTION

**(30 MARKS)**

#### QUESTION 5

- (a) 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 **Two** (2) organisations in Nigeria that have adopted sustainability practices. (6 Marks)

- (b) There are various instruments that can be employed for the purposes of raising capital within the domestic economy by government.

**Required:**

Identify and explain **Five** (5) instruments employed by government to raise capital. (9 Marks)

**(Total 15 Marks)**

### QUESTION 6

- (a) Ogogo Orientals is a small environmental organisation considering the implementation of a conservation project to protect an endangered species and preserve its habitat. The data on the cost and benefits of the project are given as follows:

Parameter	Value
Cost of implementing the conservation project	₦500,000
Projected increase in ecotourism revenue	₦200,000 per year for the next 10 years
Estimated value of ecosystem services provided by the habitat	₦100,000 per year for the next 20 years

**Required:**

Explain what the cost-benefit analysis provides regarding the project's financial viability.

(5 Marks)

- (b) The National Health Scheme recently implemented a new intervention programme aimed at reducing hospital readmissions. In monetary terms, the value of hospital readmissions is about ₦10,000 per case and the programme intervention cost is ₦1,000,000. The intervention programme is documented to reduce hospital readmissions by 200 cases per year.

**Required:**

Explain if the benefits of the intervention programme justify its costs.

(5 marks)

- (c) Public sector sustainability reporting involves the disclosure of environmental, social, and governance (ESG) information, along with updates on progress made toward achieving sustainability objectives.

**Required:**

Highlight **Five** (5) key elements of public sector sustainability reporting.

(5 marks)

**(Total 15 Marks)**

### QUESTION 7

- (a) Sustainability reporting is increasingly being embraced across various sectors of the economy, particularly to leverage the advantages of transparent Environmental, Social, and Governance (ESG) reporting.

**Required:**

Highlight **Two** (2) major steps required for effective sustainability reporting.

(5 marks)

- (b) The Ministry of Works is considering building a temporary bridge to cut travel time during the three years it will take to build a permanent bridge. The temporary bridge can be put up in a few weeks at a cost of ₦750,000. At the end of three years, it would be removed, and the steel would be sold for scrap. The real net cost of this would be ₦81,000. Based on estimated time savings and wage rates, fuel savings, and reductions in risks of accidents, Ministry's analysts predict that the benefits in real Naira would be ₦275,000 during the first year, ₦295,000 during the second year, and ₦315,000 during the third year. Ministry's regulations require the use of a real discount rate of 4 percent.

**Required:**

- (i) Calculate the present value of net benefits assuming that the benefits are realised at the end of each of the three years. (4 marks)
- (ii) Calculate the present value of net benefits assuming that the benefits are realised at the beginning of each of the three years. (3 marks)
- (iii) Calculate the present value of net benefits assuming that the benefits are realised in the middle of each of the three years. (3 marks)

**(Total 15 Marks)**

## SUGGESTED SOLUTIONS

### Solution 1

(a) **Harmony State Government**  
**Statement of cash flows**  
**For the year ended December 31, 2024**

	Notes	N'000
<b>Operating activities:</b>		
<b>Receipts:</b>		
Statutory allocations:		
- Share from federation (FAAC)	i.	152,319,180
- Value added tax (VAT)		<u>40,993,796</u>
<b>Total statutory allocation</b>		<b><u>193,312,976</u></b>
<b>Independent revenue:</b>		
Direct taxes		28,755,544
Licences		904,536
Mining rents		59,780
Fees		5,621,568
Fines		63,376
Sales		606,828
Earnings		2,896,076
Rent of government buildings		16,436
Rent on lands and others		293,508
Repayment – General		9,965,696
Re-imbursement		252,000
Earnings of parastatals		<u>43,098,556</u>
<b>Total independent revenue</b>		<b><u>92,533,904</u></b>
Other revenue	ii.	<u>3,798,016</u>
<b>Total other revenue</b>		<b><u>3,798,016</u></b>
<b>Total receipts</b>		<b><u>289,644,896</u></b>
<b>Payments:</b>		
Personnel cost (including salaries on CRF charges)		55,807,780
Overhead charges		61,268,380
CRF charges (including service wide votes, pension and gratuity)		60,641,228
Parastatals recurrent cost		48,625,176
Other operating activities (JAAC and LGA bailout)		2,528,412
Other transfers (Deductions from FAAC and others)		<u>7,275,116</u>



