NATIONAL OPEN UNIVERSITY OF NIGERIA
91, Cadastral Zone, University Village Jabi, Abuja

FACULTY OF MANAGEMENT SCIENCES

PUBLIC SECTOR ACCOUNTING AND FINANCE

ACC418

COURSE GUIDE

Course Developer/ Writer:	**Dr Killian Ogiedu (FCA)** **Department of Accounting,** **University of Benin.**
Course Editor:	**Prof. B.R. Yusuf,** **Department of Accounting,** **Lagos State University.**
Head of Department	**Dr (Mrs) Ofe Inua** **Department of Financial Studies** **National Open University of Nigeria**
Programme Coordinator	**Anthony I. Ehiagwina** **Department of Financial Studies** **National Open University of Nigeria**

CONTENT

Introduction

Course Aim

Course Objectives

Study Units

Assignments

Tutor Marked Assignment

Final Examination and Grading

Summary

INTRODUCTION

You are holding in your hand the course guide for ACC418 (Public Sector Accounting and Finance). The purpose of the course guide is to relate to you the basic structure of the course

material you are expected to study as a B.Sc. Accounting Student in National Open University of Nigeria. Like the name 'course guide' implies, it is to guide you on what to expect from the course material and at the end of studying the course material.

COURSE CONTENT

The course content consists of basic accounting practice and finance that relates to public service.

COURSE AIM

The aim of the course is to educate you on how public sector accounting and finance is treated following basic accounting concepts and relevant laws and procedures.

COURSE OBJECTIVES

At the end of studying the course material, among other objectives, you should be able to:

1. **Understand the nature of the public sector;**
2. **Understand the difference between public sector Organizations and government business Organizations;**
3. **Know the external and internal users of public sector accounting information and their respective uses of the information;**
4. **Appreciate the differences between public sector accounting and private sector accounting;**
5. **Understand the bases of public sector accounting including the cash bases, the accrual basis, and the commitment bases;**
6. **Appreciate the advantages and disadvantages of each of the bases;**
7. **Know the accounting principles applicable in the public sector;**
8. **Understand the various accounting concepts;**
9. **Understand the various accounting conventions and others.**

COURSE MATERIAL

The course material package is composed of:

The Course Guide

The study units

Self-Assessment Exercises

Tutor Marked Assignment

References/Further Reading

THE STUDY UNITS

The study units are as listed below:

MODULE I

Unit 1:	Overview of public sector accounting and finance in Nigeria.
Unit 2:	Legal and regulatory framework of public sector accounting and finance in Nigeria.
Unit 3:	Accounting concepts, principles and bases
Unit 4:	National charts of accounts and uniform reporting
Unit 5:	Fund accounting
Unit 6:	Government accounting officers

MODULE II

Unit 1:	Sources of government revenue
Unit 2:	Government expenditure
Unit 3:	Financial control in government
Unit 4	Preparation of vouchers
Unit 5	The cash office
Unit 6:	Bank reconciliation

MODULE III

Unit 1:	Preparation of transcripts
Unit 2:	Treasury final accounts –Cash basis
Unit 3:	Accounting for local government
Unit 4:	Government Budgeting l
Unit 5:	Government Budgeting II
Unit 6:	Auditing in government
Unit 7:	Parastatals and public entities accounting

MODULE IV

Unit 1:	Financial reporting under IPSAS
Unit 2:	IPSAS 1,2,3,4, &5.
Unit 3:	IPSAS W 6,7,8,9, 10, & 11
Unit 4:	IPSAS 12,13,14,15,16, & 17.

ASSIGNMENTS

Each unit of the course has a self assessment exercise. You will be expected to attempt them as this will enable you understand the content of the unit.

TUTOR MARKED ASSIGNMENT

The Tutor Marked Assignments (TMAs) at the end of each unit are designed to test your understanding and application of the concepts learned. Besides the preparatory TMAs in the course material to test what has been learnt, it is important that you know that at the end of the course, you must have done your examinable TMAs as they fall due, which are marked electronically. They make up to 30 percent of the total score for the course.

SUMMARY

It is important you know that this course material was designed by the author with adaptations from various works as duly referenced. This provides you the opportunity of obtaining a BSc. degree in Accounting and preparation for your professional examinations. Therefore, it is very important that you commit adequate effort to the study of the course material for maximum benefit. Good luck.

PUBLIC SECTOR ACCOUNTING AND FINANCE

ACC418

MAIN CONTENT

Course Developer/ Writer:	**Dr Killian Ogiedu, (FCA)** **Department of Accounting,** **University of Benin.**
Course Editor:	**Prof. B. R. Yusuf,** **Department of Accounting,** **Lagos State University.**
Head of Department	**Dr (Mrs) Ofe Inua** **Department of Financial Studies** **National Open University of Nigeria**
Programme Coordinator	**Anthony I. Ehiagwina** **Department of Financial Studies** **National Open University of Nigeria**

TABLE OF CONTENTS

MODULE I

UNIT 1: OVERVIEW OF PUBLIC SECTOR ACCOUNTING AND FINANCE

CONTENTS

1.0 INTRODUCTION

In this unit, the student will learn of the nature of the public sector, the difference between public sector Organizations and government business Organizations and the external and internal users of public sector accounting information and their respective uses of the information. You will also learn the differences between public sector accounting and private sector accounting.

2.0 OBJECTIVES

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

10. **Understand the nature of the public sector.**
11. **Understand the difference between public sector Organizations and government business Organizations**
12. **Know the external and internal users of public sector accounting information and their respective uses of the information.**
13. **Appreciate the differences between public sector accounting and private sector accounting.**

MAIN CONTENT

3.1 INTRODUCTION TO PUBLIC SECTOR ACCOUNTING

This course is on public sector accounting. From the title of the course, two concepts come out significantly, that is, "public sector" and "accounting". Simply stated, public sector refers to all Organizations that are neither owned nor operated by private individuals or Organizations. In other words, public sector consist of all the Organizations that are owned, , operated and financed by the Government on behalf of the people. In Nigeria, the public sector refers to the federal government, the 36 states, the 774 local government councils, all government corporations, commissions and institutions.

On the other hand, accounting is the process of identifying, measuring and communicating the economic information of an organization to its users who need the information for decision making. It identifies transactions and events of a specific entity. When the two concepts are combined, we can see that public sector accounting is an aspect of accounting. It covers accounting in government ministries and extra-ministerial departments (either at federal or state levels), local governments, government parastatals, government committees, task forces and commissions amongst others.

Public sector accounting refers to all the financial documents and records of public institutions that relate to the collection of tax payers money, and the analysis, control of expenditure, administration of trust funds, management of government stores and all the financial responsibilities and duties of the relevant organs. It is a system of accountability through which the established institutions of the public render stewardship on the revenue of the Nation and how it has been disbursed. It includes the process of recording, analysing, classifying, summarising, communicating and interpreting financial information about the public sector in aggregate and in details, recording all transactions involving the receipt, transfer and disposition of public funds and property.

Thus the processes of public sector accounting are:

(a) Recording: This involves the process of documenting the financial transactions and events in the relevant books of accounts such as the cash book, the ledger and the vote book.

(b) Analysing: This involves the process of segregating transactions based on predetermined criteria and posting them to appropriate heads and sub-heads.

(c) Classifying: This has to do with the grouping of the transactions into revenue and expense descriptions and bringing them under major classes as "Revenue Head and Sub-heads", with their relevant code numbers of accounts.

(d) Summarising: This concerns the bringing together of all the classes of accounts and preparing them into reports periodically as are statutorily or organizationally required.

(e) Communicating: This is about making available financial reports on all the government financial activities from the necessary accounting summaries to various interested parties. The style of communication adopted should be un- ambiguous, lucid and devoid of jargons as much as possible.

(f) Interpreting: This ends the process by giving explanations on what has been reported in the various financial statements and reports, as regards the overall operations and performance of the relevant government Organization(s). This is to enable the necessary parties and users to take relevant decisions based on their assessments of the reports.

Self- Assessment Exercise.

1. What is Public Sector Accounting?

3.2 THE NATURE OF THE PUBLIC SECTOR

The public sector is generally used to refer to the federal, states and local governments and their ministries, parastatals and extra ministerial departments. The term also covers other government (public sector) Organizations and 66government business entities (GBEs). Public sector accounting and Government accounting are often used interchangeably. While they may be similar in many respects, they are not exactly the same. The difference lies mainly in the scope. Government accounting covers only accounting in ministries, extra-ministerial departments of government and local government the other hand, public sector accounting covers both government accounting and accounting in other public sector Organizations. It, however, excludes accounting in government business entities. We shall elaborate on the concepts of public sector Organizations and government business entities to illustrate their differences.

3.2.1 Public Sector Organizations

The public sector organizations are Organizations set up by the respective tiers of government to perform specific functions outside the government ministries and extra-ministerial departments. Omolehinwa and Naiyeju (2015) identified two features of public sector Organizations:

- **i.** They do no operate primarily to make profit.
- **ii.** They do not distribute their income or assets to the benefit of their members or officers of the organizations.

According to Omolehinwa and Naiyeju, even when such Organizations are dissolved, the proceeds realised is not given to any individual, but rather the proceeds goes back to the government. There are very many types of public sector organizations. Omolehinwa and Naiyeju classified them into two: Type A and Type B. According to them, Type A consists of those the public sector organizations whose financial resources are obtained principally from the sale of goods and services. On the other hand, Type B arethose financed from sources other than sale of goods and services. Such organizations are financed primarily through government revenue. Examples of Type B public sector organizations in Nigeria are the Nigerian Armed Forces, the Nigerian Police Force, public universities among others. These public sector organizations are covered by public sector accounting.

3.2.2 Government Business Enterprises

Government business enterprises are public sector Organizations whose operations are commercial in nature. During the privatisation and commercialisation exercise in Nigeria, some statutory authorities and Organizations of governments were re-constituted during as profit-making Organizations. They became known as known as government business enterprises (GBEs). They are provided with considerable management autonomy in which their Chief executive officer and board of directors could set strategic directions and make resource management choices. Nevertheless, they remained wholly-owned by government, and the relevant government minister, in effect, retained the power of their sole shareholder. While acting as fully competitive profit-making enterprises, they are also made strongly accountable to the government minister, the parliament and the public. GBEs are, thus, controlled under a structure that places high expectations on their ability to succeed in a competitive market by returning regular dividends from profits to government, and at the same time meeting high demands on their accountability to the minister, parliament and the public.

Government Business Enterprises (GBEs) include trading enterprises such as utilities and financial enterprises such as financial institutions. For accounting purposes, GBEs 1are treated like organizations in the private sector since they generally operate to make profit. The International Public Sector Accounting Standard (IPSAS) 1 specified the characteristics for delineating a GBE:

i. The entity must have the power to contract in its own name;

ii. It must the financial and operational authority to carry on a business;

iii. It sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery.

iv. It does not rely on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and

v. It is controlled by a public sector entity.

3.3 OBJECTIVES OF PUBLIC SECTOR ACCOUNTING

The objectives of Government accounting include the following:

(1) To fulfil legal requirement. The law requires that government accounts are prepared and audited annually. Therefore, the objective of public sector accounting is to ascertain the legitimacy of transactions and their compliance with rules and regulations.

(2) To provide evidence of stewardship. The government utilizes societal resources on behalf of the people. Government has to give account of how these resources were used.

(3) To enable Government to plan future activities and programmes of the Nation. In other words, public sector accounting assists the government in planning and control.

(4) To provide a process of controlling the use of the financial and other resources.

(5) To provide the means by which actual performance may be compared with the target set.

(6) To evaluate the economy, efficiency and effectiveness with which governance is carried out.

(7) To provide an objective and timely reporting.

(8) To highlight the various sources of income to the government and the respective performance of the sources.

(9) To ensure that costs are commensurate with benefits.

(10) To provide details of government commitments in both the short and long terms.

(11) Identifying the sources of funds for capital projects.

Self-Assessment Exercise

1. List ten (10) objectives of Public sector accounting.

3.4 USERS OF GOVERNMENT ACCOUNTING INFORMATION

There are two broad groups of users of public sector Accounting information. These are internal and External users whose peculiarities and areas of interests are briefly discussed, as follows:

3.4.1 Internal Users:

This group of users includes:

i. The Executive: This is the executive arm of government. This includes the President, governors, and local government chairmen. They are interested in ensuring probity and accountability through proper accounting book keeping and performance control which are achieved through accounting information.
ii. Federal Ministers, state commissioners and local government councillors.
iii. Top administrators of government ministries and extra ministerial departments. This includes Permanent Secretaries and Directors of various Ministries.
iv. The General Managers and chief executives of public sector Organizations.
v. The Labour Union in the public service which will press for improved conditions of employment and security of tenure for their members.

3.4.2 External Users and uses of Interest.

External Users include:

(i) The Legislature:

They are primary users of government financial reports. They look to financial reports to provide information to help them assess the government stewardship of resources, compliance with legislation and other authorities, state of finance and performance.

(ii) The Public:

The members of the public are the receivers of government services. They are also the beneficial owners of the public money and property. Members of the public are tax taxpayer and recipients of goods or services provided by the government. They seek information on how well government had managed the national financial affairs and resources, and on the overall economic impact of government activities.

(iii) **Investors and Creditors:** Investors in government securities and enterprise and other creditors provide financial resources to governments. It interests governments 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 other resource providers. Such institutions include IMF, ADB, OAU, 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 of governments.

(v) **Analysts**

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

(vi) **Trade unions:** These are unions for employees who do not work in public sector organizations. They require information to enable them know the performance of the government and the economy. One way they could use such information is in minimum wage negotiations. Labour unions in Nigeria have in recent times use government information in negotiating prices of essential commodities like petroleum products.

3.5 DIFFERENCES BETWEEN PUBLIC SECTOR ACCOUNTING AND PRIVATE SECTOR ACCOUNTING

1. Before any business in the private sector can operate in Nigeria, it is required by law to register with the Corporate Affairs Commission, Abuja. The government corporations in Nigeria are not required to register with Corporate Affairs Commission. They are created by Acts of Parliament and consequently, no public funds can be spent on any government corporation that has not been created by law.

2. In the public sector, revenue is derived from the public in form of taxation, fines, fees etc., whereas private sector businesses derived their revenues from sales of goods and services.

3. The dominant purpose of a profit oriented organization is to earn profit. The success of such an organization can be measured to some extent by the amount of profit earned in relation to the assets of the organization. An investor who is interested in such an organization can look at its financial statements for the relevant information on the extent of fulfillment of the profit goal of the company. On the other hand, the dominant purpose of a non-profit public sector organization is to render socially desirable specific service to the society at a reasonable cost.

4. While profit is a good measure of performance of a profit oriented organization, this cannot be said of a non-profit organization, even in the case of Type A Organizations that raise their financial resources predominantly through the sale of goods and services. A high excess of

revenue over expenses in a. non-profit organization, is not enough evidence that the organization is doing well because it is less subjected to market forces than a profit oriented organization in a competitive industry. This means that while a profit oriented organization is expected to produce goods at the selling rice that are in line with what the market is willing to pay or go out of business, a non-profit organization has no such danger signal because of the unique circumstances in which the services are priced.

5. Government Accounting mostly uses the budgetary approach, recording and classifying items of revenue and expenditure under various heads and sub-heads. Although Private Sector Accounting equally does budgeting and budgetary control, revenue and expenditure matters are, recorded by their natural description, such as stationary and discount allowed.
6. Government Accounting operates predominantly "fund accounting" method in collating its data and information. Private Sector Accounting uses the proprietary (or ownership) style which discloses the nature and sources of the enterprise's finance or capital structure, such as ordinary share capital or capital structure, such as, ordinary share capital and preference share capital.
7. The legal basis of Government Accounting is the Constitution and Acts of Parliament, unlike Private Sector Accounting which draws its existence and strength from Companies Acts.
8. In government accounting, current assets such as stocks and debtors are not shown in their balance sheet, as debtors are not reckoned with until money is received. These must be shown in commercial accounting system together with analysis of debtors.
9. **In public sector accounting, financial transactions are recorded on cash basis while in commercial organizations it is on accrual basis. However, with the introduction of the accrual basis International Public Sector Accounting Standards (IPSAS) into the Nigerian, this distinction may cease to exist.**
10. **In public sector accounting, tangible fixed assets such as land and building, plant, machines are not shown in their balance sheet whereas in commercial accounting these must be shown together with the aggregate depreciation to date.**
11. In Government, there is no annual general meeting of stakeholders, unlike the private companies that are required by law to hold such meetings. Instead, whenever there is need for such communication in the public sector, the government will organise public or press briefings to address the issues at stake.

4.0 SUMMARY

In this chapter, you were introduced to government accounting as a process which involved the documentation of financial records. The process involves the recording, analysing, classifying and summarising, communicating and interpreting government's financial transactions. Moreover, the objectives of government accounting were outlined. The differences between Public and Private Sector Accounting were discussed. External and internal users and interest areas of government accounting information were highlighted.

5.0 CONCLUSION

This unit has introduced you to public sector accounting operations which are different from those of private sector Organizations. While private sector Organizations emphasize wealth maximisation, public sector Organizations are interested in improving peoples welfare. The following units will explain further about the operations of public sector Organizations**.**

6.0 TUTOR MARKED ASSIGNMENT

1. Distinguish between public sector accounting and accounting in the private sector.
2. Identify the internal users of public sector accounting information and their information needs.

7.0 REFERENCES/FURTHER READING

Adams, R.A. (2014) *Public sector accounting and finance made simple, revised edition* 3, Lagos: Corporate Publishers Venture.

Emeni, F. K., Ogiedu, K.O., Mgbame, C.O., &Erhagbhe, E. (2008) *Public sector accounting and finance*, Benin City: Mindex Publishing Company Limited

ICAN (2014). Public sector accounting and finance, Lagos: ICAN

Ogiedu, K.O. (2016) *Lecture notes on public sector accounting and finance*, Benin City, Unpublisher

Omolehinwa, E.O., & Naiyeju, J.K. (2015) *Government accounting in Nigeria: An IPSAS approach*, Lagos: Pumark (Educational Publishers).

UNIT 2 LEGAL AND REGULATORY FRAMEWORK OF PUBLIC SECTOR ACCOUNTING

1.0 INTRODUCTION

In this unit you will learn about the Legal and regulatory framework of public sector accounting. You will also learn about the provisions of the 1999 Constitution affecting public sector accounting in Nigeria, Finance (Control and Management), Act 1958, Fiscal Responsibility Act (FRA) 2007, the Public Procurement Act (PPA) 2007, the Freedom of Information Act (FOI) 2011, and the Financial Regulations (2009). You will further learn about the provisions relating to public sector accounting contained in the Nigerian Extractive Industries Transparency Initiative Act 2007, the Federal Treasury Accounting Manual, treasury Circulars, and the Procurement Procedures Manual issued by the Bureau of Public Procurement (BPP).

MAIN CONTENT

3.1 THE LEGAL AND REGULATORY FRAMEWORK OF PUBLIC SECTOR ACCOUNTING

The legal and regulatory framework for public sector accounting and financial management consists of the following among others:

(i) The Nigerian Constitution of 1999
(ii) Finance (Control and Management), Act 1958
(iii) Fiscal Responsibility Act (FRA) 2007
(iv) Public Procurement Act (PPA) 2007
(v) Freedom of Information Act (FOI) 2011
(vi) The Financial Regulations (2009).
(vii) The Nigerian Extractive Industries Transparency Initiative Act 2007.
(viii) The Federal Treasury Accounting Manual.
(ix) Treasury Circulars
(x) The Procurement Procedures Manual: Issued by the Bureau of Public Procurement (BPP).

3.2 THE 1999 CONSTITUTION

The constitution is the fundamental law from which all other laws in the country are derived. Thus it is the most important regulatory framework of public sector accounting. It provides for the establishment of the consolidated revenue fund and the Federation Account among others. It prescribes for how money can be withdrawn from the consolidated revenue fund. It is also concerned with auditing of government departments and parastatals by indicating the appointment, duties and removal of the Auditor-General of the Federation. The most relevant sections of the 1999 Constitution for public sector accounting are:

Section 80(1) to (4): The establishment and operation of the Consolidated Revenue Section 81 (1) to (4): This provision treats the procedure for authorisation of expenditure from the Consolidated Revenue Fund.

Section 82. This section makes provision tor the running of government when the approval of the budget is delayed. It authorises the President to withdraw money from the Consolidated Revenue Fund of the Federation for six (6) months pending the approval of the budget.

Section 83. This provides for the creation of the Contingencies Fund.

Section 84. The section provides for the remuneration of the President and other statutory officers.

Section 85. The audit of public accounts is discussed.

Sections 86 & 87: The sections treat the appointment and tenure of the Auditor-General.

Sections 88 & 89: The sections give power to the National Assembly to conduct investigations and procure all evidence needed.

Section 149: Ministers are constitutionally required to declare their assets and liabilities and oaths of allegiance.

Section 162: This section creates the Federation Account into which all revenue collected by the Government of the Federation (with some exceptions) is paid.

Section 163: This deals with the allocation of other revenue.

Section 164: Federal grants-in-aid of State revenue are treated herein.

Section 313: The system of revenue allocation is dealt with under this section.

3.3 FINANCE (CONTROL AND MANAGEMENT) ACT OF 1958, CAP. 144, 1990

This is the major law on which the foundation of government accounting rests. It is the basic law which governs the procedure and control of all financial operations of government. The Act regulates the management and operation of government funds. It prescribes the books of accounts to be operated and the procedures to be adopted in the preparation of accounts and financial statements.

The Act consists of six parts:

PART I: Provides for the general supervision and legislative control of public monies. It authorises the Minister of finance to supervise the expenditure and finances of the Federation as to ensure that a full account is made to the Legislature. It also entrusts to the Minister the management of the Consolidated Revenue Fund and the supervision and control of all matters relating to the financial affairs of the Federation which are not by law assigned to any other Minister.

PART II: Part 11 provides for the management of the consolidated revenue fund. It gives the Minister the power to authorise by warrant the issue from the Consolidated Revenue Fund of moneys necessary to meet statutory expenditure or to meet the cost of any purpose for which any sum has been appropriated in accordance with any Act. In respect of the issue of moneys other than statutory expenditure, it provides that no authority shall be given in excess of the sum appropriated for the purpose concerned. This part also provides for the treatment of erroneous receipts and losses,

PART III: This part deals with government investments. It provides for the authorization and management of government investments. It provides that the Consolidated Revenue Fund, and any other public fund of the Federation may in part consist of deposits with a bank, or with the Joint Consolidated Fund, either at call or subject to notice not exceeding six months, or of any investments in which a trustee in Nigeria may lawfully invest trust funds. It further provides that the disposition of moneys of the Consolidated Revenue Fund or of such other public fund for any such purpose shall need no legislative authority other than that contained in this section and maybe made by the Accountant-General or the State Agents for Overseas Governments and Administration in accordance with specific instructions issued by the Minister.

PART IV: This part provides for the legislative authorisation of expenditure This section provides that in accordance with the provisions of the Constitution, the Minister shall cause to be prepared in each financial year estimates of the revenues and expenditure of the Federation for the next following financial year, which shall be presented to the President for approval and when approved by him shall be laid before each House of the National Assembly at a meeting commencing before the 1st day of January of the financial year to which they relate.

PART V: This part deals with other public funds of the Federation. It specifies the specification of certain public funds allocated by law and the carrying forward of annual balance. It also specifies that interest and investment fluctuations are to accrue to the Consolidated Revenue Fund in certain cases. Fluctuation in value of investments and the rules for management of funds are also treated in this part.

PART VI: This part deals with miscellaneous issues such as the treatment of all funds of government. It discusses the preparation of the annual accounts of all funds and the transfer from general revenue balance to the consolidated revenue fund on the April 1, 1958.

3.4 AUDIT ORDINANCE (OR ACT) OF 1956.

The Act deals generally with the audit of government accounts. It Act covers the appointment, tenure, remuneration and termination of the Auditor-General for the Federation. (known in the Act as the Director of Federal Audit). It caters for the audit of public accounts, including parastatals.

The Act provides that the Director of Federal Audit shall on behalf of the House of Representatives inquiries into and audit the accounts of all accounting officers and of all persons entrusted with the collection, receipt, custody, issue or payment of federal public moneys, or with receipt, custody, issue, sale, transfer or delivery of any stamps, securities, stores or other property of the government of the Federation (section 7(1)). The Act also provides that the Director of Federal Audit shall satisfy himself:

(a) that all reasonable precautions have been taken to safeguard the collection of Federal Public moneys and that the law relating thereto has been duly observed and that all directions or instructions relating thereto have been obeyed; and

(b) that all money appropriated or otherwise disbursed has been expended and applied for the purpose or purposes for which the grants made by the legislature of the Federation were intended to provide and that the expenditure conforms to the authority which governs it, and

(c) that adequate regulations exist for the guidance of storekeepers and store accountants and that they have been duly observed (Audit Act, 1956: section 7(2) (a-c)).

Section 11 of the Act provides that If at any time it appears to the Director of Federal Audit that any irregularities have occurred in the receipt, custody or expenditure of federal public moneys or in the receipt, custody, issue, sale, transfer or delivery of any stamps, securities, stores or other property of the Government of the Federation, or in the accounting for the same, he shall immediately bring the matter to the notice of the Governor-General or of the Minister as he may consider appropriate.

Section 14(2) provides that within eight months of the close of each financial year or within such longer period as the House of Representatives may by resolution appoint, the Director of Federal Audit shall transmit to the Minister, copies of the accounts signed and presented by the Accountant- General of the Federation in pursuance of the provisions of section 13 together with a certificate of audit and a report upon his examination and audit of all accounts relating to the public moneys, stamps, securities, stores and other property of the Government of the Federation.

The Act provides safe guards and lee ways to the Director of Audit in carrying out his job. It provides that in the exercise of his duties under the ordinance, the Director of Federal Audit may:–

(a) call upon any Federal or Regional officer to furnish forthwith, any explanations and information which he may require in order to enable him to discharge his duties;

(b) authorise any Federal or Regional officer on his behalf to conduct any inquiry, examination, or audit and such officer shall report, thereon to the Director of Federal Audit.,

(c) without payment of any fee, cause search to be made in and extracts to be taken from any book, document or record in any public office,

(d) examine upon oath, declaration or affirmation (which oath, declaration or affirmation the Director of Federal Audit is hereby empowered to administer) all persons whom he may think fit to examine respecting the receipt or expenditure of money or the receipt or issue of any store affected by the provisions of this ordinance and respecting all other matters and things necessary for the due performance and exercise of the duties and powers vested in him (section 12(1)(d)

(e) lay before the Attorney General of the Federation; a case in writing as to question regarding the interpretation of any ordinance or regulation concerning the powers of the Director of Federal Audit or the discharge of his duties; and the Attorney-General of the Federation shall give a written opinion on such case (section 12(1)(e)).

The Audit Act is indeed a colonial law being enacted before Nigeria's independence in 1960. Since its enactment, various constitutions (1963, 1979, 1989, and 1999) have recognised and codified essential provisions of the Act. However, many criticisms have been levied against it to the effect that that its provisions are not adequate to fight corruption and ensure probity, transparency and accountability in the public service. According to Ogunyemi (2014) the deficiencies of the Audit Act lie in two major areas. According to him, the first is in the construction or drafting of the Act itself. In this regard are the non-provision for a sanction on corruption or misuse of public funds, anachronistic and obsolete provisions and the lack of full autonomy for the office of the Auditor-General. The second lies in the limitation imposed on the Act itself by the extant provision of the 1999 constitution which forbids the Auditor-General to investigate or report on certain accounts of some government agencies.

Another flaw which has been pointed out is that the power to act on the findings of the Auditor General is vested in the arms of government that are the major subject of the Auditor's investigation, namely the legislature and the executive. The naked implication of this is that the person indicted who is empowered to act on his indictment will simply refuse to act. According to Ogunyemi (2014), it contradicts the sacred judicial principle of equitable justice and fair dealings summarised in the legal maxim of nemo judex in causa sua, a major requirement of the rule of law.

The observed deficiencies in the Act have led to the call its repeal or revision. In this connection, A Bill for an Act to Repeal the Audit Act of 1956 and Re-Enact the Audit Act of 2014 has been presented to the National Assembly. While the House of Representatives has passed the Bill, the Senate is yet to do the same. The Bill when passed into law is expected to strengthen the powers of the Office of the Auditor-General for the Federation, Establish the Audit Service Commission and for other matters related thereto. The passage of the Bill will not only make the Office to be financially independent but will also grant administrative autonomy to the Office of the Auditor-

General for the Federation. They will now have the power to recruit, promote and discipline their staff.

3.5. APPROPRIATION ACTS Money Bills when passed into laws become Appropriation Acts. They regulate financial matters, including the payment or withdrawal from the Consolidated Revenue Fund. Appropriation Acts are passed yearly, for the release of public money so as to render services in the years to which they relate. Appropriation Acts may direct a change in the way of operating any fund, apart from the Contingencies Fund and the Consolidated Revenue Fund.

3.6. TREASURY/FINANCE CIRCULARS AND CIRCULAR LETTERS These are administrative instruments which are issued for the purpose of guiding day-to-day routine operations of the departments of government. They are used in amending existing provisions of public service rules and Financial Regulations.

3.7. FISCAL RESPONSIBILITY ACT, 2007

The Fiscal Responsibility Act 2007 is an act to provide for prudent management of the Nation's Resources, ensure Long- Term Macro-Economic stability of the National Economy, secure greater accountability and transparency in Fiscal operations within the Medium Term Fiscal Policy Framework, and the establishment if the Fiscal Responsibility Commission to ensure the promotion and enforcement of the Nation's Economic objectives; and for related matters. The 2007 Act has been amended by the Fiscal Responsibility Act 2011. The Act is divided into Parts. Part established the Fiscal Responsibility Commission which is charged with the responsibility of implementing the provisions of the Act. The commission is vested with the following powers:

1. Power to compel any person or government institution to disclose information relating to public revenues and expenditure; and
2. Power to cause an investigation into whether any person has violated any provisions of the Act.
3. If the Commission is satisfied that such a person has committed any punishable offence under this Act violated any provisions of this Act, the Commission shall forward a report of the investigation to the Attorney- General of the Federation for possible prosecution.

The functions of the commission include to:

(a) Monitor and enforce the provisions of this Act and by so doing, promote the economic objectives contained in section 16 of 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; and

(e) Perform any other function consistent with the promotion of the objectives of the Act.

PART II – This part sets out the framework for the preparation of the Medium Term Expenditure Framework by the Federal Government. It provides inter alia that the Federal Government after consultation with the states shall –

(a) Not later than six months from the commencement of this Act, cause to be prepared and laid before the National Assembly, for their consideration a Medium-Term Expenditure Framework for the next three financial years; and

(b) Thereafter, not later than four months before commencement of the next financial year, cause to be prepared a medium-term expenditure Framework for the next three financial years.

The framework so laid shall be considered for approval with such modifications, if any, as the National Assembly finds appropriate by a resolution of each House of the National Assembly.

PART III – Sets out the framework for the preparation of the annual budget. According to the Act, the Annual Budget are to be derived from the Medium Term Expenditure Framework. It provides among other things that the Medium term Expenditure Framework shall:

(1) Be the basis for the preparation of the estimates of revenue and expenditure required to be prepared and laid before the National Assembly under section 81 (1) of Constitution.

(2) The sectoral and compositional distribution of the estimates of the expenditure referred to in subsection (1) of this section shall be consistent with the medium term developmental priorities set out in the Medium Term expenditure Framework.

It also specifies the documents that will accompany the Annual Budget estimates.

PART IV provides for the budgetary planning of corporations and other related agencies. According to this part, the Government corporation s and agencies and government owned companies listed in the Schedule to this Act (in this Act referred of as “the Corporations”) shall, not later than 6 months from the commencement of this Act and every three financial years thereafter and not later than the end of the second quarter of every year, cause to be prepared and submitted to the Minister their Schedule estimates of revenue and expenditure for the next three financial years. Each of the bodies is also expected to submit to the Minister not later than the end of August in each financial year:

(a) An annual budget derived from the estimates submitted in pursuance of subsection (1) of this section; and

(b) Projected operating surplus which shall be prepared in line with acceptable accounting practices.

The Minister shall cause the estimates submitted in pursuance of subsection (2) of this section to be attached as part of the Appropriation Bill to be submitted to the National Assembly.

PART V – This part deals with the budgetary execution and achievement of targets by the relevant bodies. The part dwells on issues like the preparation of Annual Cash Plan, Disbursement Schedule, power of the Minister to approve virement, power to restrict further commitments, restriction on the grant of tax relief, responsibility of the budget office to monitor and report on implementation, and the application of Part V to States and Local Governments.

PART VI is on public revenue. It deals with forecast and collection of public revenue.

PART VII –deals with savings and asset management and the penalties for non compliance with Part VI

PART VIII –is on public expenditures. It deals with the conditions for increasing government expenditure and the conditions for increasing personnel expenditure. It also provides that that all contracts with regards to the execution of annual budget shall comply with the rules and guidelines on(a) Procurement and ward of contracts; and (b) Due process and certification of contract. Part 111 also stipulated the effect of Violation of Public expenditure rules and the application of Part VIII to States and Local Governments.

PART IX – provides the framework for debt management and places limits on consolidated debt of federal, State and Local Governments. It also for the services of external debt. In this connection, the Act provides that the servicing of external debts shall be the direct responsibility of the Government that incurred the debt and that the cost of servicing Federal Government guaranteed loans shall be deducted at source from the share of the debtor Government from the Federation Account.

PART X provides the conditions of borrowing and verification of compliance limits. It provides a framework for lending by financial institutions and laid out certain prohibitions against the CBN in its relation with Government agencies and Parastatals. It also provides that the Minister may with the approval of the Federal Executive Council, grant guarantees on behalf of any Government in the Federation.

PART XI – for transparency and accountability in the conduct of government affairs. It states that the Federal Government shall ensure that its fiscal and financial affairs are conducted in a transparent manner and accordingly ensure full and timely disclosure and wide publication of all transactions and decisions involving public revenues and expenditures and their implications for its finances. It also provides that the National Assembly shall ensure transparency during the preparation and discussion of the Medium-Term Expenditure Framework, Annual Budget and the Appropriation Bill. In line with the transparency and accountability, the Act provides for the publication of Audited accounts and Publication of a summarized report on budget execution

PART XII – is on enforcement. It states that a person shall have legal capacity to enforce the provision of this Act by obtaining prerogative orders or other remedies at the Federal High Court, without having to show any special particular interest.

PART XIII – makes sundry and miscellaneous provisions while part XIV gives interpretation of certain concepts used in the Act.

3.8 MODEL FINANCIAL MEMORANDA FOR LOCAL GOVERNMENT

On the 15th of June 2001, the Federation Account Allocation Committee (FAAC) set up an Ad Hoc committee to carry out the review and standardization of the accounts of Federal, States and Local Governments with the following terms of reference:

1. To examine and appraise the existing Public Sector Accounting Records and their relevance to the Published Annual Accounts.
2. To study the current structure of Public Sector Accounting in relation to International Standards with IFAC Exposure papers.
3. To determine the relevance of Current Public Sector records to the proposed standard models.
4. To determine various users of Public Sector Financial Statements and their Financial information needs.

5. To harmonize the Federal, States and Local Government Financial Reporting System.

6. To recommend appropriate Financial Reporting Standards that are compatible with modern information technology.

7. To set Accounting Standards that are capable of generating accurate Financial information on a timely manner and

8. To make any other recommendations as may be considered fit and desirable.

According to the 2001 Committee Report, identified the following negative features in the then existing financial statements of the three tiers of Government:

1. Disjointed and Unrelated statements.
2. Difficult to understand Voluminous size.
3. Little or no use to many of the End users
4. Irrelevant.
5. Lacks materiality
6. Unreliable
7. Lacks faithful representation
8. Lacks Prudence Incompleteness Lack of comparability.

The 2001 Committee consequently made the following recommendations:

1. The continuous use of cash basis in Government accounting
2. The following seven statements:
   i. Statement No. 1: Responsibility for Financial Statement
   ii. Statement No. 2: Statement of Opinion of Auditor-General
   iii. Statement No. 3: Cash Flow Statement
   iv. Statement No. 4: Statement of Assets and liabilities
   v. Statement No. 5: Statement of Consolidated Revenue Fund
   vi. Statement No. 6: Statement of Capital Development Fund
   vii. Statement No. 7: Notes to the Financial Statements

However, only the following statements are applicable to the Local Government Councils:

Statement No. l: Statement of Financial Responsibility

Statement No.2: Statement of Opinion of Auditor-General for Local Government

Statement No.3: Cash Flow Statement

Statement No.4: Statement of Assets and liabilities

Statement No.5: Statement of Revenue and Expenditure

Statement No.6: Notes to Financial Statements.

According to FAAC, following the recommendation of the six statements, the need to review the

2nd edition of Financial Memoranda for local Governments became very imperative. The Institute of Chartered Accountants of Nigeria (ICAN) Abuja District Society was mandated to carry out the review and accommodate the six statements. The review carried out by the District Society formed the basis for the 3'd Edition of the Model Financial Memoranda. The review process was coordinated by the States and Local Government Affairs Office in the Presidency.

The third edition of the Model Financial Memoranda consists of seven parts and forty five chapters as follows:

PART 1: FINANCIAL DUTIES AND RESPONSIBILITIES

CHAPTER 1: Financial Duties and Responsibilities

PART II: THE ESTIMATES

CHAPTER 2: The Framework and purpose of Estimates

CHAPTER 3: Preparation of Annual Estimates

CHAPTER 4: Reallocation of Voted Monies and Supplementary Estimates

PART III: CARE AND CUSTODY OF LOCALGOVERNMENT FUNDS

CHAPTER 5: Care and Custody of Local Government Funds

PART IV: REVENUE COLLECTION AND CONTROL

CHAPTER 6: Collection of Revenue and Other Monies

CHAPTER 7: Control of Receipts and Other Revenue Earning Books

CHAPTER 8 : Loss of Funds or Revenue Earning Books

CHAPTER 9 : Counterfeit or Obsolete Currency

CHAPTER10: Community Tax :

CHAPTER11: Community Rate

CHAPTER12: Rates

PART V: EXPENDITURE

CHAPTER 13: Control of Expenditure

CHAPTER 14: Payment Procedure.

CHAPTER 15: Staff Matters

CHAPTER 16: Personal Advance

CHAPTER 17: Contracts, Including Jobbing Orders and Local Purchase Orders

PART VI: ACCOUNTS

CHAPTER 18: The Main Books of Account and other Accounting Records

CHAPTER 19: The Cash Book

CHAPTER 20: The Journal

CHAPTER 21: The Revenue Expenditure Abstracts

CHAPTER 22: The Main Ledger and Its Reconciliation

CHAPTER 23: Subsidiary Ledgers and Records.

CHAPTER 24: Accounting for Investments.

CHAPTER 25: Accounting for Investments

CHAPTER 26: Accounting for Capital Expenditure

CHAPTER 27: Accounting for Loans and Statutory Allowances/Grants

CHAPTER 28: Accounts of Commercial Services

CHAPTER 29: Renewals Fund Account

CHAPTER30: Accounting for Transactions with State Government and Governmental Agencies '

CHAPTER 31: Monthly and Other Checks

CHAPTER 32: Annual Accounts

CHAPTER 33: Cost Accounts

CHAPTER 34: Stores Accounting Custody and Control of Stores

CHAPTER 35: Suspense, Unallocated Stores and Vehicle Account

CHAPTER 36: Special Rate Accounts

CHAPTER 37: Accounting Machines: Management Accounting; Cash Mow Management

Appendix to Chapter 37: Inventories of Local Government Properties and Equipment..

CHAPTER 39: Internal Audit Queries and Sanctions

PART VII: MISCELLANEOUS

CHAPTER 40: Internal Audit & Checks

CHAPTER 41: Development Plans

CHAPTER 42: Other Matters

CHAPTER 43: Information Technology

CHAPTER 44: List of Forms

CHAPTER 45: General Review

Self-Assessment Exercise

1. Discuss any five (5) legal documents which form the basis of Public sector accounting in Nigeria

3.9 ACCRUAL ACCOUNITNG MANUAL FOR FEDERAL, STATES AND LOCAL GOVERNMENTS

In the year 2010, the Federal Republic of Nigeria took a decision in respect of public sector entities accounting and reporting to migrate to the International Public Sector Accounting Standards (IPSAS). This decision was taken by the Federal Executive Council at its meeting held on the 28 July, 2010. In order to implement this decision, the Federation Account Allocation Committee (FAAC) set up a Technical Sub- Committee to draw up the Roadmap for IPSAS Implementation. In line with the recommendation of the Technical Sub-Committee, FAAC set January 1, 2016 as the date for the commencement of IPSAS Accrual Accounting for all Public Sector Entities (PSE) in Nigeria. In this system of accounting, the financial decisions are not seen merely from the point of view of cash inflow or outflow but also from their impact on the asset and liability position of the government, future funding requirements of assets enabling planning of their timely maintenance and replacement. The implementation of IPSAS will further give disclosures on account of contingent assets and contingent liabilities so that risk associated with the guarantees issued and letters of comfort can be better assessed by the user of the financial statements. It bridges the gap leftover by cash accounting by inclusion of accrued expenses and revenues (receivables and payables), physical assets, capital work- in-progress and depreciation, pension liabilities and provisions etc. in the accounting system.

The Accrual Manual contains defined key implementation guidelines, necessary documentation and accounting procedures to facilitate the adoption of IPSAS in Public Sector Entities (PSEs) in Nigeria. It covers accounting treatment requirements in line with relevant sections of IPSAS for the purpose of coordinating the financial reporting objectives of the Federal Government, States and Local Governments.

IPSASs are accounting standards for application by national governments, regional (e.g. state, provincial, territorial) governments, local (e.g. city, town) governments and related governmental entities (e.g. agencies, boards and commissions). IPSASs are widely used by intergovernmental organizations. However, they do not apply to Government Business Enterprises (GBEs).

The standards aim at improving the quality of general purpose financial reporting by public sector entities, leading to better informed assessments of the resource allocation decisions made by governments, thereby increasing transparency and accountability.

The stated objectives of the Manual are to:

1. Provide general direction and guidance on accrual accounting;
2. Assist preparers of General Purpose Financial Statements (GPFS) in the public sector to account for transactions in line with accrual accounting concepts and principles;
3. Minimize arbitrary and subjective application of methods and procedures in the treatment of financial transactions;
4. Act as reference material for operators of accrual accounting in performing financial management task;
5. Serve as a training resource for new and existing personnel;
6. Serve as a reference document for auditors, consultants and other stakeholders to understand and evaluate the financial management systems in Nigeria; and
7. Provide a guide for adequate recording of funds How through sufficient recording, reporting, and usage and thereby ensure proper monitoring of the application and utilization of funds.

The Manual covers public entities in the three tiers of government in Nigeria (Federal, State and Local Governments) other than GBEs.The Manual are to be used in conjunction with other relevant extant laws and Financial Authorities. The Manual was prepared taking into cognizance all the 32 Standards issued and operational to date and the Conceptual Framework for the preparation of General Purpose Financial Statements (GPFR) as issued by the IPSAS Board in October, 2014.

3.10 FINANCIAL REGULATIONS

The Minister of Finance issues financial regulations; it assigned responsibility on financial matters of the Federal Government, in accordance with, and under Finance (Control and Management) Act, 1958 as amended. The regulations are internal regulations that are intended to provide a framework for financial control and place prime responsibility for elementary control and duties on executive departments, whilst recognizing the role of internal audit.

They are useful in the following ways:-

1. They outline good systems, organization and procedures of basic management.
2. They give backing to internal audit and establish it as a "tool of management"; this avoids the function being, viewed as a "tool of an interfering treasurer
3. They help internal audit allocate responsibility and maintain its "independence" making a clear separation between departmental and audit duties.
4 They ensure that operations remain within the law.

Financial regulations should seek to outline the system of Financial Administration operated at departmental level, without necessarily setting out detail arrangement or system that might be incorporated in separate codes or manuals of financial instructions.

3.11 ACCOUNTING MANUALS

Manuals of staff instructions arc designed to cover the details not dealt with in the financial regulations. Their aim is to secure sound financial work through the production of detailed financial procedures and the encouragement of standard financial practices.

Accounting manuals lay down procedures for individual financial matters of a routine and repetitive nature. These could include procedures on cash collection, calculation of wages, custody of stores and reconciliation procedures, purchasing routines, certification and payment of accounts, control of income, procedure for effecting insurance and making claims.

Accounting manuals may be defined as a systematic written code of instructions and administrative practice dealing with department procedures and clerical processes relating to transactions with a financial significance, and operating at a a lower organizational level than financial regulations.

The contents of the accounting manuals should be settled after thorough discussion with the finance and service departments, and revise as circumstance change. The manuals should be part of the organization official arrangements, and the standing orders of the organization should make compliance with them compulsory.

3.11.1 Advantages of Accounting Manuals

The advantages to be gained from compiling and using detailed manuals include the following:

1. They are for achieving sound and uniform control.
2. The process of codification itself leads to improvement, economics and better understanding.
3. They guard against the danger, and disadvantages of staff changes and the accident dropping of safeguards due to the inadequate instruction of newcomers.
4. They are a simple way to define individual responsibilities and to place them clearly and formally.
5. They can be more easily amended and kept up to date than can financial regulations.
6. They are useful for training new members of staff.

7. Many details of domestic procedure, which need to be laid down clearly, but which are too small and numerous to warrant inclusion in regulations can be accommodated in manuals.
8. They are ideal instruments for relating the broad rules laid down in standing orders to varying circumstances. Each department taken is in turn and the best way of applying the general principles worked out in conjunction with the department.
9. They provide auditors, both internal and external, with a complete recorded departmental procedures, and newcomers with authoritative instructions. Auditors can be more readily trained and auditors work, loads more easily assessed.
10. They enable lower grade departmental finances and audit staff can be used on some jobs that would otherwise be performed by more senior staff.

Self- Assessment Exercise

1. State the advantages of accounting manuals.

3.11.2 Disadvantages of Accounting Manuals

The disadvantages of accounting manuals include the following:

1. They can stifle initiative and can provide a defense of inappropriate action.
2. Manuals are expensive to compile. It may be difficult and time consuming to commit Complex and numerous procedures and operations into writing.
3. Errors and omissions can be vital
4. They may be interpreted by the letter rather than by the spirit.
5. They may be too inflexible and, unless constantly reviewed may become fixed and rigid.

3.12 WRITTEN RULES

Written rules offer several advantages over reliance on unwritten practices and oral tradition, provided they are complete, well-constructed, regularly reviewed and strongly administered.

Advantages of written include the following:

a. Protection is provided from the bad effects of such fluctuations as changes in committee memberships due to election, officials coming and going and loss of personalities with an aptitude for efficient financial administration.

b. At the policy making level adequate regulations help to keep financial affairs in perspective, and guard against ill-conceived planning, major decisions being inadequately considered and lopsided development.

c. Formal rules make practices more intelligible. New members and new officers, who can make only a limited contribution until they are acquainted with the organization's procedures and practices, can at once see what is expected of them. Officers can better understand their duties.

d. The council or board knowing who is responsible for the various aspect of financial administration.

e. A written code also makes for uniformity between different departments, periods, and guards against the discarding of precautions. Accidental lapses and deliberate abuse are also more likely where there are no rules.

f. They facilitate the assessment of officers' responsibilities and also provide a starting point for reviewing financial methods.

g. They are of great help to both internal and external auditors. The auditor knows more accurately the tasks of those whose work he is auditing, he finds it easier to bring shortcomings into focus, and his time is saved by the greater uniformity of approach taken by service departments.

Self- Assessment Exercise.

1. **List the advantages of written rules .**

4.0 SUMMARY

This unit discussed the legal and regulatory framework of public sector accounting. It discussed the provisions of the 1999 Constitution affecting public sector accounting in Nigeria. The legal and regulatory framework for public sector accounting and financial management consists of the following among others:(i) The Nigerian Constitution of 1999, (ii) Finance (Control and Management), Act 1958, (iii) Fiscal Responsibility Act (FRA) 2007, (iv)Public Procurement Act (PPA) 2007, (v)Freedom of Information Act (FOI) 2011, (vi)The Financial Regulations (2009), (vii)The Nigerian Extractive Industries Transparency Initiative Act 2007 (viii) The Federal Treasury Accounting Manual, (ix)Treasury Circulars, (x) The Procurement Procedures Manual: Issued by the Bureau of Public Procurement (BPP).

5.0 CONCLUSION

In this unit, you have learnt about the various legal documents which form the basis of Public sector accounting in Nigeria. In the next unit, you will learn about the various types of accounting basis.

6.0 TUTOR MARKED ASSIGNMENT

1 List the objectives of the Accrual Accounting Manual for federal, states and local governments.

2. List the seven statements prescribed for publication by the three tiers of government by the Financial Memoranda for Local Governments.

7.0 REFERENCES/ FURTHER READING

Adams, R.A. (2014) *Public sector accounting and finance made simple, revised edition* 3, Lagos: Corporate Publishers Venture.

Emeni, F.K., Ogiedu,K.O., Mgbame, C.O., & Erhagbhe, E. (2008) *Public SectorAccounting and finance*, Benin City: Mindex Publishing Company Limited

FAAC(2015). *Accrual accounting manual*, for all public entities in Nigeria, Abuja: FAAC Sub-Committee on IPSAS.

ICAN (2014).*Public Sector Accounting and Tinance*, Lagos: ICAN

Ogiedu, K.O. (2016) *Lecture notes on Public Sector Accounting and Finance*, Benin City, Unpublished

Ogunyemi, A.O. (2014) Auditing and corruption in Nigeria: A review of the legal weight of the audit act of 1956, *Historical Research Letter*, 15, 1-7

Omolehinwa, E.O., & Naiyeju, J.K. (2015) *Government Accounting in Nigeria: An IPSAS approach*, Lagos: Pumark (Educational Publishers).

UNIT 3: ACCOUNTING BASES AND PRINCIPLES

CONTENT

1.0 INTRODUCTION

In this unit, you will learn about the various bases of accounting in the public sector including the cash bases, the accrual bases and the commitment basis. You will also learn the modified forms of these bases where applicable. In addition, you will learn about the applicable accounting principles in the public sector such as accounting concepts and accounting conventions.

2.0 OBJECTIVES

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

1. Understand the bases of public sector accounting including the cash bases, the accrual basis, and the commitment bases.
2. Appreciate the advantages and disadvantages of each of the bases.
3. Know the accounting principles applicable in the public sector
4. Understand the various accounting concepts
5. Understand the various accounting conventions

3.1 Bases of Public Sector Accounting

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

(a) The cash basis.

(b) The accrual basis.

(c) The commitment basis.

3.1.1 The Cash Basis

Under cash basis transactions are recognized only when cash is received or disbursed. It is immaterial when the underlying transaction was validly concluded. Financial statements prepared under cash basis do not include assets and liabilities not arising from cash transactions. They completely ignore the effects of accounts receivable, accounts payable and other items of accrual. Cash basis financial statements do not present financial position or results of operations in conformity with generally accepted accounting principles (GAAP). Cash basis financial statement representations can only be in conformity with GAAP where all accounts receivable, accounts payable, and other accrued items are non-existent or insignificant. This is difficult to find in practice. Distortions can arise in cash basis accounting financial statement amounts due to shifts in the timing of cash receipts and disbursements reflecting underlying economic events near the end of a fiscal period. To manipulate its financial statement position, a government may speed up or slow down cash collections and payments near the end of the period. This will invariably affect the government's financial position and results of operations.

3.1.1(1) Advantages of Cash Basis

Some of the advantages of cash basis of accounting include:

(a) It is simple to understand.

(b) It saves time and is easy to operate

(c) It removes debtors and creditors from the books of accounts.

(d) It enables the easy identification of those who authorize payments and collect revenue.

(e) It allows for comparison between the amount provided in the budget and that actually spent.

(f) Since the cost of fixed assets is written off in the year of purchase, fewer accounting entries are made.

(g) It is compatible with the fund system of accounting applicable in the public sector.

(h) It is also compatible with government's planning and budgeting system.

3.1.1(2) Disadvantages of Cash Basis

Some of the disadvantages of the Cash Basis are:

(a) It is not compatible with the harsh realities of financial transactions. It recognised only the settlement of liabilities. There are five stages through which a spending decision passes. These are:

(i) Issue of order or contract for the supply of goods or services.

(ii) Supply of goods or services - acknowledgment of liability.

(iii) Settlement of the amount of the good or service received.

(iv) Consumption of value.

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

(b) It does not provide for depreciation since assets are written off in the year of purchase.

(c) It does not convey an accurate picture of the financial affairs at the end of the year.

(d) The cash basis cannot be used for economic decisions as it tends to hide basic information. For example, some of the missing information relate to fixed assets, debtors and creditors.

(e) It does not compatible with the matching concept.

3.1.1(3) 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.

3.1.2 Accrual Basis

The accrual basis of accounting recognizes transactions when they occur irrespective of when the cash payment is made. The use of accrual accounting techniques removes the distortions in financial statements due to shifts in the timing of cash flow and related underlying economic events near the end of a fiscal period.

This means that the disbursement of cash has no effect on the reporting of revenues and expenses. Accrual accounting techniques enhance the comparability of financial statements from period to period and from one governmental entity to another. All proprietary and fiduciary funds use the accrual basis of accounting in their fund financial statements under GAAP.

Under the accrual basis, revenue is recognised in the accounting period in which the revenue becomes objectively measurable and earned. In other words, income con only be recognised when it the amount can be determined accurately. This means that the actual amount of a transaction must be known or it is possible to estimate the amount. For revenue to be earned by the government, it must have provided the goods or services. For example, the Federal Government of Nigeria rents the National Stadium to a private group at #2000 per participant: (i) The revenue is earned when the group uses the Stadium, and (ii) the revenue becomes measurable when the government knows how many participants attended.

It is only after these two criteria are met, that the government would record the transaction as revenue irrespective of when the group pays the bill.

Also, under the accrual basis of accounting, expenses are recognized in the period incurred, if measurable. To incur an expense, the item purchased must be received and consumed (used) or the vendor must have performed the service. For example, the government must receive and use the purchased consumable before it can report an expense for the cost of these supplies. For an expense to be measurable, we must be able to determine the amount. Usually the amount is known invoice for the purchase of the good or service is received. However, if there is a contract where the amount is stated or the amount could be estimated, the amount could be considered as meeting the “measurable” criteria.

3.1.2.(1) Advantages of Accrual Basis

The advantages of this basis can be summarised as follows:

a. It makes allowances for the reduction in the value of assets used to generate the revenue of the enterprise through the process of periodic depreciation.

b. It reveals an accurate picture of the state of financial affairs at the end of the period.

c. It could be used for both economic and investment decision-making as all parameters for performance appraisal are available.

d. It is consistent with the 'matching concept.

e. It takes a realistic view of financial transactions.

3.1.2(2) Disadvantages of Accrual Basis

(a) It is very difficult to understand by managers.

(b) It is not compatible with the fund system of accounting applicable in the public sector.

(c) It is also not compatible with government’s planning and budgeting system.

(d) It does not permit easy delegation of work in certain circumstances.

3.1.2(3) Modified Accrual Basis

All governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when a transaction meets two criteria:

(i) Measurable, and (ii) Available

As stated above, revenues are said to be objectively measurable if the amount can be determined accurately. Some revenues such as fees, licenses, fines etc. are not considered measurable until they are received in cash. They become measurable only when received. In other words, they become recognised when they meet one of the two revenue recognition criteria under the modified accrual basis of accounting.

Available means that the revenue was collected during the year or will be collected soon enough after the end of year to pay liabilities of the current period. In practice, the term "available" can be interpreted in different ways. Some of the alternative interpretations are:

(i) Collections are within a period of time after year-end equal to the government's normal bill paying cycle.

(ii) Collections are within a specified, standardized time period after year-end, such as 30, 60, or 90 days.

(iii) Collections are within 12 months after year-end (i.e., the transaction results in a current asset at year-end).

GAAP allow flexibility when applying the “available” criterion. The only thing that needed to be done is the term should be should be used consistently from year to year.

GAAP have special rules regarding when to record expenditure for consumable inventories (e.g., printing supplies). Governmental funds, using the modified accrual basis of accounting, may use either of two methods: (i) Purchases method (when you buy it), and (ii) Consumption method (when you use it)

Under the purchases method the expenditure is recorded when the inventory is purchased (expenditure criteria are met). The journal entry is as follows:

	DR	CR
Expenditures	10,000	
Accounts payable (a liability account)		#10,000

Under the consumption method, the expenditure is recorded when the item is used. For example, when the inventory is purchased the following journal entry applies:

	DR	CR
Inventory (an asset account)	10,000	
Accounts payable (a liability account)		#10,000

When the inventory is used, (e.g., they use #8000 in value), the following journal entries

would be made:

	DR	CR
Expenditures	^8,000	

Inventory (an asset account) ^8,000

Proprietary funds use the consumption method.

The modified accrual basis falls somewhere between the cash basis and the accrual basis. Revenue recognition under the modified accrual basis is similar to revenue recognition under the accrual basis, as long as the cash is received soon enough after year-end to pay current year liabilities. Generally expenditure is recognized and recorded as it would be under the accrual basis, as long as the liability resulting from the expenditure is liquidated from current resources.

3.1.3 Commitment Basis

It is a basis that records anticipated expenditure evidenced by a contract or a purchase order. In public sector financing, budgetary and accounting systems are closely related to the commitment basis. It involves the recording of obligations of the entity to make some future payments at the time they are reasonably foreseen, not at the time services are rendered and/ or billings are received. Such obligations include contractual liabilities (when purchase orders or contract for goods or services are issued) or conditional liabilities (e.g. an arrangement that require the spending of funds if conditions specified in the arrangement are met).

There are different types of commitments and they include:

1. Continuing Commitments: These require a series of payments or settlement actions over an indeterminate period of time. An example is the obligation to make monthly payment for telephone service or staff entertainment.
2. Specific Commitments: These require a single payment or a determined series of payments over a determinate period of time. Examples of specific commitments include contract for goods and services or similar arrangement like leasing of assets and equipment.

3.1.3(1) Advantages of Commitment Basis

(1) It closes the accounting gap/lag between budget and actual spending that could lead to budget overrun.

(2) A separate payment tabulation is available when required.

(3) It assists in finance prudence in the public sector since the budgeted amount can always be compared to committed amount.

(4) Adjustment occurring when actual expenditure has been obtained does not affect the final accounts.

(5) It assists real time planning within the long-range plan of the government, ministry or department.

(6) It is an aid to financial control. A commitment is regarded as a char It takes a realistic view of financial transactions.

(7) It reveals an accurate picture of the state of financial affairs at the end of the period.

(8) It is used for both economic and investment decision-making, as all parameters or performance appraisals are available.

(9) It aligns with the 'matching concept.

(10) It makes allowance for the diminution in the value of assets employed to generate the revenue of the enterprise.

3.1.3(2) Disadvantages of Commitment Basis

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

(1) Commitments are futuristic and this is tainted with uncertainties. For instance, a contract may be cancelled or amended.

(2) 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.

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

(4) 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.

(5) 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.

(6) There is also the difficulty of measuring the exact amount of commitment(s) in any particular period as many orders and deliveries are not always in accordance with the original order or contract.

(7) It is unsuitable for flawless financial control in the sense that an entity can enter into commitment, which lacks precision as to the timing and amount of expenditure.

For instance, a country may sign on an external loan commitment without a draw-down of the loan.

(8) There is lack of security, which is caused by numerous accesses to the financial information system.

(9) The relevance of commitment accounting when related to historical costs and also during periods of inflation is limited. Profit figures become merely amounts, which can be spent without improving on initial capital.

Self- Assessment Exercise.

1. Briefly discuss (i) cash basis (ii) accrual basis, stating their merits and demerits.

3.2 Accounting Principles

Various accounting systems and techniques are designed to meet the needs of the management. The information should be recorded and presented in such a way that management is able to arrive at right conclusions. The ultimate aim of the management is to increase profitability and reduce losses. In order to achieve the objectives of the concern as a whole, it is essential to prepare the accounting statements in accordance with the generally accepted principles and procedures.

In order to maintain uniformity and consistency in preparing and maintaining books of accounts, certain rules or principles have been evolved. These rules/principles are classified as concepts and conventions. These are foundations of preparing and maintaining accounting records. In this lesson we shall learn about various accounting concepts, their meaning and significance.

The term principles refers to the rule of action or conduct to be applied in accounting. Accounting principles may be defined as "those rules of conduct or procedure which are adopted by the accountants universally, while recording the accounting transactions.

The accounting principles can be classified into two categories: (a) Accounting Concepts, and (b) Accounting Conventions.

3.2.1 Accounting Concepts

Accounting concepts are the assumptions or postulates on financial statements are prepared. They are the basic or fundamental assumptions upon which financial statements are prepared.

The following are the important accounting concepts:

(1) Entity Concept;
(2) Dual Aspect Concept;
(3) Accounting Period Concept;
(4) Going Concern Concept;
(5) Cost Concept;
(6) Money Measurement Concept;
(7) Matching Concept;
(8) Realization Concept;
(9) Accrual Concept;
(10) Naira Value Concept.

3.2.1 ACCOUNTING CONCEPTS

3.2.1(1) Entity Concept: Separate entity concept implies that entity whether public or private is a body has a separate existence distinct from its owners. This means that irrespective of the legal form of the entity, it is treated as a separate entity in accounting. Flowing from the foregoing, if the government sets up a parastatal, the parastatal will be treated as an entity different from the government in its books of accounts.

The following points highlight the significance of business entity concept:

1 This concept helps in ascertaining the financial position of the entity as only the operating expenses and revenues are recorded.
2 This concept restraints accountants from recording of official's private/personal transactions.
3 It also facilitates the recording and reporting of operational transactions from the business point of view
4. It is the very basis of accounting concepts, conventions and principles.

3.2.1(2) Dual Aspect Concept: According to this concept, every business transaction involves two aspects, namely, for every receiving of benefit and. there is a corresponding giving of benefit. The dual aspect concept is the basis of the double entry book keeping. Accordingly, for every debit there is an equal and corresponding credit.

The accounting equation of the dual concept is:

Capital + Liabilities = Assets

(or)

Assets = Equities (Capital)

The dual concept is significant in the following ways:

1. It helps accountant in detecting errors.
2. It encourages the accountant to post each entry in opposite sides of two affected accounts.

3.2.1(3) Money measurement concepts

Money measurement concept assumes that all business transactions should be in terms of money. In Nigeria, such transactions are in terms of naira. The unit of measurement is money. Under money measurement concept, only facts capable of being expressed in monetary terms and captured and recorded in the books of account. Another aspect of this concept is that records of transactions are kept not in the physical units but in the monetary unit.

The following points highlight the significance of money measurement concept :

1. This concept guides accountants what to record and what not to record.
2. It helps in recording all transactions uniformly.
3. If all the transactions are expressed in monetary terms, it will be easy to understand the accounts prepared by the entity.
4. It facilitates comparison of performance of two different periods of the same entity or of the two different firms for the same period.

3.2.1(4) Going concern concept

According to this concept a every entity will continue to carry on its activities for an indefinite period of time. Simply stated, an entity will not cease to exist in the foreseeable future. The going concern concept is a very fundamental assumption of accounting. It provides a basis for the preparation of financial statements.

The following points highlight the significance of going concern concept:

1. This concept facilitates preparation of financial statements.
2. It forms the basis for the charging of depreciation on fixed asset.
3. It is of great help to the stakeholder, because, it assures them that they will continue to get their investments.
4. In the absence of this concept, the cost of a fixed asset will be treated as an expense in the year of its purchase.
6. An entity is judged for its capacity to earn income in future**.**

3.2.1(5) PERIODICITY OR ACCOUNTING PERIOD CONCEPT

All the transactions are recorded in the books of accounts on the assumption that income and expenses on these transactions are to be ascertained for a specified period. This is known as accounting period concept. Thus, this concept requires that financial statements should be prepared at regular intervals. But usually one year is taken as one accounting period which may be a calendar year or a financial year. The year that begins from 1st of January and ends on 31st of December is known as Calendar Year. If the year begins from 1st of April for example and ends on 31st of March of the following year, it is known as financial year. In Nigeria, the financial year is coterminous with the calendar year. In other words, the government financial year begins from January 1 and ends on December 31 every year.

The periodicity concept is significant in the following ways:

1. It helps in the prediction of the future prospects of the government.
2. It helps in calculating the income of businesses and individuals for purposes of taxation.
3. It also helps banks, financial institutions, creditors, and other users of public sector accounting information to assess and analyse the performance of government for a particular period.
4. It also helps the government to distribute their income over competing needs at regular

3.2.1(7) COST CONCEPTS

According to the cost concept all assets are recorded in the books of accounts at their purchase price and not the market. The purchase price includes the cost of acquisition, transportation and installation. It means that fixed assets like building, plant and machinery, furniture, etc are recorded in the books of accounts at the price paid for them.

Purchase price as used her means original or acquisition cost only for new assets. For assets that have been used by the entity for a period of time, it means original cost less provision for diminution in value (depreciation). The cost concept is also known as historical cost concept. The effect of cost concept is that if the business entity does not pay anything for acquiring an asset this item would not appear in the books of accounts.

The cost concept is significant in the following ways:

1. It requires asset to be shown at the price it has been acquired, which can be verified from the supporting documents.
2. It is useful in establishing diminution if the value of the asset.
3. The effect of cost concept is that if the entity does not pay anything for an asset, this item will not be shown in the books of accounts.

