ICAN PUBLIC SECTOR ACCOUNTING AND FINANCE
SKILLS LEVEL

TOPIC: REVIEW TOPICS FROM WEEK 1 – 12
ATTEMPT FIVE QUESTIONS IN ALL

END OF DIET MOCK EXAM QUESTIONS – MAY 2016

Kindly go through chapter 1 - 12 in the video lecture before you attempt the questions because the topics have been simplified and analyzed for easy understanding.

SECTION A       COMPULSORY QUESTION

SOLUTION TO QUESTION 1

(1a.) Yebaisa Internal Revenue Service Statement of Financial Performance (extracts) for the period ending 31 October 2013 and 2012 (under the Benchmark treatment)

<table>
<thead>
<tr>
<th></th>
<th>2013N’000</th>
<th>2012N’000 (Restated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from taxation wkg1</td>
<td>535,000</td>
<td>405,000</td>
</tr>
<tr>
<td></td>
<td>2013N’000</td>
<td>2012N’000 (Restated)</td>
</tr>
<tr>
<td>----------------</td>
<td>-----------</td>
<td>----------------------</td>
</tr>
<tr>
<td>User charges</td>
<td>40,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Other operating revenue</td>
<td>400,000</td>
<td>300,000</td>
</tr>
<tr>
<td>Total revenue</td>
<td>975,000</td>
<td>735,000</td>
</tr>
<tr>
<td>Expenses</td>
<td>(865,000)</td>
<td>(600,000)</td>
</tr>
<tr>
<td>Net Surplus</td>
<td>110,000</td>
<td>135,000</td>
</tr>
</tbody>
</table>

(b)  

<table>
<thead>
<tr>
<th></th>
<th>2013N’000</th>
<th>2012N’000 (Restated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening accumulated surpluses as previously reported</td>
<td>170,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Correction of fundamental error(N1)</td>
<td>65,000</td>
<td>---</td>
</tr>
<tr>
<td>Opening accumulated surpluses</td>
<td>235,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Net Surplus</td>
<td>110,000</td>
<td>135,000</td>
</tr>
<tr>
<td>Closing accumulated surpluses</td>
<td>345,000</td>
<td>235,000</td>
</tr>
</tbody>
</table>
Workings

(1) Revenue from Taxation

\[
\begin{align*}
\text{600,000} & \quad \text{340,000} \\
\text{Add: Income Taxes revenue for 2012} & \quad \text{-} & \quad \text{65,000} \\
\text{Less: Income Taxes revenue for 2013} & \quad \text{(65,000)} & \\
\hline \\
\text{535,000} & \quad \text{405,000}
\end{align*}
\]

(1b.) In the statement of financial position March 31

\[
\begin{align*}
\text{ Asset N(6,000,000 \times 2) = N3,000,000} \\
\text{Liabilities (to foreign supplies) = N3,000,000 (applying the functional currency – naira)}
\end{align*}
\]

On May 31, 2011, the liability, at closing exchange rate is $1.5 = N1 which amounted to N(6,000,000 \times 1.5) = N4,000,000

Exchange loss N(4,000,000 - 3,000,000) N1,000,000
Cost of asset (before depreciation) N3,000,000  

(1b)(ii) In the Statement of Financial Performance

   On April 30/11 Sale N(3,500,000  1.75) = N2,000,000

   On May 31/11 Amount N(3,500,000  1.5) = N2,333,333

   On May 31/11 Exchange gain N(2,333,333 – 2,000,000) N333,333

NB: IPSAS 4 does not specify where exchange gain or loss should be shown in the statement of financial performance.

(1c.) The following are the circumstances that may give rise to the separate disclosure of items of revenue and expenses in accordance to IPSAS 3(26):

(a) The write-down of inventories to net realizable value or property, plant and equipment to recoverable amount, as well as the reversal of such write-downs;
(b) A restructuring of the activities of an entity and the reversal of any provisions for the cost of restructuring;

(c) Disposals of items of property, plant and equipment;

(d) Privatizations or other disposals of long term investments;

(e) Discontinued operations;

(f) Litigations settlement; and

(g) Other reversals of provisions.