<b>Total payments</b>	<b><u>236,146,092</u></b>
<b>Net cash flows from operating activities</b>	<b><u>53,498,804</u></b>
<b>Investing activities:</b>	
<b>Capital expenditure:</b>	
Funding from aids, grants and external loan	61,550,992
General public services	4,998,612
Public order and safety	480,000
Economic affairs	25,381,884
Housing and community amenities	3,833,584
Social protection	100,364
Environmental protection	108,000
Health	138,088
Recreation, culture and religion	71,448
Education	<u>3,793,568</u>
<b>Net cash flows from investing activities</b>	<b><u>(100,456,540)</u></b>
<b>Financing activities:</b>	
Proceeds from aids and grants	58,467,464
Proceeds from external loan	2,800,000
Proceeds from internal loan: FGN/State bonds	283,528
Proceeds of loans from other funds (commercial bank loan)	3,481,516
Repayment of external loans (including servicing)	(1,855,216)
Repayment of FGN bonds (commercial loan and salary bailout)	(12,016,384)
Repayment of loans from other funds (commercial bank loan)	<u>(9,183,340)</u>
<b>Net cash flows from financing activities</b>	<b><u>41,977,568</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b><u>(4,980,168)</u></b>
Cash and cash equivalents as at January 1, 2024	<u>6,186,796</u>
<b>Cash and cash equivalents as at December 31, 2024</b>	<b><u>1,206,628</u></b>

## Workings

	<b>N'000</b>
i. Share of the State (Jan. - Dec.)	130,500,868
Add back: Deduction at source (Jan. - Dec.)	<u>21,146,720</u>
	<b><u>151,647,588</u></b>
Add: Sharing of excess petroleum tax by FACC	<u>671,592</u>
<b>Total</b>	<b><u>152,319,180</u></b>
ii. <b>Other revenue sources</b>	
Exchange difference	1,962,300
Refund of road repairs	261,932
Refund of bank charges	204,448

Refund from Paris Club	165,240
LGA bailout	<u>1,204,096</u>
<b>Total</b>	<b><u>3,798,016</u></b>

**(b) (i) Advantages of ICAN Accountability Index**

- **Improved transparency:** The index encourages public organisations to disclose information about their operations, fostering greater transparency and accountability.
- **Efficiency:** By highlighting areas where improvements can be made, the index can contribute to more efficient resource allocation and service delivery.
- **Reduced corruption:** The index can act as a deterrent to corrupt practices by exposing weaknesses in governance and accountability.
- **Increased public trust:** By promoting accountability, the index can help rebuild public trust in government and public institutions.
- **Improved public finance management:** ICAN-AI promotes transparency and accountability in public finance management, which can lead to more efficient and effective service delivery to citizens.
- **Incentive for reforms:** The index can incentivize governments to improve their governance and accountability practices, fostering healthy competition between states and encouraging continuous public finance improvements.
- **Timely and innovative:** The ICAN-AI is considered a timely and innovative mechanism for promoting accountability and transparency in public finance, especially in the context of increasing public debt and budget deficits.
- **Credible framework:** The index is guided by fundamental accounting principles and the Nigerian constitution, ensuring its credibility.
- **Comprehensive assessment:** ICAN-AI assesses a wide range of public finance aspects, including budgeting, execution, reporting, and impact on citizens.
- **Empowerment of citizens:** By making public finance information more accessible, the index empowers citizens to hold their elected officials accountable.

**(ii) Disadvantages of ICAN Accountability Index**

- **Data availability issues:** The index relies on data that may not always be readily available or reliable, potentially affecting the accuracy of the assessment.
- **Potential for manipulation:** Governments may strategically manipulate data or information to present a more favourable picture, undermining the index's effectiveness.

- **Cost of Implementation:** Implementing and maintaining the index can be costly, requiring significant resources and expertise.
- **Limited scope:** The index may not capture all aspects of accountability and governance, potentially overlooking important factors.
- **Potential for bias:** The index's methodology and evaluation criteria may be subject to bias, which could affect the fairness and impartiality of the assessments.
- **Implementation challenges:** Implementing the index across different tiers of government and ensuring compliance can be challenging.