3.2.2 ACCOUNTING CONVENTIONS AND STANDARDS

An accounting convention refers to common practices which are universally followed in recording and presenting accounting information of the entity. They resemble the customs, tradition, etc. in a society. Accounting conventions evolved over the years from practice. They facilitate uniform recording in the books of accounts. Accounting Conventions help in comparing accounting data of different entities and units or of the same entity or unit for different periods. The most important conventions which have been used for a long period are :

1. Consistency.
2. Full Disclosure.
3. Materiality.
4. Conservatism.

3.2.2(1) Consistency

The convention of consistency means that same accounting principles should be used consistently for preparing financial statements year after year. There are basically three types of consistency:

(i) Vertical consistency. This applies to the same Organization. It is to be found within the group of inter-related financial statements of an Organization on the same date. For example when fixed assets have been shown at cost price and in the interrelated income statement depreciation has also been charged on the historical cost of the assets.

(ii) Horizontal consistency. This refers to consistency on a time basis. This refers to consistency between financial statements of the same entity from period to period. Thus, it helps in comparing performance of the business over a period of time.

(iii) Dimensional consistency. This refers to consistency in the financial statements of two or more Organizations within the same line of business. For example, two or more state governments; two or more local government councils; two or more parastatals of government. This consistency is to be found in the statements of two different entities of the same period. Whenever a change in method is necessary, it should be disclosed by way of footnotes in the financial statements of that year.

The consistency convention is significant because:

l. It facilitates comparative analysis of the financial statements.

2. It ensures uniformity in charging depreciation on fixed assets and valuation of closing stock.

3.2.2(2) Full Disclosure

Convention of full disclosure requires that all material and relevant facts concerning financial transactions should be fully disclosed in the financial statements. Full disclosure means that there should be full, fair and adequate disclosure of accounting information. Adequate means sufficient set of information to be disclosed. Fair indicates an equitable treatment of users. Full refers to complete and detailed presentation of information. Thus, the convention of full disclosure suggests that every financial statement should fully disclose all relevant information. Let us relate it to the business. The business provides financial information to all interested**.**

The convention of full disclosure is significant in the following ways:

l. It helps in the comparison of financial statements of different entities and units.

2. This can also help in the comparison of financial statements of the same entity or unit over time.

3. This convention is of great help to stakeholders for in making decisions of interest to them.

4. The information under the convention of full disclosure is very reliable.

3.2.2 (3) Materiality

Under this convention, only material or significant facts should be disclosed in the financial statements. Material fact means the information which will influence the decision of its user. Whether a fact is material or not depends on its nature and the amount involved. For let consider a typical government unit. That purchases things like motor vehicles, refrigerator, air conditioners, Computer etc. for the operation of the unit. These items are significant items and should, therefore, be recorded in books of accounts in detail.

Say that the same unit bought items like pen, pencil, match- box and so on. This require little amount of capital. The maintenance of the details of these small items is not considered of much significance. The items that are significantly important are regarded as material and their details are recorded. The items that are of less significance are immaterial facts or insignificant and their details are not recorded in the books of account. Thus according to materiality convention important and significant items should be recorded in their respective heads and all immaterial or insignificant transactions should be grouped together under a different accounting head.

The materiality convention is significant in the following ways:

1. It helps in minimising errors in calculation as it reduces the number of accounting entries to be made.
2. It helps in making financial statements more meaningful.
3. It saves time and resources.

3.2.2(4) Conservatism

The maxim for this convention is "Anticipate no profit, but provide for all possible losses". It is based on the policy of playing safe in regard to showing the recognition of income and expense. The main objective of this convention is to show minimum surplus. For business units like Government Business Enterprises (GBEs), the import of the conservatism convention is that Profit should not be overstated. If profit shows more than actual, it may lead to distribution of dividend out of capital. This is not a fair policy and it will lead to the reduction in the capital of the enterprise.

The convention of conservatism is significant in the following ways:

1. It helps in ascertaining actual profit.
2. It is useful in situations of uncertainties and doubts.
3. It helps in maintaining the capital of the enterprise.

Self- Assessment Exercise.

1. Discuss the accounting conventions as they apply to Public sector Organizations.

4.0 SUMMARY

In this chapter, the accounting bases and principles underlying the preparation of financial statements in the public sector were discussed. Three types of accounting bases were identifies: the cash basis, the accrual basis, and the commitment basis. Under cash basis transactions are recognized only when cash is received or disbursed. It is immaterial when the underlying transaction was validly concluded. The accrual basis of accounting recognizes transactions when they occur irrespective of when the cash payment is made.

The commitment basis records anticipated expenditure evidenced by a contract or a purchase order. In public sector financing, budgetary and accounting systems are closely related to the commitment basis. It involves the recording of obligations of the entity to make some future payments at the time they are reasonably foreseen, not at the time services are rendered and/ or billings are received.

In the unit accounting principles were also discussed. These are various accounting systems and techniques designed to meet the needs of the management. Two types of accounting principles were identified (a) Accounting Concepts, and (b)Accounting Conventions.

Accounting concepts are the assumptions or postulates on financial statements are prepared. They are the basic or fundamental assumptions upon which financial statements are prepared Accounting conventions refer to common practices which are universally followed in recording and presenting accounting information of the entity. They resemble the customs, tradition, etc. in a society.

5.0 CONCLUSION

In this unit, you have been taught the three basis of accounting for Public sector Organizations; cash basis, accrual basis and commit*ment basis.* You were also introduced to the accounting concepts and conventions applicable to the public sector. This knowledge will serve as a basis for understanding the subsequent units in this course.

6.0 TUTOR MARKED ASSIGNMENT

Fill in the blanks with suitable word/words

1. The accounting concepts are basic ....of accounting.
2. .... …………………concept assumes that business enterprise and its owners are two separate independent entities.
3. Fixed assets are shown in the books at their …………….. ………………………..
4. The concept that a an entity or unit will not be closed down in the near future is known as …………….. …………………………………………
5. Recording of transactions in the books of accounts with a definite period is called ……. ……………………………………concept.
6. The accounting period in the Nigerian Government sector is …………………………
7. According to accounting period concept, revenue and expenses are related to a ………………………………………………………. period.
8. The cost concept states that all fixed assets are recorded in the books of accounts at their ……………………………………………………… price.

9. Convention of consistency means that same accounting principles should be used for preparing financial statements ...…………………………………………

10. The ………………………………. convention states that to make financial statements more meaningful, only significant and important items should be supplied to the users.

11. Convention of materiality states that insignificant items should be disclosed under ………………………………………………………………………………

12. Explain the convention of consistency with example.

13. Explains the convention of materiality.

14. Explain the accounting convention of full disclosure with example.

7.0 REFERENCES/ FURTHER READING

Adams, R.A. (2014) *Public Sector Accounting and Finance made simple, revised edition* 3, Lagos: Corporate Publishers Venture.

Emeni, F.K., Ogiedu,K.O., Mgbame, C.O., & Erhagbhe, E. (2008) *Public Sector Accounting and Finance*, Benin City: Mindex Publishing Company Limited

FAAC(2015). *Accrual Accounting Manual*, for all public entities in Nigeria, Abuja: FAAC Sub-Committee on IPSAS.

ICAN (2014).*Public sector accounting and finance*, Lagos: ICAN

Ogiedu, K.O. (2016) *Lecture notes on Public Sector Accounting and Finance*, Benin City, Unpublished

Omolehinwa, E.O., & Naiyeju, J.K. (2015) *Government Accounting in Nigeria: An IPSAS approach*, Lagos: Pumark (Educational Publishers).

UNIT 4 CHARTS OF ACCOUNTS UNIFORM REPORTING

CONTENTS

1.0 INTRODUCTION

In this unit, you will learn about charts of accounts generally and Nigerian Charts of Accounts specifically. You will also learn about the typical objectives of a chart of accounts Introduction to charts of accounts and the principles and factors that guide their preparation. Thereafter, we will study the charts of accounts in Nigeria called the National Chart of Accounts. In this respect, you will learn about the definition of the Nigeria Charts accounts (NCOA). , it's purpose, their features and the users.

2.0 OBJECTIVES

At the end of the unit the student should be able to:

1. Understand Principles and Factors for the Design of a COA
2. Know the meaning Chart accounts (COA)
3. Appreciate the purpose of the national chart of accounts in Nigeria (NCOA)
4. Know the features of the National Chart of Accounts

5. Know the users of and their uses of the National Chart of Accounts

6 Understand the structure of the NCOA

3.1 INTRODUCTION TO CHART OF ACCOUNTS

The concept of Chart of Accounts (COA) is well known in the private sector. However, governments it is only recently that governments started to apply the same accounting principles and processes commonly used by the private sector in financial management. The COA for a private sector entity is designed to meet the information needs of the management and the requirements of financial reporting standards. In the government sector, in addition to these requirements, the concept of COA reflects the specificities of government operations and accountability requirements.

According to Cooper and Pattanayak (20011), a well-functioning Performance Management (PFM) framework includes an effective accounting and financial reporting system to support fiscal policy analysis and budget management. Government business processes and decisions are anchored on the flow of specific financial information/data between various stakeholders. The provision of such information on government activities is an important function of the accounting and reporting system which should capture, classify, record, and communicate relevant, reliable, and comparable financial information for various purposes.

The COA is the cornerstone of a government's accounting and reporting system and serves as a key tool to meet its business requirements. It is a critical element of the PFM framework for classifying, recording and reporting information on financial plans, transactions and events in a systematic and consistent way. It is an organized and coded listing of all the individual accounts that are used to record transactions and make up the ledger system.

3.2 OBJECTIVES OF A CHART OF ACCOUNTS

Countries have developed different approaches to address the information needs of governments and as a result actual practices differ across countries. This is due mainly to the fact that each country, based on its legal and administrative tradition, needs to have systems that cater to specific control and information requirements for government budget management. According to
Cooper, & Pattanayak, ((2011), COA should, generally, meet the following objectives:

1. Control. This includes budget appropriation control, in-year allotment/warrant control, fund control (e.g., the general revenue fund of the government [e.g., Consolidated Fund] and other special funds), management control and other fiduciary controls.

2. Accountability. In a typical PFM system, the executive is held accountable to parliament and the public at large. Also the managers of individual government agencies are internally held accountable in terms of their legal mandate/responsibility. This is achieved, among other things, by tracking the transactions that are specific to each administrative entity the accountability of which needs to be enforced through appropriate audit trails. The COA configuration needs to respond to these accountability requirements.
3. Budget management. The budget classifications define the structure of the COA codes/sub-codes that are related to government budgetary revenue and expenditure operations.
4. Financial planning and management. This includes financial planning, cash management, and asset and liability management. From the perspective of COA design, it is important to know: (i) how the assets and liabilities should be categorized; and (ii) at what aggregated level the cash and other liquid assets should be monitored.
5. Management information Individual line agencies require information in greater detail and frequency for the preparation of various reports to support detailed cost monitoring, internal control and day-to-day decision making. As some of these information/reports could be specific to the line agency concerned, it may not be necessary to track such information for the whole of government through a generalized COA. However, individual line agencies/accounting units could track such information by using their own detailed accounts codes as long as these are linked to higher level codes which are used for consolidation of accounting/financial data across the whole reporting entity.
6. General purpose financial reporting. This includes the preparation of financial statements and reports in accordance with national and/or international accounting standards. When general purpose financial reports meet this objective, they will also be a means—in addition to budget reporting—by which managers of public resources discharge their accountability to those users.

Self-Assessment Exercise.

1. Explain any Five (5) objectives of a chart of accounts.

3.3. Principles and Factors for the Design of a COA

The following principles are required for an effective development, implementation and maintenance of a COA. Cooper and Pattanayak (20011) identified the following principles and factors for the design of a chart of accounts.

1. Comprehensiveness. The COA should be comprehensive enough to capture all the /relevant information and it needs to reflect not only the budget framework but also the accounting

framework. The budget classifications should not be different and should be embedded in (or harmonized with) the government's accounting classifications.

2. Adequate granularity. The segments and sub-segments of the COA should be designed to facilitate many possible combinations of data elements necessary for control and reporting purposes. Each segment should have sufficient detail to meet all control, accountability, management, and reporting needs of various stakeholders.

3 Mutual exclusiveness. The COA segments and their attributes should be defined in a way to make them mutually exclusive and avoid confusion in transaction recording and reporting.

4. Avoiding redundancy. There is no need for an independent segment in the COA if the related information could be derived from another segment. Where there are multiple classifications, it is useful to explore the relationships between those classifications.

5. Internal consistency. The logic applied in designing the hierarchical structure of COA segments should be internally consistent. Using a consistent numbering system and structure helps make the chart user friendly and reduces the chance of coding errors.

6. Unified framework. Sometimes individual accounting units are allowed certain flexibility in developing their own specific accounting codes at a more detailed level to capture/record specific information, e.g., through subsidiary ledgers, for internal management and control of their units. However, the COA framework should be unified to ensure that at least the information at the aggregated level uses the same accounting classification to ensure consistency between the two sets of accounting data.

7 Scalability. The COA should allow flexibility for future additions and changes as far as possible. It should provide for capturing additional information in future, particularly when such information has been anticipated/identified as part of an ongoing PFM reform program. Providing room for growth, change and future reporting requirements can help ensure a COA remains relevant for a long period of time as the business environment, regulatory requirements and reporting needs evolve.

8. Institutional framework for financial transaction processing and accounting. A key issue to consider is whether the transaction processing system is centralized or decentralized. Even under a centralized payment system (i.e., expenditure payments to beneficiaries/suppliers are made by a centralized unit in the ministry of finance/treasury), individual budget units are usually responsible for authorization of commitments and issuance of payment orders. There is thus a need to ensure that the recording/accounting at the commitment and payment order stages are well integrated with the financial accounting at the payment stage

to ensure a seamless tracking of transactions covering the full budget execution cycle. This aspect needs to be taken into consideration while configuring the COA and designing the Integrated Financial Management Information System (IFMIS).

Self- Assessment Exercise.

1. What are the required principles or factors to be considered before designing a chart of accounts?

3.4 NATIONAL CHARTS OF ACCOUNTS AND UNIFORM REPORTING IN NIGERIA

3.4.1 Introduction

To successfully draw up the process for the adoption of IPSAS, the Federation Account Allocation Committee (FAAC) at its meeting of the 13th June, 2011 set up a Technical Sub-Committee on Roadmap for the Adoption of IPSAS in Nigeria. In order to achieve the objectives of uniform reporting system; the Technical Sub-Committee developed a comprehensive and standardized National Chart of Accounts (NCOA). The NCOA is to be used by the three tiers of Government in Nigeria for budgeting, accounting and financial reporting effective from 2014 financial year. In addition, the NCOA is for both IPSAS Cash and Accrual Basis.

The Federation Account Allocation Committee (FAAC) held a meeting of 13th June, 2011 and set up a Technical Sub-Committee to provide a roadmap for the implementation of IPSAS among the three tiers of Government in Nigeria. The Technical Sub-Committee developed a comprehensive and standardized NCOA. The Committee also put together a harmonized format for both Cash and Accrual Basis of Accounting. This NCOA is an integrated budget and accounting classification system which has been prepared primarily for the implementation of the uniform accounting system that is IPSAS compliant. The NCOA therefore provides the platform for budgeting, accounting and reporting of all Government financial transactions in the three tiers of Government in Nigeria.

According to FAAC (2013), the NCOA is to be used by all tiers of Government in Nigeria. The NCOA is applicable to all Ministries, Departments, Agencies, Parastatals, and other government funded creations/organizations as provided in the NCOA.

3.4.2 DEFINITION OFTHECHART OF ACCOUNTS (COA)

According to FAAC (2013), the Chart of Accounts is a systematic list of the Accounts used by an entity to define each class of items for which money or the equivalent is spent or received. It may also be further 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. This list of unique codes can be represented by numeric, alphabetic, or alpha-numeric symbols. It enhances the ability of 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 financial transactions of the entity.

3.4.3 PURPOSE OF THE NATONALCHART OF ACCOUNTS

Prior to the development of the NCOA in 2013, the three tiers of government in Nigeria had different structures of COA consisting majorly of two parameters: Administrative and Economic Segments. This makes comparison of financial and other reports among the tiers of government difficult. The Primary Objective of the NCOA according to FAAC (2013), is to:

1. Facilitate the preparation of uniform financial statements - That is, statements that may be reliably compared to those of other entities. Because of this aim, it is especially important that transactions are entered in a consistent manner;.

2 To fulfill statutory requirements for the presentation of the GPFS;

3. To enhance the classification of financial transactions leading to meaningful and relevant accounting reports for users;

4. To provide a listing of different accounts used by the Government entity according to their intended purpose; and

5. To comply with the provisions of IPSAS in ensuring full disclosure of all accounting transactions.

3.4.4 FEATURES OF NCOA

The following are the key features of the NCOA according to FAAC (2013):

1. Expandable/Flexible/Adaptable - The NCOA is designed to accommodate additions, modifications and update;
2. Each item has a unique code;
3. Sufficient structure for fiscal management to cater for Administrative, Economic, Functional, Programme, Fund Source, and Geo Code Segment;
4. Used for both Budgeting and Accounting;

5. It facilitates Data Entry;
6. It is IPSAS Cash and Accrual Basis compliant;
7. It is Government Financial Statistics (GFS) 2001 compliant;
8. It is compliant with Classification of Functions of Government (COFOG);
9. Multidimensional in Structure - It is a six (6) way classification system consisting of the Administrative, Economic, Functional, Programme, Fund and Geographical - Codes Segments;
10. Fully Mapped into the Financial Statements - It ensures that in inputting accounting transactions as per the classification system, there are directly mapped into the relevant Financial Statements;
11. Follows the REAL Model of Economic Classification - The REAL model which represents Revenue, Expenditure, Asset and liability are systematically followed in the structure of the CO A to enhance the capturing of related accounting transactions in the same segment.

3.4.5 USERS OF THE NCOA

According to FAAC (2013), the NCOA is document that is to be used by wide range of Users such as:

1. Finance/Accounts Officers-Daily Posting of Transactions; Budget /Planning Officers-Preparation and Evaluation of Budgets;
2. Management;
3. Analyst/Consultants/Researchers/Experts;
4. Academia;
5. Programmers/Software Developers;
6. Legislators and other Political leaders;
7. Donors and other development partners;
8. Mass Media;
9. The General Public.

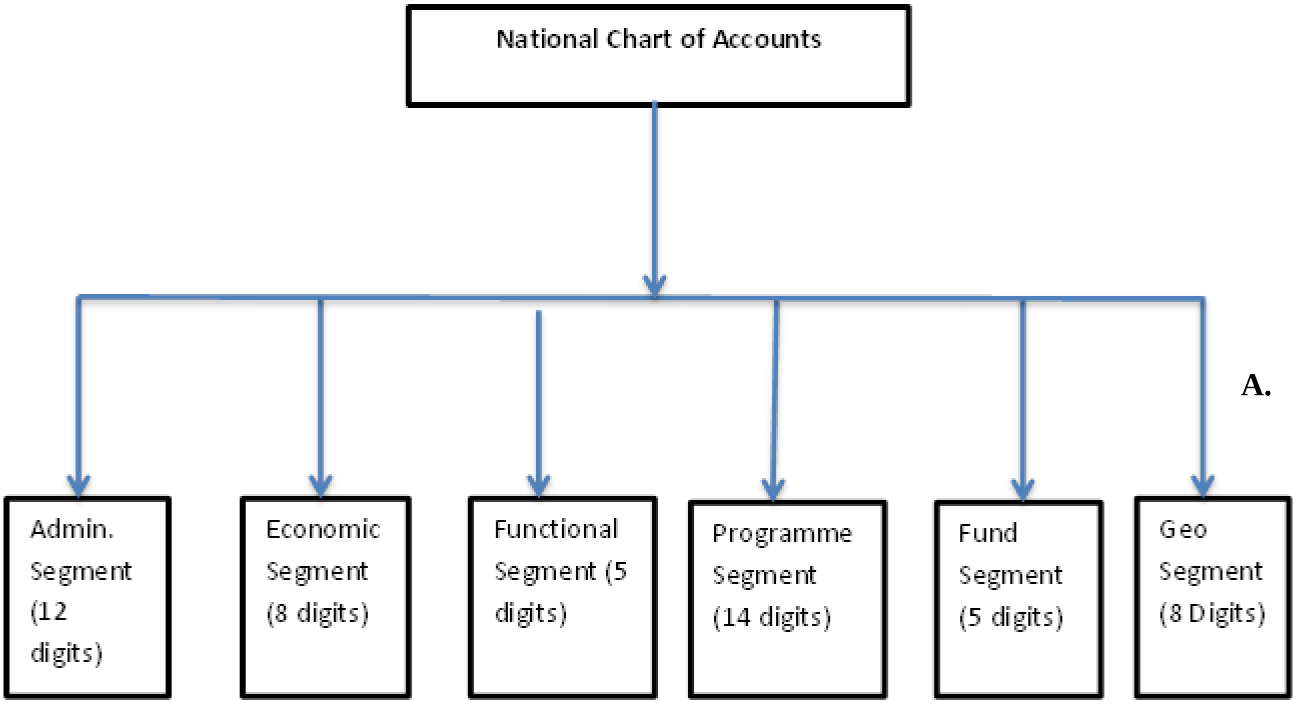
Self- Assessment Exercise.

1. List the various users of NCOA.

3.4.6 STRUCTURE OF THE NCOA

The NCOA is made up of Six (6) Segments with fifty Two (52) Digits. The Structure of each segment is outlined in below:

Figure 1: Structure of the NCOA



A.

ADMINISTRATIVE SEGMENT

This Segment identifies the entity that is and accountable for performing or delivering the service assigned to it by the Government. The entity may be a Ministry, Department, or an Agency that is funded by the Government. It identifies the revenue and cost centre. It addresses the "Who" clement of each transaction. The Administrative Segment is divided into 5 Parts of 12 Digits as show in table 1.

Table 1: Structure of the Administrative Segment

S/NO	Part	Digit	Description
1	Sector	2	A set of broad Government entities performing related activities.
2	Organization	2	Ministries/Departments in case of LGCs
3	Sub-Organization	3	Main Ministries, Departments, Parastatals & Agencies
4	Sub-Sub-Organization	3	Headquarters of MDA & Outstation Offices
5	Sub-Sub-Sub-Organization	2	Departments within an Entity e.g. Finance & Accounts. NB: Efforts are being made to standardize Departmental Codes. For now two zeros (00) have been assigned.
	Total Number of Digits	12	The entire 12 Digits must be used for all transactions.

There are five administrative sectors in Nigeria as shown in Table 2 below. Each Sector has MDA under it.

Table 2: The Five Sectors in Nigeria

S/No	Sector	Digit	Code
1	Administration	2	01
2	Economic	2	02
3	Law and Justice	2	03
4	Regional	2	04
5	Social	2	05

1. Administration Sector

i. Presidency/Governor/Chairman
ii. National/State Assembly/LGC
iii. Federal Ministry of Defense
iv. Federal Ministry of Foreign Affairs
v. Ministry of Information & Communication
vi. Federal Ministry of Interior or Internal Affairs
vii. Head of Services of the Federation/ State/Director, Personnel
viii. Office of Auditor General for the Federation/State/ Local Government
ix. Public Complain Commission
x. Civil Service Commission (Federal /State/ LGC
xi. Federal/State Independent Electoral Commission (INEC)
xii. Federal Character Commission

2. Economic Sector

i. Ministry of Agriculture
ii. Ministry of Finance
iii. Ministry of Trade and Investment
iv. Ministry of Labour & Productivity
v. Ministry of Science & Technology
vi. Ministry of Transport

vii. Ministry of Aviation

viii. Ministry of Power & Energy

ix. Ministry of Petroleum

x. Ministry of Mines & Steel Development

xi. Ministry of Works

xii. Ministry of Tourism, Culture & Orientation

xiii. Planning Commission

xiv. National Salaries, Income & Wages Commission

xv. Revenue Mobilization, Allocation & Fiscal Commission

xvi. Fiscal Responsibility Commission

xvii. Ministry of Water Resources

xviii. Ministry of Housing & Urban Development

xix. National Bureau of Statistics

3. Law & Justice Sector

i. Judicial Council

ii. Ministry of Justice

iii. Independent Corrupt Practice and Related Offences Commission

iv. Code of Conduct Bureau

4. Regional Sector

i. Capital Development Authority

ii. Federal Ministry of Niger Delta

iii. Niger Delta Development Commission

5. Social Sector

i. Ministry of Youth Development

ii. Ministry of Women Affairs

iii. Ministry of Education

iv. Ministry of Health

v. Ministry of Environment

vi. National Sports Commission/Ministry of Sport

vii. National Population Commission

Departments at the LGCs are the equivalent o| Ministries at both Federal and State levels, where it is applicable. Table 3 shows illustration of the Administration sector using the Office of the Secretary to the Government. The first part identifies the sector where the transaction takes place. The first 01 indicates that the sector is the Administrative Sector. The second part is the organization within the Administrative Sector which is the Governor's office and is coded as 11. The next one is the sub-Organization which is the Office of the SSG and is coded as 013. The next is to locate the sub-sub- organization where the officer is located. In this case the it is the headquarter of the SSG's office and the code is001. The last part of the code is the sub-sub-sub-Organization. This can be a department based on function such as the finance department. When combined together, we have the complete code of 011101300100. TH same steps are followed in writing any complete code under the NCOA.

Table 3: Illustration of the Administration Sector using Office of the Secretary to the Government (OSG)

Sector	Organization	Sub-Org	Sub-Sub-Org	Sub-Sub-Sub-Org	Complete Code
01	11	013	001	00	011101300100
Social	Presidency/Governor/Chairman's Office	OSG	OSG HQ	Dept.	*Refer to the*

B. ECONOMIC SEGMENT

This segment identifies the Type (Nature or Object) of an account reporting of financial transactions. The segment answers the "What" question of every transaction. An 8- Digit numerical code is assigned as follows:

1. Account Type (1 Digit) - Maps all transactions into Revenue, Expenditure, Asset, Liability (REAL).

2. Sub Account Type (1 Digit) - Details the Account Type and maps it the various Financial Statements and provides a summary of transactions.

3. Account Class (2 Digits) - Breaks down the Sub Account Type in group of related items and serves as a note to the Financial Statements.
4. Sub Account Class (2 Digits) - Breaks the Account Class down into n details and serves as another level of notes to the Financial Statements
5. Line Items (2 Digits) - The lowest detail/specific of every transaction budget item. This is used to generate a detailed transaction/budget list.

Account Type	Sub Account Type	Accounts Class	Sub Account Class	Line Item	Total Digit
1	1	2	2	2	8

Account Type	*Code*
Revenue	*1*
Expenditure	*2*
Asset	*3*
Iability	*4*

FUNCTIONAL SEGMENT

1. Functional classification categorizes expenditure according to the purposes and objectives for which they are intended.

2. Functional Classification or Classification by Functions of Government (COFOG) is defined as a detailed classification of the functions, or socioeconomic objectives, that general government units aim to achieve through various kinds of outlays.

3. A "Functional" classification organizes government activities according to their broad objectives or purposes (for example, education, social security, housing, etc.).

4. Government expenditure measured according to internationally recognised functional classification. A functional classification is especially useful in analysing the allocation of resources among sectors.

5. Functions and Sub functions are either assigned at the point of planning and budgeting for every transaction or at initial set up.

The Functional Segment is made up of 5 digits as in table 14 below:

Table 14: Structure of Functional Segment

(Refer to the NCOA pages 71 to 80)

Part	Code	Description
Main F unction or Division	3	Represents b road objectives of Government e.g. General Public services, Health, Social Protection etc
Function or Groups	1	Details the means by which the broad Objectives are achieved e .g. Public Health Services, Secondary Education, Tertiary Education etc
Secondary Function or	1	Details the means by which the functions or Groups are achieved e.g.Junior Secondary Education, Senior Secondary Education etc
Total No. of Digits	5 Digits	

Generally, Functional Segment can be categorized into ten (10) Main of Government, thus:

i. General Public Services
ii. Defence
iii. Public Order & Safety
iv. Economic Affairs
v. Environmental Protection
vi. Housing and Community Amenities
vii. Health
viii. Recreation, Culture And Religion
ix. Education
X. Social Protection

Table 15: Illustration of Functional Segment using Executive and Legisla Organs

S/No	Part	No. of Digit	Code	Description
1	Main Function	3	701	General Public Services
2	Group	1	1	Executive & Legislative Organs, Fir & Fiscal Affairs, External Affairs
3	Class	1	1	Executive & Legislative Organs
	Total No. of Digits	5 Digits	Complete Code for Executive & Legislative Org; 70111	

2.5 PROGRAMME SEGMENT

Programme Segment answers the "Why" question of every transaction according to the Purpose or objective. Does the transaction relate to a specific project and if so, what type of activity?

The Programme Segment has a total of 14 digits as shown in table 16.

S/N	Part	No. of Digit	Description
1	Policy	2	A deliberate plan of action to guide decisions and achieve rational outcomes e.g. Education Policy, Health Policy, Economic Policy.
2	Programme	2	A long -term outline of a government function that is designed to meet specific policy objectives of the government e.g. Poverty Alleviation, Housing & Urban Development
3	Project	6	Programmes are further broken down into projects. Budgeting and Accounting are carried out along project lines e.g. Development of Farm Settlements, Improvement in General Change, Fight Against Corruption.
4	Objective	2	Represent the specific result desired within a fixed period of time e.g. Increase in Farm Production, Improvement in General Behaviour, Minimize the incidence of Corruption.
5	Activity	2	Planned set of interrelated tasks to be executed over a fixed period and within certain cost and other limitations e.g. Purchase of Fertilizer, Reward for Good Conduct, and Sensitization of the Public against Corruption.
	Total	14	See pages 81 to 93 of the NCOA.

Table 18: Illustration of Programme Segment Using Purchase of Fertilizer

S/No	Part	No. of Digit	Code	Description
1	Policy	2	00	Policy Codes are yet to be drawn up
2	Programme	2	01	Economic Empowerment Through Agriculture (General)
3	Project	6	000001	Development of Farm Settlement
4	Objective	2	01	Increase in Farm Production
5	Activity	2	01	Purchase of Fertilizer
	Total Digits	14 Digits	Complete Code for Purchase of Fertilizer is 00010000010101	

Table 19: Illustration of Fund Segment Using Budgetary Allocation

Main Fund	Sub- Fund	Fund Sources	Total No. of Digit
02	1	01	Complete Code for Budgetary Allocation is 002101
CRF	Main Envelop	Budget	

2.7 GEOGRAPHIC CODE SEGMENT

The Geographic Code 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, LGC and Council Wards in the country can be done.

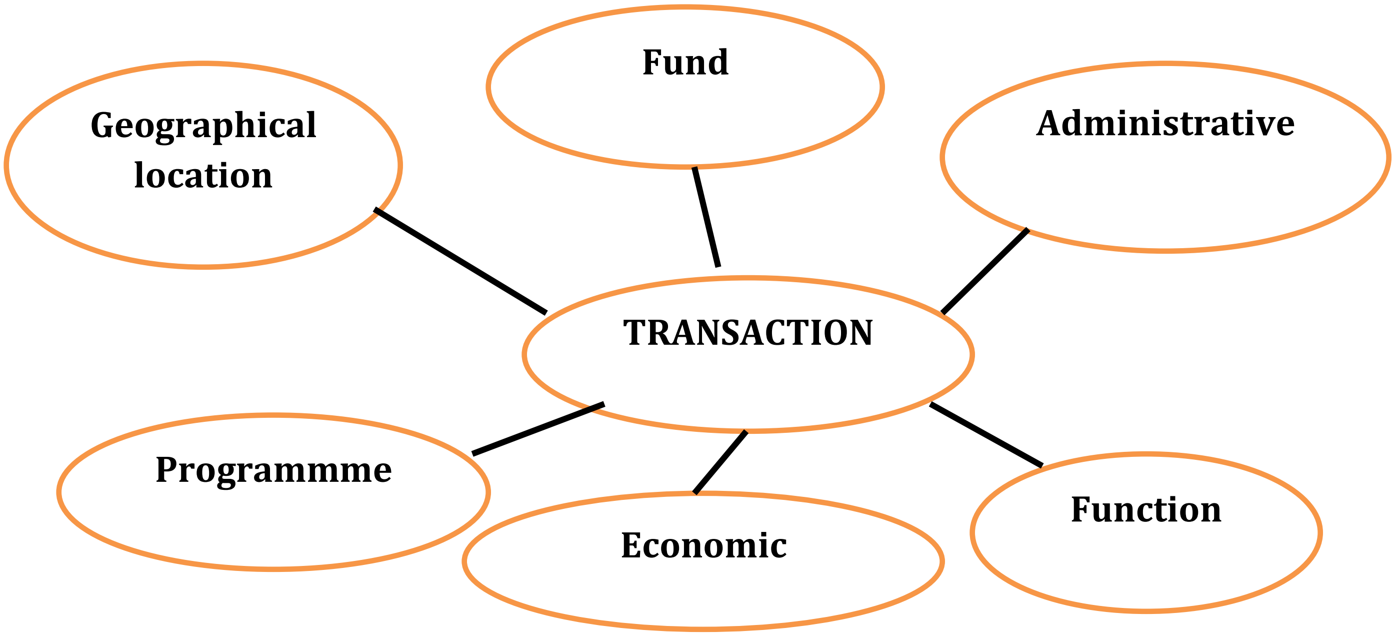
The use of Geo Codes will make it easier for agencies with oversight function with monitoring and evaluation (M&E) mandates to locate projects across the country. This is particularly important when considering Capital Expenditure.

STRUCTURE OF GEOGRAPHIC CODE SEGMENT

The Geographic Code 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 Geo code segment is made up of 8 Digits as shown in table 20.

ILLUSTRATION OFTHE CODES USING ALLTHE SIX SEGMENTS Figure 3: Linking of a Transaction to the various Segments



Source: FAAC (2013) National carts of accounts- Users' manual, p21.

Type of Transaction is Purchase of Power Generating Set by Federal Government Girls College (FGCC), Gboko being financed by the World Bank.

Table 22: Administrative Segment - Federal Government Girls College, Gboko

Sector	Organization	Sub-Org.	Sub-Sub-Org.	Sub-Sub-Sub-Org	Total Digit
05	17	026	056	00	Complete Code for FGGC, Gboko is 051702605600
Social Sector	Federal Min. of Education	Federal Unity Schools	FGGC, Gboko	00	

Table 23.1: Economic Segment (NCOA Cash Basis)

- Purchase of Power Generating Set

Account Type	Sub-Account Type	Account Class	Sub-Account Class	Budget Line	Total I
2	3	01	01	19	Complete Code for purchase of power generator Purcchase Power Generating Set is 23010305
Expenditure	Capital Expenditure	Fixed Assets Purchased	Purchased of Fixed Assets – General	Purchase of Power Generating Set	

Table 24: Functional Segment - Upper Secondary Education

Main Function	Group	Class	Total Digit
709	2	2	Complete Code for Upper Secondary Education 70922
Education	Secondary Education	Upper Secondary Education	

Table 25: Programme Segment - Purchase of Power Generating Set

Policy	Programme	Project	Objective	Budget Line	Total Digit
00	14	000001	01	04	Complete Code for Purchase of Power Generating Set is 00140000010104
NIL	Power Generation & Distribution (General)	Sustainable Power Supply	Increase Access to Electricity supply	Purchase of Power Generating Set	

Table 26: Fund Segment - World Bank Trust Fund

Main Fund	Sub-Fund	Fund Sources	Total Digit
08	1	21	Complete Code for World Bank Trust Fund is 08121
Aid & Grants	Multilateral Aid & Grants	World Bank Trust Fund	

Table 27: Geographical Segment - Gboko

Zone	State	Senatorial Zone	LGC	Ward	Total No. of Digit
1	07	2	05	00	Complete Code for Gboko LGC is 10720500
North Central	Benue	Zone B	Gboko		

In a nutshell, the Code for Rehabilitation of Classroom at FGGC, Gboko using Funds from World Bank therefore is in table 27,

Figure The entire 6 gegments populated with codes at a glance

Administrative	**051702605600**
Economic	**23010119 or 32010305**
Functional	**70922**
Progamme	**00140000010104**
Fund	**08121**
Geo Code	**10720500**

Users are to note that appropriate software/automated system is encouraged to enhance the application of the NCOA to be seamlessly done thus removing the need to mentally memorize/recite these codes as transactions are classified. Budgeting with NCOA will be treated under the unit on budgeting.

4.0 SUMMARY

In this unit, the chart of accounts were discussed. It was noted that the concept of Chart of Accounts (COA) is well known in the private sector and that it is only recently that governments started to apply the same accounting principles and processes commonly used by the private sector in financial management. COA is a well-functioning Performance Management (PFM) framework that includes an effective accounting and financial reporting system to support fiscal policy analysis and budget management.

The objectives of a chart of account are for purposes of : (1) Control, (2), accountability, (3) Budget management,(4) Financial planning and management.; (5) Management information (5), and (6) General purpose financial reporting.

The Principles and Factors for the Design of a COA was also discussed. These principles are: (1) Comprehensiveness; (2);Adequate granularity; (3) Mutual exclusiveness; (4) Avoiding redundancy; (5) Internal consistency; (6) Unified framework; (7)Scalability; (8) Institutional framework for financial transaction processing and accounting.

5.0 CONCLUSION

The unit discussed the National charts of accounts and uniform reporting in Nigeria which was developed by FAAC in 2013. The NCOA is to be used by the three tiers of Government in Nigeria for budgeting, accounting and financial reporting effective from 2014 financial year. In addition, the NCOA is for both IPSAS Cash and Accrual Basis. The features, users and structured of NCOA were also discussed exhaustively in this unit.

6.0 TUTOR MARKED ASSIGNMENT

1. What do you understand by chart of accounts?

2. What is the purpose of the Nigerian National Chart of Accounts?

3. Explain the basic features of the NCOA

7.0 FURTHER READING/REFERENCES

Cooper, J & Pattanayak, S((20011) *Chart of accounts: A critical element of the Public Financial Management framework*, Washington, D.C.:

International Monetary Fund Federation Accounts Allocation Committee (2013) *National charts of accounts: Users manual*, Abuja: FAAC

Ogiedu, K.O. (2016) *Lecture notes on Public Sector Accounting and Finance*, Benin City, Unpublished

Omolehinwa, E.O., & Naiyeju, J.K. (2015) *Government Accounting in Nigeria: An IPSAS approach*, Lagos: Pumark (Educational Publishers).

UNIT 5: FUND ACCOUNTING

CONTENTS

1.0 INTRODUCTION

In this unit, you will be introduced to the concepts of funds and funds accounting. You will learn the General classification of funds and the various types Government funds. Specifically, you will learn about the types of funds in Nigeria. Furthermore, will learn the advantages and disadvantages of funds accounting.

2.0 OBJECTIVES

At the end of the unit the student should be able to understand the following:

1. The concepts of funds and funds accounting

2 The General classification of funds

3 Types of Government funds

4 Types of Proprietary funds

5. Types of Fiduciary funds

6 Types of funds in Nigeria

7 Advantages and disadvantages of fund accounting

8 General Accounting entries in fund accounting

3.0 MAIN CONTENT

3,1 FUNDS AND ACCOUNTS DEFINITIONS

Funds accounting is one of the basic principles of public sector accounting. Public sector accounting systems are organized and operated on a fund basis. A fund is the basic unit used to segregate resources and expenditures in the state treasury. A fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions limitations.

There are other related entities that have some of the same characteristics as a fund but do not fully meet the definition. The general purpose of these entities is to segregate resources and restrict expenditures to clearly identifiable purposes. These entities include a number of specifically defined accounts, reserves, and dedicated revenues with related restricted expenditures. In each case, revenue is dedicated or appropriated, spending is restricted and any balance remains in the account and does not cancel to the general or other fund.

As stated above, a fund is a separate accounting and financial reporting entity. It is a self-balancing set of accounts. In other words, a fund's assets will equal the total of its liabilities and its fund balance (or net assets), in the same way that financial statements for a legal entity work. This does not , however, mean that funds are always separate legal entities. It should be noted here that a fund is not the equivalent of a bank account. The fund will have various assets and liabilities, with the difference between the assets and liabilities being called fund balance. The fund balance does not necessarily represent "cash" that can be spent. Not all of the assets will be in the form of cash, so it cannot be expected that the fund balance is the equivalent of the balance of cash in a bank account.

There is no limit to the number of funds that can be established by a government or an arm or unit of government. The general rule is that the number of funds should be as few as possible. Only those funds required by law and sound financial administration should be established and maintained by the government. Unnecessary funds could results in inflexibility, undue complexity, and inefficient financial administration.

Generally, a fund should be created or continue to exist when a majority of the following criteria apply:

1. When either the revenues or expenditures of the activity are sufficiently large.
2. When the activities create assets or liabilities that will continue beyond a normal budget cycles.
3. If multiple agencies will be involved in the collection or use of the fund's resources.
4. If there are enough resources available to cash flow the activity when the program begins operating.
5. If a separate fund is necessary to comply with constitutional requirements, government regulatory requirements, or generally accepted accounting principles.

Self- Assessment Exercise

1. What is a "Fund" in Public sector Organizations?

3.2 GENERAL CLASSIFICATION OF FUNDS

Funds are generally classified into three broad categories: (i) Government funds, (ii) Proprietary funds, and (iii) fiduciary funds. Each of these funds groups has sub-funds category as follows:

(A) Governmental Funds

- (1) General fund
- (2) Special revenue funds
- (3) Debt service funds
- (4) Capital project funds
- (5) Permanent funds

(B) Proprietary Funds

- (1) Enterprise funds
- (2) Internal service funds

(B) Fiduciary Funds

- (1) Trust funds (Pension and other employee Benefit)
- (2) Investment Funds
- (3) Private purpose Funds
- (4) Agency Funds

3.3 GOVERNMENT FUNDS

The governmental funds account for the activities of the government that are not regarded as proprietary (business-type) or fiduciary. These activities are sometimes referred to as the general governmental activities. Governmental funds use the modified accrual basis of accounting and the current financial resources measurement focus. We shall now discuss the different types of governmental funds.

3.3.1 General Fund

The general fund is the main operating fund of a government. Generally accepted accounting principles permit a government to have only one general fund. The general fund is a catch all fund. It accounts for all current financial resources of a government except for those current financial resources that are accounted for in another fund. Often when governments talk about "balancing their budget," what they really mean is that they are balancing the budget of their general fund. Many times when it is said that a government is over budget or has a deficit, the meaning is not for the government as a whole, but for the government's general fund, since this is usually considered the main operating fund of a government.

The balance sheet of the general fund will include those current financial resources related to transactions that will be accounted for in the general fund. Usually the asset side of the balance sheet consists of cash, investments, receivables, and inventories.

In Nigeria, the general fund of the Federal Government is the Consolidated Fund. It is the Fund that holds all forms of monies that belong to the Federal Government except revenue and other moneys: (i) payable by or under an Act of Parliament into some other Fund established for a specific purpose (i.e. Contingency Fund, Road Fund, etc; or (ii) that may, under an Act of Parliament, be retained by the department or agency of Government that received them for the purpose of defraying the expenses of that department or agency.

In Nigeria, Section 120 of the 1999 Federal Constitution specifies the Consolidated Revenue Fund as the main Fund of the Federal Government into which all revenues generated for the State should be paid into, and out of which all legally authorised expenditures should be paid from.

3.3.2 Special Revenue Funds

These types of funds are used to account for the proceeds of specific revenue sources that are committed to be used for specific purposes other than capital projects and debt service. The creation and use of special revenue funds is optional unless there is a legal requirement of the government that a special revenue fund be created. The fact that a certain revenue must be used for a specific purpose does not mean that this revenue and the related expenditure cannot be accounted for in the government's general fund. Generally accepted accounting principles for governments prescribe that a minimum number of funds be used. However, a government may feel that a special revenue fund improves accountability over compliance with a special revenue source's requirements. In these cases, the government will set up one or more special revenue funds to account for these types of resources.

There are two common examples of revenues that are accounted for in special revenue funds. The first are for grants received from other levels of government, such as a federal or state grant, or from individuals or foundations that restrict the use of the funds for specific purposes. For example, a city receives a state grant to build a state library in a particular location. A special revenue fund may be established to account for the revenue received from the state and the expenditures related to building the library.

Another example of where special revenue funds are used is where the proceeds from specific taxes are restricted for certain purposes. For example, a state may impose an education tax, the proceeds from which are required to be used for the development of university education.

3.3.3 Capital Project Fund

This fund is established into which moneys are accumulated to undertake projects or for the acquisition of capital assets. Capital Projects Funds are used to account for the development of capital facilities other than those financed by special assessments or the operations of an Enterprise Fund. In many cases, the use of Capital Projects Funds is optional.

Most governments use capital projects funds to account for the acquisition and/or construction of capital assets. Sometimes the amount of money that flow through the capital projects fund might overshadow the general governmental activities reported in the general fund. The only instance where GAAP requires that a government use a capital projects fund is where capital grants or shared revenues are restricted for capital acquisition or construction.

Once a government determines that it desires to establish a capital projects fund (or is required by GAAP to establish one), the government then needs to decide how many capital projects funds will be established. A government may determine that it can adequately account for and manage its capital projects with one capital projects fund. However, a government may decide that establishing a number of capital projects funds will better serve its accountability and financial management needs.

3.3.4 Debt Service Fund

Debt service funds are a type of governmental fund that is used to account for resources that are restricted, committed or assigned for debt service. Debt service fund is kept as alternative to Loans Fund, where the policy of the government is to keep any loan contracted in the Consolidated Fund. The Fund is for the service of both the principal and interest payments hence transfers into this are purely moneys from the Consolidated Fund necessary for the principal and interests payments.

The government should determine whether it has a legal obligation to establish debt service funds. If it is not, the government should then decide whether it would be useful from a managerial perspective to establish such a fund or funds. From a practical perspective, most governments that have long-term debt outstanding do use debt service funds. Where resources are being accumulated for principal and interest maturing in future years, those financial resources should be reported in a debt service fund.

3.3.5 Permanent Funds

Permanent funds are used to report resources that are legally restricted to the extent that only the earnings, and not the principal, may be used for purposes that support the government's programs, meaning programs that are for the benefit of the government or its citizens. Permanent funds operate in a manner similar to endowments, where the investment earnings, and not the principal, can be spent. Note that the earnings of a permanent fund are used to support the government's activities.

3.4 PROPRIETARY FUNDS

Proprietary funds are used to account for a government's ongoing organizations and activities that are similar to those found in the private sector. These activities resemble commercial activities performed by governments, and the basis of accounting and measurement focus of these funds reflect this resemblance. There are two types of proprietary funds: enterprise funds and internal service funds. Proprietary funds use the accrual basis of accounting and the economic resources measurement focus. Proprietary funds recognize revenues when they are earned and recognize expenses when a liability is incurred

This means that the balance sheets of proprietary funds will reflect both current and noncurrent assets and liabilities. In other words, capital assets (such as infrastructure, buildings, equipment, etc.) are recorded as assets by the fund. In addition, debt issued related to the activities of the proprietary fund is recorded as a liability on the balance sheet of the proprietary fund. (Keep in mind that the assets and liabilities of the proprietary funds are also included in the assets and liabilities of the government-wide statement of net assets.) In addition to recording noncurrent assets and liabilities, which is basically a result of their measurement focus, proprietary funds also recognize revenues and expense on the accrual basis of accounting, which means that revenues and expenses are recorded in different accounting periods than they would be by governmental funds.

3.4.1 Enterprise Funds

Enterprise funds are used to account for operations that fall within two basic categories:

1. Activities that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is to finance or recover costs of providing goods or services to the general public on a continuing basis primarily through user charges
2. Operations where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes

Enterprise funds are primarily used to account for activities that are financed through user charges. However, the total cost of the activity does not have to be paid for by the user charges. The government (or other governmental entity) may subsidize a significant portion of the costs of the enterprise fund. Typical activities accounted for in enterprise funds include those that are similar to utilities, such as water and sewer funds and electric utility funds. Parking lots operated by governments are another example of proprietary activities accounted for in a proprietary fund.

3.4.2 Internal Service Funds

Internal service funds are used to account for the financing of goods or services provided by one department or agency of a governmental unit to other departments or agencies of the same governmental unit on a cost-reimbursement basis. Because internal service funds use the economic resources measurement focus and the accrual basis of accounting, they allow the full cost of providing goods or services to other departments or agencies to be charged to the receiving department or agency.

As the main purpose of internal service funds is to identify and allocate costs of goods or services to other departments, it is generally recommended that governments use separate internal service funds for different activities. Keep in mind, however, the GAAP does not require the use of internal service funds, nor does it require that the internal service fund include the full cost of services that are provided. A government may choose to leave some of the related costs out of the internal service fund, such as a rent charge or a utility charge.

Internal service funds are often used to determine and allocate the costs for a diverse group of activities, such as

(i) Duplicating and printing services

(ii) Motor pools

(iii) Central garages Information processing

(iv) Purchasing

(v) Central stores and warehousing

Many of the transactions between internal service funds and other funds take the form of quasi-external transactions. The funds receiving the goods or services from the internal service fund report an expenditure or an expense, while the internal service fund reports revenue.

3.5 FIDUCIARY FUNDS

Fiduciary funds are used to report assets held in trustee or agency capacity for others and, therefore, cannot be used to support the government's own programs. Fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting, except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans.

Trust funds are used to report resources held and administered by the reporting government when it is acting in a fiduciary capacity for individuals, private organizations or other governments. Trust funds are distinguished from agency funds generally by the existence of a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

3.5.1 AGENCY FUNDS

Agency funds are used to account for assets held solely in a custodial capacity. As a result, assets in agency funds are always matched by liabilities to the owners of the assets. The accounting and financial reporting for agency funds are unique and do not really follow those of governmental funds or proprietary funds. Agency funds use the modified accrual basis of accounting for purposes of recognizing assets and liabilities, such as receivables and payables. However, agency funds do not have or report operations, and accordingly are said to not have a measurement focus.

In determining whether an agency fund or a trust fund is used to account for various types of transactions, there are no clear-cut distinctions for selecting the proper fund to account for a particular transaction. The degree of the government's management involvement and discretion over assets is generally much greater over trust fund assets than over agency fund assets. Private-purpose trust funds, for example, may require that a government's management identify eligible recipients, invest funds long- or short-term, or monitor compliance with regulations. Agency funds, on the other hand, typically involve only the receipt, temporary investment, and remittance of assets to their respective owners.

Agency funds are often used by school districts to account for student activity funds that are held by the school district but whose assets legally belong to the students. Another common use of agency funds is to account for taxes collected by one government on behalf of other governments. The collecting government has virtually no discretion on how the funds in the agency fund are to be spent. They are simply collected and then remitted to the government on whose behalf they were collected. In addition to this example, there are three instances where the use of an agency fund is mandated.

3.5.2 PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS

Pension (and Other Employee Benefit) Trust Funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, or other employee benefit plans. Governments almost always offer pension benefits to their employees. The pension plans related to these benefits are reported as pension trust funds in the government's financial statements if either of the following criteria is met:

(i) The pension plan qualifies as a component unit of the government.

(ii) The pension plan does not qualify as a component unit of the government, but the plan's assets are administered by the government.

Pension (and Other Employee Benefit) Trust Funds, is used to account for other employee benefit funds held in trust by a government. Pensions (and other employee benefit) trust funds use the flow of economic resources measurement focus and the full accrual basis of accounting, similar to nonexpendable trust funds and proprietary funds. A separate pension (and other employee benefit) trusts fund should be used for each separate plan. Separate pension (and other employee benefit) trust funds are also sometimes established to account for supplemental pension benefits.

Governmental pension plans are usually administered by public employee retirement systems.

3.5.3 Investment Trust Fund

Investment Trust Funds should be used to report the external portion of investment pools reported by the school district. A special type of trust fund, the investment trust fund, is used by governments that sponsor external investment pools and that provide individual investment accounts to other legally separate entities that are not part of the same financial reporting entity.

Investment trust funds report transaction balances using the flow of economic resources measurement focus and the accrual basis of accounting. Accordingly, the accounting and financial reporting for investment trust funds is similar to that used by nonexpendable trust funds (and proprietary funds).

3.5.4 Private-purpose trust funds

These are used to report all other trust arrangements under which principal and/or income benefits individuals, private organizations or other governments. They are used to report all trust arrangements (other than pension and other employee benefit, and investment trust funds), under which principal and income benefit individuals, private organizations, or other governments. Similar to other fiduciary funds, private-purpose trust funds cannot be used to support a government's own programs. It is important therefore, to make sure that an activity is absent any public purpose of the government before it is accounted for as a private-purpose trust fund, even if individuals, private organizations, or other governments receive direct or indirect benefits from the activity. The distinction that a private-purpose trust fund should not be used to account for a grant program that supports a government's own programs is an important one. If a donor provides a government with a grant for the government to use to support its own programs, that grant should be recorded in the government's general fund as grant revenue. The expenditures for this example program then become subject to the budgetary appropriations of the government's general fund. However, if the grant does not directly benefit the government or go to support its own programs, then the grant is properly accounted for as a private purpose trust fund. Generally because of their nature, there are no legal budgetary appropriations for these types of fiduciary funds and the program is administered essentially only in accordance with the grant agreement.

3.6 TYPES OF FUNDS IN NIGERIA

We have already examined the broad categories of funds. With these broad categories different types of funds exist. The funds commonly used in Nigeria are summarised below:

3.6.1 Consolidated revenue fund

In Nigeria, Section 120 of the 1999 Federal Constitution specifies the Consolidated Revenue Fund as the main Fund of the Federal Government into which all revenues generated for the State should be paid into, and out of which all legally authorised expenditures should be paid from.

3.6.2 The Contingency Fund.

This is the Fund established for any unbudgeted expenditure which comes up as very urgent or were unforeseen during the budgeting period, for instance for unexpected flood disaster, or outbreak of some disease in certain part of the Nation. In Nigeria, the setting up of such Contingency Fund is authorised in Section 123 (1) of the Federal Constitution.

3.6.3 Contingency Reserve Fund.

It is that part of the normal approved appropriation which is set aside by the Executive. It is normally part of the planned expenditure, which is deducted and reserved, with the aim of helping out any spending Organization in the future to meet any unexpected spending. This reserve is within the control of the Executive and can help out a spending Organization in the event of the need for extra funds, and reduce significantly the problem of going through either supplementary request from the Legislature or the issue of looking for areas for possible virement. This can be a good way to plan for any unexpected shocks, though its existence can also encourage misuse of funds especially when the reserve swells over the years and proper guidelines and control for its use are not affected.

3.6.4 Internally Generated Funds:

This means revenue generated from the activities of a government agency from its operations other than taxes collected by the Revenue Agencies and includes non-tax revenues.

3.6.5 Capital Project Fund

This fund is established into which moneys are accumulated to undertake projects or for the acquisition of capital assets. It is also known as the Development Fund.

3.6.6 National Loans Fund.

Where the policy of the government is to keep such separate account, it accounts for the receipts of loans that are contracted, both foreign and local and the payments of interest on such loans and the repayments of the principal sums. Transfers are made out of this into consolidated fund to meet any budget deficits. Monies for the loan liquidation in terms of both principal and interest payments are also made from the consolidated fund into this account.

3.6.7 Trust and Agency Fund.

This fund is established to hold moneys that the government holds in trust for some institution or body. Government holds this money as a trustee or an agent to the owner. Example can be moneys that the government holds from International bodies as rewards to the National armed forces for International peacekeeping assignment.

3.6.8 Debt Service Fund/Sinking Fund.

This special fund is kept as alternative to Loans Fund, where the policy of the government is to keep any loan contracted in the debt service fund to ease it’s repayment.

3.6.9 Consolidated Fund.

The Fund is for the service of both the principal and interest payments hence transfers into this are purely moneys from the Consolidated Fund necessary for the principal and interests payments.

Alternative to this is the creation of a Sinking fund into which amount is paid annually for a specific loan redemption with the annual payment calculated in such a way that the annual payment (the principal) plus the interest earned which is reinvested will be sufficient for the future liquidation of the loan.

3.6.10 Counterpart Fund

This is a fund, which is set established by governments and is used to support projects which are funded by foreign donations. Foreign donations can be made either by cash or at times by goods. Where donors at times donate goods rather than giving physical cash towards some specific projects such fund is created for any moneys generated from such goods. The government makes a contribution in addition to the foreign donations, towards the completion of the project.

3.6.11 Intra-governmental Service Fund.

A fund can be created as a unit with a central function of providing some basic services among government Organizations or departments to ensure economy and efficiency. A stationery depot can be established within a government publishing house to supply various departments with their stationery needs.

3.6.12 Revolving Fund

Such fund is an established fund out of which spending Organizations can borrow monies for particular project or activity which will be sold later and once sold, the monies generated are paid back into the fund.

3.6.13 Local Government Fund

This Fund is established specifically for the activities of the local government, to be used by the local authorities established for the social and economic development of the individual localities and districts.

3.7 Advantages of fund accounting

1. It ensures financial control. When a fund is created, the purpose of the fund is expressly state and as such money meant for a project can only be used for the project.
2. It can be used to stress government policy.
3. It can be used for sympathetic purposes.
4. It can be used for control purposes.

3.8 Disadvantages of fund accounting

1. There is no provision for debtors and creditors.
3. Assets are not capitalised. They are written off in the year of purchase.

4. Effective financial control on all funds may be difficult.
5. It makes consolidation of government accounts difficult.

Self- Assesssment Exercise

1. State three advantages and three disadvantages of fund accounting.

3.9 General Accounting entries in fund accounting

There are different accounting treatments of items in fund accounting system depending on the type of fund. However, there are general entries which are treated below:

When the fund is created:

1. Dr. Bank Account
   Cr. Fund Account
   With the proceed realised on creation of fund.
2. Dr. Expenditure Account
   Cr. Fund Account
   With expenditure from the fund
3. Dr. Fund Investment Account
   Cr. Bank Account
   With value of investment purchased with fund
4. Dr. Fund Investment Disposal Account
   Cr. Fund Investment Account
   With the value of investment disposed
5. Dr. Book Account
   Cr. Fund Investment Disposal Account
   With the proceed on disposal of investment
6. Dr. Fund Investment Disposal Account
   Cr. Fund Account
   With profit realised on disposal of investment
7. Dr. Fund Account
   Cr. Fund Investment Disposal Account
   With loss on realised on disposal of investment

ILLUSTRATION 1

The following balances were found in the Treasury Department of Auchi Republic for the period ended 31s1 December 2010): ^

(i)	Sales of Government shares	400.000
(ii)	Road construction	600,000
(iii)	Internal loan	350,000
(iv)	External loan	200,000
(v)	Transfer from consolidated Revenue Fund	500,000
vi)	External grant	500.000
(vii)	Engineering infrastructure	4300,000
(viii)	Balance brought forward	300,000
(ix)	Water supply -	200,000
(x)	Agriculture -	150,000

Inquired:

SOLUTION TO ILLUSTRATION 1 ^

Balance b/f	300,000
Capital receipts (Working 1)	1,450,000
Transfer from C R F	500,000
	2.250.000
Less total expenditure	1,250,000
Balance c/f	1,000,000

Workings: Working 1 - Capital receipts

Sales of government shares	400,000
Internal loan	350,000
External loan	200,000
External grant	500,000

	1,450,000
Working2 - Capital expending	
Road construction	600,000
Engineering infrastructure	300,000
Water supply	200,000
Agriculture	150,000
	1,250,000

4.0 SUMMARY

In this unit you have learnt about funds and funds accounting in the public sector. Funds accounting is one of the basic principles of public sector accounting. Public sector accounting systems are organized and operated on a fund basis.

Funds are generally classified into three broad categories: (i) Government funds, (ii) Proprietary funds, and (iii) fiduciary funds. Each of these funds groups has sub-funds category as follows:(A)Governmental Funds subdivided into (1)General fund (2)Special revenue funds, (3)Debt service funds (4)Capital project funds, (5)Permanent funds; (B) Proprietary Funds subdivided into (1)Enterprise funds and (2) Internal service funds; and (C) Fiduciary Funds subdivided into, (1) Trust funds (Pension and other employee Benefit), (2) Investment Funds, (3) Private purpose Funds, and, (4) Agency Funds.

5.0 CONCLUSION

The unit examined the types of funds in Nigeria which include the following among others: (1) Consolidated revenue fund, (2) the Contingency Fund, (3) Contingency Reserve Fund, (4) Internally Generated Funds, (5) Capital Project Fund, (6) National Loans Fund, (7) Trust and Agency Fund, (8) Debt Service Fund/Sinking Fund, (9)Consolidated Fund, (10) Counterpart Fund, (11) Intra-governmental Service Fund. (12) Revolving Fund, and (13) Local Government Fund. You were also introduced to the general accounting entries in fund accounting

6.0 TUTOR MARKED ASSIGNMENT

1 Discuss the different types of funds known to you.

7.0 REFERENCES/FURTHER READING

Adams, R.A. (2014) *Public sector accounting and finance made simple*, *revised edition* 3, Lagos: Corporate Publishers Venture.

Emeni, F.K., Ogiedu,K.O., Mgbame, C.O., & Erhagbhe, E. (2008) *Public sector accounting and finance*, Benin City: Mindex Publishing Company Limited

ICAN (2014).*Public sector accounting and finance*, Lagos: ICAN

Ogiedu, K.O. (2016) *Lecture notes on public sector accounting and finance*, Benin City, Unpublished

Omolehinwa, E.O., & Naiyeju, J.K. (2015) *Government accounting in Nigeria: An IPSAS approach*, Lagos: Pumark (Educational Publishers).

UNIT 6 GOVERNMENT ACCOUNTING OFFICERS

CONTENT

1.0 INTRODUCTION

In this unit, you will learn about the different finance officers of government and their respective functions. The key officers in charge of the running and maintenance of the accounting function in the public sector are discussed in this unit.

2.0 OBJECTIVES

After studying this unit, you should be able to:

1 Identify the finance officers of government

2. Identify the functions of the various finance officers of government.

3. Operate an imprest system

3.0 MAIN CONTENT

3.1 INTRODUCTION

We shall begin this unit by looking at financial authorities in the public sector. Financial authorities are the legal instruments that empower and guide all public officers in carrying out government transactions The government officials who are responsible for managing government. The Government Officials who are saddled with the responsibility of managing government funds and property can be grouped into two categories briefly discussed as follows:

(a) The officials who have attained positions by way of experience, hard work, and efficiency and cannot be arbitrarily removed. Such officers include the Accountant-General of the Federation, Auditor-General for the Federation, Accounting Officers, Sub-accounting Officers, Federal Pay Officers, Revenue Collectors and Local Government Secretary.

(b) The officials who occupy positions by way of political dispensations. They may not necessarily have any experience in the assigned fields. Such officials include Federal Minister of Finance, State Commissioner for Finance, a Local Government Chairman and Councillors.
In this unit, we shall discuss both classes of officers at the level of the Federal Government.

3.2 MINISTER OF FINANCE

The Minister of Finance is a political office holder who is appointed by the President. His appointment, like that of other cabinet Ministers, is subject to ratification by the Senate of the National Assembly. The constitution confers on him the responsibility for the control and management of public fund of the Federation.

3.2.1 Functions of the Minister of Finance

The functions of the Minister of Finance are:

1. He is responsible for the preparation of annual estimates of revenue and expenditure for the Federal Government.
2. He is required to formulate all policies related to fiscal matters while the Central Bank of Nigeria formulates policies relating to monetary matter.
3. The minister is to ensure the mobilisation of both exotic and indigenous financial resources through both external and internal financial institutions for development purposes.
4. He ensures a favourable balance of payment position required to maintain adequate foreign exchange services.
5. He manages the value of Nigerian currency both internally and externally.
6. Responsible for the supervision, monitoring and co-ordination of all government revenue accruing from oil and non-oil resources.
7. He supervises the banking and insurance industry by liaising with their regulatory bodies.
8. He supervise all matters in connection with allocation of revenue to the three tiers of government i.e. Federal, State and Local Government.

9. Relating with relevant International Organizations and Financial Institutions in order to accelerate development process of Nigerian Financial Institutions. Such Organizations include:- Economic Communities of West Africa (ECOWAS), United Nations National Development (UNND), European Union (EU), African Union (AU)
10. He issues financial warrants without which the Accountant General cannot release funds to the ministries and extra- ministerial departments.
11. He receives statutory statement of accounts from the Accountant-General of the Federation.

Self- Assessment Exercise.

1. What are the functions of the Minister of Finance?

3.3 ACCOUNTANT-GENERAL OF THE FEDERATION

The definition and duties of the Accountant-General are specified in section 106 and 107 of the Financial Regulations No. 72 Vol. 96 2009 edition. According to section 106, the Accountant-General is the Chief Accounting Officer of the receipts and payments of the government of the Federation. He is saddled is responsible for the general control, custody and supervision of all ministries and departments within the Federation. He is responsible for the preparation of the annual financial statements of accounts of the Nation as may be required by the Minister of Finance. The Accountant –General is appointed by the President, on the recommendation of the Federal Civil Service Commission.

3.3.1 Powers of the Accountant-General of the Federation.

(1) He has power of unlimited access to all financial documents and records of every Ministry or Department at all times.

(2) He has the power to carry out any special investigation, when the need arises, in any Ministry or Department.

(3) The Accountant-General has power to demand for and obtain any information and explanation required to carry out his duties.