(1d.) The factors an entity will consider in determining its functional currency will include the followings:

(a) The currency:
   (i) that revenue is raised from, such as taxes, grants and fines;
   (ii) that mainly influences sales prices for goods and services. This is usually the currency in which sales prices for its goods and services are denominated and settled;
(iii) of the county whose competitive forces and regulations mainly determine the sales prices of its goods and services;

(1e) The factors that provide evidence of an entity’s functional currency will include;
(i) The currency in which funds from financing activities (i.e. issuing debt and equity instruments) are generated;
(ii) The currency in which receipts from operating activities are usually retained.

SECTION B: ATTEMPT ANY TWO QUESTIONS IN THIS SECTION
SOLUTION TO QUESTION 2
Accountability is an obligation to answer for the execution of one’s assigned responsibilities. It is the requirement to provide explanation
about the stewardship of public money and how this money has been used in accordance with the laws and regulation. It is an obligation to render a full account of one’s activities while in Government. It is aimed at ensuring that Government establishments are achieving desired results economically, effectively and efficiently.

**Probity** – are those qualities a leader or public office holder must possess if he is to properly render an account of his stewardship e.g honesty, trustworthy, prudence, meticulous, objectivity and competence.

(ii). Accountability comprises two distinct components:

(a) Rendering of accounts;

(b) Holding to account.

**RENDERING OF ACCOUNT** - It is by rendering of accounts that the information about the behaviour of a public organisation can be obtained. This means that without rendering of accounts, there can be no accountability.
HOLDING TO ACCOUNTS - This involves the exercise of judgment and power over public officials. Public accountability can be achieved only if those who receive the accounts have power and ability to take actions on the basis of those accounts.

(iii) CONDITIONS THAT FACILITATE THE PROMOTION OF PUBLIC ACCOUNTABILITY

In addition to the two conditions of rendering of accounts and holding to account, the following conditions will also facilitate the promotion of public accountability:

(a) Existence of democratic institutions that allow for changes in leadership through free and fair elections. The assumption that public accountability will be enhanced by a civilian government replacing a military government will remain a mirage as long as the leadership can always ‘dance’ to the legislators ‘tunes’ coupled with the ability to rig elections unabated. And as such, public accountability can never be enhanced.
(b) The existence of leadership that genuinely believes in and committed to the notion of public accountability and will therefore ensure that the laws to safeguard public fund are enforced irrespective of the might of the public officer concerned.

(c) Public accountability needs the presence of active investigative media that will help to keep the leadership on their toes.

(d) Public accountability will be enhanced if the generality of the populace do not believe that embezzlement of public funds is parts of the “political manifesto” which the political leaders must achieve while in office at the detriment of the original manifesto.

(e) Urgently address the issue of poverty through poverty reduction targeted government expenditures. The impoverished and unemployed persons that rely solely on political leaders for survival are more likely to view accountability of political leaders as ability to provide for their needs irrespective of the source of the money.
B. (i). FISCAL TRANSPARENCY - This is the aspect of accountability which requires government to carry out all aspects of budgeting responsibilities with openness, trust, basic values and ethical standards. So that it will have nothing to hide from public. Where a government has something to hide, public reporting is more likely to be infrequent, unreliable and less comprehensive in order to hide material facts.

(ii). CODE OF GOOD PRACTICES AND FISCAL TRANSPARENCY

(i) Clarity of Roles and Responsibilities
(ii) Open Budget Process
(iii) Public Availability Of Information:
(iv) Assurances Of Integrity
C.(i). MEASURES PUT IN PLACE TO ENHANCE PUBLIC ACCOUNTABILITY:

(a) The Fiscal Responsibility Act 2007
(b) The Public Procurement Act 2007
(c) The Freedom of Information Act 2011
(d) Nigeria Code of Conduct Bureau
(e) Independent Corrupt Practices and Other Related Offences Commission (ICPC)
(f) Economic and Financial Crime Commission (EFCC)
(g) Public Accounts Committee of the two Houses of the National Assembly
(h) Office of Auditor-General for the Federation and Office of Auditors-General in the States and Local Governments.
(j) Revenue and Inspectorate Departments of the Office of Accountant-General of the Federation.