## **Solution 2**

### **(a) (i) An entity shall disclose a qualitative and quantitative information about the following:**

- transfer expenses and related balances (Paragraph 53-58);
- transfer arrangements (Paragraphs 59-60);and
- the significant judgements, and changes in the judgements, made regarding the recognition of transfer right assets from transfer expense transactions (Paragraph 61).

### **(ii) An entity shall disclose information about its transfer binding arrangements, including a description of the following:**

- the purpose of the transfer binding arrangements;
- significant payment terms;
- the nature of the resources that have been or will be transferred; and
- significant risks and uncertainties relating to the realisation of transfer rights assets.

### **(iii) For a non-binding arrangement, the following shall be disclosed:**

- the purpose of the transfer arrangements;
- significant payment terms; and
- the nature of the resources that have been or will be transferred.

### **(b) (i) Stages involved in preparing zero-based budget**

'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:

- identify *decision units* and develop operational plans. This involves breaking down the entire ministry or parastatal into smaller components known as decision units;
- analyse the entire budget by creating *decision packages* based on these decision units. Each package is assigned costs and includes alternative methods for carrying out the same activity. This step also involves evaluating the impact of not performing the activity at all and assessing various performance levels from minimum to maximum to determine the most efficient option;
- rank the decision packages, including both new and ongoing activities, in a competitive order based on their value and priority;
- determine the *cut-off point* to decide which packages will be approved for implementation and which will be excluded; and
- prioritise the selected packages to align with the available resources, ensuring that the most critical and feasible ones are highlighted.

**(ii) The main steps in planning, programming, and budgeting system (PPBS)**

- Identification and enumeration of goals and objectives of the organisation.
- Defining the total system in detail, including objectives, environment, available resources, the programmes and their objectives, etc.
- 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.
- Development of the appropriate measures of performance for the programmes of the organisation.
- Programming and budgeting: The agreed package of “programmes” complete with resource requirements and expected results are expressed in the form of “programmed budgets”.
- 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.
- Development in each year, of a multi-year programme and financial plan.

### **Solution 3**

#### **(a) (i) The categories of persons exempted from the contributory pension scheme are:**

- 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;
- an employee who is entitled to retirement benefits under any pension scheme existing before the 25<sup>th</sup> day of June 2004 and has 3 or less years to retire (that is, fully funded pension scheme);
- any person who falls within the provisions of the above shall continue to derive retirement benefit under such existing pension scheme as provided for in the Second Schedule attached to this Act; and
- where an officer exempted under the second bullet above dies in service or in the course of duty, the Federal Government Pension Transitional Arrangements Directorate and the Federal Capital Territory Pension Transitional Arrangements Directorate shall cause to be paid, en-bloc, his next- of- kin or designated survivors, a gratuity and pension to which the officer would have been entitled at the date of his death calculated on the basis of applicable computations under the existing Pay-As-You-Go Pension scheme of the public service of the Federation and Federal Capital Territory.

#### **(ii) The conditions for the withdrawal from retirement savings account (RSA)**

- Withdrawal is not allowed until the attainment of 50 years of age.
- An officer retired and is less than 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.
- 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.
- At the request of the employee, a Medical Board or a suitably qualified physician shall conduct a review of the employee's fitness every two years. If the Medical Board certifies that the employee is mentally and physically fit to perform the duties of their office, the individual may rejoin the pension scheme upon securing new employment. Furthermore, without prejudice to the above, any employee who disengages or is disengaged from

employment before reaching the age of 50 and fails to secure another job within four months may withdraw up to 25% of the balance in their Retirement Savings Account, in accordance with Section 7(2) and (3) of the Pension Reform Act.