3.3.2. FUNCTIONS OF THE ACCOUNTANT-GENERAL OF THE FEDERATION. The functions of the Accountant-General of the federation contained in sections 106 and 107 of the Financial Regulations. According to the provisions, he shall:

(1) Maintain and operate the Federation Account;

(2) Establish and supervise Federal Pay Offices in each state capital of the federation;

(3) 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.

(4) 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.

(5) 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;

(6) Provide financial guidelines through the issuance of treasury circulars to federal ministries/extra-ministerial offices and other arms of government

(7) Supervise and control the computerization of the accounting system in the federal ministries, extra- ministerial offices and other arms of government;

(8) Carry out revenue monitoring and accounting;

(9) Issue officially approved forms bearing Treasury numbers for use in all federal ministries, extra-ministerial office and other arms of government to ensure uniformity;

(10) Formulate the accounting policy of the federal government;

(11) Service public debt and loans; and

(12) Organize training of accounts and internal audit personnel in all federal ministries, extra-ministerial offices and other arms of government.

Self- Assessment Exercise

a. List the functions of the Accountant General of the Federation.

3.4 AUDITOR-GENERAL FOR THE FEDERATION

According to section 108 of the Financial Regulation 2009, the Auditor –General is the Officer responsible under the Constitution of the audit and report on the public accounts of the federation General: including all persons and bodies established by law entrusted with the collection, receipt, custody, issue or payment of Federal Public moneys or with the receipt, custody, issue, sale, transfer or delivery of any stamps, securities, stores or other property of the government of the federation.

3.4.1 POWER OF AUDITOR-GENERAL FOR THE FEDERATION

He has the power to examine the accounts in any way he deems fit and at the end of the audit, he is required to write a formal report detailing whether in his opinion:

(i) All accounts have been properly kept;

(ii) All public monies have been fully accounted for,

(iii) The rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of revenue;

(iv) Monies have been expended for the purposes they were appropriated and the expenditure have been made as authorised; and

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

3.4.2 Appointment of Auditor-General for the Federation.

According to S86 (1) of the 1999 Constitution, the Auditor-General for the Federation shall be appointed by the President on the recommendation of the Federal Civil Service Commission, subject to confirmation by the Senate.

3.4.3 Functions of the Auditor-General for the Federation.

According to section 109 of the Financial Regulation No 109 of January 2009, the Auditor-General shall carry out the following statutory functions:

1) Financial Audit in accordance with extant laws in order to determine whether government accounts have been satisfactorily and faithfully kept.

2) Appropriation Audit-to ensure that funds are expended as appropriated by the National Assembly.

3) 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.

4) Value-for-Money (Performance) Audit - to ascertain level of economy, efficiency and effectiveness derive from government projects and programmes.

5) Vetting, commenting and certifying audited accounts of all Parastatals and government statutory corporations in accordance with the Constitution of the Federation.

6) 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;

7) Audit of the Accountant-General's Annual Financial Statements;
8) Auditing and certifying the Federation Account;
9) Deliberation, verification and reporting on reported cases of loss of funds, stores, plants and equipment as stipulated in Chapter 25 of the Financial Regulations;
10) Pre and post auditing of the payment of pensions and gratuities of the retired military and civilian personnel;
11) Periodic checks of all Government Statutory Corporations, commissions, Authorities, Agencies, including all persons and bodies established by an Act of the National Assembly; and
12) Revenue audit of all government institutions

3.4.4 Constitutional functions of the Auditor-General of the Federation

The constitutional functions of the Auditor-General are as follows:

1) 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, and for that purpose he shall have access to all the books, records, returns and other documents relation to those accounts.
2) 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:-

   (a) Provide such bodies with;

   i. A list of qualified and experienced auditors from which the bodies shall appoint their external auditors, and
   ii. Guidelines on the level of fees to be paid to the external auditors.

   (b) Comment on their annual accounts and auditors reports thereon.

(3) 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.

(4) S. 85(5): He shall, within ninety days of receipt of the Accountant-General’s Financial Statements, submit his reports to each House of the National Assembly.

Self- Assessment Exercise.

1. Explain the power of the Auditor General for the Federation.

3.5 ACCOUNTING OFFICER

According to section 111 of the Financial Regulation, 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 organization.

3.5.1 Responsibility of the Accounting Officer

According to the Financial Regulation, the Accounting Officer shall:

1. Be responsible for safeguarding of public funds and the regularity and propriety of expenditure under his control
2. Observe and comply fully with the checks and balances spelt out in the existing Financials Regulations which govern receipts and disbursement of Public Funds and other assets entrusted to his care and shall be liable for any breach thereof; and
3. 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.

3.5.2 The functions of the Accounting Officer

According to the Financial Regulation, the Accounting Officer shall include:

1. Ensuring that proper budgetary and accounting systems are established and maintained to enhance internal control, accountability and transparency;
2. Ensuring that the essential management control tools are put in place to minimize waste and fraud;
3. Rendering monthly and other financial accounting returns and transcripts to the Accountant- General of the Federation as required by the Financial Regulations;
4. Ensuring the safety and proper maintenance of all government assets under his care;
5. Ensuring personal appearance before the Public Accounts Committee to answer audit queries to ministry/ extra-ministerial department or agency;
6. Ensuring accurate collection and accounting for all public moneys received and expended;
7. Ensuring prudence in the expenditure of public funds;
8. Ensuring proper assessments, fees, rates and charges are made where necessary;
9. Ensuring internal guides, rules, regulations, procedures are adequately provided for the security and effective check on the assessment, collection and accounting for revenue;

10. Ensuring that any losses of revenue are promptly reported and investigated;
11. 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
12. Ensuring that any revenue collected are not spent, but remitted to the appropriate authorities promptly.

3.5.3 Special Functions of the Accounting Officer under the Public Procurement Act 2007

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 required to:

1. Preside over the activities of their Tenders Boards for the proper planning and evaluation of tenders and execution of procurements;
2. Ensure that adequate appropriation is available for procurements in their annual budget;
3. Integrate their entity's procurement expenditure into its yearly budget;
4. Ensure the establishment of a procurement planning committee over whose activities they shall preside;
5. Constitute a procurement evaluation committee for the efficient evaluation of tenders;
6. Constitute a procurement Committee;
7. Render annual returns of procurement records to the Bureau of Public Procurements;.
8. Liaise with the Bureau of Public Procurements to ensure the implementation of its regulations; and
9. Ensure compliance with the provisions of the Public Procurement Act by their organizations, failing which they shall be personally liable for any breach or contravention thereof, whether or not such breach of contravention was caused by them in person, their subordinates or any person to whom they may have delegated their responsibilities.

3.6 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 recognized cash books, together with such other books that may be required by the Accountant-General. Example includes Sub - Treasurer of the Federation, Federal Pay Officer (FPO), Police Pay Officer (PPO), Custom Area Pay Officer(CAP0), Director of Finance and Accounts(DFA), etc.

3.6.1 Functions of the Sub-Accounting Officer

According to Government Regulations, the functions of the Sub-Accounting Officer, are as follows:

i. Ensuring that the proper system of accounts as prescribed by the Accountant- General is established.
ii. Exercising supervision over the receipts of public revenue and ensuring prompt collection.
iii. Promptly bringing into account, under the proper heads and sub-heads of the estimates or other approved classifications, all receipts, whether revenue or otherwise.
iv. Ensuring that proper provision is made for safe keeping of public funds, securities, stamps, receipts, tickets, licences and other valuable documents.
v. 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.
vi. Supervising the expenditure of Government and ensuring that no payment is made without proper authorization.
vii. Promptly charging in his accounts under proper Heads and Sub-Heads all disbursements.
viii. Checking all cash and stamps in his care to reconcile the amounts with the balances in the cash book and stamp register.
ix. Promptly bringing to account as a receipt, any cash or stamp found in excess of the balance shown in the cash book or stamp register.
x. 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.
xi. Promptly preparing such financial statements as are required by law or the Minister of Finance.
xii. Maintenance of cash book.

3.7 SUB -TREASURER OF THE FEDERATION

The Sub-Treasurer of the Federation is an accounting officer who is responsible for the custody, receipt and disbursement of all public money earned and spent from foreign and indigenous investments.

3.7.1 Functions of the Sub-Treasurer of the Federation

1. To ensure that all foreign investments are well monitored and supervised.
2. To ensure that all government foreign investments are secured and generate reasonable interest.

3. He is responsible for reviewing and updating the accounting systems in use in the office of the Accountant-General.

4. To perform any other function as may be directed by the Accountant-General.

3.8 THE REVENUE COLLECTOR

The Revenue Collector is the officer who is responsible for collecting some specified revenue on behalf of the government. He is issued an official treasury receipt 6A for the regular collection of particular items of revenue as specified in the estimate. The Revenue Collector must maintain a recognised revenue cashbook. He is responsible to the accounting officer of the ministry/department who will prepare a code of instructions of the procedure to be followed in his ministry/department to ensure prompt and up-to-date collection of government revenue. It is worthy of note that where the revenue collector is entrusted with collection of more than one form of revenue, he must keep a " Revenue Classification Slip" where the Date, Description, Amount, Head, Sub-head and the form of revenue will be specified.

3.8.1 Functions of Revenue Collector

1. He is required to exercise total authority over the receipt of all revenue accruable to the government and ensure prompt, accurate and up-to-date collection.
2. He is to classify all his collections under proper heads and sub-heads of all revenue collected by him.
3. He is to safeguard all public funds, securities and paper money entrusted in his care.
4. As a routine function, he should check all cash in his care and reconcile same with the balance in the cash register.
5. Promptly report any anomaly discovered by way of fraud or mis-appropriation of government money in his care to a superior officer.
6. He must ensure that adequate, up-to-date accurate and reliable accounting records are kept.
7. He must ensure that the cash limit balance that should be in his possession is not exceeded.
8. He is to report to his superior officer any loophole that may be exploited by subordinate officers in the modalities employed in the collection of government revenue.
9. He is responsible for the disclosure of all cash, stamps, paper moneys, securities e.t.c balances in his custody when Board of Survey is raised by the Accountant-General.
10. He is required to have effective supervision of the officers under his authority to ensure prompt and accurate collection of revenue.

3.9 THE FEDERAL PAY OFFICER

He is the officer in charge of the Federal Pay Office located in a State. He performs the same function as the Sub-Accounting Officer.

3.9.1 Functions of the Federal Pay Officer

1. He is to administer all the financial transactions between the Federal Government and State Government.
2. He is to ensure hitch free financial transactions between Federal Government Ministries in each state of the Federation.
3. He is to ensure unperturbed financial transaction between Federal Government Departments in each state of the Federation.

3.10 DIRECTOR OF BUDGET

The Director of budget is the officer responsible for the administration of the Department of Budget and Planning. The department is sub-divided into four other departments namely:- fiscal, revenue, expenditure, and budget remitting and evaluation. Each department plays a separate role different from others.

3.10.1 Functions of the Director of Budget

1. Monitoring of revenue generation and collection by the agencies of government.
2. Revenue estimation and publication in the budget book.
3. Reconciliation of actual revenue from oil and non-oil sectors and their comparison with estimated revenue.
4. Estimation of revenue from Joint Venture operations in relation to oil explorations, production and personnel administration.
5. Implementation of the budget through issuance of Authority to Incur Expenditure or Warrants for both capital and recurrent expenditure as appropriate
6. Assembly, collation and arrangement of all data, information and other necessary inputs required for budget preparation.
7. To make reports on the performance of budget and assess the impact of the budget on the economy.
8. Collection and analysis of expenditure returns.
9. Establishing and maintaining a data bank in the budget office.
10. To monitor and evaluate the performance of programmes funded through the budget.

11. To act as the liaison between the President, Ministries, and Departments during budget preparation.
12. To assist the President in the preparation of annual estimates.
13. To formulate fiscal, monetary and economic policies required to develop the economy.

3.11 IMPREST HOLDER

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

There are two types of imprest, namely:

1. 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.
2. Special lmprest: This imprest is operated from the commencement of a financial year until the objectives for which it is set up have been achieved. Upon the attainment of such objectives, an account will be rendered and all unspent balances shall lapse.

3.11.1 Operating an Imprest

a. Any Ministry which intends to operate an imprest has to apply in writing to the Accountant-General of the Federation, stating the amount and purpose for which it is required.
b. The Accountant-General of the Federation and the Accounting Officer of the Ministry or Extra- Ministerial Department will issue imprest after the Minister of Finance has conveyed the authority in the Annual General lmprest Warrant.

3.11.2 Rules for operating an Imprest

Adams (2013) identifies the following rules for operating an imprest:

(a) Establishment of authority limit.

(b) Segregation of duty.

(c) Proper books of accounting records must be kept.

(d) Provision of a safe or cash till.

(e) There should be periodic cash count.

(0 Adequate supervision of the imprest holder.

(f) Imprest should be retired on due date.

(g) Any amount above exceeding a certain limit must be banked.

(h) Authorisation and approval.

(i) Money must be expended for the purpose for which they were meant for.

3.11.3 Functions of Imprest Holder:

Adams (2013) also identifies the following functions of the imprest holder:

a. See that proper provision is made for the safekeeping of public moneys, securities etc.

b. Promptly charge in his account under proper heads and subheads, all disbursement made by him.

c. Check all cash and stamps in his care to verify the amounts with the balances shown in the cashbook or stamp register.

d. Promptly make good any minor deficiency not caused by theft or fraud in the cash or stamps his care.

e. See that all books are correctly posted up to date.

f. Produce when required by the Accountant- General and the Auditor- General, all cash, stamps etc in his care.

g. Ensure that monies are expended for the purpose for which they were meant for.

3.12 OFFICER CONTROLLING EXPENDITURE

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

3.12.1 Functions of Officer Controlling Expenditure

1. Supervision of Government expenditure and ensuring that no payment is made without proper authority.

2. Promptly charging in his account under proper Heads and Sub-heads all disbursements.

3. Ensuring that all books are correctly posted and kept up to date.
4. Producing when required by the Accountant-General and the Auditor-General, all cash, stamps, etc., in his custody.
5. Ensuring that funds are available under the appropriate Head and Sub-heads, to meet payments of specific vouchers.
6. Effective monitoring of Government expenditure.
7. Ensuring that there is no extra-budgetary spending.
8. Ensuring that there is adequate security over the custody of public funds.
10. Maintenance of the vote book.

3.13 HEAD OF FINANCE AND ACCOUNTS

According to Section 114 of the Financial Regulation the Head of Finance and Accounts of a ministry/ extra- ministerial office and other arms of government shall perform the following duties, amongst others:

1. Ensuring compliance with Financial Regulations and the Accounting (Code by all staff under his control and supervision;
2. Ensuring adequate supervision of the disbursement of funds and proper monitoring and accounting for revenue;
3. Advising the Accounting Officer on all financial matters as well as t the more technical provisions of these Regulations and other Treasury and Finance Circulars;
4. Maintaining accounting records such as books of accounts, Main and Subsidiary Ledgers;
5. Ensuring prompt rendition of all returns e.g. Consolidated Accounts (monthly transcripts), Bank reconciliation statements, Revenue and Expenditure returns as prescribed in these Regulations;
6. 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 maybe and advise the Accounting Officer appropriately;
7. Ensuring that all staff under his control are exposed to regular training programmes to prepare them for the efficient performance of their duties;
8. Liaising with the Accountant-General from time to time when in doubt in the interpretation of the provisions of these Regulations and other Treasury Circulars or when confronted with difficulties in the performance of his duties; and
9. Ensuring the existence of an effective Audit Query unit/ section to promptly deal with all queries from Internal Audit Unit, Inspectorate Department, Office of the Accountant-

General, Office of the Auditor-General and Public Accounts Committee.

4.0 SUMMARY

The chapter discussed the various posts held by financial officers in the federation and their respective functions. The means of appointment and powers of some statutory financial officers were also discussed. The finance officers identified and discussed in the unit are Minister of Finance, the Accounting Officer, Accountant-General of the Federation, the Auditor-General for the Federation, the Sub-Accounting Officer, Sub -Treasurer of the Federation, the Revenue Collector, functions of the Revenue Collector, the Federal Pay Officer, Director of Budget, the Imprest Holder, Officer Controlling Expenditure, and the Head of Finance and Accounts.

5.0 CONCLUSION

In this unit, you have been introduced to the key officers who are responsible for maintaining and upholding the activities in the accounting departments of Government Ministries and Parastatals at the Federal, State and Local levels.

6.0 TUTOR MARKED ASSIGNMENT

1. What are the procedures for the appointment and removal of the Appointment of Auditor-General for the Federation?
2. List the functions of the Sub -Treasurer of the Federation
3. Discuss the rules for the operation of an imprest.

7.0 REFERENCES/ FURTHER READING

Adams, R.A. (2014) *Public sector accounting and finance made simple, revised edition* 3, Lagos: Corporate Publishers Venture.

Emeni, F.K., Ogiedu,K.O., Mgbame, C.O., & Erhagbhe, E. (2008) *Public sector accounting and finance*, Benin City: Mindex Publishing Company Limited

ICAN (2009) Public sector accounting for accounting technicians scheme of WEST AFRICA (ATSWA): Study pack, Lagos: ICAN

ICAN (2014). Public sector accounting and finance, Lagos: ICAN

Ogiedu, K.O. (2016) *Lecture notes on public sector accounting and finance*, Benin City, Unpublished

Omolehinwa, E.O., & Naiyeju, J.K. (2015) *Government accounting in Nigeria: An IPSAS approach*, Lagos: Pumark (Educational Publishers).

MODULE II

Unit 1:	Sources of government revenue
Unit 2:	Government expenditure
Unit 3:	Financial control in government
Unit 4	Preparation of vouchers
Unit 5	The cash office
Unit 6:	Bank reconciliation

UNIT 1 SOURCES OF GOVERNMENT REVENUE

CONTENTS

1.0 INTRODUCTION

In Module 1, the key Finance Officers in Government were identified and discussed along with their financial responsibilities, powers, functions and the terminologies used in Public Sector Accounting and Finance. In this Unit, the various sources of Government revenue will be identified and studied.

2.0 OBJECTIVES

After studying this Unit, you should be able to:

1. Identify the Sources and Classifications of Government Revenue
2. Identify the Federation Account Revenue Heads
3. Understand the Revenue Allocation Formula
4. Know the composition and functions of the Federation Accounts Allocation Committee - FAAC.
5. Know the composition and functions of the State Joint Local Government Account Allocation Committee - SJLGAAC.
6. Identify the sources of Revenue Payable to the Federation Account and the Consolidated Revenue Fund, respectively.
7. Appreciate the charges to the various funds of the Government.

3.0 MAIN CONTENT

3.1 Sources and Classifications of Government Revenue

The Federal Government derives its revenue from different sources. The Federal Government Revenues are kept in the Consolidated Revenue Fund. Before the 1989 budget, the Federal Government revenue sources were classified into the following Heads:

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

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

(a) Federation Account Revenue Heads, and

(b) Federal Government Account Revenue Heads. The 1989 classification was modified in 1994 fiscal year, as follows:

(a) Federation Account Revenue Heads;

(b) Value-Added Tax (VAT), and

(c) Federal Government Account Revenue Heads.

3.2 Federation Account Revenue Heads

The Federation Account was established by Section 162 of the 1999 Constitution of the Federal Republic of Nigeria. The Federation Account is one into which is 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.

It is a distributable pool account which is shared among the three tiers of government using the revenue allocation formulae shown in the table below.

3.2.1 Revenue Allocation Formula

	Up to 31/12/89 %	1/1/90 to31/12/91 %	1/1/92 to 31/12/92 %	Existing Formula From 1/6/92 (%)
Federal Govt.	55.00	50.00	50.00	48.50
State Govet.	32.5	30.00	25.00	24.00
Local Govt.	10.00	15.00	20.00	20.00
Amelioration of Ecological Disasters	1.00	5.00 Special Fund	5.00	7.50 Special Fund
Oil Producing Areas	1.50			

NOTES:

1. 13% of revenue derived from oil sources goes to the States from which it is obtained, in consonance with the principle of derivation.

2. 7% and 4% of the gross revenue in the Federation Account are allocated to the Customs Service and Federal Inland Revenue Services, respectively
3. The rates stated above are "first line charges." That is, 13% derivation source is adjusted (deducted) in the oil sector revenue received from the total oil proceeds; 11% (7% plus 4%) of other revenue receipts are taken out of the non-oil collections.
4. Whatever remains in the Federation Account distributable pool is shared between the three tiers of Government as in column 'd' of the table above.
5. The 24% allocation to the 36 States is distributable, net of the adjustments in the earlier three notes or bullets. Abuja is considered a State, to make 37 'States which will share 24%.
6. The 20% of the Local Government allocation from the next balance is shared between the 774 Local Governments in Nigeria.
7. The 24% allocation to the 36 States and Abuja treated as a 'State' for this purpose, is redistributed, using the following criteria;

	%
Equality of all States	40
Population;	40
Social development, e.g. primary school enrolment.	15
Internally generated revenue effort	5
Total	100

The various criteria are further explained as follows:

(1) The 24.00 per cent standing to the credit of all the States in the Federation Account is distributed among the States of the Federation using the factors specified below:.

(a) Land mass of a State or local government shall be the proportional areal size (PAS) of the State or the local government to the total areal size of Nigeria, and shall be obtained as follows-

(i) for each State -

$$(PAS) = \frac{\text{Areal size of State} \times 100}{\text{Total areal size of Nigeria}}$$

(ii) for each Local Government-

$$(PAS) = \frac{\text{Areal size of Local Government Area} \times 100}{\text{Total areal size of Nigeria}}$$

(b) The allocation due to terrain is made on the basis of the proportional areal size of the three identified major terrain types present in the State or Local Government area respectively, which are-

(i) wetlands / waterbodies;

(ii) plains; and

(iii) highlands;

(c) (i) Education as a parameter for allocation to Social Development Factor (SDF) is measured in terms of primary school enrolment which attracts 60 per cent of the allocation to education while the remaining 40 per cent is made using secondary/commercial school enrolment; and allocation on the basis of primary school enrolment is made solely on direct proportion. 50 per cent of the allocation on the basis of secondary/commercial school enrolment is made in direct proportion while the remaining 50 per cent is made in inverse proportion. School enrolment refers to public funded schools only;

(ii) health as a parameter for allocation to social development factor is measured in terms of the number of State/Local Government hospital beds there are and 50 per cent of the allocation to health shall be made in direct proportion to the number of the State hospital beds, while the remaining 50 per cent shall be made in inverse proportion;

(iii) water as a parameter for allocation to social development factor shall be represented by mean annual rainfall in the State headquarters and territorial spread of State: 50 per cent of the allocation to water shall be made in direct proportion to the State's territorial spread, while the remaining 50 per cent shall be made in inverse proportion to the mean annual rainfall in each State headquarters, using the most current live year figures, the same year for all the States.

2. For the avoidance of doubt, a sum equivalent to the difference between the amount standing to the credit of the Federation Account in anyone year, less the aggregate of the sums specified in section 1 of this Act shall revert to the Federation Account to be allocated and distributed in accordance with the provisions of this Act.

3. Formula for distribution between Local Government Councils

Subject to the provisions of this Act, the amount standing to the credit of local government councils in the Federation Account shall be distributed among the States of the Federation for the benefit of their local government councils using the same factors specified in this Act.

4. Proportion of revenue to be paid by each State to State Joint Local Government Account

(1) In addition to the allocation made from the Federation Account under section 1 of this Act to Local Government Councils, there shall be paid by each State in the Federation to the State Joint Local Government Account (as specified in subsection (5) of section 162 of the Constitution of the Federal Republic of Nigeria) in each quarter of the financial year, a sum representing 10 per cent of the internally-generated revenue for that quarter of the State concerned.

(2) The 10 per cent of each State's internally-generated revenue payable to the Local Government Councils in the State, under the provision of subsection (1) of this section, shall be distributed among the Local Governments in that State on such terms and in such manner as the State House of Assembly may prescribe.

Self- Assessment Exercise

1 Discuss the revenue allocation formula before and after 1989

3.3 Federation Accounts Allocation Committee - FAAC

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

3.3.1 Functions of FAAC

(a) To ensure that allocations made to the States from the Federation Account are promptly and fully paid into the Treasury of each component, on such bases and terms prescribed by law.

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

3.3.2 Composition of FAAC

(a) The Federal Minister of Finance - Chairman,

(b) All State Commissioners of Finance - Members.

(c) All States' Accountants - General.

(d) Accountant - General of the Federation.

(e) The Permanent Secretary of the Federal Ministry of Finance or representative as designated by the said Minister, is the Secretary.

3.4.1 Composition

(a) The Permanent Secretary for Local Government Affairs;

(b) All the Chairmen of the Local Governments in the States:

(c) A representative of the Accountant - General of the State, and

(d) The Federal Pay Officer in the State.

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

These are:

(a) Head 1- Direct Taxes: These are payable by the individuals and firms such as company income tax, petroleum profit tax, capital gain tax, back duty assessment, and personal income tax of the foreigners residing in Nigeria.

(b) Head 2- Indirect Taxes: These are taxes raised from goods and services in the form of custom and excise duties, forfeiture penalties, VAT, etc.

(c) Head 3 - Mining: These are oil pipeline licence fees, rents of mining rights, mining fees, royalties on minerals, NNPC earnings from direct sales, penalties for gas flared, and rent of oil well.

3.6 Federal Government Account or Consolidated Revenue Fund

The Consolidated Revenue Fund (CRF) was established by Section 80 of the Constitution of the Federal Republic of Nigeria, 1999. Except those revenue items which are specifically designated to other funds, all others shall be paid into the Consolidated Revenue Fund. The various sources of income credited to the CRF as well as charges thereto are shown on the diagram at page 35.

3.6.1 Federation Account and Consolidated Revenue Fund in Diagrams

FEDERATION ACCOUNT REVENUE HEADS

Head 2: Indirect Taxes

'Head 1: Direct Taxes

Head 3: Mining

CONSOLIDATED REVENUE FUND

Head 6: Share from Federation Account

Head 7: Direct Taxes (PAYE)

Head 8: Licences and Internal Revenue

Head 9: Mining (Solid Minerals)

Head 10: Fees

Head 11: Earnings and Sales

Head 12: Rent of Government

Head 13: Interests and - General Repayments

Head 14: Interests and Repayments

Head 15: Armed Forces

I Head 16: Reimbursements

Head 17: Miscellaneous

3.6.2 Analysis of the Various Sources of Revenue Payable To CRF

Analysis of various sources of income is given below:

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

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

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

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

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

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

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

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

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

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

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

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

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

3.6.3 Charges to the Consolidated Revenue Fund

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

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

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

- (a) Commissioners of the following Bodies:
- (b) Police Service Commission.
- (c) Public Complaints Commission
- (d) Public Service Commission
- (e) Nigerian Law Reform Commission
- (f) Independent National Electoral Commission.

(3) Auditor - General for the Federation.

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

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

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

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

3.7 Value-Added Tax (Vat)

VAT is a tax imposed on value which the supplier or seller of good/services add to the goods/services before selling it. The introduction of VAT was necessitated by the need to boost the revenue of the government from non-oil sources following the fluctuations in oil revenue due to the glut in the international market. VAT was introduced in 1994 fiscal year with the promulgation of VAT Decree No. 102 of 1993 at the rate of 5% and is being administered by Federal Inland Revenue Service (FIRS).

3.8 Development Fund

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

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

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

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

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

3.8.1 Charges from the Development Fund

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

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

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

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

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

3.9 CONTIGENCY FUND

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

3.9.1 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 1

QUESTION 1

The following is a list of some items (Revenue and Expenditure) in respect of Consolidated Revenue Fund (CRF) and other receipts of Federal Republic of Yobaria for the years ended 31 December 2011 and 2012 respectively:

	2011	2012
	^'000	^'000
Revenue received through the Statutory		
Federation Account Allocation	1,200	1,005
Total Internally Generated Revenue	690	610
Overhead cost	225	218
Personnel cost	1,305	1,061
Value-Added-Tax (VAT)	380	290
Opening balance of Capital Receipts as at 1 January	50	50
Grants and reimbursement from Developed Nations	55	50
External loans	675	577
Consolidated Revenue Fund charges	325	268

Prepare Consolidated Revenue Fund (CRF) and determine the surplus of Revenue over Expenditure or Deficit of Expenditure over Income. (Adapted from ATSWA PART 11 EXAM)

SOLUTION TO QUESTION 1

(a)

Federal Republic of XYZ

Consolidated Revenue Fund (CRF) for the year ended 31 December 2011 and 2012

	2011	2012
	^'000	^'000
Total 1nternally Generated Revenue	690	610
Revenue allocation from Federation Account	1,200	1,005
Value Added Tax (VAT)	380	290
Total Recurrent Revenue	2,270	1,905
Consolidated Revenue Fund Charges	325	268
Personnel Cost	1,305	1,061
Overhead Cost	225	218
Total Recurrent Expenditure	(1,855)	(1,547)
Surplus of Revenue over Expenditure	415	358

(b) The sources of revenue that are credited to the CRF other than those listed in the question are:

(i) Direct Taxes

(ii) Mining

(iii) Earnings and Sales

(iv) Rent of Government Properties

(v) 1nterest and Repayment

(vi) Reimbursements (from States and Local Governments)

(vii) Sale of Armed Forces properties.

ILLUSTRATION 2

The following information has been extracted from the records of the Federal Government of Nigeria, for the month of July, 2015.

Receipts from:	^'000
Companies Income Tax	6,000,000
Petroleum Profit Tax	20,000,000
Export Duties .	5,000,000
NNPC Oil sales ,	9,000,000
Licences	500,000
Royalties from mineral oil	3,000,000
Royalties from solid minerals	400,000
Interest and dividends on Federal Government investments	1,500,000
PA YE from the personnel of Police, Armed Forces,	2,500,000
Residents of FCT and External Affairs Ministry Federal Government	
share of VAT	1 ,000,000
Repayment of Federal Government loans	500,000
Payments:	
Salaries and allowances of statutory office holders	4,000,000
Other statutory charges '	7,000,000
Recurrent expenditure .	12,000,000
Transfers to capital expenditure and development fund	5,000,000

The balance in the Consolidated Revenue Fund as at 30 June 2015 was ^l billion (credit). The current Revenue Allocation formula is as follows:

	%
Federal Government	48.5
State Governments	24.0
Local Governments	20.0
Others	7.5
Total	100.0

Required:

In the books of the Federal Government of Nigeria, write up the following for the month of July 2015:

(i) The Federation Account

(ii) The Consolidated Revenue Fund.

SOLUTION TO ILLUSTRATION 2

	^'000		^'000
Fed. Government	20,855,000	CITA -	6,000,000
State Government	10,320,000	PPT	20,000,000
Local Government	8,600,000	Export Duties	5,000,000
Others	3,225,000	NNPC Oil sales	9,000,000
		Royalties from Min. oil	3,000,000
	43,000,000		43,000,000

ii) Consolidated Revenue

	^'000		^'000
Salaries & Allowances.		Bal. B/f.	1,000,000
- Office holder's	4,000,000	Share of VAT	1,000,000
- Other statutory Charges	7,000,000	Federation A/c.	20,855,000
Recurrent Expenditure	12,000,000	Licences	500,000
Transfer to Capital Exp.		Royalties from solid	
'& Dev. Fund	5,000,000	Minerals	400,000
Balance c/d.	255,000	Int. & Dividends	1,500,000
		PAYE	2,500,000
		Fed. Govt. Loans	500,000
	28,255,000		28,255,000
		Balance b/d.	255,000

4.0 SUMMARY AND CONCLUSION

This unit discussed the Sources and Classifications of Government Revenue and the various funds to which these revenues are collected. You were taught the Federation Account Revenue Heads and the formula for allocating centrally collected revenue to the three tiers of government. The Federation Accounts Allocation Committee (FAAC) was also discussed. You were also taught that the State Joint Local Government Account Allocation Committee - SJLGAAC. was set up to ensure equitable distribution of the statutory allocations to local governments from the Federation Account and 10% of the internally generated revenue of the appropriate State Governments are shared under the beneficiaries, in accordance with the 1999 Constitution, using the criteria as Equality, Population, Primary School Enrolment and Internally Generated Revenue Data.

5.0 CONCLUSION

In this unit, you have learnt about the sources of revenue available to the Government and how they are shared among the three tiers. In the next unit, we will be looking at the types of expenditure incurred by Government. In the next unit, we will be looking at the types of expenditure incurred by Government.

6.0 TUTOR MARKED ASSIGNMENT

1 What is the Federation account and what are its the sources and heads of revenue?

2 What are the functions of FAAC?

3. Discuss the concept of the consolidated revenue fund and the various sources of revenue payable to it.

7.0 REFERENCES/ FURTHER READING

Adams, R.A. (2014) *Public sector accounting and finance made simple, revised edition* 3, Lagos: Corporate Publishers Venture.

Emeni, F.K., Ogiedu,K.O., Mgbame, C.O., & Erhagbhe, E. (2008) *Public sector accounting and finance*, Benin City: Mindex Publishing Company Limited

ICAN (2014). Public sector accounting and finance, Lagos: ICAN

Ogiedu, K.O. (2016) *Lecture notes on public sector accounting and finance*, Benin City, Unpublished

UNIT 2 GOVERNMENT EXPENDITURE

CONTENT

7.0 REFERENCES/ FURTHER READING

1.0 INTRODUCTION

In this unit, You will learn about the meaning of government expenditure and the different types of government expenditure. You will also learn how to carry out the estimation of government expenditure and the government authorization procedure. You will also be taught the concept of expenditure warrants as used in the public sector.

2.0 OBJECTIVES

After studying this unit, the student should be able to:

1. Identify the different types of government expenditure.
2 know how to carry out expenditure estimations
3 know the government expenditure authorisation procedures
4 understand the concept of warrants
5 identify the different classes of warrants

3.1 TYPES OF EXPENDITURES

Expenditures of government are of two types, recurrent/revenue expenditures and capital or development expenditures. Recurrent/revenue expenditures are expenditures that are incurred by government departments in the day to day operations and services of the departments. Examples of these expenditures are for salaries, stationeries and supplies, and other expenditures for general administration. Capital or development expenditures are the expenditures that are made to acquire physical and permanent assets, either in form of equipment, vehicles and buildings.

3.2 EXPENDITURE ESTIMATIONS

Before government departments would spend any moneys, these moneys would have to be requested for and approved or authorised by the legislature. Government departments make estimations for such expenditures in their budgetary estimates.

The Financial Regulation, Section 160, outlines the procedure that the head of department should follow when estimating the expenditures for the budget year.

The head of department should

a. take into consideration the Government's macro-economic framework, Government resources and priorities, and any ceilings approved by Cabinet;

b. prepare a strategic plan which shall include a definition of the department's mission, goals, objectives, outputs and activities;
c. cost and prioritise the activities of the department taking into consideration the resource ceiling;
d. prepare the budget statement in accordance with directives in the Regulations; and
e. Prepare cash forecast identifying when expenditure outflow is projected to take place.

3.3 EXPENDITURE AUTHORISATION PROCEDURES

The following is the general procedure for the authorisation of moneys to be spent by any institution of government:

- Ministry of Finance and Economic Planning (MOFEP) prepares a National work plan based on MDA work plans to MOFEP as stipulated in the budget guidelines.
- MOFEP issues quarterly Cash Ceiling to Cost Centres, sub-totalled at National, Regional and District levels for each MDA.
- MOFEP issues monthly expenditure warrants to Controller & Accountant-General attaching cost centre details submitted by MDAs which show the sub-totals at National, Regional and District levels.
- Based on the Monthly warrants from MOFEP, CAGD issues warrants directly to cost centres but aggregated to show sub-totals at National, Regional and District levels. An amount equal to the warrants for the National, Regional and District level warrants is transferred into the sub-Consolidated Fund Bank Account of the MDA, RCC and District Assembly respectively. The treasuries have merged with the accounts or finance divisions of MDAs, RCCs and MMDAs.
- Each ministry has its own accounts/finance department which also performs the treasury functions
- Each Regional Co-ordinating Council has its finance directorate that also performs treasury functions at regional level.
- Each District Assembly has its finance office that performs treasury functions at the district level.

A special Bank Accounts (Sub-Consolidated Fund Bank Account) has been opened for the Ministries, Regional Co-ordinating Councils and District Assemblies as follows:

Each ministry has one Consolidated Fund sub-account (i.e. Special Bank Account). This bank account serves the ministry and all National level departments and agencies.

Each Regional Administration has one Consolidated Fund sub-account (i.e. special bank account). This bank account serves the Regional Administration and all Regional level departments, agencies and institutions. These accounts are at the nearest Bank of Ghana branches.

Each District Assembly has one Consolidated Fund sub-account (i.e. 138 special bank accounts for the Assemblies). This bank account serves the District Assembly and all district level departments, agencies and institutions. These bank accounts are at the Bank of Ghana branches nearest to the districts.

3.3.1 COMMITMENT PROCESS

On receipt of the quarterly cash ceilings the MDAs review their work plans. On receipt of expenditure warrants and the Bank Transfer Advices,

- The cost centre at the Head Office, Regional or District levels prepares Activity and Expenditure Initiation Form to initiate Commitment process.
- The cost centre requests for Quotation from suppliers and select the best.
- The cost centre prepares Purchase Order (PO) and submits for approval.
- The cost centre submits approved PO to Servicing Treasury for commitment
- The cost centre dispatches PO to supplier.

3.4 THE CONCEPT OF WARRANTS

A warrant is a document used by the Ministry of Finance to authorise moneys to be released for spending by government departments and agencies. The expenditures of government are made under various forms of authorisations. The authorisations are to ensure that all payments are made:

1. from available monies for the particular expenditure,
2. Under strict scrutiny of the responsible official of government, and
3. For the right type of expenditure as authorised by Parliament.

3.5 CLASSES OF WARRANTS

There are two main classes of warrants, to match the two main classes of expenditures, the recurrent or revenue expenditures, and capital expenditures. Recurrent expenditures are expenditures that are incurred regularly in the course of the Organization's annual operations, and are for items or services that are used within the year. Capital expenditures are incurred not very often, and are incurred to acquire fixed assets. Warrants are therefore grouped as Recurrent Expenditure Warrants and Specific or Capital Expenditure Warrants.

3.5.1 RECURRENT EXPENDITURE WARRANTS

Recurrent expenditure warrants were created in section 302 of the Financial Regulations (FR). According to the provisions of this section, recurrent expenditure is payable from the Consolidated Recurrent Revenue Fund and no such expenditure maybe incurred except on the authority of a Warrant duly signed by the Minister of Finance. Without such a warrant the Accountant-General shall not accept in his accounts any charge upon the Consolidated Revenue Fund.

The authority of the Minister of Finance shall be conveyed in one of the following forms of recurrent expenditure warrant:

(a) Provisional General Warrant

(b) Annual General Warrant

(c) Supplementary General Warrant

(d) Reserved Expenditure Warrant

(e) Contingencies Warrant

(f) Statutory Expenditure Warrant

(g) Establishment Warrant

(h) Virement Warrant

3.5.2 (a) Imprest Warrant

The warrant is issued to authorise funds to be released to any senior officer who has to spend the money and account for that periodically.

3.5.3 Provisional general warrant

This authorisation is issued by the Minister of Finance to the Controller and Accountant General to enable moneys to be released for expenditures for the early part of the year before the Appropriation Act is passed. Such expenditures are made in respect of existing services and continuing projects at the beginning of the financial year while the annual estimates of the Government are examined for approval.

This warrant enables the Controller and Accountant General to send circulars to Vote Controllers of government departments to enable them request for moneys by preparing a Financial Encumbrance (FE), a document for expenditures of their organizations. Provisional warrant is normally for the first 3 months of the year and is for an amount which is 25% of the Annual Estimates to be approved.

3.5.4 Annual General warrant

This warrant is issued by the Minister of Finance to the Controller and Accountant General after the annual estimates have been approved for all recurrent expenditures. The General Warrant authorizes the Accountant-General to issue funds to pay for the personal emoluments and other services provided in the Annual Estimates, and authorises the officers controlling expenditure votes to incur expenditure on these purposes.

The Minister of Finance may exclude from the Annual-General Warrant any item of expenditure over which it is desired to exercise special control. The original copy of the Annual-General Warrant is addressed to the Accountant-General with a signed copy forwarded to the Auditor-General. A notification that the warrant has been signed shall also be published in the Federal Official Gazette. This warrant is created in FR 304.

3.5.5 Supplementary General Warrant

This warrant authorizes the Accountant-General to issue funds to pay for the additional personal emoluments and other services which must have been approved in Supplementary Estimates, and for which additional funds have been appropriated by the National Assembly. The Minister of Finance may exclude from the Supplementary General Warrant any item of expenditure over which he desires to exercise some control (see Financial Regulation 311). The original copy of a Supplementary General Warrant is addressed to the Accountant-General with a signed copy forwarded to the Auditor- General. A notification that the warrant has been signed shall also be published in the federal official gazette. (see FR305 generally).

3.5.6 Contingencies Warrant

This may be issued in very exceptional cases, where virement is not possible and where an application for additional provision reveals such a degree of urgency that the issue of funds cannot without serious injury to the public interest be postponed until a Supplementary Appropriation Act can be passed. Such authority shall be conveyed by the issuance of Contingencies Fund Warrant to the Accountant-General, authorising him to transfer the necessary funds from the Contingencies Fund to the Consolidated Revenue Fund, and also by the issuance of a Contingencies Warrant, authorising expenditure form the head and Sub-Heads concerned. The original copies of both warrants are addressed to the Accountant-General, with signed copies forwarded to the Auditor-General. The Minister of Finance will also notify the officers controlling the relevant votes of the additional expenditure authorized.

By FR 305, In no circumstances will expenditure incurred under this Contingency Fund procedure be charged, or the relevant vouchers classified directly, to the Contingency Fund. Expenditure authorized under this procedure is subject to the covering approval of the National Assembly at its next meeting and must for this purpose be included in a Supplementary Appropriation Act.

3.5.7 Supplementary General Warrant

This is the authority of the Accountant-General to transfer any sum appropriated from the Consolidated Revenue Fund to the Contingency Fund by way of replenishment.

3.5.8 Virement Warrant

A virement warrant is issued when, as a result of circumstances which could not have been foreseen when the Annual Estimates were being compiled, additional provision is required under a particular sub-head (or a new sub-head is required) while, at the same time, equivalent savings can be made under another sub-head of the same Head. Virement Warants shall be issued on the approval of the virement by the National Assembly.

Virement of funds from one sub-head to the other may be granted under the following conditions:

1. The amount to be vired from any sub-head within a financial year under over-head costs should not exceed any limit prescribed by the National Assembly in the approved estimates for each sub-head under the over-head costs;
2. Virement shall not be used to create a new sub-head
3. It shall not be used to re-introduce items disallowed by the Estimates 4. Committee during the Estimates exercise or by the National Assembly;

4. Virement shall not apply to queries raised by the Auditor-General in respect of improper expenditure already incurred by a ministry/extra-ministerial office and other arms of government.

Flowing from the foregoing, It could be said that virement is allowed under the following circumstances:

1. Virement is not allowed between line items of expenditure, i.e. it is not possible to switch between votes; it is possible between sub-items of expenditure;

2. 1t is allowed where savings have been made in other expenditure items;
3. 1t is allowed where the savings do not arise from the deferment of expenditure;
4 1t is allowed if the extra funds are required for existing services, but not for any new services;
5. It is not allowed for capital expenditure, or expenditure which can lead to incurring extra expenditure in the future;
6. It is not allowed for an expenditure that will end up in a change in government policy.

To be successful, applications for virements should:

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

3.5.9 Reserve expenditure warrant

This warrant is issued by the Minister to the Controller and Accountant-General to release moneys that were reserved by the Minister out of the approved Annual Estimates. The money is released to Organizations that apply for such moneys with explanation for the reasons for the request.

Self-Assessment Exercise

1. List the recurrent expenditure warrants known to you.

3.6 Capital expenditure warrant (specific warrant)

FR 318 provides that Capital Expenditure is paid from the Development Fund, Expenditure and no such expenditure maybe incurred except on the authority of a warrant duly signed by the Minister of Finance, and without which the Accountant-General shall not accept in his accounts any charge upon the Development Fund. The authority of the Minister of Finance is conveyed in one of the following forms of Warrants:

1. Provisional Development Fund General Warrant
2. Development Fund General Warrant
3. Development Fund Supplementary General Warrant
4. Development Fund Reserved Expenditure Warrant
5. Development Fund Supplementary Warrant
6. Development Fund Special Warrant
7. Development Fund Virement Warrant

3.6.1 (a) Development Fund Annual General Warrant (DFAGW)

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

3.6.2 (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.

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

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

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

3..6.7 (f) Development Fund Special Warrant: A DFSW is issued in exceptional cases where:

(i) Virement is not possible

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

3.6.8 (g) Development Fund Virement Warrant:

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

(i) Re-allocation can be made only within the same Head of expenditure in the Capital Estimates.

(ii) The re-allocation must not give rise to a new principle or policy.

(iii) It cannot be used to provide funds for new projects.

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

4.0 SUMMARY

In this unit you learnt about the different types of government expenditure, recurrent/revenue expenditures and capital or development expenditures. You also learnt that before government departments would spend any moneys, these moneys would have to be requested for and approved or authorised by the legislature..

A Warrant is a document used by the Ministry of Finance to authorise moneys to be released for spending by government departments and agencies. The expenditures of government are made under various forms of authorisations known as Recurrent Expenditure Warrants and Specific or Capital Expenditure Warrants. Without such a warrant the Accountant-General shall not accept in his accounts any charge upon the Consolidated Revenue Fund.

5.0 CONCLUSION.

In this unit, you learnt that the authority of the Minister of Finance shall be conveyed in one of the following forms of recurrent expenditure warrants: (a) Provisional General Warrant,(b) Annual General Warrant,(c) Supplementary General Warrant, (d) Reserved Expenditure Warrant, (e)Contingencies Warrant, (f) Statutory Expenditure Warrant, (g) Establishment Warrant, and (h) Virement Warrant

You also learnt that the authority of the Minister of Finance is conveyed in one of the following forms of capital expenditure warrants: (1) Provisional Development Fund General Warrant, (2) Development Fund General Warrant, (3) Development Fund Supplementary General Warrant, (4) Development Fund Reserved Expenditure Warrant, (5)Development Fund Supplementary Warrant, (6) Development Fund Special Warrant, (7) and Development Fund Virement Warrant.

6.0 TUTOR MARKED ASSIGNMENT

1 Discuss the expenditure authorisation procedures of the Federal Government

2 Discuss the concept of warrant as used in government financial management

7.0 REFERENCES/FURTHER READINGS

Adams, R.A. (2014) Public sector accounting and finance made simple, revised edition 3, Lagos: Corporate Publishers Venture.

Emeni, F.K., Ogiedu,K.O., Mgbame, C.O., & Erhagbhe, E. (2008) Public sector accounting and finance, Benin City: Mindex Publishing Company Limited

ICAN (2014). Public sector accounting and finance, Lagos: ICAN

Ogiedu, K.O. (2016) Lecture notes on public sector accounting and finance, Benin City, Unpublished

UNIT 3 FINANCIAL CONTROL IN GOVERNMENT

1.0 INTRODUCTION

In the previous units, you learnt about Government revenue and expenditure. In this unit, you will be introduced to financial controls in government. You will learn about the different types of financial controls in government and how they operate to ensure that financial resources are obtained at cost considered to be economical and utilized efficiently and effectively for the attainment of established objectives.

2.0 OBJECTIVES

After reading this unit, you should be able to:

1. Identify the different types of financial controls in government
2. Identify the areas and means of executive control
3. Identify the various legislative financial control tools
4. Identify the types of controls exercisable by the Auditor-General for the Federation
5. Identify the control activities of Minister of Finance Control and the Treasury Control - Office of the Accountant-General of the Federation (OAGF)
6. Identify the control activities of Inspectorate Division and the Internal Audit
7. Explain Departmental Control over the Budgeted Expenditure, Accounting Officers Control and Public Accounts Committee control

3.0 MAIN CONTENT

3.1 THE CONCEPT OF FINANCIAL CONTROL

Control is concerned with the efficient use of resources to achieve a previously determined objective, or set of objectives, contained within a plan'. It is the measurement and correcting of activities of subordinates to assure that events conform to plans. Control exists to ensure that organizational objectives are met through measurement of performance. In connection with government finance, we can identify two basic groups of control- administrative and financial control. Administrative control refers to the techniques which have indirect bearing upon expenditure operation while financial control denote the techniques of control relating to fiscal control. Financial control is a very important type of control in the management of government finance. It is the process which ensures that financial resources are obtained at cost considered to be economical and utilized efficiently and effectively for the attainment of established objectives. It is the sum total of the work, which guides, directs and interprets the budget cycle. It covers the activities of the Executive branch, involving finance and the ministries, the audit department and the legislature. In a democratic era, financial control may operate internally and externally.

Self- Assessment Exercise

1 What do you understand by financial control in government?

3.2 Objectives of Financial Control

Some of the objectives of financial control are:

1. To serve as a corrective device for altering behaviour or performances
2. To provide measures for the security and control of inventories
3 To facilitate the control of receipts and disbursement of government funds.
4 To ensure that the documentation of financial transactions are correct and accurate.
5 To serve as a vital tool for capital budgeting and execution.
6 To serve as an informative device on the receipt and utilization of government financial resources.

Self- Assessment Exercise

1 What are the objectives of financial control?

3.3 TYPES OF CONTROL

The following are the basic controls exercised over Government expenditure:

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

3.4 THE EXECUTIVE CONTROL

The Executive comprises the President, and members of his cabinet members who have the responsibility for the efficient and effective management and control of the administration of the country. The executive control government expenditure through the following means:

1. Determination of monetary fiscal policies in general
2. Compilation and tentative approval of the Nation's budget
3. Appointment of the Auditor-General at all tiers of the government
4. Issuance of budgetary guidelines
5. Introduction of the due process.

6. Introduction of e-payment, e-receipt and e-banking system.
7. Introduction of the Public Procurement and Fiscal Responsibility Act, 2007.

3.5 THE LEGISLATIVE CONTROL

Legislative control comprises of the various measures that Parliament can use for purposes of controlling the use of public funds. This system of control is very important since Parliament is an independent body from the Executive. Parliament is known in the British system of governance as 'The Controller of the Purse', meaning the institution which controls the money of government and the use of the money. The Constitution establishes the parliamentary authority over public funds and their uses.

Legislative control over public revenue and expenditure is effected through the following:

1. Approval of the monetary and fiscal policies of the government.
2. Approval of the government budget
3. Ratification of the appointment of the Auditor – General of the Federation
4. Through the Public Accounts Committee (PAC)

The PAC receives the audited public accounts and audited departmental accounts and other special audit reports, examines and debates the contents and submits its report(s) in the form of its findings and recommendations to the whole House. Parliament takes action on the Public Accounts on the basis of the recommendations of the committee.

3.6 AUDITOR-GENERAL FOR THE FEDERATION

According to section 108 of the Financial Regulation 2009, the Auditor –General is the Officer responsible under the Constitution of the audit and report on the public accounts of the federation General: including all persons and bodies established by law entrusted with the collection, receipt, custody, issue or payment of Federal Public moneys or with the receipt, custody, issue, sale, transfer or delivery of any stamps, securities, stores or other property of the government of the federation.

He has the power to examine the accounts in any way he deems fit and at the end of the audit, he is required to write a formal report detailing whether in his opinion:

According to S86 (1) of the 1999 Constitution, the Auditor-General for the Federation shall be appointed by the President on the recommendation of the Federal Civil Service Commission, subject to confirmation by the Senate.

According to section 109 of the Financial Regulation No 109 of January 2009, the Auditor-General shall carry out the following statutory functions financial audit, appropriation audit, financial control audit, value –for-money audit and indeed any type of financial audit in the government.

The constitutional functions of the Auditor-General are as follows:

(1) 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, and for that purpose he shall have access to all the books, records, returns and other documents relation to those accounts.

(2) 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:-

(a) Provide such bodies with;

   (i) A list of qualified and experienced auditors from which the bodies shall appoint their external auditors, and

   (ii) Guidelines on the level of fees to be paid to the external auditors.

(b) Comment on their annual accounts and auditors reports thereon.

(3) 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.

(4) S. 85(5): He shall, within ninety days of receipt of the Accountant-General's Financial Statements, submit his reports to each House of the National Assembly.

Thus the Auditor –General provides financial control though audit of government accounts

3.7 MINISTER OF FINANCE CONTROL

The Minister of Finance is a political office holder who is appointed by the President. His appointment, like that of other cabinet Ministers, is subject to ratification by the Senate of the National Assembly. The constitution confers on him the responsibility for the control and management of public fund of the Federation.

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.

As part of his control functions, the Minister of Finance carries out the following functions:

1. He is responsible for the preparation of annual estimates of revenue and expenditure for the Federal Government.

2. He is required to formulate all policies related to fiscal matters while the Central Bank of Nigeria formulates policies relating to monetary matter.

3. Responsible for the supervision, monitoring and co-ordination of all government revenue accruing from oil and non-oil resources.

4. He supervise all matters in connection with allocation of revenue to the three tiers of government i.e. Federal, State and Local Government.

5. He issues financial warrants without which the Accountant General cannot release funds to the ministries and extra- ministerial departments.

6 He receives statutory statement of accounts from the Accountant-General of the Federation.

3.8 CONTROLS BY WARRANTS

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

Warrant is the process used by Ministry of Finance to authorise moneys to be released for spending by government departments and agencies. The expenditures of government are made under various forms of authorisations. The authorisations are to ensure that all payments are made:

1. from available monies for the particular expenditure,
2. under strict scrutiny of the responsible official of government, and
3. For the right type of expenditure as authorised by Parliament.

There are two main classes of warrants, to match the two main classes of expenditures, the recurrent or revenue expenditures, and capital expenditures. Recurrent expenditures are expenditures that are incurred regularly in the course of the Organization's annual operations, and are for items or services that are used within the year. Capital expenditures are incurred not very often, and are incurred to acquire fixed assets. Warrants are therefore grouped as Recurrent Expenditure Warrants and Specific or Capital Expenditure Warrants. Within these two main classes, warrants can be provisional, general and various specific warrants.

3.9 THE TREASURY CONTROL - OFFICE OF THE ACCOUNTANT-GENERAL OF THE FEDERATION (OAGF)

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

The definition and duties of the Accountant-General are specified in section 106 and 107 of the Financial Regulations No. 72 Vol. 96 2009 edition. According to section 106, the Accountant-General is the Chief Accounting Officer of the receipts and payments of the government of the Federation. He is saddled is responsible for the general control, custody and supervision of all ministries and departments within the Federation. He is responsible for the preparation of the annual financial statements of accounts of the Nation as may be required by the Minister of Finance. The Accountant –General is appointed by the President, on the recommendation of the Federal Civil Service Commission.

Specifically, the Accountant –General has the following powers:

(1) He has power of unlimited access to all financial documents and records of every Ministry or Department at all times.

(2) He has the power to carry out any special investigation, when the need arises, in any Ministry or Department.

(3) The Accountant-General has power to demand for and obtain any information and explanation required to carry out his duties.

3.10 INSPECTORATE DIVISION

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

The Inspectorate Department consists of Inspection, Investigation, Board and Losses, Monitoring and Enforcement divisions. The Inspection Division conduct routine and in-depth inspection of the books of accounts of Federal Ministries, Extra-Ministerial Departments and other Arms of Governments to ensure compliance with rules, regulations, policy decisions and accounting codes and Internal Audit Guides. It also ensures compliance with financial rules and regulations; and that there is no misuse of public funds;

The Investigation Division investigates cases of fraud, loss of funds, assets and store items and other financial malpractices in Ministries/Extra-Ministerial Departments, Agencies and Parastatals within and outside Abuja. It also investigates reported cases of misappropriation of funds that resulted in the loss of funds to Government or staff of Government or other persons for which the Financial Regulations or any other extant rules have been contravened..

The Board and Losses Division carries out Annual Boards of Survey of bank and cash balances of Ministries, Extra-Ministerial Departments and Agencies. It also carries out Quarterly Surprise Board of Survey of bank and cash balances of Ministries, Extra-Ministerial Departments of Agencies among other functions.

The Monitoring and Enforcement Division monitors and enforces the implementation of all approved recommended remedial actions to be taken on all observed lapses as a result of the inspection and investigation activities in MDAs. It also ensure on the implementation of the approved recommendations arising from the inspection of accounting books and records of the various institutions. Furthermore it ensures that actual remittance of all internally generated revenue, withholding tax, value added tax, and unspent balances in MDAs including foreign missions.

3.11 INTERNAL AUDIT

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

According to section 1701(1) of the Financial Regulation 2009, Internal Audit is a managerial control which functions by measuring and evaluating the effectiveness of internal control system in an Organization. The Financial regulation provides that the Accounting Officer of a ministry or extra-ministerial office and other arms of government shall ensure that an Internal Audit Unit is established to provide a complete and continuous audit of the accounts and records of revenue and expenditure, assets, allocated and unallocated stores, where applicable.

3.12 Departmental Control over the Budgeted Expenditure

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

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

3.13 ACCOUNTING OFFICERS CONTROL

According to section 111 of the Financial Regulation, 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 organization.

According to Financial Regulation 2009, as part of his management and control function, the Accounting Officer shall:

(1) Be responsible for safeguarding of public funds and the regularity and propriety of expenditure under his control

(2) Observe and comply fully with the checks and balances spelt out in the existing Financials Regulations which govern receipts and disbursement of Public Funds and other assets entrusted to his care and shall be liable for any breach thereof; and

(3) 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.

3.14 PUBLIC ACCOUNTS COMMITTEE

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

4.0 SUMMARY

This unit discussed financial control in government. Control is concerned with the efficient use of resources to achieve a previously determined objective, or set of objectives, contained within a plan'. It is the measurement and correcting of activities of subordinates to assure that events conform to plans. Control exists to ensure that organizational objectives are met through measurement of performance. In connection with government finance, we can identify two basic groups of control- administrative and financial control. Administrative control refers to the techniques which have indirect bearing upon expenditure operation while financial control denotes the techniques of control relating to fiscal control. Financial control is a very important type of control in the management of government finance. It is the process which ensures that financial resources are obtained at cost considered to be economical and utilized efficiently and effectively for the attainment of established objectives. It is the sum total of the work, which guides, directs and interprets the budget cycle.

There are different types of financial controls in government and they include: (a) The Executive Control, (b) The Legislative Control, (c) The Ministry of Finance Control, (e) The Treasury Control (Office of Accountant - General of the Federation), (e) The Departmental Control, (f) Office of the Auditor - General for the Federation.

5.0 CONCLUSION

In this unit, you were taught the various financial controls put in place to regulate the financial activities of Government. These controls are used to regulate the accounting officials in charge of various schedules. In the next unit, you will learn about some of the documents being used.

6.0 TUTOR MARKED ASSIGNMENT

1. Briefly discuss any Five financial controls in Government.
2. Discuss the role of Treasury Inspectorate Division in Financial Control?
3. Discuss the role of the Legislature and the Public Accounts Committee (PAC) in government financial control.

7.0 REFERENCES /FURTHER READING

Adams, R.A. (2014) *Public sector accounting and finance made simple, revised edition* 3, Lagos: Corporate Publishers Venture.

Emeni, F.K., Ogiedu, K.O., Mgbame, C.O., & Erhagbhe, E. (2008) *Public sector accounting and finance*, Benin City: Mindex Publishing Company Limited

ICAN (2014). Public sector accounting and finance, Lagos: ICAN

Ogiedu, K.O. (2016) *Lecture notes on public sector accounting and finance*, Benin City, Unpublished

Omolehinwa, E.O., & Naiyeju, J.K. (2015) *Government accounting in Nigeria: An IPSAS approach*, Lagos: Pumark (Educational Publishers).

UNIT 4 PREPARATION OF VOUCHERS

CONTENT

1.0 INTRODUCTION

This unit discusses the use of vouchers in Public sector accounting. It discusses the meaning and classification of vouchers, the contents of valid payment and receipt vouchers, respectively. It also discusses the sub-accounting officer's duties in the payment of payment vouchers and the treatment of the treatment of the loss of a payment voucher. The unit further discusses the rules guiding the use of Receipt Vouchers and the accounting treatment of the loss of government funds. Finally, the unit ends with a discussion of the Integrated personnel & payroll information system (IPPIS) including the objectives and functions.

2.0 OBJECTIVES

After studying the unit, the student should be able to:

1 Appreciate the meaning and importance of vouchers in the government financial system
2. Identify the different types of vouchers
3. Know the contents of valid payment and receipt vouchers respectively.
4 Understand the sub-accounting officers duties in the payment of payment vouchers
5 Understand the treatment of the loss of a payment voucher
6 Know the rules guiding the use of Receipt Vouchers
7 Know the accounting treatment of the loss of government funds
8 Know the objectives and functions of Integrated personnel & payroll information system (IPPIS)

3.0 MAIN CONTENT

3.1 INTRODUCTION TO VOUCHERS

A voucher is a documentary evidence of payment or receipt of money which is available for future reference, accounting and auditing purposes. It is the document that serves as evidence of receipt and disbursement of government money with adequate authority and procedures. FR 601 requires that all payment entries in the cash book/accounts shall be vouched for on one of the prescribed treasury forms. Vouchers are made out in favourof the person or persons to whom the money is due. According to FR 601 under no circumstances shall a cheque be raised or cash paid for services for which a voucher has not been raised. Separate vouchers are raised for separate sub-heads. Also separate vouchers are raised for the payment of different services.

Vouchers can be classified into four main types.

1. Payment Vouchers
2. Receipt Vouchers
3. Adjustment Vouchers
4. Journal Vouchers.

3.2 PAYMENT VOUCHERS

These are vouchers that are prepared whenever payments are to be made. They are prima facie evidence for the disbursement of government funds. They also serve to prove that there has indeed been payment for goods supplied and services provided for the ministry or department. Vouchers are prepared when payments are to be made for:-

i. Goods that are ordered and supplied to the ministries by contractors
ii. Goods purchased directly from retailers, wholesalers or manufacturers
iii. Services rendered to government by the public or other government corporation e.g. Power Holding Company Plc- the company that generates and supplies electricity
iv. Services rendered to government by her workers i.e. Civil Servants.
v. Execution of contract jobs properly awarded to contractors.
vi. Retirement benefits to retired Civil Servants.

FR 603 provides that the following must be observed in the preparation of a payment voucher:

1. All vouchers should be type-written or written in ink. No payment voucher shall be written in pencil or other erasable forms
2. Separate voucher should be used for separate head.
3. Original voucher must be signed in ink while copies should be initialled.
4. The voucher certificate should be signed separately.
5. Vouchers must be presented within 90 days of its preparation
6. The totals of all vouchers shall be written in ink and in words as well as in figures.
7. No erasures10f any kind, whether in typescript or manuscript or the use of correction fluid shall be allowed.
8. A single thick horizontal line is drawn immediately before, and immediately after the Naira (^) figure where it appears in word.
9. Spaces shall not be allowed. Where the (^) figure is nil, the word ""NIL" shall be entered in the appropriate space.
10. No erasures of any kind, whether in typescript or manuscript or the use of correction fluid shall be allowed. '

11. A single thick horizontal line shall be drawn immediately before, and immediately after the Naira (^) figure where it appears in word.
12. Spaces are not be allowed. Where the (^) figure is nil, the word ""NIL" shall be entered in the appropriate space.
13. All vouchers must be certified by an officer that is authorised to do so.
14. The voucher must be stamped "Entered in the Vote book" and duly signed by the officer keeping the vote book.
15. All vouchers should be marked "Checked and passed" by the checking officer in the Pay Station
16. Vouchers must be supported with valid, tenable and authentic supporting documents.

3.2.1 Contents of a valid payment voucher

For a voucher to be valid, it must contain the following features:-

1. Date of the voucher
2. Classification code- i.e. Head/Subhead.
3. Voucher Number.
4. Description of Payment i.e. Job done or service rendered.
5. Name and address of payee
6. Amount (in words and figures)
7. Signature of the paying cashier
8. Cahiers stamp "PAID"
9. Signature of the payee
10. Cheque number (where cheque is issued for payment.)
11. Authority:- Types of warrant that release the money.
    - Signature of officer controlling expenditure
12. Supporting documents:- Local Purchase Order (LPO) – original copy - Receipt/Invoice – original copy. - Special Letter of Authority - Delivery Note - Tender Certificate (in case of contract)

The format of a valid payment voucher is shown below:

LOGO OF FEDERAL OR STATE GOVERNMENT
NAME OF MINISTRY /DEPARTMENT / PARASTATAL
Head…………………………… Station………………………...
Sub-Head…………………………Voucher.No…………………….
Date……………………………… Amount ^………………………..
Name (of payee)…………………………………………………
Address (of payee)………………….
Signature of Accounting officer……………

Self- Assessment Exercise

1 what are the contents of a valid payment voucher?

3.2.2 Sub-Accounting Officer's duties before payment on a Voucher

FR 611 provides that a Sub-Accounting Officer may not make payment against a voucher unless:

(a) It is certified for payment by the officer who is authorised to do so.

(b) It is stamped "checked and passed for payment at (Name of station) only", and is duly signed to that effect by the checking officer in the appropriate place on the voucher.