(k) Office of Special Adviser on Project Monitoring in the Presidency

(ii). WHY THERE STILL EXISTS NO EFFECTIVE PUBLIC ACCOUNTABILITY IN NIGERIA

(a) Nigeria still ranked lowly in corruption perception index. The 2010 Transparency International Corruption Perception Index show that Nigeria ranked 134 out of 138 countries survey, scoring 2.4 out of 10.

(b) Nigeria still rated lowly for Budget Transparency International Budget Partnership. The 2010 Budget Index Scored Nigeria 18 out of 100 compared to Ghana and Liberia with 54 and 40 points respectively.

(c) The continuing existence of special government funds - The special government accounts include:

i 10% Cocoa Levy
ii 5 % Sugar Development Levy

iii 10% Rice Levy

iv 7% Port Levy v 2% Nat. Automotive Council Levy

vi ECOWAS Levy, etc

(d) There also exists special accounts with off-shoot from the Federation Account. They include:

- 1.68% FGN Development of Natural Resources
- 1% FGN share of Derivation and Ecology
- 0.5% FGN Stabilisation Account

These funds do not require appropriations from National Assembly and the government does not render account to the public for the funds.

(e) Non-provision of penalties for breaches of Fiscal Responsibility Act. Unless this particular area is addressed soon, the purpose of enacting the act may be defeated.
(f) Non-establishment of National Council on Public Procurement. Since the Public Procurement Act came into existence in 2007, the provision of the Act requires the establishment of National Council on Public Procurement which is to be headed by the Minister of Finance, has not been complied with. This is the council that the BPP is supposed to report persistent breached of the Procurement Act to

SOLUTION TO QUESTION 3

(a) The Paris Club of Creditors consists of nineteen creditor countries from which developing Nations have been borrowing to finance their socio-economic development. The Club came into existence informally in 1956. It is therefore an informal group. Membership is not permanent. The Club operates on the basis of concensus. Its members informally meet with debtor countries which could not meet their debt obligations for debt rescheduling.
Members of the club include United States of America, United Kingdom, France, Canada, Germany, Federal Republic of Germany. London Club of creditors on the other hand is made up of Commercial Banks all over the world, Multilateral Creditors like the World Bank, International Monetary Fund (IMF), African Development Bank (ADB) and European Investment Bank (EIB), Promissory Note Holders and other bilateral creditors.

(b) Reasons why Nigeria had to borrow from the Paris Club of Creditors include the following;

(i) Population explosion and increased urbanisation required greater care for people’s welfare and provision of infrastructural facilities in the cities and villages.

(ii) Need for industrial development required financing of assets whose benefits spread over several years.

(iii) Expansion of governmental activities requiring expanded facilities.
(iv) Need to finance self-liquidating projects which would benefit the masses.
(v) There was the need to finance budget deficit.
(vi) Need to provide social, state and health security as well as education.
(vii) It was necessary to achieve economic development and stabilisation.
(viii) Low level of national revenue as a result of the oil glut of the 80’s
(ix) Need to provide employment, improved living standard and general economic well being of the people.
(x) Need to avoid increased tax burden.
(xi) Need to meet emergency situations.

(c) Reproductive Debt is one which is fully covered or balanced by the possession of assets of equivalent value. Proceeds of this type of debt is deployed to investment projects. Income derived from the operation of projects is used to pay back the debt and interest thereon.
Deadweight Debt is one which does not have any corresponding assets. The principal sum and the interest on the debt are normally sourced from taxation. While reproductive debt does not create additional burden for the people, deadweight debt causes increased burden since additional tax has to be levied on the populace to repay the debt.

(d) As a potential Federal Minister of Finance the following advice will be offered to the President on ways and means to get out of a debt trap:

(i) Ensuring consistent balanced or surplus budgets.

(ii) Diversifying the economy. Stop relying on oil revenue only.

(iii) Reducing importation of non-essential items or placing embargo on new loans.

(v) Adopting any of the following debt management techniques;

- Debt Rescheduling
- Debt Equity Conversions
SOLUTION TO QUESTION 4

(a) Zero-Base Budgeting attempts to shift the traditional management of the Public Sector Budgeting process towards a new mode of thinking and operation. It is management process that provides for systematic consideration of all programmes and activities in conjunction with the formulation of budget and programme planning.