(b)

**Tabita Ltd.**

**Statement of financial performance**

**For the year ended December 31, 2024**

<b>Revenue:</b>	<b>N'000</b>
Revenue from operations	1,000,000
Interest income	<u>20,000</u>
<b>Total income</b>	<b><u>1,020,000</u></b>
<b>Expenses:</b>	
Cost of sales	600,000
Operating expenses (w.1)	150,000
Interest expenses (w.2)	<u>30,000</u>
Tax expenses	<u>40,000</u>
<b>Total expenses</b>	<b><u>820,000</u></b>
<b>Profit after tax</b>	<b><u>200,000</u></b>

**Workings**

- (i) Operating expenses = 25% of cost of sales  
 $25\% \times \text{N}600,000,000 = \text{N}150,000,000$
- (ii) Interest expenses = 20% of Operating expenses  
 $20\% \times \text{N}150,000,000 = \text{N}30,000,000$

**Solution 4**

**(a) Factors which militate against the budgeting system in the public sector**

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

- (i) **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 affects successful budgeting.
- (ii) **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.
- (iii) **The type of project for which budget is prepared:** How successful a budget will be depends on the type of project to which it relates. Some projects are popular, while others are not. Those, which are not popular, may face stiff implementation problems.
- (iv) **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.
- (v) **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.
- (vi) **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 may affect budget implementation.
- (vii) **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.
- (viii) **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.
- (ix) **Fiscal indiscipline:** Most government officers are always maximising their budgets. Under the incremental budgeting system, they tend to expend the last Naira available in a year's budget in order to justify the demand for increase allocation in the subsequent year, with little or nothing to show under the current year.

**(b) (i) Financial benefits that an entity may receive from its involvement with another entity**

- Dividends, variable interest on debt securities, other distribution of economic benefits.
- Exposure to increase or decrease in the value of an investment in another entity.
- Exposure to loss from agreements to provide financial support, including financial support for major projects.
- 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).
- Residual interest in the other entity's assets and liabilities on liquidation of other entity.
- Other exposures to variable benefits that are not available to other entities.

**(ii) Non-financial benefits**

- Advantages arising from scarce resources that are not measured in financial terms.
- Economic benefits received directly by service recipients of the entity.
- When the objectives of the entity are in congruent with that of the entity being taken over.
- Non-financial benefits may also arise when two entities have complementary objectives meaning the goals of one entity enhance and complete those of the other.
- More efficient delivery of outcome.
- Having a higher level of service quality than would otherwise have been the case.

**Solution 5**

**(a) Organisations in Nigeria that have adopted sustainability practices**

- (i) 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 marked a significant milestone, as the guidelines are now aligned with global best practices and offer a structured framework for companies to disclose the impact of their operations on the environment and society.
- (ii) 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.

- (iii) **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.
- (iv) **Nigerian Extractive Industries Transparency Initiative (NEITI):** Companies in Nigeria's extractive industries are required to follow NEITI guidelines, which include disclosing their impacts 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.

**(b) Domestic borrowing instruments**

- (i) **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.
- (ii) **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 bank.
- (iii) **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 10 years in issue and for the future, there may be bonds with maturities of 15, 20, 30 years or more.

(iv) **FGN Savings Bond (FGNSB)** is issued by the Debt Management Office (DMO), on behalf of the Federal Government of Nigeria (FGN). The bonds are issued to:

- deepen the national savings culture;
- provide opportunity to all citizens irrespective of income level to contribute to national development; and
- 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.

(v) **Government development stocks:** Development stocks are typically medium- to long-term securities issued by the government to fund development projects or to provide loans to lower tiers of government. Generally, the longer the maturity period of these stocks, the higher the yield they offer. Key investors in development stocks include insurance companies, mandated by the Insurance Act to invest in them alongside commercial and merchant banks, the Central Bank, and other savings institutions.

(vi) **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:

- funding the construction/rehabilitation of key critical infrastructure projects like roads;
- diversifying the sources of government funding;
- offering ethical investors an opportunity to invest in government issued securities;
- achieving higher level of financial inclusion; and
- 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.

- (vii) **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 bondholders. They are frequently used to pay for the construction of roads, schools, prisons and other public infrastructures.
- (viii) **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.
- (ix) **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.

### Solution 6

- (a) Ecotourism revenue over 10 years = ~~₦~~200,000 per year x 10 years = ~~₦~~2 million

Value of ecosystem services over 20 years = ~~₦~~100,000 per year x 20 years = ~~₦~~2 million

Total Implementation cost = ~~₦~~500,000

Total benefits = ~~₦~~2 million + ~~₦~~2 million = ~~₦~~4 million

Since the total benefits (~~₦~~2 million + ~~₦~~2 million) far exceed the total costs (~~₦~~500,000), implementing the conservation project is financially viable.