(c) It is not more than three months since the voucher was signed by officer controlling expenditure

(d) It is accompanied by a schedule in the following form:

<table>
<tr><td colspan="4">Departmental ,Office of issue .... Serial No. Of Schedule ....
Date:
...................................</td></tr>
<tr><td>Department PV. NO.</td><td>Payee</td><td>Amount
^ : K</td><td>For payment at</td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="2">Total</td><td></td><td></td></tr>
<tr><td colspan="4">I certify that tile above vouchers have been entered in my Vote Book and funds are available therein.
Signature of officer controlling expenditure</td></tr>
</table>

(e) The voucher is stamped, "Entered in the Vote Book" and signed by the officer maintaining or keeping the Vote Book.

3.2.3 Loss of payment voucher

Where a raised payment voucher is missing and confirmed lost, the following procedures should be followed:

a. The accounting officer must be notified immediately.
b. The loss should be investigated considering all circumstances leading to that effect.
c. The investigation should confirm whether payment against the voucher has been effected or not.
d. Where payment has been made, it must be confirmed whether the cash withdrawn is still in possession of the payee.
e. Where fraud is suspected and confirmed, the Accounting Officer should consider all the necessary factors to determine whether a Board of Enquiry should be raised or not.
f. Where it is established that there is no loss of cash or fraud has not taken place, the Accountant General must be forwarded with a detailed report concerning the circumstances of the loss in the first place by the Accounting Officer of the ministry or department

3.3 RECEIPT VOUCHERS

These are vouchers raised as evidence for the receipt of government funds and property. The following documents are used to acknowledge the receipt of government revenue:

a. Printed Government receipts
b. Counterfoil books
c. License
d. Stickers
e. Emblems.

The revenue branch of the accounting section of a ministry /department will render a proper accounting record of revenue generated during the year by issue of receipts, counterfoil books, licenses and emblems.

The Accountant-General is responsible for the control of Treasury Receipt Books (T.B.6) and Revenue Collectors' Receipt Books (T.B.6A). Accounting Officers are responsible for the control of Receipt and Licence Books and Fixed Fee Tickets. These officers and such others as may be so authorised by the Accountant-General shall maintain their own stock and distribution Registers and will comply with the principles laid down in this' chapter in respect of receipt book controlled by them. Accounting Officers are also responsible for the safe custody of all revenue receipt books and licences tickets that may be released to them.

Receipt and licence books must be printed in the form prescribed by Law or by these Regulations. All leaflets which are contained in the receipt and licence books will bear serial and consecutive numbers. Each set of forms (original, duplicate, triplicate and quadruplicate, as the case may be) will bear the same printed serial and consecutive numbers. FR 1203 provides that:

i. The Accountant-General is the only officer authorised to place indents with the Nigerian Security Printing and Minting Company (NSPMC) or its subsidiary for the supply of Treasury Books 6 and 6A. Every issue made by the NSPMC to the Accountant-General is accompanied by a Receipt Book Issue Note (RBIN). The NSPMC furnishes the Auditor-General with a copy of each issue note (see Regulation 1206).

(ii) On no account may revenue earning Receipt-and Licence Books or fixed fee ticket booklets be obtained from any ,printer other than the Nigerian Security Printing and Minting Company (NSPMC) or any printer authorized by the Accountant-General of the Federation.

3.3.1 Rules guiding the use of Receipt Vouchers

FR 1204 TO 1217 provide the following rules for the use of receipt vouchers:

i. All books received shall be taken on charge in a stock and distribution register in the prescribed form.
ii. Receipt shall be recorded in serial order of books, and each book shall be entered individually. In large offices it may be convenient to use a subsidiary distribution ‘register in addition to the main stock distribution register.
iii. Request for Treasury Receipts Books shall be submitted as and when necessary to' the Accountant-General.
iv. Accounting Officers shall include in their indents the requirements of revenue collectors under their supervision.

v. All issues by the Accountant- General shall be recorded in' the stock and distribution register, and will be accompanied by a Receipt Book Issue Note.

vi. Every issue of a receipt book or books shall be accompanied by a Receipt Book Issue Note which will be serially numbered and printed in quadruplicate.

v. Distribution of the four copies of each issue note will be as follows:

(a) Original and duplicate copy to the officer to whom the issue was made. The duplicate will be receipted by him and returned to the issuing officer who will paste same to the quadruplicate copy.

(b) Triplicate copy to the Auditor-General,

(c) Quadruplicate copy shall be retained in the book at the office of issue.

vi. Issuing Officers must ensure .that the duplicate copy of each Receipt Book Issue Note is receipted and returned without delay and that all triplicate copies are sent to the Auditor-General immediately.

v. Federal Pay Officers shall issue (Treasury Receipt Book 6A) to all Revenue Collectors in their respective states, in line with the laid down procedure in FR 1206.

vi. Receipt and licence books shall be issued for use in strict serial order.

vii. Federal Revenue Collectors stationed in a State shall not under any circumstances request, stock or issue state receipt to account for Federal Government earnings or revenue.

viii. Receipt and licence books will not be transferred between Sub-Accounting Officers without the consent of the Accounting Officer except in special cases of emergency when the circumstances will be reported to the issuing officer and the procedure laid down in Regulation 1205 will be followed.

ix. Except when one Revenue collector is officially relieved by another no used or unused receipt or licence books shall be transferred between one Revenue Collector and another except with the approval of the Accountant

x. All revenue receipts shall be issued to payers in strict serial order and shall not be altered in any way.

xi. A defaced or mutilated receipt Iicence leaflet shall be cancelled with the words "cancelled" endorsed on an copies of such receipts and retained in the booklet for audit purposes .

xii. The original receipt or licences leaflet shall be handed over or delivered to the payer.

xii. The duplicate of all receipts and licences (excluding fixed fees. licences and tickets of the counterfoil type) issued by Sub- Accounting-Officers shall be sent with the monthly account to the Accountant-General or Accounting Officer.

3.3.2 illustration of receipt voucher

REVENUE RECEIPT

REVENUE COLLECTOR"S RECEIPT (LOGO)

Treasury Book No. 6A

FEDERAL GOVT. OF NIGERIA

STATION………………………

DATE………………………………

HEAD……………………………………… R. N. No…………………………..

SUB-HEAD…………………………………..

Receive from……………………..…………………………………………………………………

Thesumof…………………………………………..………Naira……………………..Kobo being(descriptionofpayment)…………………………………..…………..……………

……..…………………………………………………………………………..……………..

………………………………………. ………………………………..

SIGNATURE OR MARK OF PAYER SIGNATURE OF REVENUE COLLECTOR

OCCUPATION OF WITNESS WITNESS TO MARK

Self- Assessment Exercise

1 what are the contents of a valid receipt voucher?

3.4 ADJUSTMENT VOUCHERS

Adjustment vouchers are used for the following purposes:-

a. Effecting payment for services rendered by one ministry/department to another.

b. Adjusting wrong posting of transactions in respect of expenditure and revenue heads or subheads.

c. Reclassification of transactions.

d. Allocation of unallocated stores.

FR 901 states that adjustments are effected by means of Journal entries which enable transfers to be made from one account to another without actual receipt or payment of cash. Examples of these are adjustments between expenditure or revenue sub-heads, correction of accounting errors arising from misclassifications and the ultimate allocation of Un allocated Stores.

FR 902identify the following types of adjustment vouchers shall include the following:

(a) Adjustment Voucher (TF23)

(b) Supplementary Journal Voucher (SJV)

(c) Principal Journal Voucher (PJV)

3.4.1 Adjustment voucher (TF23)

The Adjustment Voucher (TF 23) which is designed to adjust inter-ministerial transactions is mostly used in ministries, extra-ministerial offices and other arms of government. Adjustments are submitted on Treasury Form 23 in quadruplicate, or as otherwise directed.

Two copies of the voucher must be signed in full. The ministry, extra-ministerial office or other arms of government which is receiving the adjustment voucher stamps and returns one of the fully signed vouchers as evidence of acceptance or rejection.

3.4.2 Supplementary journal voucher (SJV)

This is used under the following circumstances:

(a) Where transfers and adjustments are to be made before the below-the-line statement is extracted.

(b) Where differences are discovered between the ministries/departments transcript posting and bank statement received.

(c) Where there is need to re-classify accounts into suitable heads and subheads before the trial balance is prepared.

3.4.3 Principal Journal Voucher (PJV)

PJVs are prepared for the following reasons:

(a) To correct misclassification of accounts detected by the main accounts.

(b) To adjust the accounts e.g. when funds" rightfully belonging to one state have been wrongly credited.to another.

(c) Effect month-end transfer of accounts from Above-the-line Accounts to Below-the-line Accounts; and

(d) Effect annual transfers.

3.5 ACCOUNTING TREATMENT OF LOSS OF GOVERNMENT FUND

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.

According to the Financial Regulation, the type of accounting entry required for the treatment of such losses however depends on the following:-

a. Nature of the loss

b. Date of the transaction which led to the loss.

c. Date on which the loss occurs.

d. Date of passing the entries

e. The type of fund involved

S/N	Description	Dr	Cr
1.	Loss of cash	Non –personal Advance A/c	Cash A/c
2.	Fraudulent payment or overpayment made and discovered within the current financial year	Non –personal Advance A/c	Relevant Sub-head
3.	Fraudulent payment or overpayment in previous Revenue financial year charged to Consolidated Revenue (CRF) or Development Fund (DF)	Advance A/c	Sundry
4.	Fraudulent payment or overpayment made in previous financial year charged against public fund other than CRF or DF	Advance A/c	Non-personal A/c originally debited

5.	Abandonment of the recovery of an amount or Loss of Fund initially charged to an advance account	Advance A/c	Advance A/c
6.	Overpayment not involving fraud made in a previous financial year charged against CRF or DF	No adjustment required but the loss will be recognised by the Accountant-General. the Accountant-General	
7.	Abandonment of recovery of advances issued initially from Re-current expenditure	Same as above	
8.	Abandonment of the recovery of unpaid revenue	Same as above	

Illustration 1

A double payment was made to MR Jones Agbi, a supplier of office consumables to the Labour and Productivity on September 20, 2012. The amount involved was ^1,000,000 and the discovery were made on November 25 of the same year.

You are required to journalize the discovery.

Solution to illustration 1

This is an overpayment made and discovered within the same year.

	Dr	Cr
	^	^
Non-Personal Advance A/C	1,000,000	
Ministry of Works/Housing 402/07		1,0000,000
(Being overpayment for the supply of office consumables).		

Illustration 2

The case is similar to the one in illustration above but the overpayment was not discovered until April 1, 2014. You are required to journalize the discovery.

Solution to illustration 2

	Dr	Cr
	^	^
Non-Personal Advance A/C	1,000,000	
Revenue Sundries A/c		1,000,000

Illustration 3

A sum of ^3,200,000 was fraudulently withdrawn from Research Foundation in December 2009. It was not discovered until October 2010. You are required to journalize the discovery.

Solution to illustration 3

	Dr	Cr
	^	^
Non-Personal Advance A/c	3,200,000	
Research Foundation A/c		3,200,000

Illustration 4

The following discoveries were made by the Accountant-General of Udo State while carrying out a special check on the books of accounts of the State.

(i) On 4th May, 2010, the sum of ^450,000,000 was fraudulently withdrawn from Udo State and charged to CRF. The fraud was discovered on 23rdth February, 2012.

(ii) On 27th of June, 2013, an overpayment of ^1,550,000 was made to Leeway Services Ltd in respect of supply of furniture to the new Government House built by the former administration. This was discovered on 31st November of the same year.

(iii) On 30th October, 2013 an amount of ^545,000 being the revenue accruable to the State Government from rent of her property but never received was abandoned.

iv) On 23rd of October 2013, an officer died while in active service and the aggregate of his pension and gratuity was ^180,300 while he had an outstanding motor vehicle advance of ^280,550.

v). On 12th of November 2011, the sum of ^75,000 which was initially charged to Newspapers and Periodicals advance had been abandoned.

You are required to journalize the transactions and discoveries made above.

Solution to illustration 4

		Dr	Cr
		^	^
i.	Non-Personal Advance A/c Consolidated Revenue Fund A/c Being an amount fraudulently withdrawn from State Accounts and charged to CRF	450,000,000	 450,000,000
ii.	Non-Personal Advance A/c Ministry of Works & Housing Being over-payment for the supply of furniture	1,550,000	 1,550,000
iii.	No. Adjustment Required Note: The abandonment of the recovery must be registered by Accountant-General for the State as a loss.		
iv.	Loss of Fund A/c Motor Vehicle Advance A/c Being an outstanding advance found to be irrecoverable and written off.	100,250	 100,250
v.	Loss of Fund A/c Newspapers and Periodicals Advance A/c Being an amount charged to advance account and now abandoned	75,000	 75,000

3.6 SALARY VOUCHERS

The account documents and records required to be prepared and maintained in the Personal Emolument Section of the Ministry/Department as regards payment of salaries and wages are:-

a. Personal Emolument Form

b. Personal Emolument Record Card

c. Group Register

d. Salary Variation Advice

e. Variation Control Sheet

f. Payroll Summary Voucher

g. Advice of Deduction from Salary

h. On-Payment Voucher

i. Cheque or Cash Order Form

3.6.1 Personal emolument form

This is the form that confirms that an officer is still in service as at the beginning of the year. The Personal Emolument Form is filled and sent by Sectional Heads to all Departmental heads at the beginning of the year. It contains the grade level and post of the officer.

ILLUSTRATION OF PERSONAL EMOLUMENT FORM

LAGOS STATE GOVERNMENT

MINISTRY OF TRAINING AND ESTABLISHMENT

PERSONAL EMOLUMENT FORM (PEF)

NAME:

	ALABI	**JOHNSON**	**ADEKOLA**
	Surname	First Name	Other Name
ADDRESS:	18, SHOWUMI STREET, BARIGA		
DEPARTMENT:	TRAINING		
LAST POST HELD:	SENIOR ACCOUNTS CLERK		
NEW POST ACCORDED:	ACCOUNT SUPERVISOR		
LAST GRADE LEVEL:	07		
NEW GRADE LEVEL:	08		

HEAD OF DEPARTMENT   SIGNATURE

3.6.2 Personal emolument record card

This is required to be kept in respect of every officer in the civil service. Any change that affects the remuneration of an officer will be entered in the Personal Emolument Record Card. It contains the new salary scale in the event of promotion or increment. It also contains deductions as regards servicing of advances.

3.6.3 Group register

This is maintained to record the names of all civil servants within a ministry or Department. It serves as a control against the insertion of ghost workers in the payrolls. It contains the Personal Emolument Card No, the name of the officer, rank and date registered. The number in the register should correspond with the control number in the Personal Emolument Card.

3.6.4 Salary variation advice

This is used by the Personal Emolument Department of the ministry to inform the Account Section about any changes affecting the salary of an officer. It is issued when an officer is being promoted, retired, suspended, dismissed or transferred. Five copies would be prepared and distributed to the following sections/files:

1 Payroll Section
2 Variation Control Section
3 Internal Audit Section
4 Variation Control File
5 Officer's Personal File.

3.6.5 Variation control sheet.

This is prepared by the variation control section to serve as control over the payroll prepared by the salary section. It is a record that is maintained to show each variation in the month of emoluments, taxable allowances and the deductions from emolument for each officer. The aggregate of these variations will be summed up or subtracted from the relative aggregate of that of the previous month. The figure arrived at after the addition or subtraction will determine the total emoluments, taxable allowances and other types of deductions to be effected in the current month's salary.

3.6.6 Payroll summary voucher

It is the form used to sum up the various columns or the separate payrolls. The total obtained is compared with that on the Variation Control Sheet.

3.6.7 Advice of deduction from salary

This is a form used to cover any deduction made from salary of an officer e.g. taxes, union dues, advances etc. It is prepared by the Sectional Head and sent to the salary section. The purpose is to notify the salary section of the deduction to be made from the salary of an officer for the period.

3.6.8 On-payment vouchers

These are vouchers raised at the personnel department of the salary section in respect of deductions that have been made from salary and are payable directly to other authorities e.g. NSITF, National Housing Fund, Union Dues, Taxes etc.

3.6.9 Cheque or cash order form

This is a form that usually accompanies a prepared payroll and payment voucher when cash is to be obtained from the Federal Pay Office for the payment of salaries.

3.7 INTEGRATED PERSONNEL & 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 to enhance confidence in staff emolument costs and budgeting.

3.7.1 Objectives

1. Facilitates planning: having all the civil service records in a centralised database will aid manpower planning as well as assist in providing information for decision making.
2. Aid Budgeting: An accurate recurrent expenditure on emolument could be planned and budgeted for on a yearly basis.
3. Monitor the monthly payment of staff emoluments against what was provided for in the budget.
4. Ensure database integrity so that personnel information is correct and intact.
5. Eliminate payroll fraud such as ghost workers syndrome.
6. Facilitate easy storage, updating and retrieval of personnel records for administrative and pension processes

MDAs are Ministries Department and Agencies within the Civil Service where the IPPIS will be implemented. Six MDAs selected in the pilot phase of the project are:

1. Federal Ministry of Education
2. Federal Ministry of Finance
3. Federal Ministry of Foreign Affairs
4. Federal Ministry of Information
5. Federal Ministry of Works
6. National Planning Commission

3.7.2 Functions of component OF IPPIS

1. Data captive equipment with fingerprint scanners for biometric enrolment and camera for employee photograph.
2. Each of the pilots MDA can capture, update and process their personnel records.

3. There are presently about 30,000 civil servants from the pilot MDAs whose records and biometric data have been captured, verified and stored in the centralized personnel database of IPPIS.
4. Salaries are now paid directly into the bank account of civil servants whose records exist in the IPPIS database
5. Third party agencies like FIRS, SBIR, PENCOM and Cooperative Societies also receive their payments directly.

4.0 SUMMARY

In this unit you have learnt about the use of vouchers. A voucher is a documentary evidence of payment or receipt of money which is available for future reference, accounting and auditing purposes. It is the document that serves as evidence of receipt and disbursement of government money with adequate authority and procedures. FR 601 requires that all payment entries in the cash book/accounts shall be vouched for on one of the prescribed treasury forms. Vouchers can be classified into four main types:(1)Payment Vouchers, (2) Receipt Vouchers, adjustment Vouchers, and (4) Journal Vouchers.

Payment vouchers are vouchers that are prepared whenever payments are to be made. They are prima facie evidence for the disbursement of government funds. They also serve to prove that there has indeed been payment for goods supplied and services provided for the ministry or department. A valid voucher must contain: (1) date of the voucher, (2) Classification code, (3) Voucher Number, (4) Description of Payment (5) Name and address of payee, (6) Amount (in words and figures), (7) Signature of the paying cashier, (8) Cahiers stamp "PAID" , (9) Signature of the payee, (10) Cheque number ,(11) Authority:- Types of warrant that release the money, Signature of officer controlling expenditure, and (12) Supporting documents:- Local Purchase Order (LPO) – original copy - Receipt/Invoice – original copy. - Special Letter of Authority - Delivery Note - Tender Certificate (in case of contract)

Receipt vouchers are vouchers raised as evidence for the receipt of government funds and property. The following documents are used to acknowledge the receipt of government revenue: (a) Printed Government receipts, (b) Counterfoil books, (c) License, (d) Stickers, and (e) Emblems.

Adjustment vouchers are used for the follow: (a) Effecting payment for services rendered by one ministry/department to another, (b) Adjusting wrong posting of transactions in respect of expenditure and revenue heads or subheads, (c) Reclassification of transactions, and (d) Allocation of unallocated stores.

FR 902 identify the following types of adjustment vouchers shall include the following:(a) Adjustment Voucher (TF23), (b)Supplementary Journal Voucher (SJV), and (c) Principal Journal Voucher (PJV).

5.0 CONCLUSION

In this unit, you have learnt about the various types of vouchers. You also learnt about the treatment of loss of items in the store. The functions and objectives of Integrated personnel and payroll information system were also discussed.

6.0 TUTOR MARKED ASSIGNMENT

1 Discuss the Sub-Accounting Officer's duties before payment on a Voucher
2 What are rules guiding the use of Receipt voucher?
3 What are the objectives and functions of the Integrated personnel & payroll information system (IPPIS)?

7.0 REFERENCES/ FURTHER READING

Adams, R.A. (2014) *Public sector accounting and finance made simple, revised edition* 3, Lagos: Corporate Publishers Venture.

Emeni, F.K., Ogiedu,K.O., Mgbame, C.O., & Erhagbhe, E. (2008) *Public sector accounting and finance*, Benin City: Mindex Publishing Company Limited

ICAN (2014). Public sector accounting and finance, Lagos: ICAN

Ogiedu, K.O. (2016) *Lecture notes on public sector accounting and finance*, Benin City, Unpublished

Omolehinwa, E.O., & Naiyeju, J.K. (2015) *Government accounting in Nigeria: An IPSAS approach*, Lagos: Pumark (Educational Publishers).

UNIT 5 THE CASH OFFICE

MAIN CONTENT

1.0 INTRODUCTION

In this unit, you will learn about the cash office in the public sector. You will also learn about the essential features of a cash office, the functions of the cash office and books of accounts maintained in the cash office. The procedures for the drawing of cash from the bank and the various cash control measures will also be discussed in this unit.

2.0 OBJECTIVES

After studying this unit, the should be able to:

1. Know the Essential features of a cash office.
2. Know the functions of the cash office
3 Know the Books of accounts maintained in the cash office and the different types of the cashbook
4. Appreciate the procedures for the drawing of cash from the bank.
5. Appreciate the various cash control measures.

3.1 THE CASH OFFICE OR PAY OFFICE

The general duties of the Pay Office are mainly the receiving and payment of cash, the keeping of cash books to record all the cash transactions and the operation of a Bank Account on which cheques are drawn and providing information on the cash position at a given date. Security is essential in the management of Pay Office duties and this includes provision of a Cashier's cage and partition to ensure that only staff of that office and other authorized persons can move in and out of the Pay Office. Effective internal check system is also of utmost importance in the operations in the Pay Office to minimize fraud and loss of funds. Up-to-date recording of transactions and regular supervision by checking of records must be carried out to eliminate chances that might be exploited leading to theft, etc. The Cash Office is thus a very sensitive department in an establishment and as such only diligent, trustworthy, hardworking, and experienced and security conscious personnel should be put in charge.

3.2 ESSENTIAL FEATURES OF A CASH OFFICE

Flowing from the above description of the Cash office, the following peculiar features exist in a typical cash office

1 Paying cage or cubicle.

2 Notice to the public showing working hours in the office.

3 Cash tank or Safe with dual control keys.

4 Notice of restriction of entry by non staff or unauthorized person.

5 Security personnel.

6 A Close Circuit Monitor.

7 Security Alarm device.

8 Counting Machine.

9 Mercury light.

10 Computer System.

11 Fire Alarm.

3.3 FUNCTIONS OF THE CASH OFFICE

The basic functions of the Treasury cash office are:

1. Receipt and payment of liquid cash.
2. Safe custody of cash.
3. Maintenance of a conventional cash book to record all cash transactions.
4. Operation of the Ministry/Departments current account on which cheques are drawn.

5. Balancing of cash book transactions on daily basis.
6. Reconciliation of bank statement balances with cash book balances monthly or as at when required.
7. Submission of original cash book and all copies of vouchers to the accounts department. This is required for the preparation of final accounts.

3.4 BOOKS OF ACCOUNTS MAINTAINED IN THE CASH OFFICE

In order to effectively and efficiently carry out its function, the cash office is required to maintain the following books of accounts:

i. Treasury Receipt Book.
ii Cheque Summary Register.
iii Bank Teller
iv Cash Book
v Cheque Book
v Cheque Dispatch Register
vi Payment Voucher Register
vii Paper Money Register e.g. dividend warrant, stamp, money order, postal order e. t. c.
viii Pay-in Form.
ix Dishonored Cheque Register
X Safe Content Register

Self- Assessment Exercise

1. What are the books of account expected in a cash office?

3.5 TYPES OF THE CASH BOOK

There are three types of cash book kept in the ministry. They are:

i. The Treasury Cash Book
ii. The imprest Cash Book
iii. Revenue Collectors Cash Book

3.5.1 THE TREASURY CASH BOOK (TF15a)

This is the main accounting book of original entry. The Treasury Cash Book is used in recording all receipts and payments of any nature whether belonging to above the line or below the line accounts. Both revenue and expenditure are entered in the cash book. The cash book is divided into two sections. The right side contains all payments while the left side contains record of receipts. Each side consists of eight columns.

Cash Books are posted to reflect the transactions of each day and balancing is effected same day. The ruling of the Cash Book provides columns for cash transactions, bank transactions and total amount on the receipt side and for Gross Amount, Deductions and Net amount payable on the payment side. Balancing of petty cash transactions are done separately from that of bank transactions and the balances of the two are not mixed up.

Receipts issued are posted on the left hand side of the Cash Book. The particulars of the Serial Number, the Payee and the classification are to be entered. If the amount is received through a bank teller or supported by a Bank Advice, it is posted in the Bank Column and extended to the Total Column. If the amount received is in cash, it is entered in the Cash Column and also extended to the Total Column.

For payments, the voucher is entered along with the payee, the classification of the transaction, the payee's bank’s where applicable, and the number of the cheque issued in payment. The amount is entered in the Gross Amount Column, deduction, if any, or cash paid goes into the next column and the net amount or amount on cheque issued is extended into the last column. A receipt is issued for any deduction made on a payment voucher and the receipt is posted on the column for cash on the left side of the Cash Book.

A separate Petty Cash Book may be maintained and this allow for responsibilities to be assigned for control and convenience. Cash balances on daily basis are confirmed by specification of physical cash retained in the Safe or Cash Tank and thin must- checked and certified by the head of the cash office before locking up after closing hours.

Where more than one cash book is maintained for bank transactions, one of the Cash Books is designated the main one into which total transactions in the other Cash Books will be transferred for balancing. A Summary Cash Book may is necessary where many Cash Books are in use. The total transactions from each of the other Cash Books will be transferred into the Summary Cash Book. This Summary Cash Book will be the only one to balance aggregate of transactions for the day and to record balances brought forward and carried forward.

FORMAT OF A TREASURY CASH BOOK (TF15a)

MINISTRY/DEPARTMENT/STATION……………DATE……………….

Voucher No	From Whom Received	Classification: Head/Subhead	Treasury Receipt No issued	No on Bank Slip	Cash	Bank	Total Amount	Treasury No or Dept No	To whom Paid	Classification: Head/Subhead	Payee Bank	Cheque No	Gross Amount	Deduction or Cash 8. Total	Bank or Net

ILLUSTRATION 1

The following extracts were obtained from the books of the Ministry of Works for the month of July, 2016.

			^’000	^’000
(i) Balance b/d from June 2016	-	Bank	3,300,000	
	-	Cash	75,600	
(ii) A. Allocation for Recurrent Expenditure				17,000,000
B. Allocation for Capital Expenditure				23,000,000
(iii) Final payment for the supply of furniture 211/12 (FBN cheque no. 003816 Issued)				9,200,000
(iv) Payment of staff salaries (FBN cheque no. 0041116)				8,000,000
(v) Deductions made from salaries:				
Advances- Salary 15/16				30,000
Advances-Motor Vehicles	15/8			130,000
Ad advances-Correspondence	15/3			120,000
Surcharge of Senior Officers	11/7			100,000

(vi) Repairs of Motor Vehicles 18/7- LKJ Motor (Cheque no. 001816 16,000

(vii) Payment for electricity 23/8(FBN Cheque no. 004416) 194,000

(viii) Maintenance of office building 23/2 (FBN Cheque no. 001616 128,000

Required: Post these transactions into the Treasury Cash Book of the Ministry for the month of November, 2009.

SOLUTION

VOUCHER NO	FROM WHOM	CLASSIFICATIO	TREASURY	BANK SLIP NO	CASH	BANK	TOTAL AMOUNT	TREASURY NO.	TO WHOM	CLASIFICATION	PAY BANK	CHEQUE NO	GROSS AMOUNT	DEDUCT OR CASH	BANK OR NET
					^	^	^						^	^	^
Sept ,2009	Bal b/d Exp. Allocation				75,600	3,300,000	3,375,600		Supply of Furniture	211/12	FBN	003816	9,200,000		9,200,000
	Recurrent Expenditure					17,000,000	17,000,000		Salaries		FBN	4116	8,000,000	380,000	7,620,000
	Capital Expenditure					23,000,000	23,000,000		Repair of Motor Vehicles	18/7	FBN	1816	116,000		116,000
									Electricity	18/7	FBN	4416	194,000		194,000
									Maint.	23/2	FBN	1616	128,000		128,000
									Bal				25,73	75,6	26,04

									c/d				7,600	00	2,000
					75,600	43,300,000	43,375,600						43,375,600	75,600	43,300,000
Oct. 2009	Balance b/d				75,600	26,042,000	25,737,600								

*Represents deductions not cash flow and not considered in the balance carried forward.

3.5.2 REVENUE COLLECTORS CASH BOOK

A Revenue Collector is a government officer in possession of an official receipt book TF6 or TF6A or any other receipt books for the collection of specified items of the revenue provided for in the approved budget.

FORMAT OF A REVENUE COLLECTORS CASH BOOK

MINISTRY/DEPARTMENT:………….. **DATE:………………**

DR **CR**

Date	Revenue Receipt No		Classification		From Whom	Amount	Date	Treasury Receipt No
			Head	Subhead				

3.6 DRAWING OF CASH FROM BANK

When it is necessary to draw cash from bank, a cheque is issued for the amount after due authorization processes but without raising a payment voucher. The cheque is posted as payment in the bank column of the Cash Book as "Cash Drawn from Bank" and will not have any number as the posting of a payment voucher. On receipt of the amount from the bank the amount will be posted as a receipt in the Cash Column or into the Petty Cash Book and as an addition to Cash hold in the Pay Office. After closing the Cash Book at the end of the day, the amount, or any balance, if part of it has been used, is included in the physical cash to be certified as balance being carried forward to the following day.

Where substantial amount of physical cash is held and it is desired to pay part of it to the bank, a Teller or Paying-in form will be completed and posting will be a payment in the Cash column or in the Petty Cash Book and the Teller will be posted as a receipt in the Bank Cash Book. No payment voucher or a receipt is to be issued to cover the transaction since both are 'contra' entries recording movement of physical cash to or from the Bank Account of the Ministry/Department.

Where it is necessary to keep a cash float of substantial amount in the office for urgent transactions, withdrawal of cash from bank will follow the same processes stated above. The amount will also be recorded as physical cash in total sum in support of the balance being carried forward in the Cash Book. Custody of such a float should be in a safe or cash box with double locks or in a strong room to ensure dual control and responsibility for the safety and accounting for the float. A cash float register or imprest cash book is also kept. Each withdrawals and receipts must be signed for. It should be noted that the balance in the Cash float register is part of the total cash balance in the Petty Cash Book.

3.7 CHEQUE SUMMARY REGISTER

The Cheque Summary Register serves as a useful record for the balancing of bank transactions in the Cash Book. All cheques issued and all receipts into the Bank Account, all vouchers raised to cover bank advices, tellers of all payments to Bank and any other bank transactions as may be recorded in the Cash book are posted into the Cheque Summary Register. It be balanced everyday with balances brought forward and carried forward recorded. These balances must agree with the cash book. As an internal check, the person posting the Cheque Summary Register should not be the same person posting the Cash Book. The Cheque Summary Register should also be cheeked by the Head or the Pay Office.

3.8 CASH CONTROL MEASURES

Cash control means the actions to be taken to ensure that all government income is collected on as and at when due and also to ensure that fraud is prevented in the process of cash management. Some of the usual cash control measures in the cash office are:

1. Establishment of 'authority limit.'
2. Establishment of cash limits.
3. Daily banking of all takings.
4. Cash survey or surprise cash count
5. Dual control of the safe. This means that it takes at least two staff to open the safe Installation of 'red alarm'.
6. Investment of idle funds
7. Regular balancing of the Cash book.
8. Preparation of bank reconciliation statements.

Self- Assessment Exercise.

1. List the cash control measures expected in a cash office.

4.0 SUMMARY

In this unit, you have learnt about the cash office and its operations in the public sector. The general duties of the Pay Office are mainly the receiving and payment of cash, the keeping of cash books to record all the cash transactions and the operation of a Bank Account on which cheques are drawn and providing information on the cash position at a given date. Security is essential in the management of Pay Office duties and this includes provision of a Cashier's cage and partition to ensure that only staff of that office and other authorized persons can move in and out of the Pay Office. Effective internal check system is also of utmost importance in the operations in the Pay Office to minimize fraud and loss of funds. Up-to-date recording of transactions and regular supervision by checking of records must be carried out to eliminate chances that might be exploited leading to theft, etc. The Cash Office is thus a very sensitive department in an establishment and as such only diligent, trustworthy, hardworking, and experienced and security conscious personnel should be put in charge.

There are three types of cash book kept in the ministry: (1) Treasury Cash Book, (2) the imprest Cash Book, and (3) Revenue Collector’s Cash Book. The Treasury Cash Book the main accounting book of original entry. The Treasury Cash Book is used in recording all receipts and payments of any nature whether belonging to above the line or below the line accounts. Both revenue and expenditure are entered in the cash book. The cash book is divided into two sections. The right side contains all payments while the left side contains record of receipts. Each side consists of eight columns. The Revenue Collector is a government officer in possession of an official receipt book TF6 or TF6A or any other receipt books for the collection of specified items of the revenue provided for in the approved budget. He uses the Revenue Collector’s cash book for this

When it is necessary to draw cash from bank, a cheque is issued for the amount after due authorization processes but without raising a payment voucher. The cheque is posted as payment in the bank column of the Cash Book as "Cash Drawn from Bank" and will not have any number as the posting of a payment voucher. On receipt of the amount from the bank the amount will be posted as a receipt in the Cash Column or into the Petty Cash Book and as an addition to Cash hold in the Pay Office. After closing the Cash Book at the end of the day, the amount, or any balance, if part of it has been used, is included in the physical cash to be certified as balance being carried forward to the following day.

The Cheque Summary Register serves as a useful record for the balancing of bank transactions in the Cash Book. All cheques issued and all receipts into the Bank Account, all vouchers raised to cover bank advices, tellers of all payments to Bank and any other bank transactions as may be recorded in the Cash book are posted into the Cheque Summary Register. It be balanced everyday with balances brought forward and carried forward recorded. These balances must agree with the cash book. As an internal check, the person posting the Cheque Summary Register should not be the same person posting the Cash Book. The Cheque Summary Register should also be cheeked by the Head or the Pay Office.

5.0 CONCLUSION

In this unit, you have learnt about the various cash control measures put in place to ensure that all government income is collected on as and at when due and also to ensure that fraud is prevented in the process of cash management. Some of the usual cash control measures in the cash office are: (1)Establishment of 'authority limit, (2) Establishment of cash limits, (3) Daily banking of all takings, (4) Cash survey or surprise cash count, (5) Dual control of the safe. This means that it takes at least two staff to open the safe Installation of 'red alarm, (6) Investment of idle funds, (7) Regular balancing of the Cash book, and (8) Preparation of bank reconciliation statements.

6.0 TUTOR MARKED ASSIGNMENT

1. State four functions of the cash office.
2. Explain the cash control measures in a typical cash office.

3. What are the essential features of a cash office?

7.0 REFERENCES/FURTHER READING

Emeni, F.K., Ogiedu, K.O., Mgbame, C.O., & Erhagbhe, E. (2008) *Public sector accounting and finance*, Benin City: Mindex Publishing Company Limited.

ICAN (2009) *Public sector accounting for accounting technicians scheme of WEST AFRICA (ATSWA):* Study pack, Lagos: ICAN

ICAN (2014). Public sector accounting and finance, Lagos: ICAN

Ogiedu, K.O. (2016) *Lecture notes on public sector accounting and finance*, Benin City, Unpublished

UNIT 6 BANK RECONCILIATION

CONTENT

1.0 INTRODUCTION

In this unit, you will learn about bank reconciliation in the public sector, it's need and importance. You will also learn the reasons for disagreement between the cash book and bank statement. Furthermore, the two methods of preparing bank reconciliation statements will be discussed.

2.0 OBJECTIVES

After reading this unit, the student should be able to:

1 To appreciate the concept of bank reconciliation.

2 Understand the need and importance of Bank Reconciliation

3. Identify the reasons for disagreement between the cash book and bank statements

4 Understand the preparation of bank reconciliation statements

3.1 BANK RECONCILIATION

The balance of the bank column in cash book represents the customer's cash balance at bank. It should be the same as shown bank statement on any particular day. For every entry made in the cash book if there is a corresponding entry in the pass book (maintained by the banker) or vice versa, the bank balance will be the same in both the books. However, it must be noted that the cash book and the banks account are maintained by two different parties and hence it is not certain that entry in one book will always have a corresponding entry in the other. Normally entries in the cash book should tally (agree) with those in the bank statement and the balances shown by both books should be the same. But in practice, the balances generally differ. In case of disagreement in the balance of the cash book and the pass book, the need for preparing Bank Reconciliation Statement arises.

Bank reconciliation statement is a list in which the various items that cause a difference between bank balance as per cash book and the balance per the bank statement as a given date are shown.

3.2 **Need and Importance of Bank Reconciliation**

The following are the advantages which make bank reconciliation important.

i. The errors that might have taken place in the cash book in connection with bank transactions can be easily found.

ii. Regular preparation of bank reconciliation statement prevents frauds.

iii. It indirectly imposes moral check on the accounting staff.

iv. By the preparation of bank reconciliation statement, uncredited cheque can be detected and steps can be taken for their collection.

v. It discloses any unauthorised cheque issued and cashed.

vi. It reveals any lodgements not credited by the bank either by omission or commission.

Self- Assessment Exercise.

1. Define Bank reconciliation and explain it's advantages.

3.3 REASONS FOR DISAGREEMENT BETWEEN THE CASH BOOK AND BANK STATEMENT

The timing and information differences which can cause disagreement are

a. Unpresented cheque

b. Uncredited cheque

c. Dishonoured cheque

d. Bank charges and interest

e. Standing order

f. Dividend

g. Credit transfer

h. Errors by the bank

i. Direct debits

j. Other errors like under casting or overcasting of the cash book balance brought down.

The meaning, effect and correction of each error will be explained separately below for clarity and simplicity.

1 UNPRESENTED CHEQUE: These are cheques drawn or issued out in favour of somebody but have not been drawn from the bank at the time of preparation of the bank statement. The cheques can be delayed for months if the recipients fail to pay them i in. The firm had credited the cash book with the cheque issued out, thereby reducing the balance of the cash book but it had not been debited (deducted) to the bank statement. So the balance of the bank remains the same. The effect of this is that the balance of cash book is less than the balance of the bank statment. Correction: Unpresented cheque must be added back to cash book balance.

2 UNCREDITED CHEQUE: These are cheques received and entered on the debit side of the bank statement had been prepared before the cheques were paid in. The effect of this is that the cash book will show a balance that is more than the balance of bank statement . To correct this, the uncredited cheques must be deducted from the balance of the cash book

3 DIVIDEND: This is part of the profit for shares held by the government paid direct to the bank account. The balance of the bank statement will show variance that is more than the balance of the cash book since the dividend will not be reflected in the cash book. To correct this, the dividend is added back to the balance of the cash book.

4 STANDING ORDER: This is an order made by the government to the bank to make regular payments to somebody, e.g. hire purchase instalments. It can be weekly, quarterly or yearly. The effect of this is that the balance of the bank statement will be less than the balance of the cash book. To correct this, the standing order is deducted from the cashbook balance.

5. DISHONOURED CHEQUES: These are cheques received from custom and paid in by the firm, but were rejected by the bank as a result of wrong signature, incorrect amount etc. The dishonoured cheques have not been reflected in the cash be Effect: The balance of the bank statement will be less than the balance of the cash book. To effect correction, the cheques are deducted from the cash book.

6. CREDIT TRANSFERS: These are the payments made by customers of the government directly into their account in the bank without the awareness of the cash office. Tis has the effect of making the balance of the bank statement to be more than the balance of the cash book. The amount of the Credit transfers are added back to the cash book balance to effect the correction.

7. BANK CHARGES AND INTEREST: This is the amount deducted banks for services rendered. The bank will deduct the charges without informing the government and the cash office will not be aware of it until the bank statement is received. The effect of bank charges and interest is to make the balance of the bank statement to be less than the cash book balance. This is corrected by deducting bank charges from the cash book balance.

8. ERRORS BY THE BANK: Bank can make mistakes. A sum paid in by a customer may be credited to another customer's account.

9. UNDER CASTING OR OVER CASTING OF CASH BOOK BALANCE: Under casting occurs when there when the balance brought down is understated as a result of arithmetical error or error of addition and subtraction. On the other hand, overcasting occurs when the balance brought down is overstated. Both overcasting and under casting also result in the disagreement between the cash book balance and the bank statement balance. The correction depends on the nature of the error.

3.4 PREPARATION OF BANK RECONCILIATION STATEMENT

A bank reconciliation statement can be prepared from two perspectives:

A. Preparation of only the bank reconciliation statement.

B Adjustment of the cash book

It should be noted that whichever method is used, the answer must be equal, but the second method is preferred as it appears more practical.

3.4.1 METHOD A: PREPARATION OF ONLY BANK RECONCILIATION STATEMENT

Under this method, only the reconciliation will be prepared. We can start with either the cash book balance or bank statement balance. There will be no adjustment of the cash book.

Format of bank reconciliation statement starting with balance in cash book:

BANK RECONCILIATION AS AT 31ST DECEMBER, 20XX

		^	^
Balance as per cash book			X
Add	Unpresented cheques	X	
	Credit transfers	X	
	Dividend	X	
Undercasting of receipt side of cash book		X	X
Less	Uncredited cheque	X	
	Bank charges	X	
	Bank commission	X	
	Standing order		X
	Dishonoured cheque	X	
	Overcasting of receipt side of cash book	X	X
	Balance as per bank statement		X

3.4.2 FORMAT FOR BANK RECONCILIATION WHEN THE BANK STATEMENT BALANCE IS KNOWN

BANK RECONCILIATION STATEMENT AS AT 31ST DECEMBER

	^	^
Balance as per bank statement		X
Add Uncredited cheques	X	
Bank charges	X	
Standing order	X	
Dishonoured cheques	X	
Overcasting of receipt side of cash book	X	

Direct debits	X	X
	A	
Less Unpresented cheques		
Credit transfers	X	
Dividends	X	
Undercasting of receipt side of cash book •	X	_X_
Balance as per cash book		X

Illustration 1

1. On 31st March 2015, Ogiedu State University cash book showed a debit balance of ^2,000,000. Bank statement showed a balance of ^2,270,000. On comparison, the following were found

a. Cheques drawn amounting to ^l ,500,000 had not been presented for payment.

1. A standing order of ^600,000 to a club was not taken into consideration.
2. Bank charges of ^50,000 were entered in the bank statement only.
3. A dividend of ^300,0000 from the university's investment was paid directly into the bank and not recorded in the cash book.
4. Cheques for ^1,000,0000 were entered into the cash book and paid to the bank but had not been cleared and thus not credited.
5. A customer, Killien, paid ^120,000 directly into the bank without notifying the University.

Solution

The above question will be solved by starting with the balance as per cash book

Bank reconciliation statement as at 31st March 2015

	^'000	
Balance as per cash book		2,000
Add Unpresented cheque	1,500	
Dividends	300	
Credit transfers	120	1,920
		[illegible]
Less Uncredited cheque	1,000	
Standing order	600	
Bank charges	50	1,650
Balance as per bank statement		2,270

We can also start with the balance as per bank statement. The workings will be shown below:

Bank reconciliation statement as at 31st March 2015

	^'000	^'000
Balance as per bank statement		2,270
Add Uncredited cheque	1,000	
Standing order	600	
Bank charges	50	1,650,
		3,920
Less Unpresented cheque	1,500	
Dividend	300	
Credit transfer	120	1 .920
Balance as per cash book		2 ,000

METHOD B: THE ADJUSTED CASH BOOK

Under this method, an adjusted cash book is prepared and then used to prepare the bank reconciliation statement. Any item occurring in the adjusted cash book is no longer recorded in the bank reconciliation statement. The format for the preparation of bank reconciliation using the adjusted cash book method is shown below.

	^		^
Bal. b/d	X	Bank commission	X
Credit transfers	X	Bank charges	X
Dividends	X	Standing orders	X
Receipt under cast	X	Dishonoured cheques	X
Payment over cast	X	Payment under cast	X
	X	Receipt over cast	X
Balance b/d	X		X
		Balance c/d	X

Note that if the payment side is greater than the receipt side, then the balance is overdraft.

After the preparation of the, the bank reconciliation statement is then prepared.

Bank Reconciliation Statement as at--------------------------

	^
Balance as per adjusted cash book	X
Add: unpresented cheques	X
	X
Less: Uncredited cheques	X
Balance as per bank statement	X

Illustration

On the 31st August, 2016, Osikhena Enterprises' cash book showed a debit balance of ^3,500, 000 whereas the bank statement showed a balance of ^2,325, 000.

On investigation the following items were discovered to have caused the discrepancy:

a. The bank had made charges of ^310,000 which had not been entered in the cash book.

b. A cheque received for ^2,000,000 entered in the cash book had not been entered by the bank until November, 23rd 2016.

c. A standing order for subscription of ^150,000 had been entered in the bank statement as paid but not in the cash book.

d. The following cheques were, drawn but not yet presented for payment in the bank: cheques for ^300,000; ^600,000 and ^250,000

e. A cheque drawn for ^50,000 has been entered as ^60,000

f. A cheque for ^35,000 previously received and paid into the bank had been returned by the bank.

g. A customer paid ^160,000 directly into their account in the bank. It had not been entered in the cash book.

You are required to prepare:

i. Adjusted cash book

ii. Bank reconciliation statement as on 31st August 2016

SOLUTION

Adjusted cash book

Dr. Cr.

	2016		
	^'000		^'000
Bal b/d	3,500	Bank charges	310
Payment overcast	10	Dishonoured cheque	35
Credit transfers	160	Standing order	150
	3,670	Bal. c/d	3,175
			3,670

Bank Reconciliation as at 31st August, 2016

	^	^
Balance as per adjusted cash book		3,175
Add: Unpresented cheques	300	
	600	
	250	1,150
		4,325
Less: Uncredited cheques		2,000
Balance as per bank statement		2,325

4.0 SUMMARY

In this unit, you learnt about bank reconciliation in the public sector. The balance of the bank column in cash book represents the customer's cash balance at bank. It should be the same as shown bank statement on any particular day. For every entry made in the cash book if there is a corresponding entry in the pass book (maintained by the banker) or vice versa, the bank balance will be the same in both the books. However, it must be noted that the cash book and the banks account are maintained by two different parties and hence it is not certain that entry in one book will always have a corresponding entry in the other. Normally entries in the cash book should tally (agree) with those in the bank statement and the balances shown by both books should be the same. But in practice, the balances generally differ. In case of disagreement in the balance of the cash book and the pass book, the need for preparing Bank Reconciliation Statement arises.

The timing and information differences which can cause disagreement are: (1) Unpresented cheque, (2)Uncredited cheque, (3) Dishonoured cheque, (4) Bank charges and interest,

and (10) Other errors like under casting or overcasting of the cash book balance brought down. Bank reconciliation can be prepared in two ways; (i) preparation of only the bank reconciliation statement and (ii) Using the method of Adjusted cash book

5.0 CONCLUSION

In this unit, we have looked at the various causes of differences between the cashbook and the Bank statement. You have been taught how to prepare a Bank reconciliation statement to reconcile these differences. In the next unit, we shall be looking at other documents prepared in the cash office.

6.0 TUTOR MARKED ASSIGNMENT

1. What are the usual sources of differences between the cash book balance and the bank statement balance?
2. Explain the need and importance of bank reconciliation

7.0 REFERENCES /FURTHER READING

ICAN (2014).*Public sector accounting and finance*, Lagos: ICAN

Ogiedu, K.O. (2016) *Lecture notes on public sector accounting and finance*, Benin City, Unpublished

MODULE III

UNIT 1 PREPARATION OF TRANSCRIPTS

CONTENT

4.0 Summary
5.0 Conclusion
6.0 Tutor marked Assignments
7.0 References/ further reading

1.0 INTRODUCTION

In this unit, you will learn about the meaning and different types of transcripts and their preparation. You will learn about self – accounting units including the conditions to be fulfilled for a ministry to be self-accounting, duties of the head of accounts of a self-accounting unit, the advantages and disadvantages of a self-accounting unit. You will also learn about non-self-accounting units and the general procedures for the preparation of a transcripts. Furthermore, you will be introduced to the concepts of above the line and below the line items

2.0 OBJECTIVES

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

1 Appreciate the meaning and different types of transcripts
2. List the documents attached to transcripts
3 Have adequate understanding of self – accounting units including the conditions to be fulfilled for a ministry to be self-accounting, duties of the head of accounts of a self-accounting unit, the advantages and disadvantages of a self-accounting unit.
4. Know about non-self-accounting unit
5. Understand the procedures for the preparation of a transcript
6. Know the format of a transcript
7. Know the differences between above the line and below the line items

3.0 MAIN CONTENTS

3.1 INTRODUCTION TO TRNSCRIPTS

The preparation of the monthly transcript is a very important aspect of the functions of a self-accounting ministry because transcript is the means by which the information on the cash transactions are transmitted to the treasury. The ministry/department is also required to maintain certain records and furnish a number of returns as part of the compilation of the final accounts indicating the position of the accounts for the month. The transcript is simply the summary of the total payments and receipts as posted in the cash book.

3.2 TYPES OF TRANSCRIPTS

Every self-accounting unit is required to prepare three types of transcripts

1. Cash Transcript: - This is also called the main transcript. It is used by self-accounting and sub accounting units. It is to the Accountant-General of the Federation on monthly basis
2. Supplementary Transcript:- This is used for summarizing inter-ministerial or inter- governmental transactions. It is the main adjustment to the main transcript prepared in accordance with the principle of Double Entry.
3. Subsidiary transcript is prepared to complement the main transcript. It is used to correct errors or omissions in the Main Transcript.

3.3 DOCUMENTS ATTACHED TO TRANSCRIPT

The following documents are required to be attached to transcripts prepared by self-accounting units when submitting them to the treasury.

(a) Bank reconciliation statement.

(b) Certificate of cash and bank balances.

(c) Schedule of outstanding vouchers

(d) Schedule of vouchers pre-listed.

(e) Schedule of expenditure.

Self- Assessment Exercise

1. List the documents to be attached to a transcript.

3.4 SELF-ACCOUNTING UNIT

Section1601 of the Financial Regulations 2009 define a self-accounting unit as a ministry/extra-ministerial office and other arms of government or unit in· which the responsibility for the maintenance of the detailed record of expenditure and revenue and the Below-the-line payments

and receipts of the ministry/extra-ministerial office and other arms of government or unit is delegated to the Accounting Officer and where the Accounting Officer is required to account to the Accountant-General in total Head (or Sub-Head where applicable) form at monthly intervals, and also at the close of each financial year in the manner prescribed by the Accountant-General.

By FR1602(1) The approval of the Accountant-General is required before a ministry/extra-ministerial office and other arms of government or Unit may become Self-Accounting.

3.4.1 CONDITIONS TO BE FULFILLED FOR A MINISTRY TO BE SELF-ACCOUNTING

The approval for Self-Accounting Unit is given on the fulfilment of the following conditions:

(1) A fully constituted Internal Audit Unit is in place.

(2) An Accounting Code and Internal Audit Guide for the ministry/extra-ministerial office and other arms of government have been approved by the Accountant-General;

(3) A well-equipped Central Pay Office is in existence;

(4) There is adequate man-power for the Finance and Accounts Department is;

(5) There is a conducive office accommodation and other infrastructure are provided; and

(6) There is a secured Voucher Room.

3.4.2 DUTIES OF THE HEAD OF ACCOUNTS OF A SELF-ACCOUNTING UNIT

By the provisions of FR 1605, the Head of Finance and Accounts or Head of Accounts as may be applicable shall ensure, inter alia, that:

(a) Sub-Accounting Officers under his control submit their monthly accounts within the prescribed time limit (Financial Regulation 808);

(b) the accounts received from the Sub-Accounting Officers are examined in full detail against the supporting documents;

(c) all charges to a vote or account for which the Accounting Officer is responsible and authorised and are fully supported by original documents and payees' receipts;

(d) an abstract record is maintained to record the monthly and the cumulative yearly total of each Sub-Head of expenditure and revenue in the manner that reflects any excess of expenditure over the authorised limit or shortfall in revenue;

(e) a consolidated monthly account (monthly transcript) is forwarded to the Accountant-General' within the prescribed time limit to show;

(i) opening cash bank balance;

(ii) the Head total for the month of the recurrent receipt and expenditure of the ministry/extra-ministerial office and other arms .f government or unit;

(iii) The Head and Sub-Head totals for the month of capital expenditure;

(iv) the Head and Sub-Head totals for the month in respect of revenue;

(v) The Head totals for the Below-the-line receipts and payments for the month;

(vi) The account totals of the receipts and payments for the month;

(vii) The closing cash/bank balance;

(f) Monthly accounts are produced to the Accounting Officer to show the cumulative yearly total of expenditure and revenue of each Sub- Head under his control;

(g) There is an adequate system of Internal control over the collection of all revenues which are under the responsibility of the Accounting Officer;

(h) Detailed accounting instructions are issued to officers to embrace the general provisions of Financial Regulations and any specific directives from the Minister of Finance or the Accountant-General;

(i) Annual budget proposals of his' ministry, extra-ministerial Office or other arms of Government are compiled and defended under his supervision; and

G) Monthly and quarterly statements of budget performance of his ministries/extra-ministerial offices and other arms of government are prepared for the attention of management.

3.4.3 Advantages of a self-accounting unit

These are:

(a) It encourages usage of initiative at unit level thereby increasing motivation of the staff
(b) It increases flexibility and reduces communication problems.
(c) It freezes central and top managers of detail analysis and reduces their work overload.
(d) It facilitates the process of decision-making at the unit level
(e) It provides an avenue for on-the-job training for lower level management.

3.4.4 Disadvantages of the Operation of Self-Accounting Units

These are:

(a) It could make Co-ordination difficult particularly where there is a large number of self-accounting units.

(b) The existence of many communication lines among the various units and with the Treasury department could result to information overload.

(c) It may be difficult to achieve consistency among the various self-accounting units.

(d) Duties and services may be duplicated in the various self-accounting units.

(e) The lack of harmony among the various units may lead to sub-optimality. This means that there may be pursuit of unit objectives may have detriment effects on the maximisation of the overall objectives of the government as a whole.

(f) Adequate and well-qualified managers may not be available in practice.

Self- Assessment Exercise

1. State five advantages and five disadvantages of Self Accounting units.

3.5 SUB-SELF ACCOUNTING UNITS

A Sub-Self Accounting Unit is very is similar in many respects with the self-accounting units. They perform the same functions as those of Self-Accounting Units. They differ mainly in the list of documents that they are required to attach to the transcript they forward to the Treasury. The sub-self-accounting unit is required to attach the following additional documents:

(1) Bank reconciliation statements.

(2) Schedule of vouchers pre-listed.

(3) Original copy of cash book.

(4) Duplicate copies of payment vouchers.

(5) Certificate of cash and bank balances.

The Federal Pay Offices located in each state of the Federation is a veritable example of a sub-self-accounting unit.

3.5.1 Similarities between self-accounting and sub-accounting ministries includes

i. Both do not forward vouchers of their units to the Accountant-General of the Federation

ii. Both render expenditure in Heads total in their transcripts

iii. Both operates a central pay office

iv. Both give a breakdown of expenditure totals at the end of each financial year

v. Both establish an internal audit unit

vi. Both are approved by the Minister of finance to be of the status

viii. Both operate current accounts with banks

3.6 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 non-self-accounting units are:

(i) Code of Conduct Bureau in a state

(ii) Public Complaint Commission office in a state.

(iii) National Population Office in a State.

These units do not keep treasury cash book and they do not render transcript to the Treasury.

Their accounting records are maintained by the their head offices.

3.7 PROCEDURES FOR THE PREPARATION OF A TRANSCRIPT

The following procedure are followed in the preparation of monthly transcripts:

(i) Collation of payment and receipt vouchers together with the main cash book.

(ii) Ticking of voucher content to the cash book content to ensure completeness, corrections and accuracy of entries and postings into the cashbook.

(iii) Sorting of vouchers into heads and sub-heads.

(iv) Prelisting of vouchers sub-head by sub-head and agree total with the cash book.

(v) Posting into analysis book under heads and subheads.

(vi) Balancing of analysis book.

(vii) Compilation of transcript.

(viii) Preparation of voucher schedule.

3.8 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 certification is usually made by the Officer supervising the cashier.

3.9 FORMAT OF A TRANSCRIPT

A transcript has 6 columns on each side of the Debit and Credit. The Debit side has Head, Subhead, Description, Receipts, Total and Balance while the credit side has Head, Subhead, Description, Payments, Total and Balance. NOTE: - All transactions of below the line accounts (items of expenditure or receipts that are not listed in the budget) are shown separately in the transcript.

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 Nil balance".

3.10 BREAKDOWN OF EXPENDITURE

Only the totals of Heads of classifications in the recurrent expenditures are recorded. Consequently, a statement of expenditures 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 in the accounts. The certificate of cash and bank balances, bank reconciliation statements of internal bank adjustment, breakdown of expenditures and vouchers are to accompany the transcript to the Treasury.

3.11 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 others 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 is done monthly of the accounts in the main ledger with those of the Treasury general ledgers and whatever accounts for differences between the two ledgers are to be highlighted for follow-up action

3.12 ABOVE THE LINE AND BELOW THE LINE ITEMS

A monthly transcript is usually made up of two parts:

1. Above-the-line items and
2. Below -the –line items

Above-the- line items

These are the items of income and expenditure which contained in the appropriation act for the year. In other words, these are items which are contained in the budget approved for the year. They are the items of income and expenditure which are definite and known at the tinme of budgeting. Examples are:

1. Personnel costs
2. Overhead costs
3. Tax receivable, etc.

Below-the –line items

These are items of income and expenditure which are not budgeted for in the year. The exact amounts were not reasonably known at the time of budgeting. Examples of below the line items are:

1. Touring advance
2. Motor vehicle advance
3. Housing loan
4. Salary advance
5. Deposits held on behalf of third parties

6. Remittances
7. Cash transfers.

MINISTRY/DEPARTMENT:………………….. DATE:………………

RECEIPTS PAYMENTS

Head	Sub-head	Description/ Particular	Amount	Sub-total	Total	Head	Sub-head	Description/particulars	Amount	Sub-total	Total
		To ta l H e a d for taabove the line th e li n e									
		To ta l fo r H e a d Be l o w th e li n e						To ta l fo r H e a d Be l o w th e li n e			

ILLUSTRATION 1

You are the Accounting Technician for the Ministry of Agriculture. The following information

are available in the records of the Ministry for the month of December 2012:

Balances brought forward, 1/12/2012:

	^
Bank (Debit)	3,000,000
Cash (Debit)	4,800

Revenue items collected during the month of December 2012 were:

ABOVE THE LINE

Classification	Description	^
06/1	Other Internal Revenue (Bank)	120,000
06/2	License Fees (Bank)	200,000
07/1	Royalty on Agric Inputs (Bank)	8,000
07/2	Water Rate (Cash)	12,000
10/8	Tender Fees (Cash)	28,000
11/13	Registration Fees from contractors (Cash)	20,000
12/11	Rent on Junior Staff Quarters (Cash)	7,200
12/12	Rent on Senior Staff Quarters	10,000

BELOW THE LINE

2011	Repayment of Salary Advance (Cash)	12,000
3011	Repayment of Spectacle Advance	4,000

Payments effected during the month were:

ABOVE THE LINE

Classification	Description	^
24/1	Personnel Cost (Bank)	1,200,000
24/2	Transport	200,000
24/3	Stationery (Bank)	400,000
24/4	Utilities (Cash)	16,000
24/5	Vehicle Maintenance (Cash)	12,000

BELOW THE LINE

2011	Salary Advance (Bank)	16,000

3011 Spectacle Advance 6,000

You are required to prepare the Transcript of the Ministry for the month of December 2012. (Adapted from ATSWA Exam)

SOLUTION

MINISTRY OF AGRICULTURE, GHANA

TRANSCRIPT FOR THE MONTH OF DECEMBER 2011

HEAD	SUB-HEAD	DESCRIPTION	AMOUNT	SUB-TOTAL	TOTAL	HEAD	SUB-HEAD	DESCRIPTION	AMOUNT	SUB-TOTAL	TOTAL
		Balance b/f	3,004,800	3,004,800	3,004,800			Balance b/f			
06	01	Other internal revenue	120,000			24	01 02 03 04 05	1,200,000 200,000 400,000 16,000 12,000			
06	02	License fees	200,000					Total for head 24		1,828,000	
		Total for head 06		320,000				BELOW THE LINE			
07	01	Royalty	8,000								
	02	Water rate	2,000				2011	Salary advance	16,000		
		Total for head 07		20,000			3011	Spectacle advance	6000		
10	08	Tender fees	28,000	28,000				Total for below the		22,000	

								line			
11	13	Registration fees	20,000	20,000				Total payments			1,850,000
12	11	Rent on Junior quarters	7,200					Bal.c/d			1,576,000
	12	Rent on Senior quarters	10,000								
	12	Total for head		17,000							
		BELOW THE LINE									
		Salary advance	12,000								
		Spectacle advance	4,000								
		Total below the line		16,000	421,200						
					3, 426,000						3, 426,000

4.0 SUMMARY

This unit discussed the preparation of transcripts and related issues. The preparation of the monthly transcript is a very important aspect of the functions of a self-accounting ministry because transcript is the means by which the information on the cash transactions are transmitted to the treasury. The ministry/department is also required to maintain certain records and furnish a number of returns as part of the compilation of the final accounts indicating the position of the accounts for the month. The transcript is simply the summary of the total payments and receipts as posted in the cash book. Every self-accounting unit is required to prepare three types of transcripts: (1) Cash Transcript, (2) Supplementary Transcripts (3) Subsidiary transcript is prepared to complement the main transcript.

Section1601 of the Financial Regulations 2009 define a self-accounting unit as a ministry/extra-ministerial office and other arms of government or unit in· which the responsibility for the maintenance of the detailed record of expenditure and revenue and the Below-the-line payments and receipts of the ministry/extra-ministerial office and other arms of government or unit is delegated to the Accounting Officer and where the Accounting Officer is required to account to the Accountant-General in total Head (or Sub-Head where applicable) form at monthly intervals, and also at the close of each financial year in the manner prescribed by the Accountant-General.

By FR1602(1) The approval of the Accountant-General is required before a ministry/extra-ministerial office and other arms of government or Unit may become Self-Accounting.

The unit also discussed above the line and below the line items. A monthly transcript is usually made up of two parts: (1) Above-the-line items and, (2) Below -the –line items. Above-the- line items are the items of income and expenditure which contained in the appropriation act for the year. In other words, these are items which are contained in the budget approved for the year. They are the items of income and expenditure which are definite and known at the time of budgeting. Examples are (1) Personnel cost, (2) Overhead costs, tax receivable, etc. On the other hand, below-the –line items, are items of income and expenditure which are not budgeted for in the year. The exact amounts were not reasonably known at the time of budgeting. Examples of below the line items such as, touring advance. motor vehicle advance, housing loan, salary advance, deposits held on behalf of third parties, remittances, etc.

5.0 CONCLUSION

In this unit, you have learnt about self accounting units, sub self accounting units and non self accounting units. You have also learnt about the transcript and the differences between above the line accounts and below the line accounts.

6.0 TUTOR MARKED ASSIGNMENT

1. Briefly explain the basic steps involved in the preparation of the monthly transcripts.
2. List three major items that constitute below the line account.
3. Explain the content of the certificate of cash and bank balances?

7.0 REFERENCES/ FURTHER READING

Adams, R.A. (2014) *Public sector accounting and finance made simple, revised edition* 3, Lagos: Corporate Publishers Venture.

Emeni, F.K., Ogiedu,K.O., Mgbame, C.O., & Erhagbhe, E. (2008) *Public sector accounting and finance*, Benin City: Mindex Publishing Company Limited

ICAN (2014).*Public sector accounting and finance*, Lagos: ICAN

Ogiedu, K.O. (2016) *Lecture notes on public sector accounting and finance*, Benin City, Unpublished

UNIT 2: TREASURY FINAL ACCOUNTS

CONTENT

1.0 INTRODUCTION

In this unit, you will learn the about the Federal Treasury Department and the preparation of the treasury final accounts. You will also learn about the components or units of the Federal Treasury Department. Furthermore, the functions of the Final Accounts Unit of the Treasury Department and the various financial statements they prepare will be discussed.

2.0 OBJECTIVES

After studying this unit, you will be able to:

1 State the components or units of the Federal Treasury Department
2 State the functions of the Final Accounts Unit of the Treasury Department
3 List the Financial statements produced by the Treasury Department

4 Prepare the various statements produced by the Treasury Department

5 Prepare the Other attachments to financial statements

3.1 THE TREASURY DEPARTMENT

The office of the Accountant –General is responsible for the preparation of the final accounts at both the federal and state levels. The office is made up of eight departments:

1. Finance and Administration
2. Personnel
3. Administration
4. Treasury
5. Internal Audit
6. Ministry of Finance Incorporated
7. Treasury Academy
8. Inspectorate.

Out of these departments, the Treasury Department of the Federal Ministry of Finance is charged with the responsibility of preparing the final accounts. To execute this function effectively, the Department of Treasury is sub-divided into five units:

1. Treasury
2. Final accounts
3. Sub-Treasury
4. Revenue Monitoring
5. Cash Supply

Self- Assessment Exercise

1. List the departments which constitute Office of the Accountant General of the Federation.

3.2 FINAL ACCOUTNS UNIT

It is the ultimate responsibility of the Final Accounts unit within the Treasury Department of the Accountant-General's office that is responsible for the production of the final accounts of government. To do this, the unit obtains information from various sources such as:

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

(b) Accounts from the Federal Pay Offices, States and Local Government Councils.

(c) Accounts from the Nigeria High Commissions Overseas

3.3 FINANCIAL STATEMENTS PRODUCED BY THE TREASURY

The types, number and format of financial statements produced by the treasury in Nigeria has undergone several changes. By law, with effect from 2016, the Accrual-bases International Public Sector Accounting Standards (IPSAS) are operational in practice. However, it is common knowledge that apart from some public sector entities including Millennium Development Agencies, most governments at the federal, states and local government councils still maintain and operate the cash based system. As a result the two systems will be presented here. The cash based system is presented here while the accrual based IPSAS are discussed later.

With effect from January, 2003, the following statutory financial statements are prepared at the Federal and State Government Levels:

1. Preface to the financial statements: This is a statement by the Minister of Finance/Commissioner for Finance that gives an overview of the financial statements of the Government as prepared and presented by the Accountant-General. The overview cover among other things, the following: (i) overview of the global economy, (ii) Evaluation of Government performance for the year under review, (iii) Future economic outlook. and any other relevant remarks.

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

3. Statement of opinion of the Auditor-General. This is in the form of a Certificate given by the Auditor –General indicating whether or not the financial statements present a true and fair view of the financial position of Government as at 31st December of the relevant Year and its operations for the year ended on that date.

4. Statement No. 1 Cash Flow Statement

5. Statement No. 2 Statement of ssets and Liabilities
6. Statement No. 3 Statement of Consolidated Revenue Fund
7. Statement No. 4 Statement of Capital Development Fund
8. Notes to the Financial Statements

The formats of the statements are stated below:

3.4 FORMAT OF STATEMENT NO 1

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DEC., 20XX

	NOTE	CURRENT YEAR	PREVIOUS YEAR
		^m	^m
Cash flow from Operating Activities			
Receipts			
Statutory Revenue Allocation	3	x	x
VAT	4	x	x
Internally Generated Revenue	5	x	x
Grants / Subventions	6	x	x
Miscellaneous	7	x_	x_
Total Receipts.		x	x_
Payments			
Personnel Emoluments	8	(x)	(x)
Pensions and Gratuities		(x)	(x)
Consolidated Revenue Fund Charges		(x)	(x)
Overhead Costs		(x)	(x)
Public Debt Charges		(x)	(x)
Recurrent Grants and Subventions		(x)	(x)
Subsidies		(x)	(x)
Miscellaneous Expenses	9	(x)	(x)
Total Payments.			
Net Cash Flow from Operating Activities.		(x)	(x)
Cash Flow from Investment Activities.			
Purchase / Construction of assets	10	(x)	(x)
Purchase of Financial Market Instruments.		(x)	(x)

Proceeds from sale of Assets.		x	x_
Net Cash Flow from Investing Activities.		_x_	x
Cash Flow from Financial Activities			
Proceeds from Loans and Other Borrowings	11	x	x
Dividends Received	12	x	x
Repayment of Loans	13	(x)	(x)
Net Cash Flow from Financing Activities		x	x
Net Increase/ (Decrease) in cash & cash Equivalents		x	x
Cash & Its equivalent at l/2/20xx.		x	x
Cash & Its equivalent at 31/12/20xx		x	x

3.5 FORMAT OF STATEMENT NO 2

STATEMENT OF ASETS AND LIABILITIES FOR THE YEAR ENDEC31ST DECEMBER. 2XXX

		ACTUAL	
	NOTES	CURRENT YEAR	PREVIOUS YEAR
		^m	^m
ASSETS			
Liquid Assets			
Cash and Bank Balances	14	xx	xx
Others -	15	xx	xx
		xxx	xxx
Investments			
Min. of Finance Incorporated	16	xx	xx
Advances	17	xx	XX
Treasury clearance a/cs	18 xx	xx	
		xxx	XXX
LIABILITIES			
Consolidated Revenue Fund	19	xx	xx
Capital Development Fund	20	xx	xx
Other Government Funds	21	xx	xx
		xxx	xxx

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

3.6 STATEMENT NO. 3

CONSOLIDATED REVENUE FUND

FOR THE YEAR ENDED 31ST DECEMBER 20XX

ACTUAL PREVIOUS YEAR Nm		NOTES	BUDGET CURRENT YEAR ^m	ACTUAL CURRENT YEAR ^m		VARIANCE %
xx	Opening Balance		xx	xx		x
	Add Revenue					
xx	Statutory Revenue Allocation					
xx	Fines & Sales	25	xx	xx		
xx	Earning & Sales	26	xx	xx		
xx	Rent on Government Property		xx	xx		
						x
xx	Interest & Dividend	27	xx	xx		x
xx	Taxes (Direct & Indirect)	28	xx	xx		x
xx	Miscellaneous	29	xx	xx		x
XXX	Total Revenue (a)		xxx	xxx		X
	Less: Expenditure					
xx	Administrative Services		xx	xx		xx
xx	Education Services		xx	xx		xx
xx	Transport Services	30	xx	xx		xx
xx	Health Services		xx	xx		XX
xx	Agriculture Services	31	xx	xx		xx
xx	Others of General Nature		xx	xx		xx
xx	Subsidies		xx	xx		xx
xx	Miscellaneous	32	xx	xx		xx
xxx	Total Expenditure (b)		xxx	xxx		x
xxx	Operating Balance (a-b)		_xxx	xxx	x	
	AppropriatIions/Transfers					

xx	Capital Development Fund	xx	xx		x
xx	Loan Repayment Fund	xx	xx	x	
xxx	Closing Balance	xxx	xxx	x	

3.7 FORMAT OF STATEMENT NO. 4

CAPITAL DEVELOPMENT FUND

FOR THE YEAR ENDED 31ST DECEMBER 20XX

ACTUAL ANCEPREVIOUS YEAR Mm		NOTES	BUDGET CURREN YEAR ^m	ACTUA CURREN YEAR ^m	VARIANC %
XX	Opening Balance		XX	XX	X
	Add: Capital receipts				
XX	Value Added Tax		XX	XX	X
XX	Transfer from CRF		XX	x*	X
XX	Internal Loans	33	TO	XX	X
XX	External Loans	34	XX	XX	X
XX	Grants/ Subventions	35	XX	XX	X
XX	Miscellaneous	36	XX	XX	X
XX	Total capitals receipts (a)		XXX	XXX	X
	Less: Capital Expenditure				
	Economic Sector				
XX	Agriculture	37	XX	XX	X
XX	Livestock		XX	XX	X
XX	Forestry		XX	XX	X
XX	Fisheries		XX	XX	X
XX	Manufacture		XX	XX	X
XX	Power		XX	XX	X
XX	Commerce and Finance		XX	XX	X
	Social Service Sector				
XX	Education	38	XX	XX	X
XX	Health		XX	Xx	X
XX	Housing		XX	XX	X
XX	Others		XX	XX	X
	Regional Development Sector				
XX	Niger Delta Dev. Commission	39	XX	XX	X
XX	River Basin Authority		XX	XX	X
	Administration Sector				
XX	Administration sector	40	XX	XX	X
XXX	Total expenditure (b)		XXX	XXX	XXX
XXX	Closing balance (a-b)		XXX	XXX	XXX

3.7 OTHER ATTACHMENTS TO FINANCIAL STATEMENTS

The following supporting documents and information are usually attached to the Treasury Financial Statements:

i. Notes to the Financial Statements.
ii. Schedule of Revenue Analysis by Heads.
iii. Schedule of Expenditure Analysis by Heads.
iv. Schedule of Project Payments (in summary form).
v. Schedule of Investments.
vi. Schedule of Public Debts.
vii. Schedule of Grants and Subsidies.
viii. Schedule of Special and Miscellaneous Funds (e.g. Ecological Funds).
ix. Schedule of Fixed Assets as at the end of the year.

ILLUSTRATION 1

The following information have been extracted from the records of AFASHIO STATE of Nigeria, for the year ended 31 December 2006.

	^'000
Personal emolument	2,000,000
Consolidated Revenue Fund charges	1,000,000
Statutory Revenue allocation	20,000,000
Proceeds from the sale of fixed assets	100,000
Purchase of marketable securities	50,000
Purchase and construction of fixed assets	500,000
Share of value added tax	200,000
Shore of excess crude oil	100,000
Internally generated revenue	10,000,000
Gratuities and pensions	15,000.000
Miscellaneous income	50,000
Overhead expenses	30,000
Recurrent grants made	20,000
Miscellaneous expenses	10,000
Servicing and repayment oi: public debts	100,000
Grants and subventions from Non-Governmental Organizations	200,000

Proceeds from loan and other borrowings	300,000
Dividends received	100,000

You are required to:

Prepare the State's Cash flow statement for the year ended 31 December 2006.

(Adapted from ICAN PE11 March 2008)

SOLUTION

AFASHIO STATE OF NIGERIA
STATEMENT OF CASH FLOWS
FOR YEAR ENDED 31ST DECEMBER, 2006

	^'000	^'000
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 Receive		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 flows from Operating Activities		12,384
INVESTING ACTIVITIES:		
Proceeds from Sales of fixed Assets		100
Purchase of Marketable Securities		(50)
Purchase and Construction of fixed Assets		(500)
Net Cash flow from investing		(450)
FINANCING ACTIVITIES:		
Proceeds from Loan and Other Borrowings		300
Dividends Received		100 400

Cash and Equivalents at 31/12/2006	<u>12,334</u>

ILLUSTRATION 2

The Treasury Department of Afemesan State of Nigeria has furnished the following ledger balances in respect of its operations for the year ended 31 December, 2009

	Description	Amount ^'000
1009	Rural Development	200,000
1110	Transportation	150,000
1220	General Administration	500,000
1500	Housing	130,000
1600	Delivery of Health Care	250,000
1650	Environmental Management	315,000
1700	Education	256,000
1701	External Loan	3,500,000
1705	Internal Loan	2,500,000
1805	External Grant	5,800,000
1810	Contribution from Consolidated Revenue Fund (CRF)	8,700,000
1824	Mining and Quarrying	150,000
1830	Defence	650,000

The following are the additional information extracted from the State's approved capital budget.

Head of Account	Amount
	(^'000)
1701	4,118,000
1705	2,000,000
1805	5,700,000
1810	6,000,000
1830	690,000
1009	216,000
1110	170,000
1220	350,000
1500	140,000
1600	700,000
1650	450,000
1700	200,000
1824	*190,000*

(Adapted from ICAN PE11 2(

SOLUTION

Head of Account	Description	Actual ^'000	Estimates ^'000	Variance %
1701	External loan	4,118,000	3,500,000	-15.01
1705	Internal loan	2,000,000	2,500,000	+25.00
1805	External grant	5,700,000	5,800,000	+1.75
1810	Contribution from (CRF)	6,000,000	8,700,000	+28.33
	(a)	17,818,000	20,500,000	
1009	Rural Dev.	216,000	200,000	-07.41
1110	Transportation	170,000	150,000	-11.76
1220	General Admin.	350,000	500,000	+42.86
1500	Housing	140,000	130,000	-07.14
1600	Delivery of Health	700,000	250,000	-64.29
1650	Environmental Management	450,000	315,000	-30.00
1700	Education	200,000	256,000	+28.00
1824	Mining and Quarrying	190,000	150,000	-21.05
1830	Defence	690,000	650,000	-05.80
(b)		3,106,000	2,601,000	
Surplus (c) = (a) - (b)		14,712,000	17,899,000	

The following balances were extracted from the books of GUMI STATE GOVERNMENT OF NAIJA as at 31st December, 2000:

1999 ^'000		2000 ^'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	Advance	74,474

Additional Information provided:

i. The following amounts expended on unfunded Internal Debt Servicing have been included in the Consolidated Revenue Fund Charges:

	^ (000)
1999	36,970
2000	45,364

Any surplus/deficit on Revenue Account is transferred to the Capital Account as appropriate.

You are required to prepare:

(a) Recurrent and Capital Accounts

(b) Statement of Assets and Liabilities for the year ended 31" December, 2000

N.B. Show comparative figures. (Adapted from ICAN PE1 March, 2002)

SOLUTION TO QUESTION

(a) GUMI STATE GOVERNMENT OF NAIJA
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2000

RECURRENT ACCOUNT	1999	2000
Recurrent Revenue	^ (000)	^ (000)
Statutory Allocation	644,997	4,841,017
Value Addedd Tax	119.102	160,133
Internally GcilOfirated Revenue	403,020	498,843
Oilier 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
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 Fund Charges.	36.970	43,364

(b) STATEMENT OK ASSETS AM) LIABILITIES
FOR THE YEAR ENDED 31st DECEMBER 2000

	1999	2000
LIABILITIES	^ (000)	^ (000)
Public Funds - C.R.F.	169,520	911,826
Oilier Funds Deposit	591	591,591
	170,111	91 2,417
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
	170,111	912,417

4.0 SUMMARY

In this unit, we discussed the final accounts prepared by the Federal Treasury Department. The office of the Accountant –General is responsible for the preparation of the final accounts at both the federal and state levels. The office is made up of eight departments: (1) Finance and Administration; (2)Personnel; (3) Administration, (4) Treasury, (5)Internal Audit, (6) Ministry of Finance Incorporated, (7)Treasury Academy and (8) Inspectorate.
Out of these departments, the Treasury Department of the Federal Ministry of Finance is charged with the responsibility of preparing the final accounts. To execute this function effectively, the Department of Treasury is sub-divided into five units: (1) Treasury, (2)Final accounts, (3) Sub-Treasury (4) Revenue Monitoring and (5) Cash Supply

It is the ultimate responsibility of the Final Accounts unit within the Treasury Department of the Accountant-General's office that is responsible for the production of the final accounts of government. With effect from January, 2003, the following statutory financial statements are prepared at the Federal and State Government Levels: (1), Preface to the financial statements: (2) Statement of responsibility for the financial (3) Statement of opinion of the Auditor-General (4). Statement No. 1 -Cash Flow Statement, (5) Statement No. 2 Statement of assets and Liabilities, (6) Statement No. 3 Statement of Consolidated Revenue Fund, (7) Statement No. 4 Statement of Capital Development Fund, and (8) Notes to the Financial Statements.

6.0 CONCLUSION

The final accounts prepared by the Accountant General of the Federation through the treasury department are expected to be submitted annually to the office of the Auditor General for the Federation. You will learn about the responsibilities of the Auditor General for the Federation in another unit.

6.0 TUTOR MARKED ASIGNMENT

1 State the components or units of the Federal Treasury Department

2 State the functions of the Final Accounts Unit of the Treasury Department

3 List the Financial statements produced by the Treasury Department

7.0 REFERENCES/FURTHER READING

Adams, R.A. (2014) *Public sector accounting and finance made simple, revised edition* 3, Lagos: Corporate Publishers Venture.

Emeni, F.K., Ogiedu,K.O., Mgbame, C.O., & Erhagbhe, E. (2008) *Public sector accounting and finance*, Benin City: Mindex Publishing Company Limited

ICAN (2014). Public sector accounting and finance, Lagos: ICAN

Ogiedu, K.O. (2016) *Lecture notes on public sector accounting and finance*, Benin City, Unpublished

Omolehinwa, E.O., & Naiyeju, J.K. (2015) *Government accounting in Nigeria: An IPSAS approach*, Lagos: Pumark (Educational Publishers).

UNIT 3: ACCOUNTING FOR LOCAL GOVRNMENTS

1.0 INTRODUCTION

2.0 OBJECTIVES

3.0 MAIN CONTENT

- 3.1 Introduction to local government
- 3.2 Functions of local government councils
- 3.3 Finance officers of local government
  - 3.3.1 The Chairman
  - 3.3.2 The Director of Finance /Treasurer to the Local Government
  - 3.3.3 The Director of Budget, Planning, Research and Statistics
  - 3.3.4 Revenue Officers

3.4 Sources of revenue of a local government council

- 3.4.1 Statutory Sources of Revenue
- 3.4.2 Permissive Sources of Revenue
- 3.4.3 Incidental Sources of Revenue

3.5 The financial statements of local government council

- 3.5.1 Statement No. 1 (Local Government) Statement of Financial Responsibility
- 3.5.2 Statement No. 2 (Local Government) Statement of Opinion of Auditor General for local government
- 3.5.3 Statement No.3: Cash Flow Statement
- 3.5.4 Statement No. 4: Statement of Assets and Liabilities
- 3.5.5 Statement No. 5Statement of Revenue and Expenditure
- 3.5.6 Statement No. 6:Notes to the Financial Statements

3.6 Auditing in the local government

- 3.6.1 Auditor General for Local Government
- 3.6.2 The Local Government Audit Alarm Committee

4.0 SUMMARY

5.0 CONCLUSION

6.0 TUTOR MARKED ASSIGNMENT

7.0 REFERENCES/ FURTHER READING

1.0 INTRODUCTION

In this unit, you will be introduced to accounting in local government councils in Nigeria. You will learn the functions of local government councils in Nigeria, the finance officers of the councils and their functions. You will also learn the sources of revenue of a local government council. Furthermore, you will learn the financial statements of local government councils as well as auditing in the local government.

2.0 OBJECTIVES

After studying this unit, you should be able to:

1. List functions of local government councils
2. State the finance officers of local government and the respective functions
3 Identify the sources of revenue of a local government council
4 Identify the financial statements required to be prepared by local government councils including their respective formats.
5. State the functions of the State Auditor General for Local government
6 List the members of the Local Government Audit Alarm Committee and the functions of the committee

3.1 INTRODUCTION TO LOCAL GOVERNMENT

The Local Government is the 'third-tier' Administration in Nigeria. As a tier of government, local government councils are supposed to autonomous and independent of the federal and state governments. The functions of local government councils are well spelt out in the Fourth Schedule of the 19999 constitution.

3.2 FUNCTIONS OF LOCAL GOVERNMENT COUNCILS

The functions of local government council as stated in the Fourth Schedule of the 1999 Constitution, as follows:

(1) The consideration and the making of recommendations to a State commission on economic planning or any similar body on.
   (i) The economic development of the State, particularly in so far as the areas of authority of the council and of the State are affected, and
   (ii) Proposals made by the said commission or body;

(2) Collection of rates, radio and television licences;

(3) Establishment and maintenance of cemeteries, burial grounds and homes for the destitute or infirm;

(4) Licensing of bicycles, trucks (other than mechanically propelled trucks), canoes, wheel barrows and carts;

(5) Establishment, maintenance and regulation of slaughter houses, slaughter slabs, markets, motor parks and public conveniences;

(6) Construction and maintenance of roads, streets, street lightings, drains and other public highways, parks, gardens, open spaces, or such public facilities as may be prescribed from time to time by the House of Assembly of a State;

(7) Naming of roads and streets and numbering of houses;

(8) Provision and maintenance of public conveniences, sewage and refuse disposal;

(9) Registration of all births, deaths and marriages;

(10) Assessment of privately owned houses or tenements for the purpose of levying such rates as may be prescribed by the House of Assembly of a State; and

(11) Control and regulation of -

- (i) Out-door advertising and hoarding,
- (ii) Movement and keeping of pets of all description,
- (iii) Shops and kiosks,
- (iv) Restaurants, bakeries and other places for sale of food to the public,
- (v) Laundries, and
- (vi) Licensing, regulation and control of the sale of liquor.

(12). Participation of such council in the Government of a State as respects the following matters:

- (i) The provision and maintenance of primary, adult and vocational education;
- (ii) The development of agriculture and natural resources, other than the exploitation of materials
- (iii) The provision and maintenance of health services; and
- (iv) Such other functions as may be conferred on a local government council by the House of Assembly of the State.

Self- Assessment Exercise

1. List the functions of Local Governments.

3.3 FINANCE OFFICERS OF LOCAL GOVERNMENT

The officers who are directly or indirectly connected with finance and accounting functions in local government councils are:

(1) The Chairman

(2) The Director of Finance/Treasure to the Local Government

(3) The Director of Budget, Planning, Research and Statistics

(4) Revenue Officers

3.3.1 THE CHAIRMAN

The chairman is the chief accounting officer of a local government council and his duties and responsibilities are specified in the Model Financial Memoranda for Local Government, third edition 2009. According to the Memoranda, t*he Chairman of a Local Government shall be the Chief Executive and Accounting* Officer of the Local Government provided his role as Accounting Officer shall exclude signing vouchers and cheques. The performs the following functions:

1. Presides over the meetings of the Executive Committee.
2. He submits a report to the Local Government Council on the proceedings of the Executive Committee as may be required by the Council.
3. He ensures strict compliance with the provisions of the Financial Memoranda throughout the Local Government organization.
4. He observes and comply fully with checks and balances spelt out in the existing guidelines and Financial Regulations governing receipts and disbursement of public funds and other assets entrusted to his care and shall be liable for any breach thereof.
5. The Chairman as Chief Executive and Accounting Officer faces periodic checks in order to ensure full adherence to the Finance (Control and Management) Act of 1958 and all its amendments. To this end;
   (a) All instructions relating to expenditure of public funds by the Accounting Officer shall be in writing
   (b) The Accounting Officer shall be responsible to account to the Public Accounts Committee for all monies voted for each Department and shall be peculiarly liable.
   (c) The Chairman as Chief Executive and Accounting Officer renders Annual Reports of his Local Government in order to ensure accountability and enforce the performance ethic.
   (d) The Chairman as Accounting Officer is bound by the provisions of any other rules, regulations, guidelines and Laws governing the roles and functions of a Chief Executive and Accounting Officer.

6 In consultation with the Secretary to Local Government and the Supervisors, the Chairman shall set the target which each employee in the Local Government shall aim at, even in routine matters. In setting target, for Local Government Employees, the Chief Executive shall first take into account the relevant Local policies, the development plan and annual budgets.

7 He ensures that Audit queries addressed to him are answered within the time limit stipulated in the Financial Memorandum 39.3. Where the query concerns him, it must be answered promptly by him in person.

8 As the Accounting Officer, the Chairman shall have sole responsibility for the organization of the financial/accounting function in the Local Government. However, delegates to the Treasurer the day-to-day operation of the function in consultation with the Secretary.

9 He establishes and maintains an Internal Audit to provide a complete and continuous audit of the accounts and records of revenue, expenditure, plant allocated and unallocated stores.

10 He ensures that the recommendations of the Internal Auditor, whether in respect of losses, waste or the improvement of systems or procedures taker thereon including, if necessary, reference to the Council for its decision 01 direction.

11 He ensures that any directions issued by the Local Government Council o the Governor's Office concerning any aspects of the financial management of the Local Government, or any decisions of the Auditor-General in regard to matters of disallowance and surcharge are properly and promptly implemented.

12 At the beginning of each Financial Year, the he submits to the Executive Committee, the list (by Name and Department) of each Head of Department in the Local Government who exercise authority to approve expenditure within the limits refer to in the Financial Memorandum.

13 At the Expiration of his term of Office, or whenever he is leaving office for any reason whatsoever, the Chairman shall prepare a comprehensive Handing Over Note for his successor.

14 He ensures the maintenance of strong accounting and internal control system

15 He appends his signature on "Statement Number I: "Responsibility financial Statements"

16 He ensures the practice of good corporate governance

17 He evolves continuous basis for effective risk practice.

3.3.2 THE DIRECTOR OF FINANCE /TREASURER TO THE LOCAL GOVERNMENT

According to section1.13 of the Memoranda, the Treasurer is the Chief Accounts Officer and Head of the Finance Department of the Local Government. The Treasurer as the Chief Finance Adviser to the Local Government is in attendance at Executive Committee meetings and other Committees to provide advice concerning the financial implications of proposed policies, the state of the Local Government's finances and financial matters generally. His duties and responsibilities include:

1. He is responsible for the administrative control of the Finance Department of the Local Government;
2. He perform .duties as Chief Accounts Officer of the receipts and payment of the Local Government;
3. He facilitates the work of the Audit Alarm Committee;
4. He is responsible for the budgetary control and supervision of the accounts of all Departments of the Local Government;

(5) He is responsible for the sound administration and effective organization and working of the Finance Department;

(6) He prepares and publishes monthly and annual financial statements of the Government;

(7) He is a signatory to all Local Government cheques and vouchers, and contractual documents;

(8) He performs such other related duties as may be assigned by the Chairman;

(9) He is responsible for the maintenance of sound audit and internal control systems;

(10) He appends his signature on statement No. 1 "Responsibility for Financial Statements"

(11) He is the custodian of security documents of the Local Government;

(12) He ensures that accounting systems as laid down in the Financial Memoranda for Local Governments are complied with by all the Departments and supervising the accounts for all Department of Local Government.

(13) The Treasurer must not be the Cashier in the Treasury.

3.3.3 THE DIRECTOR OF BUDGET, PLANNING, RESEARCH AND STATISTICS

According to the Financial Memoranda, the Director of Budget, Planning, Research, and Statistics is responsible for:

1. Co-ordinating the activities of the Department
2. Advising the Local Government on matters relating to Budget National (rolling) plans and data collection
3. Controlling the vote of the department.
4. Budgeting control

3.3.4 REVENUE OFFICERS

All Revenue Officers in the Local Government are under the Treasurer. They collect revenue, account for them and render returns to the Local Government Treasurer in accordance with the provisions of the Financial Memoranda and other existing Financial Regulations.

By section 1.22 of the Financial Memoranda, It is the duty of a Revenue Collector:

(1) to keep such books of account and other records prescribed by Financial Memoranda and the Treasurer as are needed to ensure to that all revenue and other monies due to the Local Government and for which he is responsible, are collected in full.

(2) to collect promptly all sums due to the Local Government;

(3) to report to his immediate supervisor any instances of default in payment any sums due to the Local Government;

(4) to issue, immediately on payment, receipt or licences in the prescribed form for all payments made to him;

(5) to record, in a Revenue Collector's Cash Book details of all receipts, revenue and the payment of such revenue collections to the Treasury or a Bank;

(6) pending the payment to the Treasury or a Bank, to safeguard all revenue collected by placing it in the safe or cash tank provided by the Local Government;

(7) to keep all his revenue earning books under lock and key when not in use;

(8) to pay all revenue collected to the Treasury or Bank at intervals prescribe! by the Local Government;

(9) when required to do so, to present all his revenue earning books, accoun books and cash to the person responsible for checking his accounts;

(10) to submit used, partly used and unused revenue earning books, licence book and relevant documents to the Treasury once a month or at such less intervals as may be prescribed, whether or not there have been any collection or payments to Treasury;

and to return all exhausted revenue earnings book to the official from whom they were received.

Self- Assessment Exercise

1. What are the functions of the (i) Local Government chairman (ii) Revenue officers?

3.4 SOURCES OF REVENUE OF A LOCAL GOVERNMENT COUNCIL

There are three sources of revenue of a Local Government Council. These are:

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

3.4.1 Statutory Sources of Revenue

There are three statutory sources of revenue for local government councils.

a) Federation Account: All the local governments in the country are entitled to a share of the Federation Account of 20.60%.This amount is now paid directly to the local government councils by the Federal Government. The statutory allocation of money to the Local Government Councils by the Federal and State Governments is covered by the Revenue Allocation Act of 1982. This Act was amended in 1986, 1988 and 1989. Paragraph 162(3)(5) of the 1999 Constitution lends weight to the extant laws earlier cited. Up to 31/12/91, 15% of the collections in the Federation Account accrued to the Local Government Councils. As from 1 January, 1992 the allocation rate rose to 20% and from.

b) States Internally Generated Revenue: 10% of the a State's internally generated revenue is distributed to the local government councils in the state Each State Government, by virtue of paragraph162(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

c) Fees and other charges imposed by the Council under its instrument of creation and Acts of Parliament promulgated from time-to-time.

3.4.2 Permissive Sources of Revenue

These are the levies collectible by local government councils under Act No. 21 of 1998 Under this Act, Local Government Councils are eligible to collect the following taxes and levies, only:

(1) Shop and kiosk rates.

(2) Tenement rates.

(3) On and Off Liquor fees.

(4) Slaughter slab fees.

(5) Marriage, birth and death registration fees.

(6) Naming of street registration fees, excluding any street in the State Capital.

(7) Right of Occupancy fees on land in the rural areas, excluding those collectable by the Federal and State Governments.

(8) Market taxes and levies, excluding any market where State finance is involved.

(9) Motor park levies.

(10) Domestic animal licence fees.

(11) Bicycle, truck, canoe, wheelbarrow and cart fees, other than a mechanically propelled truck.

(12) Cattle tax payable by cattle farmers only.

(13) Merriment and road closure levies.

(14) Radio and television licence fees (other than on radio and television transmitter).

(15) Vehicle radio licence fees (to be imposed by the Local Government Council of the State in which the car is registered).

(16) Wrong parking charges.

(17) Public convenience, sewage and refuse disposal fees.

(18) Customary burial ground permit fees.

(19) Religious places establishment permit fees.

(20) Signboard and advertisement permit fees.

3.4.3 Incidental Sources of Revenue

These are sources that are incidental to or arising from the operations of a local government council. Their scope is not defined by statute. They include:

(1) Proceeds from economic projects undertaken, such as farming.

(2) Grants from the Federal or State Government.

(3) Investment incomes, e.g. interest and dividends received.

(4) Proceeds of sale of seized goods, boarded vehicles, etc.

(5) Donations.

3.5 THE FINANCIAL STATEMENTS OF LOCAL GOVERNMENT COUNCIL

Section 32.7 of Model Financial Memoranda for Local Governments, 2009 specifies the following financial statements for local government councils in Nigeria:

Statement No. I: Statement of Financial Responsibility

Statement No.2: Statement of Opinion of Auditor General for local government

Statement No.3: Cash Flow Statement

Statement No.4: Statement of Assets and Liabilities

Statement No. 5: Statement of Revenue and Expenditure

Statement No. 6: Notes to the Financial Statements

3.5.1 STATEMENT NO. 1 (LOCAL GOVERNMENT)

This is a statement issued and signed by the chairman and the Treasurer indicating their individual responsibilities for the preparation of the financial statements. The statement is in the following standard format.

RESPONSIBILITY FOR FINANCIAL STAVEMENTS

These Financial Statements have been prepared by the Treasurer of..............................

Local Government Council in accordance with the provisions of the Finance (Control and Management) Act 1958 as amended. The Financial Statements comply with generally accepted accounting practice.

The Treasurer is responsible for establishing and maintaining a system of internal controls designed to provide reasonable assurance that the transactions recorded are within statutory authority an and properly record the use of all public financial resources by the Local Government Council. To the best of my knowledge, this system of internal control has operated adequately throughout the reporting period.

Sign

Treasurer Date

We accept responsibility for the integrity of these Financial Statements, the information they contain and their compliance with the Finance (Control and Management) Act 1958 as amended.

In our opinion, these Financial statements fairly reflect the financial position of the Local Government as 31 st December 20xx and its operations for the year ended on that date.

Treasurer Chairman

Date Date

3.5.2 STATEMENT NO. 2 (LOCAL GOVERNMENT) STATEMENT OF OPINION OF AUDITOR GENERAL

In this statement, the State Auditor-General for Local Government confirms that he has examined and audited the financial statements on pages---------------------which have been prepared under the accounting policies set out on pages-------------------------. His report covers the following key areas:

1. RESPONSIBILITY OF TREASURER AND AUDITOR-GENERAL

   Here, the Auditor-General states categorically that the Treasurer is responsible for the compilation and supervision of the accounts of the Local Government Council in accordance with the appropriate section of the Finance (Control and Management) Act 1958 as amended. He equally states that it is his responsibility to audit and form an independent opinion on the financial statements he has audited.

2. THE SCOPE OF MY AUDIT

   The Auditor-General states clearly that he has conducted the audit in accordance with the generally accepted auditing standards. The approach and methodology adopted for the audit is also be stated.

3. OPINION

   The Auditor-General certifies whether the financial statements present fairly the financial position of the Local Government Council as at 31st December, 20xx in accordance with the appropriate section of the Audit Act 1956 as amended.

3.5.3 AUDITOR-GENERAL FOR LOCAL GOVERNMENT DATE

STATEMENT NO.3

LOCAL GOVERNMENT COUNCIL

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 ST DECEMBER

	NOTES	CURRENT YEAR ^'000	PREVIOUS YEAR ^'000
Cash Flows from Operating Activities			
Receipts			
Internally Generated Revenue	3	X	X
Grants/Subventions	4	X	X
VAT	5	X	X
Statutory Allocations	6	X	X
Miscellaneous	7	X	X
Total Receipts		X	X
<u>Payments</u>			
Personal Emoluments	8	(X)	(X)
Education Services		X	(X)
Transport Services		(X)	(X)
Health Services		(X)	(X)
Mining & Petro-Chemical Services		(X)	(X)
Agricultural Services		(X)	(X)
Other of General Nature	9	(X)	(X)
Total Payments		(X)	(X)
Net Cash Flow from Operation Activities		X	X
Cash Flow from Investing Activities			
Purchase/Construction of Assets	10	(X)	(X)
Purchase of Financial Market Instruments		(X)	(X)
Proceeds from Sales of Assets		X	X
Net Cash Flow from Investing Activities		X	X

Cash Flow from Financing Activities			
Proceeds from Loan & Other Borrowing	11	X	X
Dividends Received	12	X	X
Repayment of Loans	13	X	X
Net Cash Flow.from Investing Activities		X	X
Net Increase/(Decrease) in Cash & Its Equivalent		X	X
Cash & Its equivalent at l/t/20XX		X	X
Cash & Its equivalent at 31/12/20XX		X	X

The accompanying notes are an integral part of these statements.

3.5.4 **STATEMENT NO. 4**

--------------------------LOCAL GOVERNMENT COUNCIL

STATEMENT OF ASSETS AND LIABILITIES FOOR THE YEAR ENDE D 31ST DECEMBER, 20XX

		ACTUAL	
	NOTES	CURRENT YEAR ^'000	PREVIOUS YEAR ^'000
ASSETS			
Cash and Bank Balances	14	XX	XX
Investments	15	XX	XX
Advances	16	XX	XX
Others	17	XX	XX
		XXX	XXX
Liabilities			
Deposits	18	XX	XX
Loans	19	XX	XX
General Revenue Balance	20	XX	XX
		XXX	XXX

The accompanying notes are part of these statements.

3.5.5 **STATEMENT NO. 5**

----------------------------LOCAL GOVERNMENT COUNCIL

STATEMENT OF REVENUE AND EXPENDITURE FOR THE YEAR ENDED 31ST DECEMBER, 20XX

ACTUAL PREVIOUS YEAR ^'000		NOTES	BUDGET CURRENT YEAR ^'000	ACTUAL CURRENT YEAR ^'000	VARIANCE
xx	Opening Balance		xx	xx	x
xx	Rates	21	xx	xx	x
xx	Fines, Fees and Licences	22	xx	xx	x
xx	Earnings and Sales	23	xx	xx	x
xx	Rent on Government Property		xx	xx	x
xx	Interest and Dividends	24	xx	xx	x
xx	Taxes	25	xx	xx	x
xx	Statutory Allocation	26	xx	xx	x
xx	Miscellaneous Revenue	27	xx	xx	x
xxx	Total Revenue	(a)	xxx	xxx	x
Less:	Expenditure				
xx	General Administration	28	xx	xx	x
xx	Health and Environment	29	xx	xx	x
xx	Works and Housing	30	xx	xx	x
xx	Education	31	xx	xx	x
xx	Agriculture and Social Development	32	xx	xx	x
xx	Grants and Subsidies	33	xx	xx	x
xx	Capital Projects	34	xx	xx	x
xx	Miscellaneous Expenses	35	xx	xx	x
xxx	Total Revenue	(b)	xxx	xxx	x
xxx	Operating Balance	(a)-(b)	xxx	xxx	xx

The accompanying notes are an integral part of these statements.

3.5.6 STATEMENT NO. 6

NOTES TO THE FINANCIAL STATEMENTS

The notes to the Financial Statements include a section stating clearly the accounting policies adopted in the preparation of the financial statements. Notes to the accounts are normally presented in the following order:

1. Statement of Compliance with any known standards
2. Statement of accounting policies applied
3. Supporting information for items presented on the face of the Statements in the order in which each line is presented; and
4. Other disclosures or relevant supporting statements which may include all the following:

    a. Statement of Revenue Analysis by Head
    b. Statement of Expenditure Analysis by Head
    c. Statement of Project Payments Summary
    d. Statement of Grants and subsidies; and
    e. A year-end manpower statement

3.6 AUDITING IN THE LOCAL GOVERNMENT

The audit of Local Government Councils is provided for in the Model Financial Memoranda for Local Governments. The Memoranda make provision for both external and internal auditing. The External Internal auditing is carried out by the states Auditor General for Local Government of that state while an internal audit department in each local government council handles the internal audit.

3.6.1 Auditor General for Local Government

According to the provisions of the financial memoranda, there shall be established in each state, the office of Auditor General to e appointed by the Governor of the state. The following are the functions and powers of the Auditor General for Local Government:

1. Power to carry out the audit of accounts of all the local government councils in the state on a regular basis.

2. Power sanction and surcharge any officer as specified in the financial Memoranda.

3. Power to function as the chairman of the Local Government Audit Alarm Committee.

4. To notify the Public Accounts Committee and the Local Government Audit Alarm Committee on issues relating to serious audit queries for which the Accounting Officer of the local government is liable, and other alarms of significant importance.

5. Inform both the public accounts committee, the Local Government Chairman and the governor in writing where a Local Government Accounting Officer does not respond within the stipulated time to a query that affects his office.

6. Power to impose necessary fin or punishment where the failure to answer an audit query is by an officer or chairman of a Local Government Service Commission. The erring officer, however, has the right of appeal to the public Accounts Committee.

3.6.2 The Local Government Audit Alarm Committee

By section 39.2 of the Financial Memoranda for Local Government, the audit alarm committee comprises of the following members:

1. The state's Auditor General for Local Government

2. A representative of the state government usually the Director for Local Government Matters.

3. The Representative of the office of the Accountant General of the state

The Financial Memoranda for Local Government make it the individual and joint responsibility of the above officers to alert the Local Government Audit Alarm Committee before any irregular or illegal payments are made.

ILLUSTRATION 1

The following balances were extracted from the books of TRUMP STATE GOVERNMENT OF NAIJA as at 31S' December, 2000:

1999 ^'000		2000 ^'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	Advance	74,474

Additional Information provided:

i. The following amounts expended on unfunded Internal Debt Servicing have been included in the Consolidated Revenue Fund Charges:

	^ (000)
1999	36,970
2000	45,364

Any surplus/deficit on Revenue Account is transferred to the Capital Account as appropriate.

You are required to prepare:

(a) Recurrent and Capital Accounts

(b) Statement of Assets and Liabilities for the year ended 31s' December,2000

N.B. Show comparative figures. (Adapted from ICAN PE1 2002)

TRUMP STATE GOVERNMENT CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2000

RECURRENT ACCOUNT	1999	2000
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/(Deficil) to Capital a/c. (A-B)	318,089	3,286,142
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	91 1,826
♦Internal Debt Servicing Component of the Consolidated Revenue Fund Charges.	36,970	43,364
RECURRENT ACCOUNT	1999	2000

STATEMENT OF ASSETS AND LIABILITIES FOR THE YEAR ENDED 31ST DECEMBER, 2000

	1999	2000
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
	170,111.	912,417

4.0 SUMMARY

This unit discussed accounting in local government councils in Nigeria. The Local Government is the 'third-tier' Administration in Nigeria. As a tier of government, local government councils are supposed to autonomous and independent of the federal and state governments. The functions of local government councils are well spelt out in the Fourth Schedule of the 1999 constitution. `

The officers who are directly or indirectly connected with finance and accounting functions in local government councils are: (i) The Chairman, (ii) The Director of Finance/Treasure to the Local Government, (iii) The Director of Budget, Planning, Research and Statistics, (iv) Revenue Officers. All Revenue Officers in the Local Government are under the Treasurer. They collect revenue, account for them and render returns to the Local Government Treasurer in accordance with the provisions of the Financial Memoranda and other existing Financial Regulations.

There are three sources of revenue of a Local Government Council. These are: (1) Statutory Sources of Revenue, (ii) Permissive Sources of Revenue; and (iii) Incidental Sources of Revenue. There are three statutory sources of revenue for local government councils and they are: (i) Federation Account: All the local governments in the country are entitled to a share of the Federation Account of 20.60%. (ii) States Internally Generated Revenue: 10% of the a State's internally generated revenue is distributed to the local government councils in the state Each State Government, by virtue of paragraph162(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 and (iii) Fees and other charges imposed by the Council under its instrument of creation and Acts of Parliament promulgated from time-to-time.

The Permissive Sources of Revenue are the levies collectible by local government councils under Act No. 21 of 1998. The Incidental Sources of Revenue are sources that are incidental to or arising from the operations of a local government council. Their scope is not defined by statute. They include (1) Proceeds from economic projects undertaken, such as farming, (2) Grants from the Federal or State Government, (3) Investment incomes, e.g. interest and dividends received, (4) Proceeds of sale of seized goods, boarded vehicles, etc. (5) Donations. Section 32.7 of Model Financial Memoranda for Local Governments, 2009 specifies the following financial statements for local government councils in Nigeria: (i) Statement No. I: Statement of Financial Responsibility, (ii) Statement No.2: Statement of Opinion of Auditor General for local government, (iii) Statement No.3: Cash Flow Statement, (iv)Statement No.4: Statement of Assets and Liabilities, (v) Statement No. 5: Statement of Revenue and Expenditure, and (vi) Statement No. 6: Notes to the Financial Statements

The audit of Local Government Councils is provided for in the Model Financial Memoranda for Local Governments. The Memoranda make provision for both external and internal auditing. The external auditing is carried out by the states Auditor General for Local Government of that state while an internal audit department in each local government council handles the internal audit.

5.0 CONCLUSION

In this unit, you have learnt about the functions and officers of Local Governments which is the closest tier of Government to the grassroot. You were also taught about the books of account prepared as well as the role of internal and external auditors.

6.0 TUTOR MARKED ASSIGNMENT

1. List five financial statements prepared by local governments as specified by the Model Memoranda for Local Governments, 2009.
2 List ten (10) responsibilities of the Treasurer of Government.
3. What are the statutory, permissive and incidental sources of revenue available to local governments?

7.0 REFERNCES/ FURTHER READING

Adams, R.A. (2014) Public sector accounting and finance made simple, revised edition 3, Lagos: Corporate Publishers Venture.

Emeni, F.K., Ogiedu,K.O., Mgbame, C.O., & Erhagbhe, E. (2008) Public sector accounting and finance, Benin City: Mindex Publishing Company Limited

FGN (2009) *Model financial memoranda for local government*, Abuja: States and Local Government Affairs Office, The Presidency.

ICAN (2014). Public sector accounting and finance, Lagos: ICAN

NOUN ( ) Elements of public sector accounting: Course guide, Lagos: NOUN

Ogiedu, K.O. (2016) Lecture notes on public sector accounting and finance, Benin City, Unpublished

UNIT 4 GOVERNMENT BUDGETING 1

CONTENT

1.0 Introduction

In this unit, you will learn about budgeting and control in the public sector. You will also learn the meaning of budget, it's types, uses, preparations and implementations in the Public Sector.

2.0 Objectives

After studying this unit, you will be able to:

1. Understand the meaning of budget and the purpose of a government budget.
2. Appreciate the different methods of preparing budgets in the public sector
3 State the advantages and disadvantages of the different methods of preparing budget

3.0 Main content

3.1 Meaning of Budget

3.2 Functions of a public budget

3.3 Methods of budgeting in the public sector

3.4 Line Item Budgeting

3.2.3 Advantages of Line item budgeting

3.2.4 Disadvantages of Line-Item' Budgeting

3.5 Incremental Budgeting

3.5.1 Advantages of Incremental Budgeting

3.2.5 Disadvantages Incremental Budgeting

3.6 Zero Based Budgeting

3.6.1 Advantages of Zero Based Budgeting

3.6.2 Disadvantages of Zero Based Budgeting

3.7 Planning, Programming and Budgeting System (PPBS).

3.7.1 Definition of Planning ,Programming, and Budgeting System

3.7.2 Examples of Planning, Programming, and Budgeting System

3.7.3 Advantages of Planning, Programming and Budgeting System

3.7.4 Disadvantages of Planning. Programming and Budgeting System

3.7.5 Differences between Zero-Based Budgeting and Planning, Programming And Budgeting System

3.8 Rolling Budgets

3.8.1 Advantages of Rolling Budget

3.8.2 Disadvantages of Rolling Budget

4.0 Summary

5.0 CONCLUSION

5.0 Tutor Marked Assignment

6.0 References/Further Reading

3.1. Meaning of Budget

Budget at first has a narrow meaning. Long ago in the United Kingdom, the word "Budget" was used to refer to a leather bag in which the king's treasurer (the Minister of Finance) carry the document explaining the country's needs and resources whenever he went to parliament.

After sometime, it came to be redefined to not only as the bag but also to its contents - the government's financial plan with the supporting statements of Accounts.

Since then there has been many definitions of budget. According to Fremgen (1973:144), a budget is "a comprehensive and coordinated plan, expressed in financial terms, for the operations and resources of an enterprise for some specific period in the future. Also, the CIMA Official Terminology define budget as a plan expressed in money. It is prepared and approved prior to the budget period and may show income, expenditure and the capital to be employed".

Thus, the government or public budget is a plan of the government’s intention of attaining specified objectives. From the foregoing the following basic elements of a budget stand out significantly (Emeni, *et al* , 2008)

i. It is coordinated and comprehensive plan.
ii. It is expressed in monetary or financial terms.
iii. It is a plan for the use of government’s resources in its operations.
iv. It is for a specified period in the future (usually a year).

3.2 Functions of a Public Budget

Some of the functions of a public budget are:

1) It is used as an instrument of economic and social policy. The various provisions in the budget are used to control social and economic variables like inflation rate, price stability, income distribution, unemployment rate, wasteful consumption, and expansion of industrial capacity etc.

2) It is used as a planning tool. This is probably the most important feature of a budgeting, planning and control system. Budgeting forces the government to look ahead and set out how the scarce resources expected to be received during the plan period will be allocated among the competing needs.

3) It is used as a means of communication. The budget serves as a very effective instrument of communication between the government and the governed. It is also a means by which the government informs the citizens its diagnosis of the problems facing the nation and its proposed means of solving them.

4) The public budget serves as a legal document. Everything about the government revolves around the budget. As explained earlier, the government cannot spend any money without its approval in a budget.

Self- Assessment Exercise

1. What are the functions of a public budget?

3.3 Methods of budgeting

There are different types of budgets. Within the framework of government budgeting the following types of budgets are clearly identifiable:

(1) Line-item budgeting (traditional) budgeting.

(2) Incremental budgeting.

(3) Zero- Based Budgeting (ZBB).

(4) Planning, Programing and Budgeting System (PPBS)

(5) Rolling budgets.

3.4 Line-Item Budgeting

The method of preparation of the annual budget could depend on:

(i) Whether the emphasis is on the nature of the income and expenditure

(ii) The purpose of the expenditure

If the budget is prepared based on the nature of the income and expenditure, the method is referred to as line item budgeting. If it is based on the purpose of the expenditure, it is referred to as program budgeting. Line item budgeting is the most common government budget format in Nigeria. It involves voting money for each item or service the ministry or department intends to carry out. A typical, line-item budget would consist of a statement like this.

Ogiedu Local Government Budget, 2014

	^'000	^'000
Expenses:		
Employees		XX
Running		XX
Expenses		XX
Debt Charges		XX
Revenue Contribution to Capital Budget		XX
XXX		
Income		
Government Grants Sales		XX
Fines and Charges		XX
Rents		XX
Interest		XX
Miscellaneous Income		XX
		XXX
Balance to be met from tax rates		XX

This type of statement obviously fail to identify the amounts allocated to individual services. As a result, it would fail to show the planned level of activity for each service.- The technique toward the allocation of funds and the monitoring and control of expenditure against allocations. Under line item budgeting, the budget is divided on the basis of department activity centers, each of which may operate several programs either individually or jointly.

3.4.1 Advantages of Line Item Budgeting

i. It helps to control fraud by limiting expenditure to the amounts and to items voted in the budget.

ii. It provides flexibility when across the board cuts have to be made for macro-economic purposes.

iii. It is simple to operate. A lot of Nigerians will be able to understand it.

iv. It aids planning and comparison.

3.4.2 Disadvantages of Line Item Budgeting

(i) The focus is on department and expenses and not on outputs.

(ii) It does not concern itself with policy matters.

(iii) The time projected does not always conform to actual

(iv) There is rigidity in adjustment leading to waste o'

3.5 Incremental Budgeting

This is a budgeting approach in which the current year's estimate of income and expenditure are used as the starting point for ascertaining the budget for the next year. Under the system, attention is focused on whether the amount currently voted for it is reasonable rather than whether the item is still required. Thus once an item appear in the budget, only incremental changes in the item are considered as its appearance in subsequent budgets is taken for granted. Attention is therefore focused on the marginal or incremental difference between this year's budget and last year's budget rather than on the whole of the budget. This is what gave rise to the term 'Incremental Budgeting'.

3.5.1 Advantages of Incremental Budgeting

i. Most of the activities carried out in previous years are either mandatory, or are so crucial to meeting organizational goals, that they must continue every year. It seems sensible, therefore, to concentrate only on the changes from the previous year, because these light be all that are controllable.

ii. Another advantage is the bounded rationality argument. This arises as a result of the complexity of the budgetary process. To make a thorough analysis of every existing program and activity would be impossible, and it is only by limiting discussion to the relatively small changes that are proposed that the budgetary process will work. It is argued that the limits on decision makers knowledge, in formation, and cognitive ability mean that aide to calculation such as incremental budgeting are necessary.

iii. Incremental budgeting narrows the areas open to dispute, thereby reducing conflict. By focusing on incremental changes arguments over budgeting allocations are confined to relativity small amounts.

iv. Incremental budgeting is consistent with the principle of conservatism. The question of conservative approach to budgeting is really a variation on the bounded rationality theme. Because of the inability to foresee the full consequences of change, it is argued that these changes should take place gradually rather than all at one.

3.5.2 Disadvantages of Incremental Budgeting

i. It is usually prepared for a short period of time.

ii. It does not lend itself creditably to monitoring.

iii. It is based on financial inputs and not on the output of services, which these inputs are intended to serve.

iv. It is not continuous throughout the year. This creates distortions to the utilization of staff.

Self- Assessment Exercise

1. State the advantages and disadvantages of incremental budgeting.

3.6 Zero Based Budgeting (ZBB)

In its form, it means precisely what the name implies i.e. preparation of budgets from a zero base. Resources are not necessarily accounted for on the basis of previous patterns. It starts from the basic premise that the budget for next year is zero. Every process or expenditure has to be justified in its entirety in order to be included in the next year's budget. The manner in _ which the expenditure both helps to meet objective and benefits the organization is a forward looking approach as opposed to the method of extrapolation of past activities and costs, a feature of incremental budgeting.

ZBB is a systematic budgeting system, which requires five basic stops in its implementation (Emeni, et al, 2008):

1. Specify the Decision Units:. Managers within the organization are requested to specify the decision units within their area of authority. A decision unit is a program of work or capital expenditure program or area of activity, which can be individually evaluated.

2. Define Decision Packages: A decision package is a document, which identifies and describes the specific activity in such a way that

There are basically two types of decision packages:

(a) Mutually Exclusive Packages: Each of these contains an alternative method of getting the same job done. The best option among the packages must be seated by cost benefit analysis and the other packages are then discarded.

(b) Incremental Packages: These divide one aspect of work or activity into different levels of effort. The base package will describe the minimum amount of work that must be selected by cost-benefit the activity and the other (packages describe what additional work could be done, at what cost and for what benefits.

3 Evaluate and Rank Packages: Each activity (decision package) is evaluated and ranked on the basis of its benefits to the organization.

The ranking process provides managers with a technique to allocate scarce resources between different activities. In carrying out ranking the following points are relevant. Minimum work requirements will be given high priority. Also work, which meets legal obligations, will be given priority.

4 Drop Unworthy Activities: Activities that would cost more than they are worth (in qualitative or quantitative terms) are dropped.

5 Allocate Resources: After dropping unworthy activities, the resources in the budget are then allocated according to the funds available.

3.6.1 Advantages of Zero Base Budgeting

1. It does not assume that last year's allocation of resources is necessarily appropriate for the current year.

2. It forced managers at all levels to identify their-specific objectives, to quantify them, and to evaluate the cost effectiveness of the alternative ways of achieving them. The belief is that this improves the quality of management decision.

3. It created a questioning attitude rather than line item or incremental methods, which assume that current practice maximises, expected money value. Wasteful spending is thereby reduced.

4. It provides a yardstick for the measurement of performance.

5. It encourages greater participation by managerial decision and lower levels and develops a more critical and better-motivated approach by them.

3.6.2 Disadvantages of Zero Based Budgeting

(1) Problem of identifying suitable decision units.

(2) Problems of producing suitable decision packages, which are self-contained and understood by managers.

(3) Short-term benefits might be emphasized to the detriment of long-term benefits.

(4) It is a call for management-skills in decision analysis (to construct decision packages), which the organization may not possess.

(5) A large amount of staff time, and organization is necessary to introduce the system.

In conclusion it can be said that ZBB is good for capital projects. It is not w\o good for recurrent expenditure. It has not been successful in the public sector in Nigeria. (Emeni, et al, 2008)

3.7 Planning, Programming and Budgeting System

Under the traditional budgeting system in the public sector in Nigeria, the budget is organized into votes. The votes are subdivided into heads and subheads. These are further subdivided into line items of expenditure. The traditional method of budgeting has failed to answer some basic questions such as:

1. What are the government's objectives for each subdivision of the budget?

2. How do different parts of the budget relate to each other and the fulfilment of government objectives?

3. How eft the budgeted figures relate to longer-term plans?

4. What is the government expecting to achieve with the budgeted money? The traditional budget is more concerned with financial outputs than with what those inputs are designed to achieve. This $_h$3 led to the development of the planning, programming and budgeting system.

3.7.1 Definition

PPBS have been variously defined. However, for our present purpose, we shall see it as a budget system, which is concerned essentially with assessing the efficiency of government activities and measuring their performance in physical as well as financial terms. It is a budgetary process designed primarily to make government and public corporations activities more effective and more efficient.

PBS comprises five basic elements:

i. Programming: this is the subdivision of government budget into activities and programs representing identifiable units with similar aims and operations.

ii. Identification of objectives of each program, budgeting and accounting so that separate costs and revenues of each programme and activity are shown.

iii. Measurement of the outputs and *performance* of the activities so that these can be related to their cost, and operational aims.

iv. Using the resultant data to establish standards and norms so that costs and performance can be evaluated and government resources wore efficiently.

Some writers differentiate program budgeting from performance budgeting. The former (program budgeting) comprises only the first three while the later consist of all the elements.

3.7.2 Example of a PPBS: An example of PPBS for a proposed housing program of government is as follows:

i. Objective: The objective might be the reduction/elimination of homelessness with priority for specific groups e.g. the low-income group.

ii. Program: This involves the type of houses that will be constructed such as:

   a. Local authority houses

   b. Hostels

   c. Plats

   d. Duplexes, etc.

(iii) Output: This is a listing of the number of houses and the types that are proposed to be built.

(iv) Alternative Approaches: This will outline the various options open to government.

(a) Building more flats

(b) Whether the houses will be provided directly by the government 0r through the private sector.

(c) Converting older buildings to model ones.

(v) Establishing the resources required to carry out the program.

(vi) Completion of the Budget

(vii) Measure performance to see to what extent the objectives have been achieved.

3.7.3 Advantages of PPBS

(1) It provides information on the objectives of government.

(2) It cuts across conventional lines of responsibility and departmental structure by drawing together the activities that are directed towards a particular objective.

(3) It exposes programs that are overlapping or contradictory in terms of achieving objectives.

(4) It concentrates on long-term effects, along with short-term operational needs.

(5) It enables resource allocation choices to be made on the basis of benefit/costs.

3.7.4 Disadvantages/Problems of PPBS

i. The PPBS was initially designed for the U.S. department of defense. While it may be possible to define defense programs in specific terms, the same cannot necessarily be said for other areas of concern in the public sector.

ii. Resistance to change may be encountered particularly among elderly officers.

iii. The PPBS is information intensive. It is necessary for example, to state the cost and benefit of every project as well as to define objectives. This may create information overload.

iv. Time constraint. The budgeting cycle of one year is too short a period to generate and analyze all the necessary information required.

v. Insufficient and unreliable database confronting most developing countries. This problem has led to misplaced priorities and lopsided distribution of amenities in most developing countries.

3.7.5 Differences between Zero-Based Budgeting and Planning, Programming And Budgeting System

Some of the differences between ZBB and PPBS are:

(1) ZBB appraisal can rank projects using cost benefit analysis whereas PPBS does not.

(2) ZBB allocates resources to each of the projects based on their rankings.

(3) PPBS analyzes the output of a given program in terms of the objectives. On the other hand ZBB describes each decision unit as a decision package which are easily achievable.

(4) PPBS identify and examine the goals and objectives in each area of government activities. ZBB on the other hand will not only identify and examine them, but will break them down into smaller achievable decision packages.

3.8 Rolling Budget

A rolling budget is an attempt to prepare budgets which are more realistic and certain particularly with regard to price levels, by shortening the periods between preparing budgets. A rolling budget is defined by the chartered Institute of Management Accountants (CIMA) Official terminology as "the continuous updating of a short term budget by adding, say a further month or quarter and deducting the earliest month or quarter so that the budget can reflect current conditions. A rolling budget is called continuous budget".

Instead of preparing a period's budget annually for the full budget period, there would be budgets every one. two, three or four months. Each if these budgets would plan for the next twelve months so that the current budget is extended by an extra pe¬riod as the current period ends: hence the name rolling budget.

3.8.1 Advantages of Rolling Budgets

1. They reduce the element of uncertainty in budgeting.

2. They force managers to reassess the budget regularly, and to produce budgets, which are up to date in the light of current events and expectations.

3. Planning and control will be based on a recent budget instead of fixed budget that might have been made many months ago and which is no longer realistic.

4. Realistic budgets are likely to have a better motivational influence on managers. Control reports will measure performance that should have practical value & control decisions.

5. There is always a budget, which extends for several months ahead.

3.8.2 Disadvantages of the Rolling Budgets

1. More time, money and effort are spent

2. Frequent budgeting might have an off-putting effect on managers who doubt the value of preparing one budget after another at regular intervals.

3. Revision of the budget might involve revisions standard costs too, which in turn would involve revisions of stock valuations. This could mean that a large administrative effort is required in the accounts department every time a rolling budget is prepared to bring accounting records up to date.

4. If the expected changes are not likely to be continuous, routine-updating of the budget is unnecessary.

4.0 SUMMARY

In this unit, you have learnt the meaning of budgeting, it’s uses, functions and types. We discussed the various techniques of budgeting highlighting their advantages and disadvantages

5.0 CONCLUSIONS

This unit examined the budgeting methods or techniques that could be used in the public sector. It is mandatory for the executive in the public sector to prepare annual budgets which are subject to the scrutiny of the legislature. The principal methods used in preparing the annual budgets in Nigeria are the line-item method and the incremental method.

6.0 TUTOR-MARKED ASSIGNMENT

1. What are the major differences between Planning, Programming and Budgeting Systems and Zero Based Budgeting?

2 Describe the five basic steps that may be involved in budgeting for the construction of housing units for civil servants using the zero-based budgeting approach

7.0 REFERENCES/ FURTHER READING

Emeni, F.K., Ogiedu, K.O., Mgbame, C.O., and Erhagbhe, E. (2008) Public sector accounting and finance, Vol. 1, Benin City: Mindex Publishing Company Limited

ICAN (2014) Public sector accounting and finance, Lagos: VI Publishers

UNIT 5: GOVERNMENT BUDGETING 2

CONTENT

1.0 INTRODUCTION

In this unit, you will learn about budget preparation in the public sector. You will learn about the different phases of the budget preparation and implementation in the public sector. You will also learn the structure of the public sector budget, which may be substantially different from what obtains in the private sector. Finally, the problems on public sector budgeting in Nigeria are also highlighted

2.0 OBJECTIVES

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

1. Explain the Budget preparation stages
2. Appreciate the Structure of the government budget
3. Know the functions/purposes of the various components of the government budget
4. Understand the problems of public sector budgeting in Nigeria

3.0 MAIN CONTENT

3.1 Budget preparation procedure

The budget preparation procedure at the federal and state government levels could be divided into four-broad stages, namely:

i. The Budget Drafting Phase
ii. The Legislative Phase
iii. Implementation Phase
iv. The Auditing Phase

3.1.1 The Budget Drafting Phase

The financial year in Nigeria is the same as the calendar year. The constitution vests the preparation of the budget on the executive. The constitution did not, however, specify the time frame at which the executive must submit the draft budget to the legislature. The following procedures are adopted at the Budget-drafting phase.

1. The budgeting cycle begins with the articulation of the budget policies and objectives by the President/Governors and the Executive Councils (Federal or State as the case may be).

2. The budget department realizes these policies and objectives by coordinating the budget formulation by the ministries. The budget department sends out call circulars to ministries aimed at obtaining each ministry's estimates of revenue and expenditure for the budget year.

3. The ministries prepare their respective under sub-headings of revenue and expenditure, based on guidelines contained in the call circular.

4. The budget department then aggregates the estimates from the ministries into master budget estimates of government. The ministry of Budget and planning sets up a committee to do this. This committee is called the drafts estimate committee. Each ministry defends its proposals before it. This phase of preparation and defense of budget proposals by the ministries is sometimes called ministerial phase.

5 The Federal Executive Council (FEC) reviews the Federal Government Budget. The President also presents the budget at the National Council of States to intimate the state governors of the direction of the economy. (The State Government Budgets are reviewed at the State Executive Council (SEC).

6 After the approval of the Federal Executive Council/State Executive Councils, the budget is presented to the Legislature.

3.1.2 The Legislative Phase

The Legislative Consideration of the budget starts in the parliament after the presentation of the budget by the executive (President/Governor). At the federal level, the presentation of the budget to the National Assembly is done at a joint sitting of the Senate and the House of Representatives. The following procedures are adopted:

i. The Senate President/Speakers lay the budget 0n the floor for the first reading during which there are debates on the general policy.

ii. The budget document is, thereafter, referred to the appropriation committees of the Houses after the first reading. Generally, the houses are organized on committee basis, handling each ministry and other important areas of concern.

iii. The Appropriation Committees then scrutinize the budgets through the sectoral committees, which liaise with the respective Ministries to ascertain the appropriateness of their estimates. Each committee then prepare a final set of suggestions indicating the amendments made in the draft budgets and submits to the appropriation committee.

iv. The Appropriation Committee then submits a report on the draft budget to the Legislature. The draft is then debated during the second and third readings in the entire house.

v. In the case of the National Assembly, a joint sitting of the two houses is called to resolve differences (if any), arising from the two sets of reports. The harmonized budget is then presented separately to the two Houses. Thereafter, there is a joint sitting of the National Assembly to pass the bill, after which it is sent to the president for assent.

3.1.3 The Implementation Phase

The executive arm carries out the implementation of the budget. The Executive normally delegates the implementation to the various ministries/extra ministerial Departments. The implication of this is that it is the civil servants who carry out the implementation of the budget. Although the legislature is not involved in the implemen[1]""^ of the budget, there is provision for parliamentarian super over budget implementation. This is to ensure accountability, transparency and orderly implementation of the approved budgets. It is part of the oversight function of the legislature.

3.1.4 The Auditing Phases

The constitution provides for the audit of all public accounts by the Auditor General. The Auditor General submits the Audit Report directly to the legislature Arm. The functions of the Auditor General and the Audit of Government accounts are dealt with in another section.

Self- Assessment Exercise

1. Discuss the various phases of a budget cycle.

3.2 Delayed Budget

As stated earlier, the constitution did not specify the time the president/Governor must present the draft budget to the parliament in any year. Also there is no time limit for the legislature to consider the draft budget submitted to it. The implication of the above is that sometimes, the budget may not have been approved at the beginning of a financial year. In this case the Executive has no budget to carry on the affairs of state. Section 82 of the 1999, constitution makes provision for the withdrawal of money from the Consolidated Revenue fund of the Federation necessary to carry on the services of the federation (Section 122 makes similar provisions for the Governor of a state), pending approval of the budget.

The authority granted to the Executive is, however, subject to the following.

(1) The period must not exceed six (6) months or until a budget is approval whichever comes first.

(2) Such withdrawals shall not exceed the amount authorized to be withdrawn (spent) for the corresponding period in the immediately preceding financial year.

3.3 Supplementary Estimate

When during the year, it becomes obvious that the budget estimates would not be adequate, a supplementary estimate may be prepared. An application for supplementary estimates is usually made to the Ministry of finance. The Ministry of finance has the following options:

a) to approve the application for a supplementary estimate.
b) To approve the use of virement to provide the necessary funds.
c) To provide funds from the contingencies funds.
d) To refuse permission for the sums applied for.

If the decision is to use supplementary estimates, a bill is sent in that respect to the parliament for approval. A supplementary budget passes through the same proceedings for approval as the budget itself.