- (b) Value of prevented hospital readmissions = ~~₦~~10,000 per case x 200 cases = ~~₦~~2 million per year

Implementation cost = ~~₦~~1 million

The total benefits (~~₦~~2 million per year) of the intervention program outweigh the total costs (~~₦~~1 million), indicating that implementing the healthcare intervention program is economically justified.

(c) **Key elements of public sector sustainability**

- (i) **Environmental sustainability:** Reporting on the environmental impacts of public sector activities, including resource consumption, emissions, waste management, and climate change adaptation and mitigation efforts.
- (ii) **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.
- (iii) **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.
- (iv) **Governance:** Clearly outlining the governance structure and processes related to sustainability reporting, including stakeholder engagement, oversight mechanisms, and accountability structures.
- (v) **Management approach:** This refers to how a public sector organisation oversees its sustainability efforts, including the policies it enacts, the procedures it follows, and the structures it has in place to support sustainable practices.
- (vi) **Strategy:** Outlining the public sector organisation's sustainability strategy, including its long-term vision, defined goals, and strategic priorities.
- (vii) **Performance and targets:** Presenting measurable data on the organisation's progress toward its sustainability objectives, including key performance indicators (KPIs) and achievements relative to set targets.
- (viii) **Materiality assessment:** Identifying and addressing the most relevant sustainability issues for the public sector body and its stakeholders.
- (ix) **Stakeholder engagement:** Engaging stakeholders in the sustainability reporting process and ensuring their perspectives and contributions are actively considered.
- (x) **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.

- (xi) **Financial disclosures:** Integrating sustainability reporting with financial reporting, including disclosures on climate-related financial impacts and other relevant financial information.
- (xii) **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.

## Solution 7

### (a) Major steps required for effective sustainability reporting

- (i) **Capacity building:** There is a need for continuous training and development of expertise within Nigerian companies to understand and implement effective sustainability reporting.
- (ii) **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.
- (iii) **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.

- (b) **Compute the present value of the costs,** which includes the construction cost of the temporary bridge, which occurs at the beginning of year 1, and the net cost of decommissioning the bridge at the end of year 3:

$$\begin{aligned}\text{Present value of cost} &= \text{N}750,000 + \frac{\text{N}81,000}{(1+0.04)^3} = \text{N}750,000 + \text{N}72,009 \\ &= \text{N}822,009\end{aligned}$$

- (i) **Benefits accrue at the end of the year:**

$$\begin{aligned}\text{Present value of benefits} &= \frac{\text{N}275,000}{(1+0.04)^1} + \frac{\text{N}295,000}{(1+0.04)^2} + \frac{\text{N}315,000}{(1+0.04)^3} \\ &= \text{N}264,423 + \text{N}272,744 + \text{N}280,034 \\ &= \text{N}817,201\end{aligned}$$

$$\text{NPV} = \text{N}817,201 - \text{N}822,009 = -\text{N}4,808$$

(ii) **Benefits accrue at the beginning of the year**

$$\begin{aligned}\text{Present value of benefits} &= \cancel{\text{N}275,000} + \frac{\text{N}295,000}{(1+.04)^1} + \frac{\text{N}315,000}{(1+.04)^2} \\ &= \cancel{\text{N}275,000} + \text{N}283,654 + \text{N}291,235 \\ &= \text{N}849,889\end{aligned}$$

$$\text{NPV} = \text{N}849,889 - \text{N}822,009 = \text{N}27,880$$

(iii) **Benefits accrue at mid-year:**

$$\begin{aligned}\text{Present value of benefits} &= \frac{\text{N}275,000}{(1+.05)^{0.5}} + \frac{\text{N}295,000}{(1+.05)^{1.5}} + \frac{\text{N}315,000}{(1+.05)^{2.5}} \\ &= \text{N}269,660 + \text{N}278,145 + \text{N}285,580 \\ &= \text{N}833,385\end{aligned}$$

$$\text{NPV} = \text{N}833,385 - \text{N}822,009 = \text{N}11,376$$