3.4 Base estimate

The base estimates for the current year is obtained by taking last year's budget and deducting the value of non-repetitive transactions (or one-off transactions), that is, transactions which do not occur every year.

3.5 Committed growth

In public sector budgeting, there are certain commitments made in that previous year or years which are likely to impact on future expenditure. These are costs for which there are existing obligations. An example of such a committed fixed cost is the salaries and other emoluments of public officer. The somewhat fixed cost expenditure is known as committed cost.

3.6 Virement

The constitution requires that no money shall be -withdrawn from the consolidated revenue fund except it is approved in a Budget. However, unforeseen circumstances may warrant expenditures not listed in the budget. A way of solving the problem is through the preparation of supplementary estimates as stated above. However, supplementary estimates take time, which may not be available. A faster solution is the use of Virement. Virement is the transfer of fund from one sub head to another. The following conditions apply to the use of virement under section 408 of the financial regulations:

(i) It must be between two sub-heads under the same head.

(ii) It must not be used to create a new sub-head of expenditure entire house.

(iii) In the case of the National Assembly, a joint sitting of the two houses is called to resolve differences (if any), arising from the two sets of reports. The harmonized budget is then presented separately to the two Houses. Thereafter, there is a joint sitting of the National Assembly to pass the bill, after which it is sent to the president for assent.

3.7. Structure of the Budget

There are four basic parts to the public budget:

a) Recurrent Revenue

b) Recurrent Expenditure

} **Recurrent budget**

c) Capital Receipts

d) Capital Expenditure Capital Budget

} **Capital budget**

The total budget or budget size is obtained by the combination of the Recurrent budget and the Capital budget.

Revenue		
(i)	Recurrent Revenue	x
(ii)	Capital Receipt	<u>x</u>
Total Revenue		xx
Expenditure		
(iii)	Recurrent Expenditure	x
(iv)	Capital Expenditure	<u>x</u>
Total expenditure		<u>xx</u>

3.8 Revenue Budget

The revenue budget is a projection of the earnings of the government for the budget year. The recurrent revenue is the routine and 'earned' revenue of the government. They do not include borrowings and recovery of loans. On the other hand capital receipts are non-repetitive and non-routine variety. Capital receipts changes the financial liabilities /assets of Government. The Federal Government derives its revenue from the following sources:

1) Indirect taxes
2) Direct taxes
3) License and internal; revenue
4) Mining
5) Earnings and sales
6) Rent of Government property
7) Reimbursements
8) Armed forces (personal income tax)

9) Miscellaneous

On the other hand, the sources of revenue included in the States Government budgets include, inter alia, the following:

1) Indirect tax

2) Direct tax

3) Fine and fees

4) Licenses

5) Earnings and sales

6) Rent on Government property

7) Interest, Repayment and Dividends

8) Reimbursements

9) Miscellaneous

10) Statutory allocation from the federations account.

11) Value added tax -

12) 13% mineral derivations (for states in the oil producing areas)

13) Armed forces (personal income tax)

3.8.1 The purpose / function of the revenue budget

1) To plan the cash flow of the government

2) To identify the major sources of government revenue

3) To determine the income to be received by the government

4) To determine the weaknesses in the revenue generation base with a view to improving on it.

5) To make policies on the revenue generation of government

6) To set targets of achievement for the various revenue centers.

7) To provide a basis for the control of income and expenditure of government.

8) To determine the expenditure budget which the revenue to be generated can conveniently sustain.

Self- Assessment Exercise

1. List the functions of a revenue budget.

3.9 Capital receipts

The capital receipts budget of a stated is usually made of:

(a) Transfers from the Recurrent Budget surplus.

(b) Transfer from general reserve.

(c) Transfer from specific reserves.

(d) Internal loans.

(e) External loans.

(f) Grants.

3.10 Recurrent Expenditure Budget

The recurrent expenditure budget is made up of three main heads.

a. Personnel Cost Budget

b. Overhead Cost

c. Consolidated revenue fund charges

3.10.1 Personnel Cost Budget

The personnel cost budget is an estimate of the total basic salaries and allowances of the various categories of staff in the employment of the public service. The government operates a salary structure in which the salaries and allowances payable to the various cadres of staff are well stated. In preparing the personnel cost budget the following basic steps are followed:

1. The identification of the various positions in each ministry department of Government.

2. Identification of the number of staff on each grade. The identification takes into consideration the annual increment of one-step, promotion potentials and possibility of fresh recruitment.

3 Identification of the grade level of each position. The government operate on grade levels 01 - 17,which are subdivided into three cadres (i) management cadre (GL 13-17) (ii) Senior cadre (GL 07-12) and Junior cadre (01 - 06).

4 The identification of the basic salary and the annual incremental salary

In preparing the budget for personnel cost, the call circular will normally indicate the steps at which each cadre level should be budgeted. If the grade level is stated and no additional information is given, it is assumed that there will be a step increase in salary. It is customary for any department of ministry to seek clearance from the Department of Establishment before making any budgetary provision for new recruitment.

A typical government salary grade level is written in the form (a x b) e.g. (N50.000 x 10,000) where a = basic salary at step 1 of the particular grade level and b, the annual incremental rate. The Implication of the above is that at any step in the grade level,

Salary = Salary + Increment

= $a + (x - 1)b$

Where a = Salary on step 1

B = annual increment

x = the new step of the office

Using the above information, let us say N50,000 is the basic c salary on step 1 with an incremental rate of N10,00. From thee information above table of salaries can be drawn up as shown below:

Year	1	2	3	4
Salary	50.000	60,000	70,000	80,000

The salary on grade level four of the above grade level step is computed as follows using the formula above

Salary = 50,000 + (4-1) x 10,000

= 50,000+30,000 ',000

= N80,000.00

3.10.2 Overhead Cost Budget

The overhead cost budget is presented in the same format as the revenue budget. And like the revenue budget it is divided into heads and subheads. Overhead Cost items include:

(1) Transport and travelling

(2) Utility service (water, electricity, etc.)

(3) Telephone and postal sen/ice

(4) Stationary

(5) Maintenance of office furniture and Equipment

(6) Maintenance of vehicle and other capital assets

(7) Consultancy services

(8) Grants, Contributions and subventions to boards, corporations and parastatals.

(9) Training and staff development

(10) Entertainment and Hospitality

(11) Contributions to international organizations.

(12) Motor vehicle/cycle/bicycle advance

The ministries/Agencies usually make token provisions for subheads where substantial provisions may not be immediately required. Incremental system is used to make provision for the various items in the overhead cost budget. Incremental provisions are usually made of two parts (i) provision for increase in activity level (ii) provision for price inflation.

3.10.3 Consolidated Revenue Fund Charges

The third main head of the recurrent expenditure budget is the consolidated revenue fund charges. These are standing services or charges, which are established by the constitution, other statutes or contract. Though these charges are in the budget estimates, they are not subject to the annual legislative debate or approvals. An example is the salary of certain categories of Public officers contained in section 84(3) and (4) for the government of the federation and sections 124(3)(4)and (5), for the states.

Typical consolidated revenue fund charges for a state government include the following:

(1) Personal emoluments for the following statutory office holders.

- (i) High Court Judges
- (ii) Civil service commissioners
- (iii) Auditor General
- (iv) Customary Court Judges
- (v) Auditor General (Local Government)
- (vi) Judicial service commission
- (vii) Local Government service commission
- (viii) Independent Electoral Commission (State)
- (ix) Governor and Deputy Governor
- (x) House of Assembly Service Commission

(2) Pension and Gratuities.

(3) Public debt charges (internal and external loans.

(4) Contractual obligations.

(a) Repayment/Service of local Bank loansxv

(b) Guaranteed loans

(c) Internal debt services

(d) Other contractual obligations.

(5) State Government contribution:

(a) Allocation of 10% of Internal Revenue of the State to Local Government Council.

(b) Contribution to primary schools

(c) State Government contribution to National Judicial 'Council fund,

(d) State Government contribution to Local Government Fund Council fund,

3.11 Capital Budgets

Most public sector organizations make a distinction between items of a revenue or current nature and items of a capital nature. The usual distinction between capital expenditure and revenue expenditure is that capital expenditure provides benefit for more than one year. This is known as the "period of benefit" principle. The benefit flowing from revenue expenditure is limited to one year. Sometimes this distinction runs into problem. For example when the principle is applied to such items as the cost of a new school or a new thermal power station, it present few problems. On the other hand, there are situations where distinction is not too clear particularly in the social service sector like the educational sector. For example, the education of school children will provide benefits for many years ahead. This, however, does not mean that the expenditure on teacher salaries is capital expenditure. The solution usually provided by the government to this apparent dilemma it to prescribed certain types of expenditure as capital and thereby provides an effective distinction. The capital Budget is made up of capital receipt and capital expenditure.

3.11.1 The Objectives of Capital Budgeting

Careful consideration of the capital expenditure is very paramount if a public sector organization intends to fully achieve its fundamental aims and objectives. Some of the objectives of capital budgeting are:

1. It is a major form of expression of the overall plan of the organization for the development of its activities and services

2. A capital budget program is used to define the priorities between the services offered by a public sector entity.

3. It is an essential tool for the assessment of the availability of capital resources such as staff, land and finance.

4. State Government Contribution to Local Government Pension It enables a public sector entity to take a coi^orate view of the need for capital expenditure in each area of service provision.

5. It serves to meet the requirements of the Government's capital control system.

6. It serves to assess the extent to which an entity can meet the revenue consequences of proposed capital projects.

7. It serves as an authority for the officers to undertake the action necessary to implement individual capital projects.

Self- Assessment Exercise

1 Explain the objectives of a capital budget.

3.12.2 The Form of Capital Budgets

In the preparation of capital budgets, cognizance is usually taken of the long term effects of capital budgets. The country presently operates a three tier planning system consisting of a long-term perspective plan, the medium term rolling plans and the annual budgets. The annual capital budgets are supposed to be derived from the rolling plans and the perspective plans.

At the federal leve1, the National planning commission is charged with development planning and the coordination of capital budgeting. At the state level, it is the responsibility of the state planning commissions. It is customary for the various ministries/extra ministerial departments to send their advance proposals for capital expenditure to the planning commission for consideration. The planning commission usually gives guidelines for the preparation of the capital expenditure estimates.

The guidelines for the preparation of capital budgets by government entities usually include the following, among others:

1. The Capital expenditure proposals are to be in harmony with set objectives and priorities of the government.
2. Only projects and the programs within the relevant rolling plan period are expected to be included in the current year's capital budget.
3. The provision of an enabling environment for industrial development is sometimes accorded priority.
4. Adequate financial proposals are usually made for the payment of counterpart funding obligations in respect of externally assisted projects/programs.
5. Usually prime attention is given to on-going projects and program that are fundamental to the sustenance of statutory responsibilities of ministries/ extra ministerial agencies and those that can activate inter-sector linkages.
6. Also attention is also focused on the maintenance and rehabilitation of economic and social infrastructure such as roads; water; electricity, education, health care delivery etc.

3.12 Capital Receipts

Broadly speaking, capital receipts are those items, which are basically of non-repetitive and non-routine variety. They can change government's financial liabilities/assets. Capital receipts of the government may take many forms. The usual items of capital receipts in a state government budget include:

1. Transfer from consolidated revenue
    a. Transfer from General Reserve
    b. Transfer from specific Reserves

c. Others

2. Internal Loans

3. External Loans

4. Grants - from the Federal Government and international organization

5. Miscellaneous

3.13 Capital Expenditure

A capital expenditure is one whose benefits are likely to flow in for a period of more than one year. In Government budgeting, Capital expenditure is usually classified according to the sector. Capital expenditure budget contains the estimated payments for the acquisition of new assets. The payments normally exceed receipts (sales of assets) and the difference is the amount that has to be found, either by borrowing or from a surplus on revenue account. Capital expenditure budgets can be prepared for just one year, but many of the assets of public sector organizations require long periods of construction. This means that several years may elapse from initial design to completion.` This makes the preparation of capital expenditure for at least the medium term very expedient. In preparing capital expenditure budgets, there is need for a schedule of capital works showing the various stages of completion of the individual capital projects and the amount that is expected to be completed and paid for in the next three to five years.

The items included in the capital budget are therefore the planned capital assets acquisition and disposals for the medium term planning period. The long term and medium term financial plans will have provided information on the assets that need replacing and the assets required for new activities and these are expressed in financial terms.

Typical items under capital expenditure budget for a state government in Nigeria include:

1. Economic sector

   a. Agriculture and Rural Development.

   b. Livestock.

   c. Forestry.

d. Industry.

`e. Energy.

f. Commerce, cooperative and finance.

g. Commerce, cooperative and finance.

h. Transport.

2. Social Sector:

a. Education.

b. Health.

c. Information.

d. Social Development and Sports.

3. Environmental Development Sector:

a. Water resources and water supply.

b. Rural Water sanitation.

c. Sewage and Drainage/Environmental protection.

d. Housing.

e. Town and Country planning.

f. Community Development/Special area Developmen

4. General Administration:

a. Administrative Buildings.

b. Others.

3.14 Problems of Public Sector Budgeting in Nigeria

From the foregoing there are constitutional and statutory provisions on budgeting and budget implementation in the Nigerian public sector. In spite of these, budgets implementation in

Nigeria, cannot .be said to be efficient or effective. A number of factors are responsible for this.

1. Behavioral factors: The general level of corruption and indiscipline in the Nigeria society plays an overriding that militates against effective budgeting and implementation in Nigeria. Most public officers see budgeting as an obstacle to their free access to public funds and therefore do whatever is in their power to frustrate its efficient operation.

2. High degree of environmental turbulence: The high level of uncertainty in Nigeria makes budgeting very difficult. With inflation running hyper, the purchasing power of the naira keeps reducing. This makes budget implementation difficult.

3. Dearth of reliable data: Public sector budgeting is based primarily on the projection of key sales, which is dependent on the dynamics of the world oil market.

4. Inconsistent government policies: Policy consistency seems not to be one of the characteristics of present and past government regimes in Nigeria. This hampers good budget implementation.

5. Fiscal Indiscipline: The attitude of the average Nigerian in government is that, once the budget is approved, it becomes ‘a sin’ not to spend the last kobo even if the circumstances do not warrant such.

4.0 SUMMARY

In this unit, we looked at the various phases of a budget cycle. We also discussed the different parts of a budget. The problems encountered in public sector budgeting were also highlighted.

5.0 CONCLUSION

This unit concludes that the public budget is indeed very vital for the government operations. The public budget is a legal document whose provisions must be complied with in the execution of government programs and operations.

6.0 TUTOR-MARKED ASSIGNMENT

1. Describe the major steps in the preparation of the budget of the Edo State Government

2. Discuss the problems of public sector budgeting in Nigeria.

7.0 REFERENCES/FURTHER READING

Emeni, F.K., Ogiedu,K.O., Mgbame, C.O., and Erhagbhe, E. (2008) Public sector accounting and finance, Vol 1, Benin City: Mindex Publishing Company Limited

ICAN (2009) Public sector accounting and finance, Lagos: VI Publishers

UNIT 6 AUDIT OF GOVERNMENT ACCOUNTS

CONTENTS

6.0 TUTOR MARKED ASSIGNMENT

7.0 REFERENCES/FURTHER READING

1.0 INTRODUCTION

In this unit, you will learn of the meaning and nature of auditing, the different types of audits available in the public sector and the legal framework of government auditing. You will also learn about the Auditor General at both the federal, state and local government levels including their functions as the procedures for appointing and removing them. The unit also includes an examination of the Public Accounts Committee (PAC) and the independence of the audit function.

2.0 OBJECTIVES

After studying this unit you should be able to:

1. Understand the meaning and nature of auditing
2. Identify the different types of audit
3. Know the legal framework of government auditing and government auditing standards in Nigeria
4. Understand the functions, and the procedures for the appointment and removal of the Auditor General.
5. Understand internal auditing in the public sector including the functions, and the procedures for the appointment and removal of the internal auditor.
6. Know about auditing in the local government councils including the functions of the Auditor General for Local Government

3.0 MAIN CONTENT

3.1 MEANING AND NATURE OF AUDIT AND AUDITING

Audit and auditing has been variously defined. According to Okolo (1988), auditing is a conscientious and objective examination into any statement of account relating to money or money worth with the underlying documents, and the physical assets where possible as, to enable the auditor form an opinion, on whether or not the statement of account present a true and fair view of whatever it purports to represent. Woolf (1994) sees an audit as a process in which the accounts of business entities are scrutinized to enable the auditor to form an opinion as to the truthfulness and fairness of the accounts. Adams (2005) sees auditing as a process during which the accounting records and the financial statements of an enterprise are examined by independent Auditors with the aim of expressing an opinion in accordance with his term of appointment. From the above definitions, it is clear that the emphasis of an audit is the formation of an opinion about the accounts and financial statements of an entity.

3.2 TYPES OF GOVERNMENT AUDIT

This section describes the types of audits that government and its parastatals may conduct. The description is not intended to limit the type of audit that may be arranged. All audits begin with objectives and those objectives determine the types of audit to be conducted. The following types of audits, though not exhaustive are clearly discernible.

3.2.1 Financial audits

This include audit of financial statements and financial related issues. The objective of financial statement audits is to provide reasonable assurance on whether the financial statement of an audited entity presents a true and fair view of the financial position, the cash flows and the result of operations of the entity.

Financial audits include among other things, the determination of whether:

i. The Financial information presented comply with established or stated criteria.
ii. The entity has complied with the relevant regulations, or
iii. The entity's system of internal control structure over financial reporting and or safeguarding assets is adequate.

Financial audits include a audits of the following items:

a. financial statements or their segments; financial information; disbursements; and budget variances.
b. Internal controls over compliance with regulations and laws.
c. Internal controls over financial reporting
d. Internal control over assets.
e. Allegations of fraud.

3.2.2 PERFORMANCE AUDITS

Performance audits include the following among others:

i.. Efficiency and Economy audits

ii. Audit of programs.

iii Value for money audit.

i. Economy and Efficiency Audit

Efficiency and Economy audits include the following;

a. The determination of whether the entity's acquisition, protection and use of its resources is carried out economically and efficiently;

b. The reasons for wastages, uneconomical or inefficient practices;

c. The determination of whether the entity has complied with the laws and regulations on relating to economy and efficiency.

ii. Program Audit

Program audits may apply to activities, functions, services as well as programs. They include the following among others:

1. Determination of the extent to which the desired results or benefits being achieved.

 a. The effectiveness of the programs, activities, or functions of the organizations
 b. Determination of whether the entity has complied with the laws and regulations applicable to the program.

3.2.3 Other Activities of Government Auditors or Audit Institutions

Auditors may prefer services other than audits. Such activities may include the following:

1. Development of the methods and approaches to be applied in evaluating a new or a proposed program;
2. Assistance in the development of questions for use at hearings by a legislative body;
3. Assisting in the Forecasting of potentials program outcomes.
4. Performance of special investigative work.

3.2.4 Other Classifications of Audit

Other methods of classification of Audit are:

1. By timing of Audit work method approved
   - i. Interim Audit
   - ii. Year -End Audit or final Audit
   - iii Continuous Audit
   - iv Complete Audit.
2. Classification by of Method Appointment
   - i. Private audit
   - ii. Management Audit
   - iii. Internal Audit
   - iv. External Audit
   - v. Statutory Audit
3 Classification by Method of Audit
   - i Balance Sheet Audit
   - ii System based Audit
   - iii Vouching Audit

3.2.5 Interim Audit

These are audits usually carried out during the year but before the end of the financial year of the entity. An interim audit could consist of several audit visits. The purpose of interim audit may be primarily to examine the accounting and the internal control system. The auditor can also carry out transaction and balance sheet audits during the period. Interim audit may be on quarterly or semi-annual basis. They are usually carried out at the instance of the management of an entity, in order to assist them in the preparation of interim financial statements for the purpose of declaring a dividend or meeting the requirements of the stock exchange.

Interim audit has the following advantages:

1. It will help to facilitate the completion of the final audit.
2. It is of assistance where the client publishes interim financial statements.
3. It facilitates the early detection of fraud, error and other irregularities.
4. The attendance of audit staff at intervals imposes a sound moral check on client's staff.

On the other hand, the following disadvantages are attributable to interim audit:

1. Already audited figures may be altered after the audit.
2. The audit team may lose the trend of events especially if it is not the same audit team that comes on every occasion.

3.2.6 Final (Year-End) Audit

This is the annual audit, which is carried out at the end of the financial year. It is a completed audit. Annual audit is a regular audit. It is governed by the constitution for the various tiers of government and by relevant statutes for government corporations.

The effort in the final audit depends on the work done during the interim audit. Where systems audit was undertaken, during the interim audit, the final audit will attend to the balance sheet audit. Where on the other hand, both systems and substantive work was done, the audit effort will be centered on systems and balance of the audit work for the period not carried out by the interim audit.

3.2.7 Continuous Audit

A continuous audit is one in which the auditor visits the clients offices all year round in the process of obtaining audit evidence, with transactions being audited as they occur and are recorded. Continuous audit is carried in the following circumstances.

i Where the volume of work is too large to be left till the end of the year.

ii Where the client suggests it.

iii. In a computerized environment with the probability of a fast loss of audit trail.

Continuous audit has the following advantages:

1. It ensures a timely completion of the audit
2. It offered the auditor the opportunity to audit some transact and balances while there is still audit trail
3. It assists in the prevention of fraud or their early detection
4. It imposes a sound moral check on staff
5. Audit staff may be used more effectively
6. Work is more likely to be kept up to date

On the other hand has the following disadvantages

1. They are usually costly
2. They tend to interrupt the client's daily routine
3. They increase the chance of over auditing

3.2.8 Complete Audit

This is an audit in which all aspects of the auditors examination of the clients records are carried out during one visit. Complete audit arte carried out in one or more of the following circumstances:

a. Where the client is small
b. Where the client suggests that only one visit be made
c. Where the firm staff prepared the accounts for the client
d. Where a complete audit is appropriate given the clients' year end data.
e. Where generally it is more convenient for instance where the client is in a town where the auditor has no office and staff have to travel there.

Complete audit has the following advantages

a. Work can be carried out through to conclusion avoiding the necessity of returning on separate occasions.
b. A simplified timetable can be worked out for staff.

Complete audit has the following disadvantages

1 There might be delay due to extended work nature.
2 Difficulties due to the same financial year end of clients

3.2.9 Management Audit

This is carried out to assess the effectiveness and efficiency of management. It is a non-statutory audit. It is an independent examination of the quality of the policies of the management of an organization as well as the level of their execution against the background of relevant environmental factors and conditions. It could cover any aspect of the organizations policies and procedures.

Internal auditor, management consultants or teams selected for the purpose, usually carries it out.

Management audit has the following advantages:

1 It provides feedback for, managers.
2 It discourages unhealthy and fraudulent management practices and procedures
3 It provides management and Board with a report of their performance.
4 It gives the board access to constructive advice.
5 It is usually for the basis for organizational turn around.

3.2.10 Internal Audit

This is an independent audit of the activities within an organization. It carries out a for the review of the operations of the entity as a service to management. Internal audit it carried out by an internal auditor who is a staff of the audited organization. It is a managerial control mechanism. Internal auditing is discussed in a later section.

3.2.11 Balance Sheet Audit

Balance sheet audit is geared towards verifying the assets and liabilities of the enterprise in order to obtain audit evidence that these items are fairly stated. The balance sheet is taken as the starting point from where we work - back to the detailed entries in order to substantiate each entry in the balance sheet.

3.2.12 System Based Audit

System based audit is directed towards recording, testing and evaluation of the internal control; system in operation to enable the auditor determine the extent to which he can place reliance on the control system.

The auditor in a system-based audit usually adopts the following procedures:

1. He draws up an audit plan
2. He ascertains the clients system of accounting and internal control and documents it.
3. He carries out an assessment of the reliability of the system as a basis for the preparation of financial statements expected to show a true and fair wiew«nd lakes a decision whether to rely on the system or not.
4. Where the system is good and he decides to rely on it, he carries out compliance tests with a view to confirming whether the system is operational in practice. Where the tests show that the system was operational, he will, in line with the level of reliance he has planned, appropriately reduce the extent he will go on seeking evidence of the validity, accuracy and completeness of the information in the financial statement.
5. Where either he decided not to rely on the system or the result of compliance tests show that the systems although reliable was not operational during the period, he will proceed to extend the amount of evidence he will seek in verifying the validity, accuracy and completeness of the information in the financial statement.

The system based audit is contrast to the vouching audit, in which the auditor does not consider the quality of the system, but goes straight to obtain audit evidence on the basis of checking to be done. It reduces the chances of over auditing and enforces more discipline on the audit / process and efforts.

3.2.13 Vouching Transaction Audit

These are audits, which involve the review of the transactions of an entity within periods of time in order to ascertain the completeness, accuracy and validity of the transactions. It involves the examination of the documents offered and the explanation given in substantiating the entries in the accounting record.

Vouchering or transaction audits involves:

1. Inspection of receipts and documents
2. Comparing these documents and receipts with the corresponding entries.
3. Verification of the accuracy and correctness of the entries.
4. Ensuring the entries are in order properly authorized and correctly recorded.

3.3 The legal frame work of government auditing

Under the present democratic setting in Nigeria, the constitution is the supreme law from which all other laws derive their existence. Section 85 (2) of the 1999 constitution vests the power to audit the accounts of the federation and of all offices and courts of the federation on the Auditor General of the Federation. Section 85(3) excludes government statutory, corporations, commissions, authorities, and agencies from the jurisdiction of the auditor general. The auditor general of the federation is, however, entitled by section 85 (3) (a) to provide such bodies with list of suitably qualified auditors as well as provide guidelines for the remuneration of such auditors.

Section 125 of the constitution makes similar provision for the Auditor General of a state. The implication of the above provisions is that the Auditor General of the federation is the External Auditors to the public accounts of the federation. The same is true for the Auditor General of the state in respect of the public accounts of the state. The State's Auditor General for Local Government Councils audits the public accounts of Local Government Council as contained in the financial Memoranda.

Apart from the constitution, there are other sources of authority for the audit of public accounts. These include:

1. The finance (Control and Management) act of 1958 as amended
2 The Audit Act of 1956 as amended
3. Financial Regulations
4. The Audit Guide
6. Civil Service Reform Guidelines
7. Extant Government Circulars
8. Internal Control Guides of Ministries/ Extra Ministerial Departm s etc.

The Public Accounts Committee (PAC) of each state and the N uonal Assembly consider the Auditor General's report respectively.

3.4 Government auditing standards

The Government in Nigeria has mainly be interested in legislations, regulations and Executive Orders regarding Auditing. Much of the provisions in these laws are mainly in the nature of auditing requirements rather than standards in auditing. Government has made auditing laws for the public sector much of which addressed objectives and procedures of audit of public sector Accounts and of its Boards and corporations. The Supreme Audit Institutions have themselves has established some rules and procedures guiding the conduct of audits to facilitate their work.

In Nigeria, the Federal and State Governments Auditor General have produced the "Audit Guide" which spells out the general outline or procedures for Audit of the public sector including the form of audit report. Besides the laws and Audit Guide, there is nothing in the Public Sector Audit Authority that can reasonably be interpreted as being in the nature of strict Auditing Standards for the public sectors in Nigeria.

This position has prompted the profession of accountancy to intervene in the framework project for Public Sector Auditing. The public sector committee (PSC) of the institute of charted Accountants of Nigeria (ICAN) issued Guideline. No. 31 in January 1992 "Applicability of International Standards on Auditing (ISAs) to the Audit of financial statements of Government and Non Business Public Sector Entities" The Standard in question advocated the adoption of International standards on Auditing to the extent that they do not conflict with local, laws and regulations as well as Ministerial Directives governing an Audit. Where there is a conflict between the requirements of the International Standard in

Auditing and the Local Law the local law should be complied with.

3.5 The Auditor General : Appointment and Removal

1. Section 86(1) of the 1999 constitution provides for the appointment of the Auditor General of the Federation by the President on the recommendation of the Federal Civil Service Commission subject to confirmation by the senate.

2. The Auditor General will vacate office in any of the following ways.
   1 He has served in the public service for a maximum of 35 years or
   2 He has attained the age of 60 years.
   3 By section 87 of the constitution, an address by the president to the senate to remove him supported by two-third majority of the senate. To be removed in this way, the Auditor General must have become incapable of performing the functions of his office due to;
      i Infirmity of mind or body; and
      ii Misconduct

At the state level the Auditor general of a state is appointed by the Governor on the advice of the state civil service commission subject to confirmation by the state House of Assembly (s.126). The Governor subject to approval can also remove him by two -thirds of the state House of Assembly (s. 127).

3.5.1 Functions of the Auditor General for the Federation

The duties, functions and powers of the Auditor General are spelt out in section 85 for the federal Government and sections 125 for the states. They are as follows for the Auditor General for the federation.

1. To audit and report on the public accounts of the federation and courts of the federation.
2. To provide government statutory corporations, commissions authorities, agencies including all bodies established by the National Assembly with;
   i A list of auditors qualified to be appointed by them as external auditors.
   ii Guideline on the level of fees to be paid to external auditors.
   Iii To comment on the annual accounts and report thereon.
3. To conduct periodic checks of all agencies and organs of government including but not limited to statutory corporations, authorities, commissions, agencies including all persons and bodies established by an Act of the National Assembly.
4. To submit his reports on the financial statements to each House of the National

Assembly within ninety (90) days of receipt of the AccountantGenera's financial statements.

5. By section 85 (3) of the 1999 constitution, the Auditor General of the federation has no authority to act as External Auditor to Government statutory corporations, commissions, authorities, agencies etc.

The functions of the Auditor General of the states are similar to that of the federation. The Auditor General derives his power and authority to perform his statutory roles reasonably as from the constitution of the federal Republic of Nigeria. The office of the Auditor general is an Extra-ministerial one. It has no minister or commissioner as the political head not a permanent secretary. Rather the Auditor General is the Head and Accounting Officer of the office.

Self- Assessment Exercise

1. Discuss the functions of the external auditor to the Government.

3.6 The government internal auditor

There is no express provision for the Internal Auditor in the constitution. However, it is provided for in other subsidiary legislation. The Financial Regulations (2000) provides in chapter 20 for the Internal Audit functions.

Section 2001 of the Financial Regulations requires that the Accounting officer of a Ministry or Extra Ministerial Department shall ensure that an Internal Audit Units it established in the Ministry.

The functions of an Internal Auditor under the Financial Regulations are:

1. To carry out a continuous and complete audit of the records and accounts of revenue and expenditure, plants and store.
2. To carry out management audits encompassing other areas of activities and functions of a ministry/ extra-ministerial department.
3. To carry out a comprehensive audit of all the operations and activities of the ministry/ Extra Ministerial Department.
4. To ensure that safeguards introduced for the prevention or detection of fraud and loss of cash are adequate.
5. To ensure that the system of control for the collection of revenue is adequate and that all moneys received have been brought promptly to the account, to the correct head

and sub-head.

6. To ensure that the system for the control of expenditure is adequate and that all payments made are properly authorized and correct, that they are paid to the right person, from the correct head and sub-head, and made for the purpose for which they were authorized.
7. To ensure that a system for control of the issue and consumption of stores is adequate, that all issues are properly authorized and correct, that issued are made to the right person, and are used for the purpose for which they are authorized.
8. To ensure that there are adequate means for the verification by him of all cash, stores and plant held.
9. To ensure that all accounting records are accurate.
10. To carry out 100% pre-payment audit of all checked and personal vouchers.

Self- Assessment Exercise

1. Explain the duties expected of an internal auditor in a public sector organization.

3.6.1 Appointment of an Internal Auditor

There are no special provisions for the appointment of an Internal Auditor. He is a civil servant who has been appointed and deployed to the ministry in accordance with the civil service rules. However, section 2002 of the Financial Regulation enjoined the Accounting Officer of the Ministry to ensure that the Internal Audit Unit of the Ministry is placed directly under the control of a competent Accounts Officer trained in Treasury duties by the officer of the Accountant General.

3.7 The Public Accounts Committee (PAC)

The Public Accounts Committee is a Committee of the National Assembly responsible for the consideration of the Auditor General of the federation. Each state legislature also has a Public Accounts Committee.

The constitution enjoins the Auditor-General to submit its Annual report to the legislature, which in turn passes it to the Public Accounts Committee. The Committee examine the Public Accounts on the basis of the observations raised in the Auditor General's Report.

The Public Accounts Committee Comprises of all the Political Parties in the House. The Chairman is customarily appointed from the opposition party. The Auditor General, Accountant General, Representative of the Ministry of finance, Budget office and the Ministry or Agency concerned are usually in attendance during deliberation of the Public Accounts Committee.

After the submission of the Auditor Generals report to the Committee, it has absolute discretion in the planning and direction of its program of work, and the manner of summoning the ministry or Agency to appear before it. The Accounting officers of the Ministry I Extra Ministerial Department concerned are summoned to appear to give explanation on the matters affecting their departments or ministries.

The Auditor General attends the Public sessions of the Committee as a persecutor and in his capacity as adviser to the committee he is requested to provide justification for each matter raised in his annual report. The findings of the committee are subsequently submitted to the whole house after which the House will then direct the minister of finance to take necessary action on the issues raised by the committee. The report of public proceedings of the Committee are usually compiled and distributed to all members of the legislatures, the Accountant Generals office and all Accounting officers in Ministries/ departments and parastatals.

3.7.1 Functions of The Public Accounts Committee

The following are the functions of the Public Accounts Committee:

1. To deliberate on the Auditor General's Annual Report Submitted to the legislature.
2. To summon the appropriate Accounting officer to appear before the Committee to give explanation on the observations raised by the Auditor General.
3. To examine any officer on oath (if need be).
4. To recommend to the executive any action to be taken against an offending officer.
5. To deliberate on other matters relating to the management of public funds.
6. To report on areas of weak financial management control observed by it.
7. To carry out any duty as required by the legislative Assembly.

4.0 SUMMARY

In this unit, you learnt about the meaning and nature of auditing and the different types of audits like financial audits, performance audit, Interim audit, final year audit, continuous audit, complete audit, management audit, internal audit, balance sheet audit, system based audit. and vouching/ transaction audit. You have also learnt about the legal framework of government auditing, government auditing standards, the appointment and removal of the the Auditor General and his functions.

5.0 CONCLUSION

We have learnt in the previous module that Auditing is one of the financial controls in a public sector organization. The duty of ensuring public accountability lies with the Auditor General for the Federation as well as the Public Accounts Committee.

6.0 TUTOR-MARKED ASSIGNMENTS

1. What are the functions of the Public Accounts Committee in Nigeria?
2. The Auditor General of the Federation is not independent of the executive and the legislature. Discuss.

7.0 REFERENCES/ FURTHER READING

Emeni, F.K., Ogiedu,K.O., Mgbame, C.O., & Erhagbhe, E. (2008) *Public sector accounting and finance*, Benin City: MindexPublishing Company Limited

ICAN (2009) *Public sector accounting and finance*, Lagos: VI Publisher

UNIT 7 PARASTATALS AND PUBLIC ENTITIES ACCOUNTING

CONTENTS

1.0 INTRODUCTION

In this unit, you will be introduced to accounting and auditing in public sector Organizations. You will learn the objectives of corporations, parastatal, public and enterprises and the classifications of government parastatals/corporations. You will be able to understand the financial regulation of parastatals and their relationship with their Supervising Ministries. Furthermore, you will learn from this unit, functions of the chief executive officers of parastatals, funds management in parastatals, auditing and accounting in government parastatals, public hospitals and universities.

2.0 OBJECTIVES

After studying this unit, you should be able to:

1. Delineate public sector Organizations
2 List the objectives of corporations, parastatal, public and enterprises
3 Classify government parastatals/corporations
4 Understand the financial regulation of parastatals and their relationship with their Supervising Ministries.
5 List the functions of the chief executive officers of parastatals
6 Appreciate funds management in parastatals
7 Understand auditing and accounting in government parastatals
8 Appreciate finance and accounting in public hospitals and universities.

3.0 MAIN CONTENT

3.1 MEANING OF PUBLIC SECTOR ORGANIZATIONS

The public sector organizations are Organizations set up by the respective tiers of government to perform specific functions outside the government ministries and extra-ministerial departments. Omolehinwa and Naiyeju (2015) identified two features of public sector Organizations:

i. They do no operate primarily to make profit.

ii. They do not distribute their income or assets to the benefit of their members or officers of the organizations.

According to Omolehinwa and Naiyeju, even when such Organizations are dissolved, the proceeds realised is not given to any individual, but rather the proceeds goes back to the government. There are very many types of public sector organizations. Omolehinwa and Naiyeju classified them into two: Type A and Type B. According to them, Type A consists of those the public sector organizations whose financial resources are obtained principally from the sale of goods and services. On the other hand, Type B are those financed from sources other than sale of goods and services. Such organizations are financed primarily through government revenue. Examples of Type B public sector organizations in Nigeria are the Nigerian Armed Forces, the Nigerian Police Force, public universities, public health institutions, parastatals or corporations among others. These public sector organizations are covered by public sector accounting.

3.2 GOVERNMENT BUSINESS ENTERPRISES

Government business enterprises are public sector Organizations whose operations are commercial in nature. During the privatisation and commercialisation exercise in Nigeria, some statutory authorities and Organizations of governments were re-constituted during as profit-making Organizations. They became known as known as government business enterprises (GBEs). They are provided with considerable management autonomy in which their Chief executive officer and board of directors could set strategic directions and make resource management choices. Nevertheless, they remained wholly-owned by government, and the relevant government minister, in effect, retained the power of their sole shareholder. While acting as fully competitive profit-making enterprises, they are also made strongly accountable to the government minister, the parliament and the public. GBEs are, thus, controlled under a structure that places high expectations on their ability to succeed in a competitive market by returning regular dividends from profits to government, and at the same time meeting high demands on their accountability to the minister, parliament and the public.

Government Business Enterprises (GBEs) include trading enterprises such as utilities and financial enterprises such as financial institutions. For accounting purposes, GBEs are treated like organizations in the private sector since they generally operate to make profit.

The International Public Sector Accounting Standard (IPSAS) 1 specified the characteristics for delineating a GBE:

i. The entity must have the power to contract in its own name;
ii. It must the financial and operational authority to carry on a business;
iii. It sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;
iv. It does not rely on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and

v. It is controlled by a public sector entity.

In this chapter, we shall dwell on parastatals or public corporations and Government Business Enterprises (GBEs).

3.3 PARASTATALS AND PUBLIC COMPANIES

One of the major hallmarks of a public parastatal or corporation is that each corporation has its own enabling statute. Such statutes usually contain the following among others:

1. The name of the Corporation
2 The functions of the corporation
3 The aims and objectives of the corporation
4 The composition and structure of the Governing Board
5. The mode of appointment of the Board and management of the corporation
6. The Supervising Ministry.
6. The principal place of Business of the corporation and the Head Office
7. The place where the head office and branches of the parastatal
8 The structure of the management of the corporation.
9 The operational procedure of the corporation.
10 The source of fund available to the corporation
11 The types of accounts they are expected to keep.
12 are expected to keep.

According to ICAN (2014), 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. According to ICAN (2014), the term 'Parastatal' also refers to a Government Company, Board, Corporation or a Tertiary Institution such as the Lagos State Polytechnic, University of Benin, Benin City or Ahmadu Bello University, Zaria.

3.4 OBJECTIVES OF CORPORATIONS, PARASTATAL, PUBLIC AND ENTERPRISES

Adams (2013) identified the following the main objectives of setting up Parastatals:

(a) To bring the means of production under public ownership.

(b) To avoid high prices of goods normally charged by the private sector.

(c) To avoid duplication of facilities.

(d) To ensure close Government control over certain 'key' sectors of the economy.

(e) To ensure the survival of the Industries.

(f) To avoid imitation of goods.

(g) To enhance the standard of living of the people.

3.5 CLASSES OF GOVERNMENT PARASTATALS/CORPORATIONS

There are different ways by which parastatals can be classified. However, we shall adopt the classification of ICAN (2014). According to ICAN(2014), parastatals may take the following forms:

1. Public Utilities: These are parastatals providing essential services to the citizens either at 'nil' cost or at subsidized rates. This is to bring about proper balance between social and economic objectives. However, it is no longer so in Nigeria, as most utilities have been commercialised and citizens pay the full cost of the services.

2. 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), Nigeria Copyright Commission, Financial Reporting Council.

3. Commercial Enterprises: Commercial enterprises are established by government to stimulate competition within a given sector and to make profit from their operations.

3.6 FINANCIAL REGULATION OF PARASTATALS

Most parastatals are established by individual statutes or by-laws which contain their operating guidelines. However, there are financial regulations that are common to all parastatals. The financial guidelines for the operation of public parastatals in Nigeria are contained in chapter 32 of the Financial Regulations No. 72 Vol.96, 2009 edition.

3.7 RELATIONSHIP WITH SUPERVISING MINISTRY

According to FR3201, a ministry supervising a parastatal perform the following functions

1. Draw up a clear strategic control framework for their operations;
2. Ensure that each parastatal has sufficient and appropriate management and financial controls to safeguard public funds.
3. Ensure that, where a parastatal is incorporated as a company, Consolidated financial accounts are prepared in accordance with generally accepted accounting practice;
4. Ensure that each parastatal has made suitable arrangements for internal audit functions and controls; and
5. Ensure that the Tenders Board as stipulated by the Public Procurement Act 2007 exists for award of all contracts within the thresholds approved by Bureau of Public Procurement from time to time.

3.8 FUNCTIONS OF THE CHIEF EXECUTIVE OFFICERS OF PARASTATALS

The Chief Executive Officer of a parastatalsis the Accounting Officer of the Organization. He has responsibilities for the human, material and financial resources in the management of the organization. His duties are as contained in FR 112 and 113. Thus the functions of the Chief Executive Officer of a parastatal include:

1. Ensuring that proper budgetary and accounting systems are established and maintained to enhance internal control, accountability and transparency;

2 Ensuring that the essential management control tools are put in place to minimise waste and fraud;

3. Rendering monthly and other financial accounting returns and transcripts to the Accountant -General of the Federation as required by the Financial Regulations;

4. Ensuring the safety and proper maintenance of all government assets under his care;

5 Ensuring personal appearance before the Public Accounts Committee to answer audit queries to rninistry/extra-ministerial department or agency;

6 Ensuring accurate collection and accounting for all publicmoneys received and expended;

7 Ensuring prudence in the expenditure of public funds;

8 Ensuring proper assessments, fees, rates and charges are made where necessary;

9 Ensuring internal guides, rules, regulations, procedures are adequately .provided for the security and effective check on the assessment, collection and accounting for revenue;

10 Ensuring that any losses of revenue are promptly reported and investigated;

11. 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

12 Ensuring that any revenue collected are not spent, but remitted to the appropriate authorities promptly.

Self-Assessment Exercise

1. List the functions of the chief executive officers of parastatals

3.9 PUBLIC PROCUREMENT BY PARARASTALS: RESPONSIBILITY OF THE CHIEF EXECUTIVE OFFICER

The CEO of a parastatal charged with the following responsibilities on public procurement in his parastatal. He is to:

1. Preside over the activities of their Tenders Boards for the proper planning and evaluation of tenders and execution of procurements;

2. Ensure that adequate appropriation is available for Procurements in their annual

budget;

3 Ensure the establishment of a procurement planning committee over whose activities they shall preside;

4 Constitute a procurement evaluation committee for the efficient evaluation of tenders;

5 Constitute a Procurement Committee;

6 Render annual returns of procurement records to the Bureau of Public Procurement;

7 Liaise with the Bureau of Public Procurements to ensure the implementation of its regulations; and

8. Ensure compliance with the provisions of the Public Procurement Act by their organizations, failing which they shall be personally liable for any breach. or contravention thereof, whether or not such breach or contravention was caused by the min person, their subordinates or any person to whom they may have delegated their responsibilities.

3.10 FUNDS MANAGEMENT IN PARASTSTALS

The Financial Regulation provides general guidelines for the management of funds and bank accounts of parastatals. These provisions are contained in FR3203 to FR3209. This is in addition to the provisions in the enabling instruments of the respective parastatals. Highlights of the provisions are:

1 A parastatal cannot open an official bank account unless authorized by the Accountant-General.

2. Each approved account shall be maintained under an official designation of the Parastatal.

3. The Chief Executive Officer shall provide banks with certified specimen signatures of officers authorized to sign cheques drawn on official bank accounts and shall advise banks on any subsequent changes.

4. No loan or any form of advance shall be obtained from the bank Without prior approval from Debt Management Office.

5. No excess funds shall be placed on deposit accountwithout prior approval of the Accountant-General.

6 All interest earned from moneys placed on deposit account on the approval of the Accountant-General shall be paid into Consolidated Revenue Fund of the federal government. and shall be classified to budget Code 6700 and subhead 41 00. (FR822).

7. Except the enabling Act relating to a particular parastatal provides otherwise, the provisions of the Financial Regulations shall apply.

8. Where any provision of the Financial Regulations conflicts with the Act relating to any particular Parastatal, the immediate advice of the Accountant –General should besought.

9. The Chief Executive Officer of a parastatal is required to submit a Statement of Account on monthly basis to the supervising ministry, showing the receipts of funds from government for personnel, overheads and capital. The Statement also show the actual expenditure classified into personnel, overheads and capital.

10. The Statement of Accounts for each financial year is required to be submitted to the External Auditor within two months after the end of the financial year.

3.11 AUDIT OF GOVERNMENT PARASTATALS

By the provisions of the Financial Regulations, the Board of each parastatal is required to appoint an External Auditor who shall audit and report on the affairs of the organization to the Board. The External Auditor is required to submit the Audited Accounts and Management Report to the Board of the parastatal within the stipulated time indicated in the signed contract agreement.

The Chief Executive Officer is required to submit both the Audited Accounts and Management Report to the Auditor- General and the Accountant General not later than 31st May of the following year of Account.

The foregoing implies that the Auditor –General is not empowered to audit parastatals. However, the Auditor –General has the duty to:

1 Provide a list of External Auditors qualified to be appointed by parastatals ;

2. Provide guidelines on the level of fees to be paid to External Auditors.

3. Incorporate the comments by the external auditor on the Annual Accounts and Management Report of the Parastatal to the Public Accounts Committee of the National Assembly.

3.12 ACCOUNTING IN THE PUBLIC ENTERPRISES

As explained previously, there are wide varieties of government parastatals. Each parastatal may adopt the kind accounting policy appropriate to its area of operation. Most parastatals adopt the principle of accrual accounting while a few adopt the cash basis. Some parastatals prepare the income and expenditure account while others prepare the profit or loss account. With the introduction of IPSAS, Government parastatals are now expected to comply with the provision of IPSAS on Government Business Entities (GBE).

Parastatals that are profit making are required to prepare the following financial statements:

1. Statement of financial position;
2. Statement of financial performance;
3. Statement of changes in net assets/equity;
4 Cash flow statement
5. Accounting policies and
6. Notes to the financial statements and other disclosures

Parastatals that are not profit oriented are required to prepare the following statements:

1. Statement of Financial Position;
2. Statement of Financial Performance (Income and Expenditure Accounts).
3. Statement of Changes in Net Assets/Equity;;
4. Cash flow statement.
5. Accounting policies
6. Notes to the Financial Statements and other disclosures

We shall illustrate accounting in parastatals with Hospital and the education sector.

3.13 HOSPITAL ACCOUNTING

3.13.1 USERS AND USERS OF HOSPITAL ACCOUNTING

1. Hospital managers: The use accounting information for tasks such as
    - i. setting realistic and competitive prices
    - ii negotiating contracts with purchasers of care
    - iii. keeping clinical volume and capacity utilization at efficient levels
    - iv. modeling the cost and revenue impact of structural change
    - v. demonstrating cost and productivity performance to customers, auditors, financing agencies, and regulators;

2. Hospital department heads: They need to assess financial performance against budget targets, monitor cost structures, and track the impact of different care and management strategies on the department's efficiency and financial performance;
3. Purchasers of care: They need information to compare the performance of different hospitals and make decisions about national funding and selective contracting;
4. Regulators or auditors who have responsibility for evaluating hospital performance and need to assess hospitals according to internal and external norms;
5. Health financing or operations analysts who have responsibility for advising on policies of resource allocation, care purchasing or hospital management.

3.13.2 SOURCES OF REVENUE FOR GOVERNMENT HOSPITALS

Some of the sources of revenue for government hospitals are:

1. Charges: Government hospitals renders services to the public for which they charge fees. The fees may be at full cost, full cost plus profit or at subsidised rate. The fees and charge by Government hospitals include fees from patient care, x-ray, laboratory fees, sale of drugs, etc
2. Capital Grant or Subvention: This is in the nature of contributions from government or other donor bodies meant for the execution of capital projects.
3. Recurrent receipt or subvention: This is the amount contributed by the Government for meeting recurrent expenditure like personnel costs, overhead costs, purchase of drugs and other hospital consumables etc.
4. Others: These include income from investments, sale of assets, sundry donations, income from rent of property, etc.

3.13.3 FINANCIAL REPORTING IN GOVERNMENT HOSPITALS

According to ICAN (2014), an autonomous Government hospital is required to prepare financial the following financial statements:

1. Statement of Financial Performance
2. Statement of Financial Position
3. Cash Flow Statement
4. Notes to the Accounts
5. Memorandum Statement of Account of Capital Fund
6. Memorandum Statement of Account of Recurrent Funds.

3.14 GOVERNMENT UNIVERSITY ACCOUNTING

The university Bursary is the unit if charge of accounting and financial functions in the Nigerian University system. A veritable example of university accounting in Nigeria is the Bursary Department of the University of Lagos. The University has a well-articulated Manual of operations in the bursary. Its purpose is to ascertain that we are able to secure accuracy, completeness and integrity of our objectives of ensuring that:

1. Assets are efficiently acquired and safeguarded
2. Funds are expended in a manner that is efficient, economical and effective to achieve the purpose for which they were provided.
3. Finances are managed with responsible stewardship.
4. Financial statements are in conformity with Generally Accepted Accounting Principles (GAAP) and International Public Sector Accounting Standards (lPSAS)
5. The manual is also expected to serve as a manual of training for new entrants in the Bursary.

The implication of the above is that the university operates in accordance with the provisions of IPSAS.

3.14.1 Legal and Regulatory Environment.

The legal and regulatory framework of Bursary activities IN Nigeria universities include: the following:

1. The Constitution of the Federal Government of Nigeria 1999 as Amended
2. Finance Act
3. Audit Act
4. Public Procurement Act 2007
5. Fiscal Responsibility Act 2007
6. Financial Regulations,2009
7. Treasury Circulars
8. Pension Reforms Act 2014
9. Various Tax Act
10. Annual Appropriation Acts
11. Tertiary Education Trust Fund (TETFUND) Acts
12. Other directives on financial matters by the Federal Government.

3.14.2 SOURCES OF INCOME FOR GOVERNMENT UNIVERSITIES

Government universities derive their income from the following sources:

1. Capital grants from the NUC.
2. Recurrent grant from the NUC
3. Grants from the Education Trust fund
4. Grants from foreign donors
5. Grants from local donors
6. School fees from students
7. Income from staff schools
8. Income from Investments
9. Income from consultancy services

Self-Assessment Exercise

1. Discuss the legal and regulatory environment of government universities in Nigeria
2. What are the sources of income for government universities?

ILLUSTRATION 1

The Federal University of Science and Technology, Fugari, launched a capital fund campaign for the construction of lecture theatres, auditorium and purchase of equipment on 3 January, 2008. By 31 July 2008, the following transactions had taken place;

Donations:	^'000
Federal, State and Local Governments	70,000
Companies	10,000
University Staff and Individuals	15,000
Launching Expenses:	
Abuja, Lagos and Port Harcourt Centres	600
Advertisement and Publicity	200

Between 1 August and 31 December, 2008, before the official opening of the theatres, the following events took place:

	^'000
Construction of 2000-capacity theatre	10,000
Construction of 700-capacity theatre	6,000
Construction of 1000-capacity Auditorium	4,000

Purchase of Equipment	25,000

The Vice-Chancellor has called for briefing on 31 December, 2008.

You are required to prepare:

a) Receipts and Payments Account.

b) Income and Expenditure Account for the period ended 31 December 2008.

c) The State of Affairs as at that date

(Adapted from ICAN PE11 November, 2009)

SOLUTION TO ILLUSTRATION 1

UNIVEERSITY OF SCIENCE AND TECHNOLOGY, FUGARI

RECEIPTS AND PAYMENTS ACCOUNT FOR THE PERIOD ENDED 31 DECEMBER, 2008

i.

RECEIPTS:	^’000	^’000
Donations:		
Federal State and Local Govts.	70,000	
Companies	10,000	
University staff and Individuals	15,000	95,000
Less Payments:		
Launching	600	
Advert and Publicity	200	
Construction Works:		
2000 - Capacity Theatre	10,000	
700 - Capacity Theatre	6,000	
1000 - Capacity Auditorium	4,000	
Equipment	25,000	45,800
Balance c/f		49,200

FEDERAL UNIVERSITY OF SCIENCE AND TECHNOLOGY FUGARI

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31DECEMBER, 2008

ii.

INCOME:	^'000	^'000
Donations:		
Federal State and Local Govts.	70,000	
Companies	10,000	
University staff and Individuals	15,000	95,000
Less Expenditure:		
Launching	600	
Advert and Publicity	200	800
Campaign fund surplus		94,200

FEDERAL UNIVERSITY OF SCIENCE AND TECHNOLOGY FUGARI

STATEMENT OF AFFAIRS AS AT 31DECEMBER, 2008

iii)

Fixed Assets:	^000	^"000
2000 - Capacity theatre	10,000	
700 - Capacity theatre	6,000	
1000 - Capacity Auditorium	4,000	
Equipment	25,000	45,000
Current Assets:		
Bank		49,200
Accumulated Fund		94,200

4.0 SUMMARY

This unit discussed accounting and auditing in parastatals and public enterprises. Public sector organizations are Organizations set up by the respective tiers of government to perform specific functions outside the government ministries and extra-ministerial departments.

Government business enterprises are public sector Organizations whose operations are commercial in nature. They are provided with considerable management autonomy in which their Chief executive officer and board of directors could set strategic directions and make resource management choices. Nevertheless, they remained wholly-owned by government, and the relevant government minister, in effect, retained the power of their sole shareholder.

Parastatals may take the following forms: (i) Public Utilities: These are parastatals providing essential services to the citizens either at 'nil' cost or at subsidized rates. This is to bring about proper balance between social and economic objectives. However, it is no longer so in Nigeria, as most utilities have been commercialised and citizens pay the full cost of the services; (ii) Regulatory Agencies: These are Government Agencies or partially autonomous establishments executing general policies of the Government within specified areas; and (iii) Commercial Enterprises: Commercial enterprises are established by government to stimulate competition within a given sector and to make profit from their operations.

Most parastatals are established by individual statutes or by-laws which contain their operating guidelines. However, there are financial regulations that are common to all parastatals. The financial guidelines for the operation of public parastatals in Nigeria are contained in chapter 32 of the Financial Regulations No. 72 Vol.96, 2009 edition.

5.0 CONCLUSION

In this unit, you learnt that there are wide varieties of government parastatals. Each parastatal may adopt the kind accounting policy appropriate to its area of operation. Most parastatals adopt the principle of accrual accounting while a few adopt the cash basis. Some parastatals prepare the income and expenditure account while others prepare the profit or loss account. With the introduction of IPSAS, Government parastatals are now expected to comply with the provision of IPSAS on Government Business Entities (GBE).

6.0 TUTOR MARKED ASSIGNMENT

1. What are the distinguishing features of Government Business Enterprises?
2. List the common objectives of corporations, parastatal, public and enterprises
3. Discuss the general financial regulations of government parastatals, highlighting their relationship with Supervising Ministries.

7.0 REFERENCES/FURTHER READING

Adams, R.A. (2014) *Public sector accounting and finance made simple*, revised edition 3, Lagos: Corporate Publishers Venture.

Emeni, F.K., Ogiedu,K.O., Mgbame, C.O., & Erhagbhe, E. (2008) *Public sector accounting and finance*, Benin City: Mindex Publishing Company Limited

ICAN (2014). *Public sector accounting and finance*, Lagos: ICAN

Ogiedu, K.O. (2016) *Lecture notes on public sector accounting and finance*, Benin City, Unpublished

Omolehinwa, E.O., & Naiyeju, J.K. (2015) *Government accounting in Nigeria: An IPSAS approach*, Lagos: Pumark (Educational Publishers).

MODULE FOUR

UNIT 1 FINANCIAL REPORTING UNDER INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

UNIT 2 INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS(IPSAS) 1-5

UNIT 3 INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS) 6 -11

UNIT 4 INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS) 11-17

UNIT 1 FINANCIAL REPORTING UNDER INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

MAIN CONTENT

1.0 INTRODUCTION
2.0 OBJECTIVES
3.0 MAIN CONTENT

3.1 Introduction to financial reporting under IPSAS in Nigeria

3.2 Advantages of IPSAS

3.2.1 Political benefits

3.2.2 Economic benefits

3.3 Challenges of IPSAS implementation in Nigeria

3.4 Specific challenges

3.5 Presentation of general purpose financial statements (GPFS)

3.6 Consolidated statement of financial performance

3.7 Consolidated statement of financial position

3.8 Consolidated statement of cash flow

1.0 INTRODUCTION

In this unit, you will learn the preparation of financial statements in Nigeria under IPSAS. You will learn the types of general purpose financial statements to be prepared in Nigeria under IPSAS. You will also learn the political and economic benefits of IPSAS and the challenges of IPSAS implementation in Nigeria. Furthermore, You will learn the specific challenges of the various IPSAS and the formats of the various financial statements prepared under IPSAS.

2.0 OBJECTIVES

After reading this unit, the student should be able to:

1. Know the types of general purpose financial statements to be prepared in Nigeria under IPSAS.
2. Appreciate the political and economic benefits of IPSAS
3. Appreciate the challenges if IPSAS implementation in Nigeria.
4. Appreciate the specific challenges of the various IPSAS
5. Know the formats of the various financial statements prepared under IPSAS

3.0 MAIN CONTENT

3.1 Introduction to financial reporting under IPSAS in Nigeria

IPSASs are accounting standards for application by national governments, regional (e.g. state, provincial, territorial) governments, local (e.g. city, town) governments and related governmental entities (e.g. agencies, boards and commissions). IPSASs are widely used by intergovernmental organizations. However, it does not apply to Government Business Enterprises (GBEs).

The standards aim at improving the quality of general purpose financial reporting by public sector entities, leading to better informed assessments of the resource allocation decisions made by governments, thereby increasing transparency and accountability.

The overall responsibility for IPSAS implementation in Nigeria is vested in the Federation Account Allocation Committee (FAAC) Sub-Committee on IPSAS Implementation. In addition to the traditional roles, the finance functions of the Public Sector Entities (PSEs) have the primary responsibility of applying the principles of IPSAS to the financial reporting process of the entities.

IPSAS adoption is in line with the concept of 'New Public Management' (NPM). The application of the NPM doctrine changed irrevocably the way in which the public and civil servants look at themselves. It is generally agreed that the very essence of NPM has been to replace the traditional hierarchical bureaucratic model of public service with an administration that is performance-oriented and that operates in quasi-market conditions, fostering competition amongst suppliers of government-sponsored goods and services (Hood, 1991). The basic idea was to introduce incentives for innovation and efficiency on the part of public servants, especially those occupying senior positions. An important theme within public management is that the public sector should seek to behave in a more business-like manner (i.e. more like the private sector). The idea behind is that the efficiency of public service provision is enhanced where a public sector agency conducts its affairs in accordance with business principles. Therefore, public service agencies should adopt reward structures for their employees, much like those in the private sector, encompassing such mechanisms as performance-related pay and more flexible working practices. (Promberger & Rauskala, 2003). In the finance and accounting function, the NPM implies the use of accrual accounting in a way much similar to the private sector.

With the return of Nigeria to democratic government in 1999, the country had initiated various reforms aimed at strengthening transparency and accountability. This led to the various Public Financial Management initiatives being implemented by Government since then. In 2010, the decision to migrate to the International Public Sector Accounting Standards (IPSAS). This decision was taken by the Federal Executive Council at its meeting held on the 28lh July, 2010. In this connection, the Federation Account Allocation Committee (FAAC) set up a Technical Subcommittee to draw up the Roadmap for IPSAS Implementation.

In line with the recommendation of the Technical Sub-Committee, FAAC has set Is January, 2016 as the date for the commencement of IPSAS Accrual Accounting for all Public Sector Entities (PSE) in Nigeria.

3.2 ADVANTAGES OF IPSAS

The following are the benefits of the application of IPSAS in Nigeria.

3.2.1 Political benefits

1. Accountability: increased disclosure in accounting reports;
2. Transparency: Full disclosure of government financial transactions;
3. Decision making: Provide the executive and legislature with bases for their decisions on the allocation of resources;
4. Basis for efficient and effective public sector management;
5. Improved Credibility/Integrity: Standards independently set and known world-wide;
6. International Best Practice & Comparability: IPSAS seeks to ensure that financial statements are comparable across jurisdictions;
6. Enables Stakeholders to assess how well their resources have been utilized.
7. Enhanced Implementation of the Freedom of Information (FOI) Act 2011: The accountability and transparency requirements of IPSAS are consistent with, and supports the provisions of the Nigerian FOI Act 2011 which seeks to promote access to government information

3.2.2 Economic benefits

1. Aggregate Reporting: Adoption of IPSAS will ensure a holistic reporting of government financial transactions and positions;

2. Improved Service Delivery: Greater accountability and transparency, will improve value for Money (VFM) spending;

3. Enhance Public-Private Partnership arrangements: collaborative efforts between the public and private sectors are deepened due to use of similar standards;

4. Comparability: IPSAS and IFRS are similar and this common basis makes for convergence in accounting of both sectors on comparable matters

5. Building confidence in Donor Agencies and Lenders: increases the country's access to international aids /loans and other development assistance

6. Competitiveness in the global market place: Increased Cross-border Investment and Foreign Direct Investment. increases the propensity to generate more cross border and foreign direct investments through greater transparency and a lower cost of capital for potential investors

Self-Assessment Exercise.

1. What are the political and economic benefits of IPSAS?

3.3 CHALLENGES OF IPSAS IMPLEMENTATION IN NIGERIA

Bello (2013) identified the following challenges to the implementation of IPSAS in Nigeria

1) Institutional Challenges: IPSAS is a tedious enterprise in many aspects. It ignores national diversity in political, cultural, traditional, legal and economic sectors. Furthermore, it elevates professional control over governmental authority. It is an attempt to make the European model of government accounting as world standard.

2) Organizational Challenges: IPSAS adoption is a complex and comprehensive change management process. While it offers numerous benefits over the medium and long term, it also entails short-term costs and challenges. Being an intense change process with consequential effects, it faces serious challenges from various stakeholders.

3) Political Challenges: The full potential of using accrual-based information can be realized only if political office holders are convinced of the value of accrual-based data and are able to act on it so as to improve reporting processes. However those that are benefitting from old system will sabotage the successful implementation of IPSAS. Unless there is political commitment and honesty from the elected officials who virtually power lies in their hands, the exercise will end in paper.

4) Principle Challenges: IPSAS still lack of guidance from a sound conceptual framework. A conceptual framework is expected to specify the objectives, scope, recognition criteria, definitions and qualitative characteristics of financial information, providing the basement and justification for standards. Up to this time, IPSAS are characterized by numerous detailed rules and only few general principles regarding financial statements.

5) Professional Challenges: presentation of financial statements according to IPSAS claims professional expertise as accountants and auditors, it requires the availability of professional accounting skills framework. Although the number of professional accountants in Nigeria has increased tremendously in two decades with coming of ANAN, IPSAS is a new concept, which is not understood by many.

6) Conceptual Challenges: IPSAS lacks basic and clear conceptual framework rather an assumed IFRS framework is to be used. These pause a lot of impediments in comprehending and certain treatment of items. Furthermore the conceptual issues aggravate the followings:

   a) Neglect of system capability and internal accountability

   b) Setting standards before agreement on a conceptual framework

   c) Starting IPSAS with modified international business accounting standards

   d) Ambiguous stance on the basis of accounting

   e) High aggregation level in financial reporting

3.4 SPECIFIC CHALLENGES

Bello (2013) also identified the following challenges in the respective standards under IPSAS

IPSAS	CHALLENGES
IPSAS 1. *Presentation of Financial Statements* .	Currently PSA are on cash basis it would take long time to train qualified personnel to handle accrual accounting in PS
IPSAS 2. *Cash Flow Statements*	The operation of PS is not well defined likewise its financing structure. It's going to be difficult to provide structure in place in near time to come
IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies*	PS in Nigeria operates inefficiently and reporters will face a lot of obstacles in identifying what constitute errors. Errors
IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*	The exchange rate regime in Nigeria is highly volatile and adopting this standard may creates a lot of flexibility in governance of govt. funds.
IPSAS 5 *Borrowing Costs*	Vast resources accruing to PS in Nigeria come from statutory allocation; any standard that will aloe borrowings to be expensed may jeopardize the reports.
IPSAS 6 *Consolidated Financial Statements and Accounting for Controlled Entities*	It's going to be difficult looking at existing political structure for FGN to consolidate SGA and LGA's.
IPSAS 7 *Accounting for Investments in Associates*	Consolidation is a difficult task even in private settings.
IPSAS 8 *Financial Reporting of Interests in Joint Ventures*	Accounting for joint venture using equity method will result in given undue advantage to government.
IPSAS 9 *Revenue from Exchange Transactions*	Fair value consideration may results in directing financial reports to preparers' interest (income smoothing). In governments this allows for the tendency of corruption.
IPSAS 10 *Financial Reporting in Hyperinflationary Economies*	Financial restatement may be cumbersome and difficult. A lot of assumption and value judgment may cause subjectivity.
IPSAS 11 *Construction Contracts*	Due to inflationary forces full application may be difficult. Likewise, abandoned projects and lack of enforcement rules could be a factor to successful application.
IPSAS 12 *Inventories*	Currently government inventories are not fully accounted for, data on them is also scarce. It will take long time before such can be achieved.
IPSAS 13 *Leases*	Improper documentations of agreements may hamper application of this provision
IPSAS 14 *Events After the Reporting Date*	Budget delays and variations are major challenges.
IPSAS 15 *Financial Instruments: Disclosure and Presentation*	Stocks in Nigeria are highly volatile and some are stagnant. Volatility factor could be a potential problem in fair value treatment of financial

	instruments.
IPSAS 16 *Investment Property*	Lack of adequate statistical data of government owned properties and estate is a big challenge.
IPSAS 17 *Property, Plant and Equipment*	Inadequate statistical data on government assets and difficulty in classification.
IPSAS 18 *Segment Reporting*	This requirement is full of ambiguities, which is difficult even in private sector.
IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*	Its difficult to ascertain and value contingent liabilities talk less of assets.
IPSAS 20 *Related Party Disclosures*	Corruptions and graft related offenses are major impediments to the realization of this standard.
IPSAS21 Impairment of Non-Cash-Generating Assets	This standard is redundant as par as public entities are concerned.
IPSAS 22 Disclosure of Financial Information About the General Government Sector	A lot of statistical data are needed to realize the provisional requirements of the standard.
IPSAS 23. Revenue from Non-Exchange Transactions (Taxes and Transfers)	Less challenge in application. Government grants aid form a substantial part of revenue at state and LGA's so its not a new thing.
IPSAS 24 Presentation of Budget Information in Financial Statements	Large history of variation may hamper honest presentation. Also poor budget performance history.
IPSAS 25 Employee Benefit	The standard requires a lot of actuarial information, which is currently not available.
IPSAS 26 Impairment of Cash-Generating Assets	The provision of impairments may lead to room for smoothing.
IPSAS27 Agriculture	Lack of adequate data on government farms asset, implements and produce. Valuation of plantation farms could also be a big challenge.
IPSAS 28 Financial Instruments: Presentation	Fair value valuation
IPSAS 29 Financial Instruments: Recognition and Measurement	Fair value Measurement
IPSAS 30 Financial Instruments: Disclosures	What constitute risk in Govt. is not adequately defined and hard to comprehend
IPSAS 31 Intangible Assets	Intangibles are yet to be fully conceptualized in government.
IPSAS 32 Service Concession Arrangement: Grantor	Conceptual challenges.
Cash Basis IPSAS	Lack of qualified manpower especially at LGA's level is identified as a major obstacle to migration to full cash IPSAS

Self-Assessment Exercise.

1. Identify the key challenges of IPSAS implementation in Nigeria

3.5 Presentation of general purpose financial statements (GPFS)

GPFS are financial reports intended to meet the information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs.

The objectives of GPFS are to provide information about the financial position, financial performance, and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources.

The Federal Republic of Nigeria General Purpose Financial Statements (GPFS) FOR IPSAS ACCRUALS identified three categories of statements to be prepared by the relevant publc sector entities. They are: (1) The main financial statements, (2) Performance Reports, and (3) Statistical Reports.

A MAIN FINANCIAL STATEMENTS

- i Format of Consolidated Statement of Financial Performance (Income & Expenditure)
- ii Format of Consolidated Statement of Financial Position (Balance Sheet)
- iii Format of Statement of Consolidated Statement of Cash Flow
- iv Format of Statement of Changes in Net assets/ Equity
- V Notes to the Accounts
- vi Supplementary Notes

B PERFORMANCE REPORTS

- vii Format of Revenue Performance Report
- viii Format of Recurrent Expenditure Performance Report
- ix Format of Capital Expenditure Performance Report
- X Format of Periodic Bank Reconciliation Statements
- xi Format of Monthly Cash Advances Report

C STATISTICAL REPORTS

xii Format of Functional Report

xiii Format of Programme Report

xiv Format of Geo Location Report

3.6 **Consolidated statement of financial performance**

--GOVERNMENT OF NIGERIA

CONSOKIDATED STATEMENT OF FINANCIAL PERFORMANCE (INCOME AND EXPENDITURE FOR YEAR ENDED 31ST DECEMBER 20XX _

Previous year actual (20XX-1)	Revenue	Notes	Actual 20XX	Final budget 20XX	Initial/original budget 20XX	Supplementary budget 20XX	Variance on Final budget
	REVENUE						
X	Government Share of FAAC (Statutory Revenue)	1	X	X	X	X	X
X	Tax Revenue	2	X	X	X	X	X
X	Non-Tax Revenue	3	X	X	X	X	X
X	Investment Income	4	X	X	X	X	X
X	Interest Earned	5	X	X	X	X	X
X	AID & Grants	6	X	X	X	X	X
X	Other Capital Receipts	7	X	X	X	X	X
X	Debt Forgiveness	8	X	X	X	X	X
X	Other Revenue	9	X	X	X	X	X
XX	Total Revenue		XX	XX	XX	XX	XX
	EXPENDITURE						
X	Salaries & Wages	10	X	X	X	X	X
X	Allowances & Social Contribution	11	X	X	X	X	X
X	Social Benefits	12	X	X	X	X	X
X	Overhead Cost	13	X	X	X	X	X
X	Grants & Contributions	14	X	X	X	X	X
X	Subsidies	15	X	X	X	X	X
X	Depreciation Charges	16	X	X	X	X	X

X	Impairment Charges	17	X	X	X	X	X
X	Amortization Charges	18	X	X	X	X	X
X	Bad Debts Charges	19	X	X	X	X	X
XX	Total Expenditure		XX	XX	XX	XX	XX
X	Surplus/(deficit) from Operating Activities for the Period		X	X	X	X	X
(X)	Public Debt Charges	20	(X)	(X)	(X)	(X)	(X)
X	Gain/ Loss on Disposal of Asset	21	X	X	X	X	X
	Gain/Loss on Exchange Transaction	22	X	X	X	X	X
XX	Total non-operating revenue (expenses)		XX	XX	XX	XX	XX
X	Surplus/deficit) from Ordinary Activities						
(X)	Minority Interest Share of surplus/ (deficit)	23	(X)	(X)	(X)	(X)	(X)
XX	Net Surplus/ (Deficit) for the Period		XX	XX	XX	XX	XX

3.7 Consolidated statement of financial position

--GOVERNMENT OF NIGERIA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS AT 31ST DECEMBER 20XX.

	Ref.	Notes	20XX	20XX	20XX-1	20XX-1
			^'000	^'000	^'000	^'000
ASSETS						
Current Assets						
Cash and cash equivalents	3101 -4	24	X		X	
Inventories s	3105	25	X		X	
Receivables s	3106-7	26	X		X	
Prepayments	3108	27	X		X	
A				X		X
Non-current assets						
Loans Granted	3110	28	X		X	
Investments	3109	29	X		X	
Fixed Assets - Property, Plant & Equipment	3201	30	X		X	
Investment Property	3202	31	X		X	
Intangible Assets	3301	32	X		X	
B				X		X
Total Assets C = A + B				XX		XX

LIABILITIES						
Current Liabilities						
Deposits	4101	33	X		X	
Loans & Debts (Short-term)	4102	34	X		X	
Unremitted Deductions	4103	35	X		X	
Accrued Expenses (Including Pension & Gratuity)	4104	36	X		X	
Current portion of borrowings	4105	37	X		X	
D				X		X
Non-Current Liabilities						
Public Funds	4601	38	X		X	
Borrowings	4602	39	X		X	
E				X		X
Total Liabilities: F = D + E				XX		XX
Net Assets: G = C - F				XX		XX
NET ASSETS/EQUITY						
Reserves	470t1	40	X		X	
Accumulated surpluses/(deficits)	4702	41	X		X	
				X		X
Total Net Assets/Equity:				XX		XX

3.8 Consolidated statement of cash flow

---GOVERNMENT OF NIGERIA

CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31ST DECEMBER, 20XX.

	Notes	20XX	20XX	20XX-1	20XX-1
		^'000	^'000	^'000	^'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Inflows		X		X	
Statutory Revenue		X		X	
VAT		X		X	
Direct Taxes		X		X	
Licences, Fines, Royalties, Fees etc.		X		X	
Earnings & Sales		X		X	
Rents of Government Properties		X		X	

Investment Income		X		X	
Interest & Repayment General		X		X	
Re-imbursement		X		X	
Funds from Special Accounts		X		X	
Domestic Aid & Grants		X		X	
External Aid & Grants		X		X	
Gains from exchange transactions		X		X	
Other Revenue (e.q. Plea Bargain)		X		X	
Total Inflow from Operating Activities		XX		XX	
Outflows		X		X	
Personnel Emoluments		X		X	
Overheads (Payment to Consultants, Suppliers etc)		X		X	
Contribution to Pension Schemes		X		X	
Contribution to Other Employee Schemes		X		X	
Consolidated Revenue Charges		X		X	
Interest Payment		X		X	
Total Outflow from Operating Activities	1	XX	XX/(XX)	XX	XX/(XX)
Net Cash inflow/(Outflow) From Operating Activities					
CASH FLOW FROM INVESTING ACTIVITIES					
Purchase/ Construction of Assets (According to Sectors)		(X)		(X)	
Purchase of Financial Market Instruments		(X)		(X)	
Investment in Private Companies		(X)		(X)	
Investment in Development of Natural Resources		(X)		(X)	
Foreign Investments		(X)		(X)	
Proceeds from Foreign Investments		X		X	
Proceeds from Sales of Fixed Assets		X		X	
Dividends Received		X		X	
Net cash flow from investing activities			XX/(XX)		XX/(XX)
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from Domestic Loans & Other Borrowings		X		X	

Proceeds from External Loans & Other Borrowings		X		X	
Grants and Loans to Other Governments/Agencies		(X)		(X)	
Contribution/ Subscriptions to International Agencies/ Bodies		(X)		(X)	
Repayment of Loans		(X)		(X)	
Net Cash Flow from Financing Activities			XX/(XX)		XX/(XX)
Net Cash Flow from all Activities			XX/(XX)		XX/(XX)
Cash & Its Equivalent as at 1/1/20X2			X		X
Cash & Its Equivalent as at 31/12/20X2	2		XX		XX
Notes:					
RECONCILIATION:					
Surplus/ (Deficit) per Statement of Performance		X			
Add Back Non-Cash Movement Items:					
Depreciation charges	X				
Amortisation charges	X				
Impairment charges	X				
Debt forgiveness	X	X			
		XX			
Net Movement in Current Assets/Liabilities.					
Net Movement in Inventories		X/(X)			
Net Movement in Receivables		X/(X)			
Net Movement in Payables		X/(X)			
Net Cash Flow from Operating Activities		X/(X)			
Cash & its equivalent as at 31/12/xx					
Cash balances		X			
Bank balances		X			
Certificate of Deposits		X			
		XX			

3.9 Statement of changes in net assets/equity

---GOVERNMENT OF NIGERIA

STATEMENT OF CHANGES IN NET ASSETS/EQUITY FOR THE YEAR ENDED 31ST DECEMBER, 20XX

	Notes	Revaluation reserve	Translation reserve	Accumulated surplus (Deficit)	Total
		^’000	^’000	^’000	^’000
Balance at 31 December 20X0		X	(X)	X	X
Changes in Accounting Policy				(X)	(X)
Restated Balance		X	X	X	X
Surplus on Revaluation of Property		X			X
Deficit on Revaluation of Investments *		(X)			(X)
Net Gains and Losses not Recognised in the Statement of Financial Performance		X	(X)		X
Net surplus for the period				X	X
Balance at 31 December 20xx		X	(X)	X	X
Deficit on Revaluation of Property		(X)			(X)

Surplus on revaluation of investments		X			X
Statement of Financial Performance		(X)	(X)		(X)
Net deficit for the Period				(X)	(X)
Balance at 31 December 20X2		X	(X)	X	X

4.0 SUMMARY

This unit discussed the preparation of financial statements in Nigeria under IPSAS. IPSASs are accounting standards for application by national governments, regional (e.g. state, provincial, territorial) governments, local (e.g. city, town) governments and related governmental entities (e.g. agencies, boards and commissions). IPSASs are widely used by intergovernmental organizations. However, it does not apply to Government Business Enterprises (GBEs).

The standards aim at improving the quality of general purpose financial reporting by public sector entities, leading to better informed assessments of the resource allocation decisions made by governments, thereby increasing transparency and accountability.

The overall responsibility for IPSAS implementation in Nigeria is vested in the Federation Account Allocation Committee (FAAC) Sub-Committee on IPSAS Implementation. In addition to the traditional roles, the finance functions of the Public Sector Entities (PSEs) have the primary responsibility of applying the principles of IPSAS to the financial reporting process of the entities.

GPFS are financial reports intended to meet the information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs.

The objectives of GPFS are to provide information about the financial position, financial performance, and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources.

5.0 CONCLUSION

The Federal Republic of Nigeria General Purpose Financial Statements (GPFS) FOR IPSAS ACCRUALS identified three categories of statements to be prepared by the relevant publc sector entities. They are: (1) The main financial statements, (2) Performance Reports, and (3) Statistical Reports. The main financial statements consist of (i) Consolidated Statement of Financial Performance (Income & Expenditure), (ii) Format of Consolidated Statement of Financial Position (Balance Sheet), (iii) Statement of Consolidated Statement of Cash Flow, (iv) Format of Statement of Changes in Net assets/ Equity, (v) Notes to the Accounts, and (vi) supplementary Notes.

6.0 TUTOR MARKED ASSIGNMENTS

1. List the general purpose financial statements (GPFS) prepared under IPSAS in Nigeria.

2. Identify the challenges of the implementation of IPSAS 26-Impairment of Cash-Generating Assets in Nigeria.

3. List the challenges of the implementation of IPSAS 27- Agriculture in Nigeria.

7.0 REFERENCES/ FURTHER READING

Bello, A. (2013) *IPSAS: Issues, Challenges and Implementation*, Being a paper presented at MCPD organised by Institute of Certified Public Accountants of Nigeria (ICPAN).

IPSASB (2016) *Handbook of International Public Sector Accounting Pronouncements*

2016 Edition Volume II, New York: IFAC

IPSASB (2014) *Handbook of International Public Sector Accounting Pronouncements*

2016 Edition Volume I, New York: IFAC

Ogiedu, K.O. (2016) *Lecture notes on Public Sector Accounting and finance*, Benin City, Unpublished

FAAC (2015*) Accrual accounting manual for all public sector entities in Nigeria (Federal, states and local governments)*, Abuja: FAAC Sub-Committee on IPSAS Implementation.

UNIT 2 INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

CONTENT

1.0 INTRODUCTION

In this unit, you will be introduced to International Public Sector Accounting Standards (IPSAS). The International Public Sector Accounting Standards are promulgated by the International Federation of Accountants (IFAC) through one of its organs, the International Public Sector Accounting Standards Board (IPSAB). You will be introduced to the process for setting IPSAS. There are presently are 38 IPSAS, but in this unit, you will introduced to only the first five, namely: IPSAS 1, 2,3, 4, and 5.

2.0 OBJECTIVES

After studying this unit, you be able to:

1. Appreciate the process for setting international public sector accounting standards
2 Appreciate the IPSAS 1—Presentation of financial statements, including the objective and scope of the standard, purpose of Financial Statements, and the components of financial statements
3. Prepare financial statements using PSAS 2—Cash flow statements
4 Apply IPSAS 3—Accounting policies, changes in accounting estimates and errors in the preparation of financial statements
5 Apply IPSAS 4—The effects of changes in foreign exchange rates in the preparation of financial statements under IPSAS

5. Calculate borrowing costs in line with the provisions of IPSAS 5

3.0 MAIN CONTENT

3.1 INTRODUCTION TO IPSAS

The International Public Sector Accounting Standards are promulgated by the International Federation of Accountants (IFAC) through one of its organs, the International Public Sector Accounting Standards Board (IPSAB). According to IPSASB (2014), the mission of the International Federation of Accountants (IFAC) consists of the following:

1. Serving the public interest by contributing to the development, adoption and implementation of high-quality international standards and guidance;
2. Contributing to the development of strong professional accountancy organizations and accounting firms, and to high quality practices by professional accountants;
3 Promoting the value of professional accountants worldwide;
4 Speaking out on public interest issues where the accountancy profession's expertise is most relevant.

To achieve this mission, the IFAC Board established the IPSASB to function as an independent standard-setting body under the auspices of IFAC. The IPSASB serves the public interest by developing and issuing, under its own authority, accounting standards and other publications for use by public sector entities other than Government Business Enterprises (GBEs).

In fulfilling its objective, the IPSASB develops and issues the following publications:

1. IPSASs as the standards to be applied in the preparation of general purpose financial reports of public sector entities other than GBEs.
2 Recommended Practice Guidelines (RPGs) to provide guidance on good practice that public sector entities are encouraged to follow.
3. Studies to provide advice on financial reporting issues in the public sector. They are based on study of the good practices and most effective methods for dealing with the issues being addressed.

4. Other papers and research reports to provide information that contributes to the body of knowledge about public sector financial reporting issues and

The IPSASs are designed to apply to the general purpose financial reports of all public sector entities other than GBEs. Public sector entities include national governments, regional (e.g., state, provincial, territorial) governments, local (e.g., city, town) governments and related governmental entities (e.g., agencies, boards, commissions and enterprises), unless otherwise stated. International organizations also apply IPSASs.(IPSASB,2014)

The IPSASs do not apply to GBEs. GBEs apply International Financial Reporting Standards (IFRSs) which are issued by the International Accounting Standards Board (IASB). IPSASs include a definition of GBEs.

According to IPSASB (2014), the members of the IPSASB, including the Chair and Deputy Chair, are appointed by the IFAC Board on the recommendation of the IFAC Nominating Committee. The appointment as Deputy Chair does not imply that the individual concerned is the Chair-elect. The IPSASB has 18 members, 15 of whom are nominated by IFAC Member Bodies and three of whom are appointed as public members. A public member is expected to reflect, and is seen to reflect, the wider public interest. The three public members may be members of IFAC Member Bodies.

3.2 PROCESS FOR SETTING INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

According to ICAN (2014), the IPSASB's due process for projects normally, but not necessarily takes the following stages:

(a) The IPSASB carries out a study of national accounting requirements and practice and exchange of views about the issues with national standard-setters.

(b) Consideration of pronouncement issued by.

- (i) The International Account Standard Board (IASB)
- (ii) National Standard setters, regulatory authority and other authoritative bodies.
- (iii) Professional accounting bodies; and
- (iv) Other Organizations interested in financing reporting in the public.

(c) Formation of Steering Committees (SC). Projects Advisory Panels (PAPS) or subcommittees to provide input to the IPSASB on a project,

(d) Publication of an exposure draft for public comment usually for at least 4 months. This provides an opportunity for those affected by the IPSASB's pronouncements and are finalised and approved by the IPSAS. The exposure draft, will include a basis for conclusion;

(e) 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 IPSASB's

(f) Publication of an IPSAS which includes a Basis for conclusions that explains the steps in the IPSASB's due process and how the IPSASB reached its conclusions.

3.3 IPSAS 1—PRESENTATION OF FINANCIAL STATEMENTS

3.3.1 OBJECTIVE AND SCOPEOF THE STANDARD

According to the provisions of the standard, the objective is to prescribe the manner in which general purpose financial statements should be presented to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities.

This Standard is applied to all general purpose financial statements prepared and presented under the accrual basis of accounting in accordance with IPSASs. General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs.

This Standard applies equally to all entities and whether or not they need to prepare consolidated financial statements or separate financial statements. as defined in IPSAS 6, Consolidated and Separate Financial Statements. This Standard applies to all public sector entities other than Government Business Enterprises.

3.3.2 SIGNIFICANT DEFINITIONS

(A) Government Business Enterprise:

This is defined by the standard as an entity that has all the following characteristics:

(a) It has the power to contract in its own name;

(b) It has been assigned the financial and operational authority to carry on a business;

(c) The entity Sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;

(d) The entity s 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.

The standard defines GBEs to 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 organizations in the community with goods and services at either no charge or a significantly reduced charge.

3.3.3 Purpose of Financial Statements

According to paragraph 15 of the standard, Financial statements are a structured representation of the financial position and financial performance of an entity. The objectives of general purpose financial statements are to provide information about the financial position, financial performance, and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. Specifically, the objectives of general purpose financial reporting in the public sector should be to provide information useful for decision making, and to demonstrate the accountability of the entity for the resources entrusted to it, by:

(a) Providing information about the sources, allocation, and uses of financial resources;

(b) Providing information about how the entity financed its activitiesand met its cash requirements;

(c) Providing information that is useful in evaluating the entity's ability to finance its activities and to meet its liabilities and commitments;

(d) Providing information about the financial condition of the entity and changes in it; and

(e) Providing aggregate information useful in evaluating the entity's performance in terms of service costs, efficiency, and accomplishments.

3.3.4 Components of Financial Statements

A complete set of financial statements prepared under IPSAS 1 comprises:

(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) When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements; and

(f) Notes, comprising a summary of significant accounting policies and other explanatory notes.

According to paragraph 22, the financial statements listed above are referred to by a variety of names both within and across jurisdictions. The statement of financial position may also be referred to as a balance sheet or statement of assets and liabilities. The statement of financial performance may also be referred to as a statement of revenues and expenses, an income statement, an operating statement, or a profit and loss statement. The notes may include items referred to as schedules in some jurisdictions.

3.3.5 STATEMENT OF FINANCIAL POSITION

(A) CURRENT ASSETS

By the provisions of paragraph 76, an asset shall be classified as current when it satisfies any of the
following criteria:

(a) It is expected to be realized in, or is held for sale orconsumption in, the entity's normal operating cycle;

(b) It is held primarily for the purpose of being traded;

(c) It is expected to be realized within twelve months after thereporting date; or

(d) It is cash or a cash equivalent unless itis restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

All other assets are to classified as non-current.

(B) CURRENT LIABILITIES

Paragraph 80 of IPSAS 1 provides that a liability shall be classified as current when it satisfies any of the following criteria:

(a) It is expected to be settled in the entity's normal operating cycle;

(b) It is held primarily for the purpose of being traded;

(c) It is due to be settled within twelve months after the reporting date; or

(d) The entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

All other liabilities shall be classified as non-current.

Information to be presented on the Face of the Statement of Financial Position

According to Paragraph 88 of IPSAS1, the minimum content of on the face of the statement of financial position shall include line items that present the following amounts:

(a) Property, plant, and equipment;

(b) Investment property;

(c) Intangible assets;

(d) Financial assets (excluding amounts shown under (e), (g), (h) and (i));

(e) Investments accounted for using the equity method;

(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) and (l));

(n) Minority interest, presented within net assets/equity; and

(o) Net assets/equity attributable to owners of the controlling entity.

Additional line items, headings, and sub-totals shall be presented on the face of the statement of financial position when such presentation is relevant to an understanding of the entity’s financial position.

3.3.6 STATEMENT OF FINANCIAL PERFORMANCE

By paragraph 102, as a minimum, the face of the statement of financial performance 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 or loss recognized on the disposal of assets or settlement of liabilities attributable to discontinuing operations; and

(e) Surplus or deficit.

By paragraph 103, the following items shall be disclosed on the face of the statement of financial performance as allocations of surplus or deficit for the
period:

(a) Surplus or deficit attributable to minority interest; and

(b) Surplus or deficit attributable to owners of the controlling entity.

Statement of Changes in Net Assets/Equity

By paragraph 118, an entity shall present a statement of changes in net assets/equity
Showing on the face of the statement:

(a) Surplus or deficit for the period;

(b) Each item of revenue and expense for the period that, as required by other Standards, is recognized directly in net assets/equity, and the total of these items;

(c) Total revenue and expense for the period (calculated as the sum of (a) and (b)), showingseparately the total amounts attributable to owners of the controlling entity and to minority interest; and

(d) For each component of net assets/equity separately disclosed, the effects of changes in accounting policies and corrections of errors recognized in accordance with IPSAS 3.

Paragraph 119 says that an entity shall also present, either on the face of the statement of changes in net assets/equity or in the notes:

(a) The amounts of transactions with owners acting in their capacity as owners, showing separately distributions to owners;

(b) The balance of accumulated surpluses or deficits at the beginning of the period and at the reporting date, and the changes during the period; and

(c) To the extent that components of net assets/equity are separately disclosed, reconciliation between the carrying amount of each component of net assets/equity at the beginning and the end of the period, separately disclosing each change.

Changes in an entity's net assets/equity between two reporting dates reflect the increase or decrease in its net assets during the period.

Self-Assessment Exercise

Discuss the objective and scope of IPSAS 1

3.3.7 CASH FLOW STATEMENT

Cash flow information provides users of financial statements with a basis to assess (a) the ability of the entity to generate cash and cash equivalents, and (b) the needs of the entity to utilize those cash flows. The requirements for the presentation of the cash flow statement are contained in IPSAS 2.

Public Sector Entity—Statement of Financial Position

As at December 31, 20X2 (in thousands of currency units)

	20X2	20X1
ASSETS		
Current assets		
Cash and cash equivalents	X	X
Receivables	X	X
Inventories	X	X
Prepayments	X	X
Other current assets	X	X
	X	X
Non-current assets		
Receivables	X	X
Investments in associates	X	X
Other financial assets	X	X
Infrastructure, plant and equipment	X	X
Land and buildings	X	X
Intangible assets	X	X
Other non-financial assets	X	X
	X	X
Total assets	X	X
LIABILITIES		
Current liabilities		
Payables	X	X
Short-term borrowings	X	X
Current portion of long-term borrowings	X	X
Short-term provisions	X	X
Employee benefits	X	X
Superannuation	X	X

	X	X
Non-current liabilities		
Payables	X	X
Long-term borrowings	X	X
Long-term provisions	X	X
Employee benefits	X	X
Superannuation	X	X
	X	X
Total liabilities	X	X
Net assets	X	X

NET ASSETS/EQUITY		
Capital contributed by		
Other government entities	X	X
Reserves	X	X
Accumulated surpluses/(deficits)	X	X
Minority interest	X	X
Total net assets/equity	X	X

Public Sector Entity—Statement of Financial Performance for the Year Ended December 31, 20X2

(Illustrating the Classification of Expenses by Function)

(in thousands of currency units)

	20X2	20X1
Revenue		
Taxes	X	X
Fees, fines, penalties, and licenses	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities	X	X
Other revenue	X	X
Total revenue	X	X
Expenses		
General public services	(X)	(X)
Defense	(X)	(X)

Public order and safety	(X)	(X)
Education	(X)	(X)
Health	(X)	(X)
Social protection	(X)	(X)
Housing and community amenities	(X)	(X)
Recreational, cultural, and religion	(X)	(X)
Economic affairs	(X)	(X)
Environmental protection	(X)	(X)
Other expenses	(X)	(X)
Finance costs	(X)	(X)
Total expenses	(X)	(X)
Share of surplus of associates*	X	X
Surplus/(deficit) for the period	X	X
Attributable to:		
Owners of the controlling entity	X	X
Minority interests	X	X
	X	X

December 31, 20X2

(Illustrating the Classification of Expenses by Nature) (in thousands of currency units)

	20X2	20X1
Revenue		
Taxes	X	X
Fees, fines, penalties, and licenses	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities	X	X
Other revenue	X	X
Total Revenue	X	X
Expenses		
Wages, salaries, and employee benefits	(X)	(X)
Grants and other transfer payments	(X)	(X)
Supplies and consumables used	(X)	(X)
Depreciation and amortization expense	(X)	(X)
Impairment of property, plant, and equipment*	(X)	(X)
Other expenses	(X)	(X)

Finance costs	(X)	(X)
Total Expenses	(X)	(X)
Share of surplus of associates	X	X
Surplus/(deficit) for the period	X	X
Attributable to:		
Owners of the controlling entity	X	X
Minority interest	X	X
	X	X

3.3.8 Comparison with IAS 1

According to IPSASB (2014) IPSAS 1 is drawn primarily from IAS 1 (2003) and includes amendments made to IAS 1 as part of the Improvements to IFRSs issued in May 2008 and April 2009respectively. At the time of issuing this Standard, the IPSASB has not considered the applicability of IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, to public sector entities; therefore IPSAS 1 does not reflect amendments made to IAS 1 consequent upon the issuing of IFRS 5. The main differences between IPSAS 1 and IAS 1 are as follows:

1. Commentary additional to that in IAS 1 has been included in IPSAS 1 to clarify the applicability of the Standard to accounting by public sector entities, e.g., discussion on the application of the going concern concept has been expanded.
2. AS 1 allows the presentation of either a statement showing all changes in net assets/equity, or a statement showing changes in net assets/equity, other than those arising from capital transactions with owners and distributions to owners in their capacity as owners. IPSAS 1 requires the presentation of a statement showing all changes in net assets/equity.
3. IPSAS 1 uses different terminology, in certain instances, from IAS 1. The most significant examples are the use of the terms "statement of financial performance," and "net assets/equity" in IPSAS 1. The equivalent terms in IAS 1 are "income statement," and "equity".
4. IPSAS 1 does not use the term "income," which in IAS 1 has a broader meaning than the term "revenue."
5. IAS 1 defines "International Financial Reporting Standards (IFRSs)" to include IFRSs, IASs, and SIC/IFRIC Interpretations. IPSAS 1 does not define "International Public Sector Accounting Standards."

5. IPSAS 1 contains a different set of definitions of technical terms from IAS 1 (paragraph 7).
6. IPSAS 1 contains commentary on the responsibility for the preparation of financial statements. IAS 1 does not include the same commentary (paragraphs 19□20).
7. IPSAS 1 uses the phrase “the objective of financial statements set out in this Standard” to replace the equivalent phrase “the objective of financial statement set out in the Framework” in IAS 1. This is because an equivalent Framework in IPSASs does not exist.
8. IPSAS 1 contains commentary on timeliness of financial statements, because of the lack of an equivalent Framework in IPSASs (paragraph 69).
9. IPSAS 1 does not explicitly preclude the presentation of items of revenue and expense as extraordinary items, either on the face of the statement of financial performance or in the notes. IAS 1 prohibits any items of income and expense to be presented as extraordinary items either on the face of the income statement or in the notes.
10. IPSAS 1 contains a transitional provision allowing the non-disclosure of items that have been excluded from the financial statements due to the application of a transitional provision in another IPSAS (paragraph 151).
11. IPSAS 1 contains an authoritative summary of qualitative characteristics (based on the IASB framework) in Appendix A.

3.4 IPSAS 2—CASH FLOW STATEMENTS

3.4.1 INTRODUCTION

According to IPSASB (2014), the cash flow statement identifies (a) the sources of cash inflows, (b) the items on which cash was expended during the reporting period, and (c) the cash balance as at the reporting date. Information about the cash flows of an entity is useful in providing users of financial statements with information for both accountability and decision-making purposes. Cash flow information allows users to ascertain how a public sector entity raised the cash it required to fund its activities, and the manner in which that cash was used

The standard is meant for an entity that prepares and presents financial statements under the accrual basis of accounting. This Standard applies to all public sector entities other than Government Business Enterprises as defined in IPSAS 1 on Presentation of Financial Statements.

3.4.2 Benefits of Cash Flow Information

The standard identified the following benefits of cash flow information:

1. Information about the cash flows of an entity is useful in assisting users to Predict:
   (a) the future cash requirements of the entity,
   (b) its ability to generate cash flows in the future, and
   (c) its ability to fund changes in the scope and nature of its activities.
2. A cash flow statement also provides a means by which an entity can discharge its accountability for cash inflows and cash outflows during the reporting period.
3. A cash flow statement, when used in conjunction with other financial statements, provides information that enables users to evaluate the changes:
   i in net assets/equity of an entity,
   ii. Its financial structure (including its liquidity and solvency),
   iii. Its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities.
4. It also enhances the comparability of the reporting of operating performance by different entities, because it eliminates the effects of using different accounting treatments for the same transactions and other events.
5. Historical cash flow information is often used as an indicator of the amount, timing, and certainty of future cash flows. It is also useful in checking the accuracy of past assessments of future cash flows.

3.4.3 Presentation of a Cash Flow Statement

Paragraph 18 states that the cash flow statement shall report cash flows during the period classified by operating, investing, and financing activities.

Operating Activities

According to paragraph 21, the amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity are funded:

(a) By way of taxes (directly and indirectly); or

(b) From the recipients of goods and services provided by the entity

Examples of cash flows from operating activities are:

(a) Cash receipts from taxes, levies, and fines;

(b) Cash receipts from charges for goods and services provided by the entity;

(c) Cash receipts from grants or transfers and other appropriations or other budget authority made by central government or other public sector entities;

(d) Cash receipts from royalties, fees, commissions, and other revenue;

(e) Cash payments to other public sector entities to finance their operations (not including loans);

(f) Cash payments to suppliers for goods and services;

(g) Cash payments to and on behalf of employees;

(h) Cash receipts and cash payments of an insurance entity for premiums and claims, annuities, and other policy benefits;

(i) Cash payments of local property taxes or income taxes (where appropriate) in relation to operating activities;

(j) Cash receipts and payments from contracts held for dealing or trading purposes;

(k) Cash receipts or payments from discontinuing operations; and

(l) Cash receipts or payments in relation to litigation settlements.

Investing Activities

According to paragraph 25, the separate disclosure of cash flows arising from investing activities is

important because the cash flows represent the extent to which cash outflows have been made for resources that are intended to contribute to the entity's future service delivery.

Examples of cash flows arising from investing activities are:

(a) Cash payments to acquire property, plant, and equipment, intangibles, and other long-term assets. These payments include those relating to capitalized development costs and self-constructed property, plant, and equipment;

(b) Cash receipts from sales of property, plant, and equipment, intangibles, and other long-term assets;

(c) Cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);

(d) Cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those dealing or trading purposes);

(e) Cash advances and loans made to other parties (other than advances and loans made by a public financial institution);

(f) Cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a public financial institution);

(g) Cash payments for futures 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

(h) Cash receipts from futures contracts, forward contracts, option contracts, and swap contracts, except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

Financing Activities

According to paragraph 26, the separate disclosure of cash flows arising from financing activities is important, because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:

(a) Cash proceeds from issuing debentures, loans, notes, bonds, mortgages, and other short or long-term borrowings;

(b) Cash repayments of amounts borrowed; and

(c) Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

Reporting Cash Flows from Operating Activities

Under paragraph 27 of IPSAS, an entity shall report cash flows from operating activities using either:

(a) The direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or

(b) The indirect method, whereby surplus or deficit is adjusted for the effects of transactions of a noncash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of revenue or expense associated with investing or financing cash flows.

Reporting entities are encouraged to report cash flows from operating activities using the direct method because the direct method provides information that:

(a) May be useful in estimating future cash flows, and

(b) May not be available under the indirect method.

Reporting Cash Flows from Investing and Financing Activities

An entity shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs 32 and 35 are reported on a net basis.

Cash flow from investing activities:

These are cash receipts or payments to acquire resources that are intended to contribute to the entity's future public service delivery. Examples of such items include::

(i) Cash payments to acquire property, plant and equipment, intangibles and other long-term assets. Payments relating to capitalized 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;

(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.

Cash flow from financing activities:

They show future claims by providers of capital to the entity. Items of cash flow from financing activities include:

(a) Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings;

(b) Cash repayments of amounts borrowed;

(c) Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

3.4.4 Illustrative Examples

These examples accompany, but are not part of, IPSAS 2.

Cash Flow Statement (For an Entity Other Than a Financial Institution)

Direct Method Cash Flow Statement (paragraph 27(a))

Public Sector Entity—Consolidated Cash Flow Statement for Year Ended December 31 20X2

	20X2	20X1
CASH FLOWS FROM OPERATING ACTIVITIES	^'000	^'000
Receipts		
Taxation	X	X
Sales of goods and services	X	X
Grants	X	X
Interest received	X	X
Other receipts	X	X
Payments		
Employee costs	(X)	(X)
Superannuation	(X)	(X)
Suppliers	(X)	(X)
Interest paid	(X)	(X)
Other payments	(X)	(X)
Net cash flows from operating activities	X	X
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 investments	X	X
Purchase of foreign currency securities	(X)	(X)
Net cash flows from investing activities	(X)	(X)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from borrowings	X	X
Repayment of borrowings	(X)	(X)
Distribution/dividend to government	(X)	(X)
Net cash flows from financing activities	X	X
Net increase/(decrease) in cash and cash equivalents	X	X
Cash and cash equivalents at beginning of period	X	X
Cash and cash equivalents at end of period	X	X

Notes to the Cash Flow Statement

(a) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, and investments in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following statement of financial position amounts:

	20X2	20X1
	^'000	^'000
Cash on hand and balances with banks	X	X
Short-term investments	X	X
	X	X

The entity has undrawn borrowing facilities of X, of which X must be used on infrastructure projects.

(b) Property, Plant and Equipment

During the period, the economic entity acquired property, plant, and equipment with an aggregate cost of X, of which X was acquired by means of capital grants by the national government. Cash payments of X were made to purchase property, plant and equipment.

(c) Reconciliation of Net Cash Flows from Operating Activities to Surplus/(Deficit)

	20X2	20X1
	^"000	^'000
Surplus/(deficit)	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 flows from operating activities	X	X

Indirect Method Cash Flow Statement (paragraph 27(b))

Public Sector Entity—Consolidated Cash Flow Statement for Year Ended December 31, 20X2 (In Thousands of Currency Units)

	20X2	20X1
CASH FLOWS FROM OPERATING ACTIVITIES	^’000	^’000
Surplus/(deficit)	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 flows from operating activities	X	X

Notes to the Cash Flow Statement

(a) *Cash and Cash Equivalents*

Cash and cash equivalents consist of cash on hand, balances with banks, and investments in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following statement of financial position amounts:

	20X2	20X1
	^'000	^'000
Cash on hand and balances with banks	X	X
Short-term investments	X	X
	X	X

The entity has undrawn borrowing facilities of X, of which X must be used on infrastructure projects.

(b) *Property, Plant and Equipment*

During the period, the economic entity acquired property, plant, and equipment with an aggregate cost of X, of which X was acquired by means of capital grants by the national government. Cash payments of X were made to purchase property, plant and equipment.

3.4.5 Comparison with IAS 7

IPSAS 2, Cash Flow Statements is drawn primarily from IAS 7, Cash Flow Statements and includes an amendment made to IAS 7 as part of the Improvements to IFRSs issued in April 2009. The main differences between IPSAS 2 and IAS 7 are as follows:

1. Commentary additional to that in IAS 7 has been included in IPSAS 2 to clarify the applicability of the standards to accounting by public sector entities.
2. IPSAS 2 uses different terminology, in certain instances, from IAS 7. The most significant examples are the use of the terms "revenue," "statement of financial performance," and "net assets/equity" in IPSAS 2. The equivalent terms in IAS 7 are "income," "income statement," and "equity."
3. IPSAS 2 contains a different set of definitions of technical terms from IAS 7 (paragraph 8).
4. In common with IAS 7, IPSAS 2 allows either the direct or indirect method to be used to present cash flows from operating activities. Where the direct method is used to present cash flows from operating activities, IPSAS 2 encourages disclosure of a reconciliation of surplus or deficit to operating cash flows in the notes to the financial statements (paragraph 29).

5. The Illustrative Examples accompanying IPSAS 2 do not include an illustration of a Cash Flow Statement for a financial institution.

3.5 IPSAS 3—ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

According to IPSAS 3.1, the objective of the Standard is to prescribe the criteria for selecting and changing accounting policies, together with the:

(a) accounting treatment, and disclosure of changes in accounting policies,

(b) changes in accounting estimates, and

(c) the corrections of errors.

The Standard main objective is to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.

This Standard is:

1 Applied in selecting and applying accounting policies,

2. Accounting for changes in accounting policies,

3. Accounting for changes in accounting estimates, and c

4. Corrections of prior period errors.

The Standard applies to all public sector entities other than Government Business Enterprises.

3.5.1 ACCOUNTING POLICIES

These are the specific principles, bases, conventions, rules, and practices applied by an entity in preparing and presenting financial statements.

Changes in Accounting Policies:

According to the standard, the following constitute a change in accounting policy:

(a) A change from one basis of accounting to another basis of accounting.

(b) A change in the accounting treatment, recognition or measurement of a transaction, event or condition within a basis of accounting.

The following are not changes in accounting policies:

(a) The application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and

(b) The application of a new accounting policy for transactions, other events or conditions that did not occur previously or that were immaterial.

According to IPSAS 3.17, an entity shall change an accounting policy only if the change:

(a) Is required by an IPSAS; or

(b) Results in the financial statements providing reliable and more relevant information about the effects of transactions, other events, and conditions on the entity's financial position, financial performance, or cash flows.

Prior period errors:

These 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:

(a) Was available when financial statements for those periods were authorized for issue; and

(b) 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 mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Materiality

According to IPSAS 3.8, assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. Users are assumed to have a reasonable knowledge of the public sector and economic activities and accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

Disclosure

According to IPSAS 3.33, the following shall be disclosed when there is initial application of an IPSAS:

(1) has an effect on the current period or any prior period,

(2) would have such an effect, except that it is impracticable to determine the amount of the adjustment, or

(3) might have an effect on future periods:

    (a) The title of the Standard;

    (b) When applicable, that the change in accounting policy is made in accordance with its transitional provisions;

    (c) The nature of the change in accounting policy;

    (d) When applicable, a description of the transitional provisions;

(e) When applicable, the transitional provisions that might have an effect on future periods;

(f) For the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;

(g) The amount of the adjustment relating to periods before those presented, to the extent practicable; and

(h) If retrospective application required by paragraph 24(a) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

According to IPSAS 3.34, when the change above is a voluntary change in accounting policy, then the following shall be disclosed:

(a) The nature of the change in accounting policy;

(b) The reasons why applying the new accounting policy provides reliable and more relevant information;

(c) For the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;

(d) The amount of the adjustment relating to periods before those presented, to the extent practicable; and

(e) If retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

According to IPSAS 3.35, when an entity has not applied a new IPSAS that has been issued but is not yet effective, the entity shall disclose:

(a) This fact; and

(b) Known or reasonably estimable information relevant to assessing the possible impact that application of the new Standard will have on the entity's financial statements in the period of initial application.

3.5.2 CHANGES IN ACCOUNTING ESTIMATES

A change accounting estimate in 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 status 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.

Accounting estimates may be required of:

(a) Tax revenue due to government;

(b) Bad debts arising from uncollected taxes;

(c) Inventory obsolescence;

(d) The fair value of financial assets or financial liabilities;

(e) The useful lives of, or expected pattern of consumption of future economic benefits or service potential embodied in, depreciable assets, or the percentage completion of road construction; (f) Warranty obligations.

Self-Assessment Exercise

What do understand by accounting change in accounting estimate?

3.5.3 Comparison with IAS 8

According to IASB (2016), the main differences between IPSAS 3 and IAS 8 are as follows:

1. Commentary additional to that in IAS 8 has been included in IPSAS 3 to clarify the applicability of the standards to accounting by public sector entities.
2. IPSAS 3 uses different terminology, in certain instances, from IAS 8. The most significant examples are the use of the terms "statement of financial performance," "accumulated surplus or deficit," and "net assets/equity" in IPSAS 3. The equivalent terms in IAS 8 are "income statement," "retained earnings," and "equity."
3. IPSAS 3 does not use the term "income," which in IAS 8 has a broader meaning than the term "revenue."
4. IPSAS 3 contains a different set of definitions of technical terms from IAS 8(paragraph 7).
5. IPSAS 3 has a similar hierarchy to IAS 8, except that the IPSASB does not yet have a conceptual framework.
6. IPSAS 3 does not require disclosures about adjustments to basic or diluted earnings per share. IAS 8 requires disclosure of amount of adjustment or correction for basic or diluted earnings per share.

3.6 IPSAS 4—THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

3.6.1 INTRODUCTION

There are two ways in which an entity may carry on foreign activities: (i) It may have transactions in foreign currencies, or (ii) it may have foreign operations. The objective of this Standard is to prescribe how to include foreign currency transactions and foreign operations in the financial statements of an entity, and how to translate financial statements into a presentation currency. The principal issues are (a) which exchange rate(s) to use, and (b) how to report the effects of changes in exchange rates in the financial statements.

An entity that prepares and presents financial statements under the accrual basis of accounting shall apply the Standard:

(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, 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, proportionate consolidation, or by the equity method; and

(c) In translating an entity's financial performance and financial position into a presentation currency.

This Standard applies to all public sector entities other than Government Business Enterprises.

3.6.2 FUNCTIONAL CURRENCY

According to IPSAS 4.11, is the currency of the primary economic environment in which an entity operates and primarily generates and expends cash. An entity considers the following factors in determining its functional currency:

(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 will often be the currency in which sales prices for its goods and services are denominated and settled); and

 (iii) Of the country whose competitive forces and regulations mainly determine the sale prices of its goods and services.

(b) The currency that mainly influences labour, material, and other costs of providing goods and services (this will often be the currency in which such costs are denominated and settled).

(c) The currency in which funds from financing activities (i.e., issuing debt and equity instruments) are generated.

(d) The currency in which receipts from operating activities are usually retained.

(e) Whether the activities of the foreign operation are carried out as an extension of the reporting entity, rather than being carried out with a significant degree of autonomy.

(f) Whether transactions with the reporting entity are a high or a low proportion of the foreign operation's activities.

(g) Whether cash flows from the activities of the foreign operation directly affect the cash flows of the reporting entity and are readily available for remittance to it.

(h) Whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by the reporting entity.

3.6.3 REPORTING FOREIGN CURRENCY TRANSACTIONS IN THE FUNCTIONAL CURRENCY

Initial Recognition

By IPSAS 4.24, a foreign currency transaction shall be recorded, on initial recognition 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.

Reporting at Subsequent Reporting Dates

By the provisions of 4.27, at each reporting date:

(a) Foreign currency monetary items shall be translated using the closing rate;

(b) Non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and

(c) Non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

Change in Functional Currency

When there is a change in an entity's functional currency, the entity shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change.

3.6.4 USE OF A PRESENTATION CURRENCY OTHER THAN THE FUNCTIONAL CURRENCY

An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its financial performance and financial position into the presentation currency. 44. The financial performance and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:

(a) Assets and liabilities for each statement of financial position presented (i.e., including comparatives) shall be translated at the closing rate at the date of that statement of financial position;

(b) Revenue and expenses for each statement of financial performance (i.e., including comparatives) shall be translated at exchange rates at the dates of the transactions; and

(c) All resulting exchange differences shall be recognized as a separate component of net assets/equity.

Self-Assessment Exercise

What is a functional currency?

3.6.5 Comparison with IAS 21

IPSAS 4, The Effects of Changes in Foreign Exchange Rates is drawn primarily from IAS 21, The Effects of Changes in Foreign Exchange

The main differences between IPSAS 4 and IAS 21 are as follows:

1. Commentary additional to that in IAS 21 has been included in paragraphs 1, 11, 13, 26, 43, 45, 67, 68, and 72 of IPSAS 4 to clarify the applicability of the standards to accounting by public sector entities.
2. IPSAS 4 contains an additional transitional provision allowing an entity, when first adopting IPSASs, to deem cumulative translation differences existing at the date of first adoption of accrual IPSASs as zero (paragraph 67). This transitional provision is adapted from IFRS 1, First-time Adoption of International Financial Reporting Standards.
3. IPSAS 4 uses different terminology, in certain instances, from IAS 21. The most significant examples are the use of the terms "revenue," "economic entity," "statement of financial performance," and "net assets/equity" in IPSAS 4. The

equivalent terms in IAS 21 are "income," "group," "statement of comprehensive income," and "equity."

3.7 IPSAS 5—BORROWING COSTS

The Standard is applicable in accounting for borrowing costs. It applies to all public sector entities other than Government Business Enterprises.

3.7.1 Borrowing Costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds. Within the contemplation of the Standard, borrowing costs may include:

(a) Interest on bank overdrafts and short-term and long-term borrowings;

(b) Amortization of discounts or premiums relating to borrowings;

(c) Amortization of ancillary costs incurred in connection with the arrangement of borrowings;

(d) Finance charges in respect of finance leases and service concession arrangements; and

(e) Exchange differences arising from foreign currency borrowings, to the extent that they are regarded as an adjustment to interest costs.

3.7.2 QUALIFYING ASSETS

According to the standard, examples of qualifying assets are office buildings, hospitals, infrastructure assets such as roads, bridges and power generation facilities, and inventories that require a substantial period of time to bring them to a condition ready for use or sale. Other investments, and those assets that are routinely produced over a short period of time, are not qualifying assets. Assets that are ready for their intended use or sale when acquired also are not qualifying assets.

3.7.3 Borrowing Costs—Benchmark Treatment

Borrowing costs are recognized as an expense in the period in which they are incurred. Under the benchmark treatment, borrowing costs are recognized as an expense in the period in which they are incurred, regardless of how the borrowings are applied. The financial statements are required to disclose the accounting policy adopted for borrowing costs.

3.7.4 Borrowing Costs—Allowed Alternative Treatment

IPSAS 5.17 states that borrowing costs shall be recognized as an expense in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset shall be capitalized as part of the cost of that asset. The amount of borrowing costs eligible for capitalization shall be determined in accordance with this Standard.

Under the allowed alternative treatment (paragraph 18), borrowing costs that are directly attributable to the acquisition, construction, or production of an asset are included in the cost of that asset. Such borrowing costs are capitalized as part of the cost of the asset when (a) it is probable that they will result in future economic benefits or service potential to the entity, and (b) the costs can be measured reliably. Other borrowing costs are recognized as an expense in the period in which they are incurred.

3.7.5 Borrowing Costs Eligible for Capitalization

The borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset are those borrowing costs that would have been avoided if the outlays on the qualifying asset had not been made. When an entity borrows funds specifically for the purpose of obtaining a particular qualifying asset, the borrowing costs that directly relate to that qualifying asset can be readily identified.

3.7.6 Commencement, suspension and cessation of capitalization

The capitalization of borrowing costs as part of the cost of a qualifying asset shall commence when:

(a) Outlays for the asset are being incurred;

(b) Borrowing costs are being incurred; and

(c) Activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalization of borrowing costs shall be suspended during extended periods in which active development is interrupted, and expensed.

Capitalization of borrowing costs shall cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

3.7.7 Disclosure

The Standard requires the following disclosures in financial statements:

(a) The accounting policy adopted for borrowing costs;

(b) The amount of borrowing costs capitalized during the period; and

(c) The capitalization rate used to determine the amount of borrowing costs eligible for capitalization (when it was necessary to apply a capitalization rate to funds borrowed generally).

3.7.8 Comparison with IAS 23

The Standard is drawn primarily from IAS 23, *Borrowing Costs* (1993). The main differences between IPSAS 5 and IAS 23 are as follows:

1. Commentary additional to that in IAS 23 has been include
2.
3. d in IPSAS 5 to clarify the applicability of the standards to accounting by public sector entities.

2. IPSAS 5 uses different terminology, in certain instances, from IAS 23. The most significant examples are the use of the terms "revenue," "statement of financial performance," and "net assets/equity" in IPSAS 5. The equivalent terms in IAS 23 are "income," "income statement," and "equity."
3. IPSAS 5 contains a different set of definitions of technical terms from IAS 23 (paragraph 5).

Self-Assessment Exercise

What are the major differences between IPSAS 5 and IAS 23?

4.0 SUMMARY

In this unit' you learnt about the objectives and scope of International Public Sector Accounting Standards. You also learnt about the contents of;

IPSAS 1- Presentation of financial statement

IPSAS 2- Cash flow statement

IPSAS 3- Accounting policies, changes in accounting estimates and errors

IPSAS 4- Effects of changes in foreign exchange rates

IPSAS 5- Borrowing costs

5.0 CONCLUSION

This unit discussed the International Public Sector Accounting standards generally and IPSAS 1, 2, 3, 4, and 5 respectively. In the subsequent units, we will discuss the remaining IPSAS.

6.0 TUTOR MARKED ASSIGNMENT

1. Outline the process for setting international public sector accounting standards
2. What are the benefits of the cash flow statement?
3. Describe the use of a presentation currency other than the functional currency
4. Explain the borrowing costs that are eligible for capitalisation.

7.0 REFERENCES/FURTHER READING

ICAN (2014). Public sector accounting and finance, Lagos: ICAN

IPSASB (2016) Handbook of International Public Sector Accounting Pronouncements 2016 Edition Volume II, New York: IFAC

IPSASB (2014) Handbook of International Public Sector Accounting Pronouncements 2016 Edition Volume I, New York: IFAC

Ogiedu, K.O. (2016) *Lecture notes on Public Sector Accounting and Finance*, Benin City, Unpublished

Omolehinwa, E.O., & Naiyeju, J.K. (2015) *Government Accounting in Nigeria: An IPSAS approach*, Lagos: Pumark (Educational Publishers).

UNIT 3 INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS) 6 -11

CONTENTS

1.0 INTRODUCTION

In this chapter, you will be introduced to IPSAS 6 to 11. You will learn the IPSAS provisions for the preparation of Consolidated and separate financial statements and the accounting treatment of Investments in associates. You will also learn the accounting treatment of interests in joint ventures the revenue from exchange transactions. Finally, you will learn the provisions of IPSAS on financial reporting in hyperinflationary economies and construction contracts.

2.0 OBJECTIVES

After studying this unit, you should be able to:

1 State the IPSAS PROVISIONS on the preparation of consolidated and separate financial statements

2. Account for investments in associates.

3. Account for interests in joint ventures

4. Account for revenue from exchange transactions

5 Prepare financial statements in hyperinflationary economies

6 Appreciate accounting for construction contracts

3.0 MAIN CONTENT

3.1 IPSAS 6—CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The Standard deals with the presentation of the financial statements of an economic entity presented as those of a single entity. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in the preparation and presentation of consolidated financial statements for an economic entity (IPSAS 6.1).

The Standard also applies in accounting for controlled entities, jointly controlled entities, and associates when an entity elects, or is required by local regulations, to present separate financial statements. The Standard applies to all public sector entities other than Government Business Enterprises.

3.1.2 SIGNIFICANT DEFINITIONS

Consolidated financial statements:

These are the financial statements of an economic entity presented as those of a single entity.

Controlled entity is an entity, including an unincorporated entity such as a partnership, which is under the control of another entity (known as the controlling entity).

Controlling entity:

This is an entity that has one or more controlled entities.

The cost method:

This is a method of accounting for an investment, whereby the investment is recognized at cost. The investor recognizes revenue from the investment only to the extent that the investor is entitled to receive distributions from accumulated surpluses of the investee arising after the date of acquisition. Entitlements due or received in excess of such surpluses are regarded as a recovery of investment, and are recognized as a reduction of the cost of the investment.

Minority interest:

This is that portion of the surplus or deficit and net assets/equity of a controlled entity attributable to net assets/equity interests that are not owned, directly or indirectly, through controlled entities, by the controlling entity. Separate financial statements are those presented by a controlling entity, an investor in an associate, or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct net assets/equity interest rather than on the basis of the reported results and net assets of the investees.

3.1.3 Presentation of Consolidated Financial Statements

By IPSAS 6.15, a controlling entity, other than a controlling entity described in paragraph 16, shall present consolidated financial statements in which it consolidates its controlled entities in accordance with this Standard. A controlling entity need not present consolidated financial statements if and only if:

(a) The controlling entity is:

  (i) Itself a wholly-owned controlled entity, and users of such financial statements are unlikely to exist or their information needs are met by its controlling entity's consolidated financial statements; or

  (ii) A partially-owned controlled entity of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the controlling entity not presenting consolidated financial statements;

(b) The controlling entity's 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);

(c) The controlling entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and

(d) The ultimate or any intermediate controlling entity of the controlling entity produces consolidated financial statements available for public use that comply with IPSASs.

3.1.4 Scope of Consolidated Financial Statements

Paragraphs 21 and 21provide that Consolidated financial statements shall include all controlled entities of the controlling entity, except those referred to in paragraph 21. A controlled entity shall be excluded from consolidation when there is evidence that:

(a) control is intended to be temporary because the controlled entity is acquired and held exclusively with a view to its disposal within twelve months from acquisition,

(b) management is actively seeking a buyer.

3.1.5 Regulatory and Purchase Power

IPSAS 6.37 distinguishes between regulatory power and purchase power. According to the provision, Governments and their agencies have the power to regulate the behaviour of many entities by use of their sovereign or legislative powers. Regulatory and purchase powers do not constitute control for the purposes of financial reporting. To ensure that the financial statements of public sector entities include only those resources that they control and can benefit from, the meaning of control for the purposes of this Standard does not extend to:

(a) The power of the legislature to establish the regulatory framework within which entities operate, and to impose conditions or sanctions on their operations. Such power does not constitute control by a public sector entity of the assets deployed by these entities.

(b) Entities that is economically dependent on a public sector entity. That is, where an entity retains discretion as to whether it will take funding from, or do business with, a public sector entity, that entity has the ultimate power to govern its own financial or operating policies, and accordingly is not controlled by the public sector entity

3.1.6 Determining Whether Control Exists for Financial Reporting Purposes

Control is presumed to exist when at least one of the following power conditions and one of the following benefit conditions exists, unless there is clear evidence of control being held by another entity.

Power Conditions

(a) The entity has, directly or indirectly through controlled entities, ownership of a majority voting interest in the other entity.

(b) The entity has the power, either granted by or exercised within existing legislation, to appoint or remove a majority of the members of the board of directors or equivalent governing body, and control of the other entity is by that board or by that body.

(c) The entity has the power to cast, or regulate the casting of, a majority of the votes that are likely to be cast at a general meeting of the other entity.

(d) The entity has the power to cast the majority of votes at meetings of the board of directors or equivalent governing body, and control of the other entity is by that board or by that body.

Benefit Conditions

(a) The entity has the power to dissolve the other entity and obtain a significant level of the residual economic benefits or bear significant obligations. For example the benefit condition may be met if an entity had responsibility for the residual liabilities of another entity.

(b) The entity has the power to extract distributions of assets from the other entity, and/or may be liable for certain obligations of the other entity.

Paragraph 40 says that when one or more of the circumstances listed in paragraph 39 does not exist, the following factors are likely, either individually or collectively, to be indicative of the existence of control.

Power Indicators

(a) The entity has the ability to veto operating and capital budgets of the other entity.

(b) The entity has the ability to veto, overrule, or modify governing body decisions of the other entity.

(c) The entity has the ability to approve the hiring, reassignment, and removal of key personnel of the other entity.

(d) The mandate of the other entity is established and limited by legislation.

(e) The entity holds a golden share1 (or equivalent) in the other entity that confers rights to govern the financial and operating policies of that other entity.

Benefit Indicators

(a) The entity holds direct or indirect title to the net assets/equity of the other entity, with an ongoing right to access these.

(b) The entity has a right to a significant level of the net assets/equity of the other entity in the event of a liquidation, or in a distribution other than a liquidation.

(c) The entity is able to direct the other entity to cooperate with it in achieving its objectives.

(d) The entity is exposed to the residual liabilities of the other entity.

3.1.7 Accounting for Controlled Entities, Jointly Controlled Entities and Associates in Separate Financial Statements

According to IPSAS 6.58, when separate financial statements are prepared, investments in controlled entities, jointly controlled entities, and associates shall be accounted for:

(a) Using the equity method as described in IPSAS 7;

(b) At cost; or

(c) As a financial instrument in accordance with IPSAS 29.

The same accounting shall be applied for each category of investments.

Disclosure

The disclosure provisions are contained in paragraphs 62 to 64. According to the provisions, the following disclosures shall be made in consolidated financial statements:

(a) A list of significant controlled entities;

(b) The fact that a controlled entity is not consolidated in accordance with paragraph 21;

(c) Summarized financial information of controlled entities, either individually or in groups, that are not consolidated, including the amounts of total assets, total liabilities, revenues, and surplus or deficit;

(d) The name of any controlled entity in which the controlling entity holds an ownership interest and/or voting rights of 50% or less, together with an explanation of how control exists;

(e) The reasons why the ownership interest of more than 50% of the voting or potential voting power of an investee does not constitute control;

(f) The reporting date of the financial statements of a controlled entity when such financial statements are used to prepare consolidated financial statements and are as of a reporting date or for a period that is different from that of the controlling entity, and the reason for using a different reporting date or period; and

(g) The nature and extent of any significant restrictions (e.g., resulting from borrowing arrangements or regulatory requirements) on the ability of controlled entities to transfer funds to the controlling entity in the form of cash dividends, or similar distributions, or to repay loans or advances.

3.1.8 Comparison with IAS 27

According to IPSAB (2014), IPSAS 6, Consolidated and Separate Financial Statements is drawn primarily from IAS 27, Consolidated and Separate Financial Statements (2003). The main differences between IPSAS 6 and IAS 27 are as follows:

1. Commentary additional to that in IAS 27 has been included in IPSAS 6 to clarify the applicability of the Standard to accounting by public sector entities.
2. IPSAS 6 contains specific guidance on whether control exists in a public sector context (paragraphs 28–41).
3. IPSAS 6 uses different terminology, in certain instances, from IAS 27. The most significant examples are the use of the terms "statement of financial performance," "net assets/equity," "economic entity," "controlling entity," and "controlled entity" in IPSAS 6. The equivalent terms in IAS 27 are "income statement," "equity," "group," "parent," and "subsidiary."
4. IPSAS 6 does not use the term "income," which in IAS 27 has a broader meaning than the term "revenue."
5. IPSAS 6 permits entities to use the equity method to account for controlled entities in the separate financial statements of controlling entities.
6. IPSAS 6 requires controlling entities to disclose a list of significant controlled entities in consolidated financial statements (paragraph 62(a)). IAS 27 does not require this disclosure. IPSAS 6 includes a transitional provision that permits entities to not eliminate all balances and transactions between entities within the economic entity for reporting periods beginning on a date within three years following the date of first adoption of this Standard (paragraphs 65–68). IAS 27 does not contain transitional provisions.
7. IPSAS 6 contains additional illustrative examples that reflect the public sector context.

3.2 IPSAS 7—INVESTMENTS IN ASSOCIATES

The Standard provides guidance for accounting for investments in associates. An entity that prepares and presents financial statements under the accrual basis of accounting is required to apply this Standard in accounting by an investor for investments in associates where the investment in the associate leads to the holding of an ownership interest in the form of a shareholding or other formal equity structure. However, it does not apply to investments in associates held by:

(a) Venture capital organizations; or

(b) Mutual funds, unit trusts and similar entities including investment linked insurance funds;

This Standard applies to all public sector entities other than Government Business Enterprises.

3.2.1. Significant Definitions

An associate:

This is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence, and that is neither a controlled entity nor an interest in a joint venture.

The equity method

This is a method of accounting whereby the investment is initially recognized at cost, and adjusted thereafter for the post-acquisition change in the investor's share of net assets/equity of the investee. The surplus or deficit of the investor includes the investor's share of the surplus or deficit of the investee.

Significant influence:

This is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Significant Influence

The existence of significant influence by an investor is usually evidenced in one or more of the following ways:

(a) Representation on the board of directors or equivalent governing body of the investee;

(b) Participation in policy-making processes, including participation in decisions about dividends or similar distributions;

(c) Material transactions between the investor and the investee;

(d) Interchange of managerial personnel; or

(e) Provision of essential technical information.

3.2.2 Equity Method

Under the equity method, the investment in an associate is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of surplus or deficit of the investee after the date of acquisition(para.17). Para.19, states that an investment in an associate shall be accounted for using the equity method, except when:

(a) There is evidence that the investment is acquired and held exclusively with a view to its disposal within twelve months from acquisition and that management is actively seeking a buyer;

(b) The exception in paragraph 16 of IPSAS 6, allowing a controlling entity that also has an investment in an associate not to present consolidated financial statements, applies; or

(c) All of the following apply:

(i) The investor is:

A wholly-owned controlled entity, and users of financial statements prepared by applying the equity method are unlikely to exist or their information needs are met by the controlling entity's consolidated financial statements; or

A partially-owned controlled entity of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the investor not applying the equity method;

(ii) The investor's 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) The investor did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization, for the purpose of issuing any class of instruments in a public market; and

(iv) The ultimate or any intermediate controlling entity of the investor produces consolidated financial statements available for public use that comply with IPSASs.

3.2.3 Disclosure

IPSAS 7.43 requires the following disclosures:

(a) The fair value of investments in associates for which there are published price quotations;

(b) Summarized financial information of associates, including the aggregated amounts of assets, liabilities, revenues, and surplus or deficit;

(c) The reasons why the presumption that an investor does not have significant influence is overcome if the investor holds, directly or indirectly through controlled entities, less than 20 percent of the voting or potential voting power of the investee but concludes that it has significant influence;

(d) The reasons why the presumption that an investor has significant influence is overcome if the investor holds, directly or indirectly through controlled entities, 20 percent or more of the voting power of the investee but concludes that it does not have significant influence;

(e) The reporting date of the financial statements of an associate, when such financial statements are used in applying the equity method and are as of a reporting date or for a period that is different from that of the investor, and the reason for using a different reporting date or different period;

(f) The nature and extent of any significant restrictions (e.g., resulting from borrowing arrangements or regulatory requirements) on the ability of associates to transfer funds to the investor in the form of cash dividends or similar distributions, or repayment of loans or advances;

(g) The unrecognized share of losses of an associate, both for the period and cumulatively, if an investor has discontinued recognition of its share of losses of an associate;

(h) The fact that an associate is not accounted for using the equity method in accordance with paragraph 19; and

(i) Summarized financial information of associates, either individually or in groups, that are not accounted for using the equity method, including the amounts of total assets, total liabilities, revenues, and surpluses or deficits.

3.2.4 Comparison with IAS 28

IPSAS 7, Investments in Associates is drawn primarily from IAS 28, Investments in Associates and includes an amendment made to IAS 28 as part of the Improvements to IFRSs issued in May 2008. According to IPSAB, the main differences between

IPSAS 7 and IAS 28 are as follows:

1. Commentary additional to that in IAS 28 has been included in IPSAS 7 to clarify the applicability of the standards to accounting by public sector entities.

2 IPSAS 7 applies to all investments in associates where the investor holds an ownership interest in the associate in the form of a shareholding or other formal equity structure. IAS 28 does not contain similar ownership interest requirements. However, it is unlikely that equity accounting could be applied unless the associate had a formal or other reliably measurable equity structure.

3. IPSAS 7 uses different terminology, in certain instances, from IAS 28. The most significant examples are the use of the terms "statement of financial performance," and "net assets/equity" in IPSAS 7. The equivalent terms in IAS 28 are "income

statement," and "equity." IPSAS 7 does not use the term "income," which in IAS 28 has a broader meaning than the term "revenue."

3.3 IPSAS 8—INTERESTS IN JOINT VENTURES

The standard is applied in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, revenue and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place. However, it does not apply to venturers' interests in jointly controlled entities held by:

(a) Venture capital organizations; or

(b) Mutual funds, unit trusts and similar entities including investment linked insurance funds that are measured at fair value, with changes in fair value recognized in surplus or deficit in the period of the change in accordance with IPSAS 29, Financial Instruments: Recognition and Measurement.

A venturer with an interest in a jointly controlled entity is exempted from proportionate consolidation equity method when it meets the following conditions:

(a) There is evidence that the interest is acquired and held exclusively with a view to its disposal within twelve months from acquisition and that management is actively seeking a buyer;

(b) The exception allowing a controlling entity that also has an interest in a jointly controlled entity not to present consolidated financial statements is applicable; or

(c) All of the following apply:

    (i) The venturer is: A wholly-owned controlled entity and users of financial statements prepared by applying proportionate consolidation or the equity method are unlikely to exist or (if they are) their information needs are met by the controlling entity's consolidated financial statements

    (ii) The venturer's 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) The venturer neither filed, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and

    (iv) The ultimate or any intermediate controlling entity of the venturer produces consolidated financial statements available for public use that comply with IPSASs.

3.3.1 Binding Arrangement

IPSAS 8.7 states that the existence of a binding arrangement distinguishes interests that involve joint control from investments in associates in which the investor has significant influence. A binding arrangement is usually in writing, and deals with such matters as:

1. The activity, duration and reporting obligations of the joint venture;
2. The appointment of the board of directors or equivalent governing body of the joint venture and the voting rights of the venturers;
3. Capital contributions by the venturers; and
4. The sharing by the venturers of the output, revenue, expenses, surpluses or deficits, or cash flows of the joint venture.

3.3.2 Jointly Controlled Operations

IPSAS 8.17 stated the operation of some joint ventures involves the use of the assets and other resources of the venturers rather than the establishment of a corporation, partnership, or other entity, or a financial structure that is separate from the venturers themselves. Each venturer uses its own property, plant, and equipment and carries its own inventories. It also incurs its own expenses and

liabilities and raises its own finances, which represent its own obligations. The joint venture activities may be carried out by the venturer's employees alongside the venturer's similar activities. In respect of its interests in jointly controlled operations, a venturer shall recognize in its financial statements:

(a) The assets that it controls and the liabilities that it incurs; and

(b) The expenses that it incurs and its share of the revenue that items from the sale or provision of goods or services by the joint venture.

3.3.3 Jointly Controlled Assets

Paragraph 22 of IPSA 8 noted that some joint ventures involve the joint control of, and often the joint ownership by, the venturers of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated to the purposes of the joint venture. The assets are used to obtain benefits for the venturers. Each venture may take a share of the output from the assets, and each bears an agreed share of the expenses incurred. These joint ventures do not involve the establishment of a corporation, partnership, or other entity, or a financial structure that is separate from the venturers themselves. Each venturer has control over its share of future economic benefits or service potential through its share of the jointly controlled asset. Some activities in the public sector involve jointly controlled assets. For example, a local government may enter into an arrangement with a private sector corporation to construct a toll road. The road provides the citizens with improved access between the local government’s industrial estate and its port facilities. The road also provides the private sector corporation with direct access between its manufacturing plant and the port. The agreement between the local authority and the private sector corporation specifies each party’s share of revenues and expenses associated with the toll road. Accordingly, each venturer derives economic benefits or service potential from the jointly controlled asset, and bears an agreed proportion of the costs of operating the road.

In respect of its interest in jointly controlled assets, a venturer recognizes in its financial statements:

(a) Its share of the jointly controlled assets, classified according to the nature of the assets;

(b) Any liabilities that it has incurred;

(c) Its share of any liabilities incurred jointly with the other venturers in relation to the joint venture;

(d) Any revenue from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and

(e) Any expenses that it has incurred in respect of its interest in the joint venture.

For interest in jointly controlled assets, each venturer includes in its accounting records and recognizes in its financial statements:

(a) Its share of the jointly controlled assets, classified according to the nature of the assets rather than as an investment. For example, a share of a jointly controlled road is classified as property, plant, and equipment;

(b) Any liabilities that it has incurred, for example those incurred in financing its share of the assets;

(c) Its share of any liabilities incurred jointly with other venturers in relation to the joint venture;

(d) Any revenue from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and

(e) Any expenses that it has incurred in respect of its interest in the joint venture, for example those related to financing the venturer’s interest in the assets and selling its share of the output.

3.3.4 Jointly Controlled Entities

The provisions for jointly controlled entities are contained in IPSAS 8.29. A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a binding arrangement between the venturers establishes joint control over the activity of the entity. A jointly controlled entity controls the assets of the joint venture, incurs liabilities and expenses and earns revenue. It may enter into contracts in its own name and raise finance for the purposes of the joint venture activity. Each venturer is entitled to a share of the surpluses of the jointly controlled entity, although some jointly controlled entities also involve a sharing of the output of the joint venture.

A common example of a jointly controlled entity is when two entities combine their activities in a particular line of service delivery by transferring the relevant assets and liabilities into a jointly controlled entity. Another example arises when an entity commences a business in a foreign country in conjunction with a government or other agency in that country, by establishing a separate entity that is jointly controlled by the entity and the government or agency in the foreign country.

3.3.5 FINANCIAL STATEMENTS OF A VENTURER

Proportionate consolidation

A venturer recognizes its interest in a jointly controlled entity using one of the two reporting formats for proportionate consolidation, irrespective of (a) whether it also has investments in controlled entities, or (b) whether it describes its financial statements as consolidated financial statements. The application of proportionate consolidation means that the statement of financial position of the venturer includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. The statement of financial performance of the venturer includes its share of the revenue and expenses of the jointly controlled entity. Different reporting formats may be used to give effect to proportionate consolidation.

A venturer shall discontinue the use of proportionate consolidation from the date on which it ceases to have joint control over a jointly controlled entity.

Equity Method

IPSAS 8.43 noted that as an alternative to proportionate consolidation a venturer shall recognize its interest in a jointly controlled entity using the equity method.IPSAS 8 does not recommend the use of the equity method because proportionate consolidation better reflects the substance and economic reality of a venturer's interest in a jointly controlled entity, that is to say, control over the venturer's share of the future economic benefits or service potential. Nevertheless, this Standard permits the use of the equity method, as an alternative treatment, when recognizing interests in jointly controlled entities.

A venturer shall discontinue the use of the equity method from the date on which it ceases to have joint control over, or have significant influence in, a jointly controlled entity.

3.3.6 Disclosure

They following are required to be disclosed by a venturer:

(a) The aggregate amount of the following contingent liabilities, unless the possibility of any outflow in settlement is remote, separately from the amount of other contingent liabilities:

  (i) Any contingent liabilities that the venturer has incurred inrelation to its interests in joint ventures, and its share in each of the contingent liabilities that have been incurred jointly with other venturers;

  (ii) Its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable; and

  (iii) Those contingent liabilities that arise because the venturer is contingently liable for the liabilities of the other venturers of a joint venture; and

(b) A brief description of the following contingent assets and, wherepracticable, an estimate of their financial effect, where an inflow ofeconomic benefits or service potential is probable:

  (i) Any contingent assets of the venturer arising in relation to its interests in joint ventures and its share in each of the contingent assets that have arisen jointly with other venturers; and

  (ii) Its share of the contingent assets of the joint ventures themselves.

(c) Any capital commitments of the venturer in relation to its interests in joint ventures and its share in the capital commitments that have been incurred jointly with other venturers; and

(d) Its share of the capital commitments of the joint ventures themselves.

(e) A listing and description of interests insignificant joint ventures and the proportion of ownership interest held in jointly controlled entities

(f) The method it uses to recognize its interests in jointly controlled entities.

Self-Assessment Exercise

1. What is a binding arrangement in joint ventures?

3.3.7 Comparison with IAS 31

According to IPSAB (2014), IPSAS 8, Interests in Joint Ventures is drawn primarily from IAS 31, Interests in Joint Ventures. The main differences between IPSAS 8 and IAS 31 are:

1. Commentary additional to that in IAS 31 has been included in IPSAS 8 to clarify the applicability of the standards to accounting by public sector entities.
2. IPSAS 8 uses different terminology, in certain instances, from IAS 31. The most examples are the use of the terms “statement of financial performance,” and “net assets/equity” in IPSAS 8. The equivalent terms in IAS 31 are “income statement,” and “equity.”
3. IPSAS 8 does not use the term “income,” which in IAS 31 has a broader meaning than the term “revenue.”
4. IPSAS 8 uses a different definition of “joint venture” from IAS 31. The term “contractual arrangement” has been replaced by “binding arrangement.”
5 IPSAS 8 includes a transitional provision that permits entities that adopt proportionate consolidation treatment to not eliminate all balances and transactions between venturers, their controlled entities, and entities that they jointly control for reporting periods beginning on a date within three years following the date of adopting accrual accounting for the first time in accordance with IPSASs. IAS 31 does not contain transitional provisions.

3.4 IPSAS 9—REVENUE FROM EXCHANGE TRANSACTIONS

The Standard prescribes the accounting treatment of revenue arising from exchange transactions and events. The Standard is applicable in accounting for revenue arising from the following exchange transactions and events:

(a) The rendering of services;

(b) The sale of goods; and

(c) The use by others of entity assets yielding interest, royalties, and dividends or similar distributions.

This Standard applies to all public sector entities other than Government Business Enterprises. The Standard does not deal with revenues arising from:

(a) Lease agreements (see IPSAS 13, Leases);

(b) Dividends or similar distributions arising from investments that are accounted for under the equity method (see IPSAS 7, Investments in Associates);

(c) Gains from the sale of property, plant, and equipment (which are dealt with in IPSAS 17, Property, Plant, and Equipment);

(d) Insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts;

(e) Changes in the fair value of financial assets and financial liabilities or their disposal (guidance on the recognition and measurement of financial instruments can be found in IPSAS 29, Financial Instruments: Recognition and Measurement);

(f) Changes in the value of other current assets;

(g) Initial recognition, and from changes in the fair value of biological assets related to agricultural activity (see IPSAS 27, Agriculture);

(g) Initial recognition of agricultural produce (see IPSAS 27); and

(h) The extraction of mineral ores.

3.4.1 Rendering of Services

According to IPSAS 9, when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognized by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

(a) The amount of revenue can be measured reliably;

(b) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity;

(c) The stage of completion of the transaction at the reporting date can be measured reliably; and

(d) The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

3.4.2 Sale of Goods

Revenue from the sale of goods shall be recognized when all the following conditions have been satisfied:

(a) The entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;

(b) The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(c) The amount of revenue can be measured reliably;

(d) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and

(e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

3.4.3 Interest, Royalties, and Dividends or Similar Distributions

Paragraph 33 stipulated that Revenue arising from the use by others of entity assets yielding interest, royalties, and dividends or similar distributions shall be recognized using when:

(a) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and

(b) The amount of the revenue can be measured reliably.

The following accounting treatment is applicable:

(a) Interest shall be recognized on a time proportion basis that takes into account the effective yield on the asset;

(b) Royalties shall be recognized as they are earned in accordance with the substance of the relevant agreement; and

(c) Dividends or similar distributions shall be recognized when the shareholder's or the entity's right to receive payment is established.

3.4.4 Disclosure

The following are required to be disclosed:

(a) The accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions involving the rendering of services;

(b) The amount of each significant category of revenue recognized during the period, including revenue arising from:

  (i) The rendering of services;

  (ii) The sale of goods;

  (iii) Interest;

  (iv) Royalties; and

  (v) Dividends or similar distributions; and

(c) The amount of revenue arising from exchanges of goods orservices included in each significant category of revenue.

3.4.5 Comparison with IAS 18

According to IPSASB (2014), IPSAS 9, *Revenue from Exchange Transactions* is drawn primarily from IAS 18, *Revenue*. The main differences between IPSAS 9 and IAS 18 are as follows:

1. The title of IPSAS 9 differs from that of IAS 18, and this difference clarifies that IPSAS 9 does not deal with revenue from non-exchange transactions.
2. The definition of "revenue" adopted in IPSAS 9 is similar to the definition adopted in IAS 18. The main difference is that the definition in IAS 18refers to ordinary activities.
3 Commentary additional to that in IAS 18 has also been included in IPSAS 9 to clarify the applicability of the standards to accounting by public sector entities.
4 IPSAS 9 uses different terminology, in certain instances, from IAS 18. The most significant example is the use of the term "net assets/equity" in IPSAS 9. The equivalent term in IAS 18 is "equity."

3.5 IPSAS 10—FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES

The Standard prescribes the accounting treatment in the consolidated and individual financial statements of an entity whose functional currency is the currency of a hyperinflationary economy. The Standard also specifies the accounting treatment where the economy ceases to be hyperinflationary.

The Standard requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to the primary financial statements, including the consolidated financial statements, of any entity whose functional currency is the currency of a hyperinflationary economy. This Standard applies to all public sector entities other than Government Business Enterprises.

3.5.1 INDICATORS OF HYPERINFLATION

According to the Standard, Hyperinflation is indicated by characteristics of the economic environment

of a country which include, but are not limited to, the following:

(a) The general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign 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

(e) The cumulative inflation rate over three years is approaching, or exceeds, 100%.

3.5.2 The Restatement of Financial Statements

Statement of Financial Position

Paragraphs 14-26 prescribe the Re-Statement of financial position amounts not already expressed in terms of the measuring unit current at the reporting date are restated by applying a general price index.

1. Monetary items are not restated, because they are already expressed in terms of the monetary unit current at the reporting date. Monetary items are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money.
2. 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.
3. All other assets and liabilities are non-monetary. Some non-monetary items are carried at amounts current at the reporting date, such as net realizable value and fair value, so they are not restated. All other non-monetary assets and liabilities are restated.
4. Most non-monetary items are carried at cost or cost less depreciation; hence they are expressed at amounts current at their date of acquisition. The restated cost, or cost less depreciation, of each item is determined by applying to its historical cost and accumulated depreciation the change in a general price index from the date of acquisition to the reporting date.
5. Where detailed records of the acquisition dates of items of property, plant, and equipment are not be available or able to be estimated, it may be necessary, in the first period of application of this Standard, to use an independent professional assessment of the value of the items as the basis for their restatement.

6. Where a general price index is not be available for the periods for which the restatement of property, plant, and equipment is required by this Standard, it may be necessary to use an estimate based, for example, on the movements in the exchange rate between the functional currency and a relatively stable foreign currency.

3.5.3 Statement of Financial Performance

The Standard requires that all items in the statement of financial performance are expressed in terms of the measuring unit current at the reporting date. Therefore all amounts need to be restated by applying the change in the general price index from the dates when the items of revenue and expenses were initially recorded.

3.5.4 Gain or Loss on Net Monetary Position

The gain or loss on the net monetary position is included in the statement of financial performance. The adjustment to those assets and liabilities linked by agreement to changes in prices made in accordance with paragraph 16 is offset against the gain or loss on net monetary position. Other items in the statement of financial performance, such as interest revenue and expense, and foreign exchange differences related to invested or borrowed funds, are also associated with the net monetary position. Although such items are separately disclosed, it may be helpful if they are presented together with the gain or loss on net monetary position in the statement of financial performance.

3.5.5 Cash Flow Statement

The Standard requires that all items in the cash flow statement are expressed in terms of the measuring unit current at the reporting date.

3.5.6 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. It is preferable that all entities that report in the currency of the same economy use the same index.

3.5.7 Economies ceasing to be Hyperinflationary

The Standard requires that 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 shall 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.

3.5.8 Disclosures

Paragraph 36 of the Standard requires that the following disclosures shall 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 functional 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.

3.5.9 Comparison with IAS 29

According to IPSAB (2014), IPSAS 10, Financial Reporting in Hyperinflationary Economies is drawn primarily from IAS 29, Financial Reporting in Hyperinflationary Economies and includes amendments made to IAS 29 as part of the Improvements to IFRSs issued in May 2008. According to the IPSASB, the main differences between IPSAS 10 and IAS 29 are as follows:

1. Commentary additional to that in IAS 29 has been included in IPSAS 10 to clarify the applicability of the standards to accounting by public sector entities.
2. IPSAS 10 uses different terminology, in certain instances, from IAS 29. The most significant examples are the use of the terms "revenue," "statement of financial performance," and "net assets/equity" in IPSAS 10. The equivalent terms in IAS 29 are "income," "income statement," and "equity."
3. IAS 29 contains guidance on the restatement of current cost financial statements. IPSAS 10 does not include this guidance.
4. IPSAS 10 contains an illustrated example that illustrates the process of the restating of financial statements, using an indirect method, of an entity reporting in the currency of a hyperinflationary economy.

3.6 IPSAS 11—CONSTRUCTION CONTRACTS

IPSAS 11 prescribes the accounting treatment of costs and revenue associated with construction contracts. Because of the nature of the activity undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different reporting periods. In many jurisdictions, construction contracts entered into by public sector entities will not specify an amount of contract revenue. Rather, funding to support the construction activity will be provided by an appropriation or similar allocation of general government revenue, or by aid or grant funds. In these cases, the primary issue in accounting for construction contracts is the (a) allocation of construction costs to the reporting period in which the construction work is performed, and (b) the recognition of related expenses.

For the purposes of this Standard, construction contracts include: (a) Contracts for the rendering of services that are directly related to the construction of the asset, for example, those for the services of project managers and architects; and (b) Contracts for the destruction or restoration of assets, and the restoration of the environment following the demolition of assets. The standard applies to contractors that prepare and present financial statements under the accrual basis of accounting shall apply this Standard in accounting for construction contracts. The Standard applies to all public sector entities other than Government Business Enterprises.

3.6.1 SIGNIFICANT DEFINITIONS

Construction contract:

This a 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.

Cost plus or cost-based contract

This 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.

Fixed price contract:

This 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.

3.6.2 Combining and Segmenting Construction Contracts

The requirements of this Standard are usually applied separately to each construction contract. However, in certain circumstances, it is necessary to apply the Standard to the separately identifiable components of a single contract, or to a group of contracts together, in order to reflect the substance

of a contract or a group of contracts. Paragraphs 13 to 15 of the standard identify the accounting treatments under various possible circumstances.

A contract covering a number of assets

When a contract covers a number of assets the construction of each asset shall be treated as a separate construction contract when:

(a) Separate proposals have been submitted for each asset;

(b) Each asset has been subject to separate negotiation, and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and

(c) The costs and revenues of each asset can be identified.

A group of contracts whether with a single or Several customers

When there is a group of contracts with a single customer or several customers it shall be treated as a single construction contract when:

(a) The group of contracts is negotiated as a single package;

(b) The contracts are so closely interrelated that they are, in effect, part of a single project with an overall margin, if any; and

(c) The contracts are performed concurrently or in a continuous sequence.

Contract with provision for the construction of an additional asset

The construction of the additional asset shall be treated as a separate construction contract when:

(a) The asset differs significantly in design, technology, or function from the asset or assets covered by the original contract; or

(b) The price of the asset is negotiated without regard to the original contract price.

3.6.3 Contract Revenue

Paragraph 16 of the Standard provides that Contract revenue shall comprise:

(a) The initial amount of revenue agreed in the contract; and

(b) Variations in contract work, claims, and incentive payments tothe extent that:

  (i) It is probable that they will result in revenue; and

  (ii) They are capable of being reliably measured.

3.6.4 CONTRACT COSTS

Paragraph 23 of the standard provides that contract costs shall 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 relate directly to a specific contract:

Costs that relate directly to a specific contract include (para. 24):

(a) Site labor costs, including site supervision;

(b) Costs of materials used in construction;

(c) Depreciation of plant and equipment used on the contract;

(d) Costs of moving plant, equipment, and materials to and from the contract site;

(e) Costs of hiring plant and equipment;

(f) Costs of design and technical assistance that are directly related to the contract;

(g) The estimated costs of rectification and guarantee work, including expected warranty costs; and

(h) Claims from third parties.

Costs that may be attributable to contract activity in general

Costs that may be attributable to contract activity in general and can be allocated to specific contracts include:

(a) Insurance;

(b) Costs of design that are not directly related to a specific contract; and

(c) Construction overheads.

Such costs are allocated using methods that (a) are systematic and rational, and (b) are applied consistently to all costs having similar characteristics. The allocation is based on the normal level of construction activity.

Costs that cannot be attributed to contract activity

Under paragraph 28, 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 costs include:

(a) General administration costs for which reimbursement is not specified in the contract;

(b) Selling costs;

(c) Research and development costs 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.

3.5.5 Recognition of Contract Revenue and Expenses

IPSAS 11.30 provides that when the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract shall be recognized as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date. An expected deficit on a construction contract is to be recognized as an expense immediately.

3.6.6 FIXED PRICE CONTRACTS

The outcome of a construction whose price is fixed 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.

3.6.7 COST PLUS OR COST-BASED CONTRACT

In the case of a cost plus or cost-based contract, paragraph 32 asserted that the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:

(a) It is probable that the economic benefits or service potential associated with the contract will flow to the entity; and

(b) The contract costs attributable to the contract, whether or not specifically reimbursable, can be clearly identified and measured reliably.

3.6.8 PERCENTAGE OF COMPLETION METHOD

The recognition of revenue and expenses by reference to the stage of completion of a contract is often referred to as the percentage of completion method. Under this 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. This method provides useful information on the extent of contract activity and performance during a period.

Under the percentage of completion method, contract revenue is recognized as revenue in the statement of financial performance in the reporting periods in which the work is performed. Contract costs are usually recognized as an expense in the statement of financial performance in the reporting periods in which the work to which they relate is performed. However, where it is intended at inception of the contract that contract costs are to be fully recovered from the parties to the construction contract, any expected excess of total contract costs over total contract revenue for the contract is recognized as an expense immediately.

The stage of completion of a contract may be determined in a variety of ways. The entity uses the method that measures reliably the work performed. Depending on the nature of the contract, the methods may include:

(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.

Progress payments and advances received from customers often do not reflect the work performed. By paragraph 39, when the stage of completion is determined by reference to the contract costs incurred to date, only those contract costs that reflect work performed are included in costs incurred to date.

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

(a) Revenue shall be recognized only to the extent of contract costs incurred that it is probable will be recoverable; and

(b) Contract costs shall be recognized as an expense in the period in which they are incurred.

3.6.9 Changes in Estimates

The percentage of completion method is applied on a cumulative basis in each reporting period to the current estimates of contract revenue and contract costs. Therefore, the effect of a change in the estimate of contract revenue or contract costs, or the effect of a change in the estimate of the outcome of a contract, is accounted for as a change in accounting estimate (see IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors.) The changed estimates are used in the determination of the amount of revenue and expenses recognized in the statement of financial performance in the period in which the change is made and in subsequent periods.

3.6.10 Disclosure

Paragraph 50 of the Standard provides that an entity shall disclose:

(a) The amount of contract revenue recognized as revenue in the period;

(b) The methods used to determine the contract revenue recognized in the period; and

(c) The methods used to determine the stage of completion of contracts in progress.:

(d) The aggregate amount of costs incurred and recognized surpluses (less recognized deficits) to date;

(e) The amount of advances received; and

(f) The amount of retentions.

(g) The gross amount due from customers for contract work as an asset; and

(h) The gross amount due to customers for contract work as a liability.

3.6.11 COMPARISON WITH IAS 11

According to IPSAB (2014), IPSAS 11, Construction Contracts is drawn primarily from IAS 11, Construction Contracts. The main differences between IPSAS 11 and IAS 11 are as follows:

1 Commentary additional to that in IAS 11 has been included in IPSAS 11 to clarify the applicability of the standards to accounting by public sector entities.

2 IPSAS 11 uses different terminology, in certain instances, from IAS 11. The most significant examples are the use of the terms "revenue," and "statement of financial performance" in IPSAS 11. The equivalent terms in IAS 11 are "income," and "income statement."

3. IPSAS 11 includes binding arrangements that do not take the form of a legal contract within the scope of the Standard.

4. IPSAS 11 includes cost-based and non-commercial contracts within the scope of the Standard.

5. IPSAS 11 makes it clear that the requirement to recognize an expected deficit on a contract immediately it becomes probable that contract costs will exceed total contract revenues applies only to contracts in which it is intended at inception of the contract that contract costs are to be fully recovered from the parties to that contract.

6. IPSAS 11 includes additional examples to illustrate the application of the Standard to non-commercial construction contracts.

Self-Assessment Exercise

1 State the items that are required to be disclosed for construction contracts.

4.0 SUMMARY

This unit discussed IPSAS 6 to 11. It discussed the IPSAS provisions for;

the preparation of consolidated and separate financial statements,

the accounting treatment of Investments in associates,

the accounting treatment of interests in joint ventures,

the revenue from exchange transactions,

the provisions of IPSAS on financial reporting in hyperinflationary economies and construction contracts.

5.0 CONCLUSION

In this unit, you were taught IPSAS 6 – 11. We will look at more IPSAS provisions in the next unit.

6.0 TUTOR MARKED ASSIGNMENT

1. How do you determine whether Control Exists for Financial Reporting Purposes?
2. What are the disclosures to be made in consolidated financial statements when accounting for Controlled Entities.
3. What are the indicators of hyperinflation for financial reporting purposes? IPSAS 8— Interests in joint ventures

7.0 **REFERENCES/ FURTHER READING**

ICAN (2014). Public sector accounting and finance, Lagos: ICAN

IPSASB (2016) Handbook of International Public Sector Accounting Pronouncements 2016 Edition Volume II, New York: IFAC

IPSASB (2014) Handbook of International Public Sector Accounting Pronouncements 2016 Edition Volume I, New York: IFAC

Ogiedu, K.O. (2016) *Lecture notes on Public Sector Accounting and Finance*, Benin City, Unpublished

Omolehinwa, E.O., & Naiyeju, J.K. (2015) *Government Accounting in Nigeria: An IPSAS approach*, Lagos: Pumark (Educational Publishers).

UNIT 4 INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS) 12 TO 17

CONTENT

1.0 INTRODUCTION

In this unit, you will be introduced to IPSAS 12, 13, 14, 15, 16, and 17 which deal with inventories, leases, investments as well as property, plant and equipment.

2.0 OBJECTIVES

After studying this unit, you should be able to:

1 Calculate the cost different types of inventories
2 Carry out a classification of leases and account for them in financial statements

3 Report events after the reporting date

4 Present and disclose financial instruments in financial statements

5 Account for investment property

6 Account for property, plant, and equipment

3.0 MAIN CONTENT

3.1 IPSAS 12—INVENTORIES

The Standard prescribes the accounting treatment for inventories. A primary issue in accounting for inventories is the amount of cost to be recognized as an asset and carried forward until the related revenues are recognized. This Standard provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

The Standard applies to all entities that prepare and present financial statements under the accrual basis of accounting with the following exceptions:

(a) Work-in-progress arising under construction contracts, including directly related service contracts (see IPSAS 11, Construction Contracts);

(b) Financial instruments (see IPSAS 28, Financial Instruments: Presentation and IPSAS 29, Financial Instruments: Recognition and Measurement);

(c) Biological assets related to agricultural activity and agricultural produce at the point of harvest (see IPSAS 27, Agriculture); and(d) Work-in-progress of services to be provided for no or nominal consideration directly in return from the recipients.

3.1.1 MEANING OF INVENTORIES

IPSAS 12.9 provides that Inventories are assets which are;

(a) In the form of materials or supplies to be consumed in the production process;

(b) In the form of materials or supplies to be consumed or distributed in the rendering of services;

(c) Held for sale or distribution in the ordinary course of operations; or

(d) In the process of production for sale or distribution.

IPSAS 12.12 provides that Inventories in the public sector may include:

(a) Ammunition;

(b) Consumable stores;

(c) Maintenance materials;

(d) Spare parts for plant and equipment, other than those dealt with in standards on Property, Plant and Equipment;

(e) Strategic stockpiles (for example, energy reserves);

(f) Stocks of unissued currency;

(g) Postal service supplies held for sale (for example, stamps);

(h) Work-in-progress, including:

  (i) Educational/training course materials; and

  (ii) Client services (for example, auditing services), where those services are sold at arm’s length prices; and

(i) Land/property held for sale.

3.1.2 COSTS EXCLUDED FROM THE COST OF INVENTORIES

Under IPSAS 12.25, costs excluded from the cost of inventories and recognized as expenses in the period in which they are incurred are:

(a) Abnormal amounts of wasted materials, labour, or other production costs;

(b) Storage costs, unless those costs are necessary in the production process before a further production stage;

(c) Administrative overheads that do not contribute to bringing inventories to their present location and condition; and

(d) Selling costs.

3.1.3 MEASUREMENT OF INVENTORIES

Inventories should be measured at the lower of cost and net realizable value, except where IPSAS 12.12 applies. 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;

(b) Consumption in the production process of goods to be distributed at no charge or for a nominal charge in line with IPSAS 12.17.

Note that 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 (IPSAS 12.18).

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.

Trade discounts, rebates and other similar items are deducted in determining the costs of purchase;

The costs of conversion of inventories in accordance with IPSAS 12.20 include full production-related costs.

3.1.4 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.

3.1.5 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 recognized as expenses in the period in which they are incurred.

3.1.6 COST FORMULA

Flowing from the various provisions of the Standard, the formula for arriving at the costs of conversion of inventories is:

Costs of conversion = Direct costs + fixed production overheads + variable production overheads + other costs

Under IPSAS 12.28, an entity should use the same cost formula for all inventories having similar nature and use to the entity. For inventories with different nature or use, different cost formulas may be justified. A difference in geographical location of inventories (and in respective tax rules), by itself, is not sufficient to justify the use of different cost formulas.

The cost of inventories, other than those dealt with in IPSAS 12.25, 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 formula make for the cost of each item determined by adding the purchase cost of a given item at the beginning of a period to the purchase cost of the item at the end of a given period and divide by two to give a weighted average cost. However, such average can be calculated on periodic basis, or as each additional shipment is received, depending upon the circumstances of the entity.

3.1.7 DISCLOSURE

Under IPSAS 12.47, the financial statements shall 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 costs to sell;

(d) The amount of inventories recognized as an expense during the period;

(e) The amount of any write-down of inventories recognized as an expense in the period in accordance with paragraph 42;

(f) The amount of any reversal of any write-down that is recognized in the statement of financial performance in the period in accordance with paragraph 42;

(g) The circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph 42; and

(h) The carrying amount of inventories pledged as security for liabilities.

3.1.8 COMPARISON WITH IAS 2

According to IPSAB (2014), IPSAS 12, Inventories is drawn primarily from IAS 2, Inventories (revised 2003).The main differences between IPSAS 12 and IAS 2 are as follows:

1. IPSAS 12 uses a different definition from IAS 2; the difference recognizes that in the public sector some inventories are distributed at no charge or fora nominal charge.
2. IPSAS 12 clarifies that work-in-progress of services that are to be distributed for no or nominal consideration directly in return from the recipients is excluded from the scope of the Standard.
3. A definition of current replacement cost, which is additional to the definitions in IAS 2, has been included in IPSAS 12.
4 IPSAS 12 requires that where inventories are acquired through a non-exchange transaction, their cost is their fair value as at the date of acquisition.
5 IPSAS 12 requires that where inventories are provided at no charge or for a nominal charge, they are to be valued at the lower of cost and current replacement cost.
6. Commentary additional to that in IAS 2 has been included in IPSAS 12 to clarify the applicability of the standards to accounting by public sector entities.
7 IPSAS 12 uses different terminology, in certain instances, from IAS 2. The most significant example is the use of the terms "statement of financial performance" in IPSAS 12. The equivalent term in IAS 2 is "income statement."
8 IPSAS 12 does not use the term "income," which in IAS 2 has a broader meaning than the term "revenue."

3.2 IPSAS 13—LEASES

IPSAS 13 prescribes for lessees and lessors, the appropriate accounting policies and disclosures to apply in relation to finance and operating leases. The Standard applies to all entities that prepares and presents financial statements under the accrual basis of accounting. The Standard, however, excludes:

(a) Leases to explore for or use minerals, oil, natural gas, and similar non-regenerative resources;

(b) Licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents, and copyrights.

(c) Property held by lessees that is accounted for as investment property (see IPSAS 16, Investment Property);

(d) Investment property provided by lessors under operating leases(see IPSAS 16);

(e) Biological assets held by lessees under finance leases (see IPSAS 27, Agriculture);

(f) Biological assets provided by lessors under operating leases (see IPSAS 27).

3.2.1 SIGNIFICANT DEFINITIONS

The following terms: are used in this Standard with the meanings specified:

The commencement of the lease

The date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (i.e., the recognition of the assets, liabilities, revenue, or expenses resulting from the lease, as appropriate).

Contingent rent

This refers to that portion of the lease payments that is not fixed in amount, but is based on the future amount of a factor that changes other than with the passage of time (e.g., percentage of future sales, amount of future use, future price indices, future market rates of interest).

Economic life:

This is either:

(a) The period over which an asset is expected to yield economic benefits or service potential to one or more users; or

(b) The number of production or similar units expected to be obtained from the asset by one or more users.

A finance lease:

This is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

Gross investment in the lease:

This is the aggregate of:

(a) The minimum lease payments receivable by the lessor under a finance lease; and

(b) Any unguaranteed residual value accruing to the lessor.

Guaranteed residual value:

This is defined as:

(a) For a lessee, that part of the residual value that is guaranteed by the lessee or by a party related to the lessee (the amount of the guarantee being the maximum amount that could, in any event, become payable); and

(b) For a lessor, that part of the residual value that is guaranteed by the lessee, or by a third party unrelated to the lessor, that is financially capable of discharging the obligations under the guarantee.

The inception of the lease:

This is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date:

(a) A lease is classified as either an operating or a finance lease; and

(b) In the case of a finance lease, the amounts to be recognized at the commencement of the lease term are determined.

The interest rate implicit in the lease:

This is the discount rate that, at the inception of the lease, causes the aggregate present value of:

(a) The minimum lease payments; and

(b) The unguaranteed residual value to be equal to the sum of; (i) the fair value of the leased asset, and (ii)any initial direct costs of the lessor.

A lease:

This is an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time.

The lease term

This is the non-cancellable period for which the lessee has contracted to lease the asset, together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

The lessee’s incremental borrowing rate of interest

This is the rate of interest the lessee would have to pay on a similar lease or, if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset.

Minimum lease payments

These are the payments over the lease term that the lessee is, or can be, required to make, excluding contingent rent, costs for services and, where appropriate, taxes to be paid by and reimbursed to the lessor, together with:

(a) For a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or

(b) For a lessor, any residual value guaranteed to the lessor by:

(i) The lessee;

(ii) A party related to the lessee; or

(iii) An independent third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

Net investment in the lease

This is the gross investment in the lease discounted at the interest rate implicit in the lease.

A non-cancellable lease:

This is a lease that is cancellable only:

(a) Upon the occurrence of some remote contingency;

(b) With the permission of the lessor;

(c) If the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or

(d) Upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.

Operating lease:

This is a lease other than a finance lease.

Unearned finance revenue:

This is the difference between:

(a) The gross investment in the lease; and

(b) The net investment in the lease.

Unguaranteed residual value:

This is that portion of the residual value of the leased asset, the realization of which by the lessor is not assured or is guaranteed solely by a party related to the lessor.

Useful life:

This is the estimated remaining period, from the commencement of the lease term, without limitation by the lease term, over which the economic benefits or service potential embodied in the asset are expected to be consumed by the entity.

3.2.2 CLASSIFICATION OF LEASES

The classification of leases adopted in the Standard is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. There are two types of lease: Finance lease and operating lease. Under IPSAS 13.13, a lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. On the other hand, a lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

3.2.3 CHARACTERISTICS OF A FINANCE LEASE

Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The following are examples of situations that individually or in combination that normally lead to a lease being classified as a finance lease:

(a) The lease transfers ownership of the asset to the lessee by the end of the lease term;

(b) The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;

(c) The lease term is for the major part of the economic life of the asset, even if title is not transferred;

(d) At the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset;

(e) The leased assets are of such a specialized nature that only the lessee can use them without major modifications;

(f) The leased assets cannot easily be replaced by another asset.

(g) If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;

(h) Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example in the form of a rent rebate equaling most of the sales proceeds at the end of the lease); and

(i) The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

3.2.4 LEASES AND OTHER CONTRACTS

According to IPSAS 13.25, a contract may consist solely of an agreement to lease an asset. However, a lease may also be one element in a broader set of agreements with private sector entities to construct, own, operate, and/or transfer assets. Public sector entities often enter into such agreements, particularly in relation to long-lived physical assets and infrastructure assets. Other agreements may involve a public sector entity leasing infrastructure from the private sector. The entity determines whether the arrangement is a service concession arrangement, as defined in IPSAS 32, Service Concession Arrangements: Grantor.

3.2.5 LEASES IN THE FINANCIAL STATEMENTS OF LESSEES

Finance Leases

IPSAS 13.40prescribes that Lessees shall disclose the following for finance leases:

(a) For each class of asset, the net carrying amount at the reporting date;

(b) A reconciliation between the total of future minimum lease payments at the reporting date, and their present value;

(c) In addition, an entity shall disclose the total of future minimum lease payments at the reporting date, and their present value, for each of the following periods:

  (i) Not later than one year;

  (ii) Later than one year and not later than five years; and

  (iii) Later than five years;

(d) Contingent rents recognized as an expense in the period;

(e) The total of future minimum sublease payments expected to be received under non-cancellable subleases at the reporting date; and

(f) A general description of the lessee's material leasing arrangements including, but not limited to, the following:

  (i) The basis on which contingent rent payable is determined;

  (ii) The existence and terms of renewal or purchase options and escalation clauses; and

  (iii) Restrictions imposed by lease arrangements, such as those concerning return of surplus, return of capital contributions, dividends or similar distributions, additional debt, and further leasing.

Operating leases

Under IPSAS13.42, lease payments under an operating lease shall be recognized as an expense on a straight-line basis over the lease term, unless another systematic basis is representative of the time pattern of the user's benefit.

Under IPSAS 13.44, lessees shall disclose the following for operating leases:

(a) The total of future minimum lease payments under non-cancellable operating leases for each of the following periods:

  (i) Not later than one year;

  (ii) Later than one year and not later than five years; and

  (iii) Later than five years;

(b) The total of future minimum sublease payments expected to be received under non-cancelable subleases at the reporting date;

(c) Lease and sublease payments recognized as an expense in the period, with separate amounts for minimum lease payments, contingent rents, and sublease payments; and

(d) A general description of the lessee's significant leasing arrangements including, but not limited to, the following:

    (i) The basis on which contingent rent payments are determined;

    (ii) The existence and terms of renewal or purchase options and escalation clauses; and

    (iii) Restrictions imposed by lease arrangements, such as those concerning return of surplus, return of capital contributions, dividends or similar distributions, additional debt, and further leasing.

3.2.6 LEASES IN THE FINANCIAL STATEMENTS OF LESSORS

Finance Leases

Under IPSAS 13.48, Lessors shall recognize lease payments receivable under a finance lease as assets in their statements of financial position. They shall present such assets as a receivable at an amount equal to the net investment in the lease. Paragraph 51 added that the recognition of finance revenue shall be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

Under IPSAS 13.60, Lessors are required to disclose the following for finance leases:

(a) A reconciliation between the total gross investment in the lease at the reporting date, and the present value of minimum lease payments receivable at the reporting date. In addition, an entity shall disclose the gross investment in the lease and the present value of minimum lease payments receivable at the reporting date, for each of the following periods:

    (i) Not later than one year;

    (ii) Later than one year and not later than five years; and

    (iii) Later than five years;

(b) Unearned finance revenue;

(c) The unguaranteed residual values accruing to the benefit of the lessor;

(d) The accumulated allowance for uncollectible minimum lease payments receivable;

(e) Contingent rents recognized in the statement of financial performance; and

(f) A general description of the lessor's material leasing arrangements.

Operating Leases

Under IPSAS13.62. Lessors shall present assets subject to operating leases in their statements of financial position according to the nature of the asset. Lease revenue from operating leases is recognized as revenue on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefits derived from the leased asset is diminished.

Initial direct costs incurred by lessors in negotiating and arranging an operating lease shall be added to the carrying amount of the leased asset, and recognized as an expense over the lease term on the same basis as the lease revenue (para.65). The depreciation policy for depreciable leased assets shall be consistent with the lessor's normal depreciation policy for similar assets, and depreciation shall be calculated in accordance with IPSAS 17 or IPSAS 31.

Paragraph 69 prescribes that Lessors should disclose the following for operating leases:

(a) The future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following periods:
   (i) Not later than one year;
   (ii) Later than one year and not later than five years; and
   (iii) Later than five years;

(b) Total contingent rents recognized in the statement of financial performance in the period; and

(c) A general description of the lessor's leasing arrangements.

3.2.7 Sales and Leaseback Transactions

The Standard provides that if a sale and leaseback transactions results in finance lease, any excess of sales proceeds over the carrying amount shall not be immediately recognized as revenue by a seller-lessee. Instead, it shall be deferred and amortised over the lease term. If a sale and leaseback transaction result in a finance lease and it is clear that the transaction is established at fair value, any gain or loss shall be recognized 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.

Self-Assessment Exercise

1 What the characteristics of a finance lease?.

3.2.8 COMPARISON WITH IAS 17

According to IPSAB (2014),, IPSAS 13, Leases is drawn primarily from IAS 17, Leases and includes amendments made to IAS 17 as part of the Improvements to IFRSs issued in April2009. The main differences between IPSAS 13 and IAS 17 are as follows:

1. Commentary additional to that in IAS 17 has been included in IPSAS 13 to clarify the applicability of the standards to accounting by public sector entities.
2. IPSAS 13 uses different terminology, in certain instances, from IAS 17. The most significant example is the use of the term "statement of financial performance" in IPSAS 13. The equivalent term in IAS 17 is "income statement."
3. IPSAS 13 does not use the term "income," which in IAS 17 has a broader meaning than the term "revenue."
4. IAS 17 includes a definition of "fair value" in its set of definitions of technical terms. IPSAS 13 does not include this definition, as it is included in the Glossary of Defined Terms, published separately (paragraph 7).

5 IPSAS 13 has additional implementation guidance that illustrates the classification of a lease, the treatment of a finance lease by a lessee, the treatment of a finance lease by a lessor, and the calculation of the interest rate implicit in a finance lease.

3.3 IPSAS 14—EVENTS AFTER THE REPORTING DATE

The standard prescribes generally the treatment of events after the reporting date. Specifically, it prescribes:

(a) When an entity should adjust its financial statements for events after the reporting date; and

(b) The disclosures that an entity should give about the date when the financial statements were authorized for issue, and about events after the reporting date.

The Standard also requires that an entity should not prepare its financial statements on a going concern basis if events after the reporting date indicate that the going concern assumption is not appropriate.

3.3.1 EVENTS AFTER THE REPORTING DATE

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorized for issue. Two types of events can be identified:

(a) Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and

(b) Those are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

3.3.2 ADJUSTING EVENTS AFTER THE REPORTING DATE

Under IPSAS 14.10, an entity shall adjust the amounts recognized in its financial statements to reflect adjusting events after the reporting date. Paragraph 11 states that the following are examples of adjusting events after the reporting date that require an entity to adjust the amounts recognized in its financial statements, or to recognize items that were not previously recognized:

(a) The settlement after the reporting date of a court case that confirms that the entity had a present obligation at the reporting date.

(b) 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. For example:

    (i) The bankruptcy of a debtor that occurs after the reporting date usually confirms 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

    (ii) The sale of inventories after the reporting date may give evidence about their net realizable value at the reporting date;

(c) The determination after the reporting date of the cost of assets purchased, or the proceeds from assets sold, before the reporting date;

(d) The determination after the reporting date of the amount of revenue collected during the reporting period to be shared with another government under a revenue-sharing agreement in place during the reporting period;

(e) The determination after the reporting date of performance bonus payments to be made to staff if the entity had a present legal or constructive obligation at the reporting date to make such payments as a result of events before that date; and

(f) The discovery of fraud or errors that show that the financial statements were incorrect.

3.3.3 NON-ADJUSTING EVENTS AFTER THE REPORTING DATE

Under IPSAS 14.13, the following are examples of non-adjusting events after the reporting date:

(a) Where an entity has adopted a policy of regularly revaluing property to fair value, a decline in the fair value of property between the reporting date and the date when the financial statements are authorized for issue.

(b) Where an entity charged with operating particular community service programs decides after the reporting date, but before the financial statements are authorized, to provide/distribute additional benefits directly or indirectly to participants in those programs

3.3.4 DIVIDENDS OR SIMILAR DISTRIBUTIONS

If an entity declares dividends or similar distributions after the reporting date, the entity shall not recognize those distributions as a liability at the reporting date(para.14).

3.3.5 DISCLOSURE OF NON-ADJUSTING EVENTS AFTER THE REPORTING DATE

If non-adjusting events after the reporting date are material, non-disclosure could influence the economic decisions of users taken on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting date:

(a) The nature of the event; and

(b) An estimate of its financial effect, or a statement that such an estimate cannot be made.

3.3.6 NON-ADJUSTING EVENT REQUIRING DISCLOSURE

The following are examples of non-adjusting events after the reporting date that would generally result in disclosure:

(a) 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 the reporting date;

(b) The entity decides after the 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;

(c) 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;

(d) Announcing a plan to discontinue an operation or major program, disposing of assets, or settling liabilities attributable to a discontinued operation or major program, or entering into binding agreements to sell such assets or settle such liabilities (guidance on the treatment and disclosure of discontinued operations can be found in the relevant international or national accounting standard dealing with discontinued operations);

(e) Major purchases and disposals of assets;

(f) The destruction of a major building by a fire after the reporting date;

(g) Announcing, or commencing the implementation of, a major restructuring (see IPSAS 19);

(h) The introduction of legislation to forgive loans made to entities or individuals as part of a program;

(i) Abnormally large changes after the reporting date in asset prices or foreign exchange rates;

(j) In the case of entities that are liable for income tax or income tax equivalents, changes in tax rates or tax laws enacted or announced after the reporting date that have a significant effect on current and deferred tax assets and liabilities (guidance on accounting for income taxes can be found in the relevant international or national accounting standard dealing with income taxes);

(k) Entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees after the reporting date; and

(l) Commencing major litigation arising solely out of events that occurred after the reporting date.

3.3.7COMPARISON WITH IAS 10

According to IPSASB 2014), IPSAS 14, Events After the Reporting Date is drawn primarily from IAS 10(revised 2003), Events after the Balance Sheet Date and includes an amendment made to IAS 10 as part of the Improvements to IFRSs issued in May 2008. The main differences between IPSAS 14 and IAS 10 are as follows:

1. IPSAS 14 notes that where the going concern assumption is no longer appropriate, judgment is required in determining the impact of this change on the carrying value of assets and liabilities recognized in the financial statements (paragraph 22).
2 IPSAS 14 contains additional commentary on determining the date of authorization for issue (paragraphs 6, 7, and 8).
3. Commentary additional to that in IAS 10 has been included in IPSAS 14 to clarify the applicability of the standards to accounting by public sector entities.
4. IPSAS 14 uses different terminology, in certain instances, from IAS 10. The most significant examples are the use of the terms "net assets/equity," and "reporting date" in IPSAS 14. The equivalent terms in IAS 10 are "equity," and "balance sheet date."
5. IPSAS 14 does not use the term "income," which in IAS 10 has a broader meaning than the term "revenue."
6. IPSAS 14 contains a definition of "reporting date," IAS 10 does not contain a definition of "balance sheet date."

Self-Assessment Exercise

1. Compare IPSAS 14 with IAS10.

3.4 IPSAS 15 FINANCIAL INSTRUMENTS: DISCLOSURE AND PRESENTATION

According to IPSASB (2014), IPSAS 15 has been superseded by IPSAS 28, Financial Instruments: Presentation; IPSAS 29, Financial Instruments: Recognition and Measurement; and IPSAS 30, Financial Instruments: Disclosures. These Standards apply for annual financial statements covering periods beginning on or after January 1, 2013. As a result, IPSAS 15 is no longer applicable and has been withdrawn.

3.5 IPSAS 16—INVESTMENT PROPERTY

This Standard prescribes the accounting treatment for investment property and related disclosure requirements. This Standard applies to accounting for investment property, including (a) the measurement in a lessee's financial statements of investment property interests held under a lease accounted for as a finance lease, and to (b) the measurement in a lessor's financial statements of investment property provided to a lessee under an operating lease. This Standard does not, however, deals with matters covered in IPSAS 13, *Leases*, including:

(a) Classification of leases as finance leases or operating leases;
(b) Recognition of lease revenue from investment property (see also IPSAS 9, *Revenue from Exchange Transactions*);

(c) Measurement in a lessee's financial statements of property interests held under a lease accounted for as an operating lease;

(d) Measurement in a lessor's financial statements of its net investment in a finance lease;

(e) Accounting for sale and leaseback transactions; and

(f) Disclosure about finance leases and operating leases.

(g) Biological assets related to agricultural activity (see IPSAS 27, *Agriculture*); and

(h) Mineral rights and mineral reserves such as oil, natural gas, and similar non-regenerative resources.

3.5.1 SIGNIFICANT DEFINITIONS

Carrying amount: This is the amount at which an asset is recognized in the statement of financial position.

Cost:

This is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction.

Investment property is property:

This is land or a 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 or supply of goods or services, or for administrative purposes; or

(b) Sale in the ordinary course of operations.

Owner-occupied property:

This is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services, or for administrative purposes.

3.5.2 EXAMPLES OF INVESTMENT PROPERTY:

(a) Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations. For example, land held by a hospital for capital appreciation that may be sold at a beneficial time in the future.

(b) Land held for a currently undetermined future use. (If an entity has not determined that it will use the land as owner-occupied property, including occupation to provide services such as those provided by national parks to current and future generations, or for short-term sale in the ordinary course of operations, the land is regarded as held for capital appreciation).

(c) A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases on commercial basis. For example, a university may own a building that it leases on a commercial basis to external parties.

(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.

3.5.3 EXAMPLES OF ITEMS THAT ARE NOT INVESTMENT PROPERTY

(a) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale (see IPSAS 12, *Inventories*).

(b) Property being constructed or developed on behalf of third parties. For example, a property and service department may enter into construction contracts with entities external to its government (see IPSAS 11, *Construction Contracts*).

(c) Owner-occupied property (see IPSAS 17), including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner occupied property, property occupied by employees such as housing for military personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal.

(d) Property that is leased to another entity under a finance lease.

(e) Property held to provide a social service and which also generates cash inflows. For example, a housing department may hold a large housing stock used to provide housing to low income families at below market rental.

(f) Property held for strategic purposes which would be accounted for in accordance with IPSAS 17.

3.5.4 RECOGNITION

Under IPSAS 16.20, Investment property is recognized as an asset when, and only when:

(a) It is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity; and

(b) The cost or fair value of the investment property can be measured reliably.

3.5.5 Measurement at Recognition

Under IPSAS 16.26, Investment property is measured initially at its cost (transaction costs shall be included in this initial measurement).Where an investment property is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition (para.27).

3.5.6 Measurement After Recognised of Investment Property

Measurement of recognized assets is carried out using any of these two applicable methods:

(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 cost less any accumulated depreciation and any accumulated impairment losses.

3.5.7 TRANSFERS

Under IPSAS 16.66, Transfers to or from investment property shall be made when, and only when, there is a change in use, evidenced by:

(a) Commencement of owner-occupation, for a transfer from investment property to owner- occupied property;

(b) Commencement of development with a view to sale, for a transfer from investment property to inventories;

(c) End of owner-occupation, for a transfer from owner-occupied property to investment property; or

(d) Commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property.

3.5.8 Fair Value Model

Under the Fair Value, an entity reports 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.

3.5.9 DISPOSALS

Paragraph 77 of the Standard stipulates that an investment property shall be derecognized (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

3.5.10 DISCLOSURE : Fair value and cost model

IPSAS 16.86 requires the following disclosures in addition to the disclosures to those in IPSAS 13:

(a) Whether it applies the fair value or the cost model;

(b) If it applies the fair value model, whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property;

(c) When classification is difficult (see paragraph 18), the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations;

(d) The methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence, or was more heavily based on other factors (which the entity shall disclose) because of the nature of the property and lack of comparable market data;

(e) The extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed;

3.5.11 DISCLOSURE : FAIR VALUE MODEL

IPSAS 16.87 requires that in addition to the disclosures required by paragraph 86, an entity that applies the fair value model in paragraphs 42–64 shall disclose a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following:

(a) Additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognized in the carrying amount of an asset;

(b) Additions resulting from acquisitions through entity combinations;

(c) Disposals;

(d) Net gains or losses from fair value adjustments;

(e) The net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;

(f) Transfers to and from inventories and owner-occupied property; and

(g) Other changes.

3.5.12 DISCLOSURE: COST MODEL

Paragraph 90 requires that in addition to the disclosures required by paragraph 86, an entity that applies the cost model in paragraph 65 shall disclose:

(a) The depreciation methods used;

(b) The useful lives or the depreciation rates used;

(c) The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;

(d) The reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:

- (i) Additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognized as an asset;
- (ii) Additions resulting from acquisitions through entity combinations;
- (iii) Disposals;
- (iv) Depreciation;
- (v) The amount of impairment losses recognized, and the amount of impairment losses reversed, during the period in accordance with IPSAS 21 or IPSAS 26, as appropriate;

(vi) The net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;

(vii) Transfers to and from inventories and owner-occupied property; and

(viii) Other changes; and

(e) The fair value of investment property. In the exceptional cases described in paragraph 62, when an entity cannot determine the fair value of the investment property reliably, the entity shall disclose:

(i) A description of the investment property;

(ii) An explanation of why fair value cannot be determined reliably; and

(iii) If possible, the range of estimates within which fair value is highly likely to lie.

3.5.13 COMPARISON WITH IAS 40

According to IPSASB (2014), IPSAS 16 is drawn primarily from IAS 40 (2003), Investment Property and includes amendments made to IAS 40 as part of the Improvements to IFRSs issued in May 2008.

The main differences between IPSAS 16 and IAS 40 are as follows:

1. IPSAS 16 requires that investment property initially be measured at cost and specifies that where an asset is acquired for no cost or for a nominal cost, its cost is its fair value as at the date of acquisition. IAS 40 requires investment property to be initially measured at cost.
2. There is additional commentary to make clear that IPSAS 16 does not apply to property held to deliver a social service that also generates cash inflows. Such property is accounted for in accordance with IPSAS 17, Property, Plant, and Equipment.
3. IPSAS 16 contains transitional provisions for both the first time adoption and changeover from the previous version of IPSAS 16. IAS 40 only contains transitional provisions for entities that have already used IFRSs. IFRS 1 deals with first time adoption of IFRSs. IPSAS 16 includes additional transitional provisions that specify that when an entity adopts the accrual basis of accounting for the first time and recognizes investment property that was previously unrecognized, the adjustment should be reported in the opening balance of accumulated surpluses or deficits.

4 Commentary additional to that in IAS 40 has been included in IPSAS 16 to clarify the applicability of the standards to accounting by public sector entities.

5 IPSAS 16 uses different terminology, in certain instances, from IAS 40. The most significant example is the use of the term "statement of financial performance" in IPSAS 16. The equivalent term in IAS 40 is "income statement."

6. IPSAS 16 does not use the term "income," which in IAS 40 has a broader meaning than the term "revenue."

3.6 IPSAS 17—PROPERTY, PLANT, AND EQUIPMENT

The Standard prescribes 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 changes in such investment. The principal issues in accounting for property, plant, and equipment are (a) the recognition of the assets, (b) the determination of their carrying amounts, and (c) the depreciation charges and impairment losses to be recognized in relation to them.

The Standard applies to all public sector entities except:

(a) When a different accounting treatment has been adopted in accordance with another IPSAS;

(b) In respect of heritage assets. However, the disclosure requirements of paragraphs 88, 89, and 92 apply to those heritage assets that are recognized.

(c) Government Business Enterprises

(d) Biological assets related to agricultural activity (see IPSAS 27, Agriculture); or

(e) 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).

3.6.1 HERITAGE ASSETS

Under paragraph 17.9, the Standard does not require an entity to recognize heritage assets that would otherwise meet the definition of, and recognition criteria for, property, plant, and equipment. If an entity does recognize heritage assets, it must apply the disclosure requirements of this Standard and may, but is not required to, apply the measurement requirements of this Standard.

Paragraph 10 of the Standard described some assets as heritage assets because of their cultural, environmental, or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art. Certain characteristics, including the following, are often displayed by heritage assets (although these characteristics are not exclusive to such assets):

(a) Their value in cultural, environmental, educational, and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;

(b) Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;

(c) They are often irreplaceable and their value may increase over time, even if their physical condition deteriorates; and

(d) It may be difficult to estimate their useful lives, which in some cases could be several hundred years.

Public sector entities may have large holdings of heritage assets that have been acquired over many years and by various means, including purchase, donation, bequest, and sequestration. These assets are rarely held for their ability to generate cash inflows, and there may be legal or social obstacles to using them for such purposes. Therefore, entities that recognize heritage assets are required to disclose in respect of those assets such matters as, for example:

(a) The measurement basis used;

(b) The depreciation method used, if any;

(c) The gross carrying amount;

(d) The accumulated depreciation at the end of the period, if any; and

(e) A reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof.

3.6.2 SIGNIFICANT DEFINITIONS

(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) Cost: is the amount of cash or cash equivalents paid and fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

(d) Depreciation: is the systematic allocation of the depreciable amount of an asset over its useful life.

(e) Depreciable Amount: is the cost of an asset, or other amount substituted for cost, less its residual value.

(f) Entity Specific Value: is the present value of the cash flows an entity expects to realise from the continuing use of an asset and from its disposal at the end of its useful life or expect to incur when setting a liability.

(g) Exchange Transactions: are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

(h) 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.

(i) An Impairment Loss: of a cash generation asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

(j) 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.

(k) 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.

(l) 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 during more than one reporting period.

(m) Recoverable Amount: is the higher of a cash-generating asset's fair value less costs to sell and its value in use.

(n) Recoverable Service Amount: is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

(o) 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. 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.

3.6.3 Measurement after Recognition

Paragraph 42 requires an entity to choose either the cost model in paragraph 43 or there valuation model in paragraph 44 as its accounting policy.

3.6.4 Cost Model

After recognition as an asset, an item of property, plant, and equipment shall is carried at its cost, less any accumulated depreciation and any accumulated impairment losses.

3.6.5 Revaluation Model

After recognition as an asset, an item of property, plant, and equipment whose fair value can be measured reliably is carried at a revalued amount, being its fair value at the date of the revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. The accounting treatment for revaluations is set out in paragraphs 54–56.

3.6.6 Depreciation

Paragraph 59 states that each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

3.6.7 Disclosure

Paragraph 88 of the Standard requires that the financial statements shall disclose, for each class of property, plant, and equipment recognized in the financial statements:

(a) The measurement bases used for determining the gross carrying amount;

(b) The depreciation methods used;

(c) The useful lives or the depreciation rates 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) Disposals;
- (iii) Acquisitions through entity combinations;
- (iv) Increases or decreases resulting from revaluations under paragraphs 44, 54, and 55 and from impairment losses (if any) recognized or reversed directly in net assets/equity in accordance with IPSAS 21 or IPSAS 26, as appropriate;
- (v) Impairment losses recognized 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 IPSAS 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 changes.

The financial statements shall also disclose for each class of property, plant, and equipment recognized in the financial statements:

(a) The existence and amounts of restrictions on title, and property, plant, and equipment pledged as securities for liabilities;

(b) The amount of expenditures recognized in the carrying amount of an item of property, plant, and equipment in the course of its 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 a class of property, plant, and equipment is stated at revalued 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 transactions 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 that class; and

(g) The sum of all revaluation deficits for individual items of property, plant, and equipment within that class.

3.6.8 COMPARISON WITH IAS 16

According to IPSASB(2014), IPSAS 17 is drawn primarily from IAS 16 (2003), Property, Plant and Equipment and includes amendments made to IAS 16 as part of the Improvements to IFRSs issued in May 2008. At the time of issuing this Standard, the IPSASB has not considered the applicability of IFRS 5, Non-current Assets Held for Sale and Discontinued Operations to public sector entities; therefore, IPSAS 17 does not reflect amendments made to IAS 16 consequent upon the issue of IFRS 5. The main differences between IPSAS 17 and IAS 16 (2003) are as follows:

1. IPSAS 17 does not require or prohibit the recognition of heritage assets.
2. IAS 16 requires items of property, plant, and equipment to be initially measured at cost. IPSAS 17 states that where an item is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date it is acquired. IAS 16 requires, where an enterprise adopts the valuation model and carries items of property, plant, and equipment at revalued amounts, the equivalent historical cost amounts to be disclosed. This requirement is not included in IPSAS 17.
3. Under IAS 16, revaluation increases and decreases may only be matched on an individual item basis. Under IPSAS 17, revaluation increases and decreases are offset on a class of asset basis.
4. IPSAS 17 contains transitional provisions for both the first time adoption and changeover from the previous version of IPSAS 17. IAS 16 only contains transitional provisions for entities that have already used IFRSs. Specifically, IPSAS 17 contains transitional provisions allowing entities to not recognize property, plant, and equipment for reporting periods beginning on a date within five years following the date of first adoption of accrual accounting in accordance with IPSASs. The transitional provisions also allow entities to recognize property, plant, and equipment at fair value on first adopting this Standard. IAS 16 does not include these transitional provisions.
5. IPSAS 17 contains definitions of “impairment loss of a non-cash-generating asset” and “recoverable service amount.” IAS 16 does not contain these definitions. Commentary additional to that in IAS 16 has been included in IPSAS 17 to clarify the applicability of the standards to accounting by public sector entities.
6. IPSAS 17 uses different terminology, in certain instances, from IAS 16. The most significant examples are the use of the terms “statement of financial performance,”

and “net assets/equity” in IPSAS 17. The equivalent terms in IAS 16 are “income statement” and “equity.”

7. IPSAS 17 does not use the term “income,” which in IAS 16 has a broader meaning than the term “revenue.”
8. IPSAS 17 contains Implementation Guidance on the frequency of revaluation of property, plant, and equipment. IAS 16 does not contain similar guidance.

4.0 SUMMARY

The unit discussed the essential provisions of IPSAS 12, 13, 14, 15, 16, and 17. The methods of computing different types of inventories were discussed. The unit also discussed the classification of leases and how to account for them in financial statements. The unit further discussed the reporting of events after the reporting date as well as the presentation of and disclosure of financial instruments in financial statements. Accounting for investment property and for property, plant, and equipment were also discussed.

5.0 CONCLUSION

In this unit, you have learnt about IPSAS 12, 13, 14, 15, 16 and 17. You are expected to find out about the remaining IPSAS by yourself.

6.0 TUTOR MARKED ASSIGNMENT

1 Give examples of costs that are excluded from inventories.

2 Identify the inventories that are included by IPSAS 12 in the public sector

3 List the items that should be disclosed by the lessees for an operating lease

7.0 REFERENCES/ FURTHER READING

ICAN (2014). Public sector accounting and finance, Lagos: ICAN

IPSASB (2016) Handbook of International Public Sector Accounting Pronouncements 2016 Edition Volume II, New York: IFAC

IPSASB (2014) Handbook of International Public Sector Accounting Pronouncements 2016 Edition Volume I, New York: IFAC

Ogiedu, K.O. (2016) *Lecture notes on public sector accounting and finance*, Benin City, Unpublished

Omolehinwa, E.O., & Naiyeju, J.K. (2015) *Government accounting in Nigeria: An IPSAS approach*, Lagos: Pumark (Educational Publishers).