Zero-Base Budgeting usually involves the use of “decision packages” and involves the following:

(i) Breaking the whole budget into decision packages, based on the decision units where costs are attached to each activity, to alternative ways of dealing with the same activity and with an assessment of the effect of not performing it. Different levels of
performance between the minimum and the maximum are considered and optimal level selected.

(ii) Priority ranking of decision packages across the whole range of activities with each, new and old, competing with one another.

(iii) Determination of the “cut off point” to decide which packages can be included and which to be rejected.

(iv) Comparison of list of packages in order of priority to fill in with the resources available.

(b) The main features of Planning, Programming, and Budgeting Systems (PPBS), are:

(i) Definition of an organisation’s objectives in as much specific terms as possible.
(ii) Determination of programmes, including possible alternatives, to achieve the stated objectives.

(iii) Identification of major issues to be resolved in the formulation and/or development of programmes.

(iv) An annual cycle with appropriate sub-decisions for the planning, programming and budgeting steps to ensure an ordered approach and make appropriate time allocation for analysis and decision making at all levels of management.

(v) Continuous re-examination of programme results in relationship to anticipated costs and outcomes, to determine need for changes in stated programmes and objectives as originally established.

(vi) Analysis of programmes and their alternatives in terms of probable outcomes, and direct and indirect costs.

(vii) Adaptation of existing accounting and statistical reporting
systems to provide inputs into planning and programming, as well continuous flow of information on resources used and action taken to implement programmes.

(viii) Development, each year, of a multi-year programme and financial plan.

(ix) Recognition of issues and other problems that require more time than available in an annual cycle so that they can be explicitly identified and set apart from the current period, for completion in two or more years as the subject-matter and availability in personnel allow.

(c.) An incremental budgeting technique is a technique of budgeting which involves the utilization of past established budget. The budget considers the current budget and add to a percentage of last budget based on trend, inflation and available revenue at the disposal of the government.
(d) **Input-Output Budgeting** – Organizations can prepare their budget based on capital project such as Bridges, schools, roads, etc. A budgeting system based on input is called Input budgetary e.g. Line item budgetary which is typical of government departments. Also, a budgetary system that is based on process or operations and the output from it is monitored is called operational budgeting or performance budgeting e.g. PPBS, ZBB.

- **Budget Padding** – this is an unjustified amount or unnecessary increase in an estimate made by Ministries or departments while preparing for their estimate/budget for the purpose of escaping an anticipated arbitrary cut that may be made by Ministry of Finance (Budget & Planning) while scrutinizing their estimates

- **Committed Budget Growth** – are items which have to be paid in the coming year such as increments.

- **Line-Items Budgeting** – The traditional budgeting method which is also often called ‘Line-items Budgeting’ involves picking last year's figures and adding a percentage to arrive at this year’s budget.
Merits of Line-Item Budgeting:

✓ It is simple to understand and operate
✓ It is cheaper to produce
✓ It encourages the continuity of projects
✓ It suits the country’s level of development, where there is paucity of data
✓ Allocations into Heads and Sub-heads facilitate the monitoring of performance
✓ The method ensures that budget is translated in monetary language and relates to the relevant activity operations

Demerits of Line-Item Budgeting:

✓ The method allows past errors to be carried forward. It is therefore not efficient in its operations.
✓ Detailed scrutiny is not contained in the budget. The budget preparation is consequently not well researched.
✓ It fails to clarify the cost of alternative methods of achieving programmed objectives
✓ It results in continual growth budget totals related to inflation, as opposed to serious economic needs
✓ It fails to fund new programmes of high priority on sufficiently reasonable scale
✓ The method does not clearly spell out the relationship between capital and recurrent expenditure. The approach is based on organizational set-ups rather than programmes.

• Performance Budgeting – Performance Budgeting can be defined as a technique used for presenting public expenditure in form of functions or projects to be undertaken, highlighting the cost involvements. The anticipated costs are compared with the expected income. The focus of the technique is on results or output achieved, rather than how much has been expended. The essential features of a Performance budgeting system are as follows:
  ✓ Classification of budgets in terms of functions and activities
✓ Measurement of work done or output provided by each activity.
✓ Expression of the budget in a way which allows direct comparison between a project’s cost and the anticipated income or benefit.
✓ Monitoring of actual cost and performance against the budgeted results or expectations.

- **Periodic Budgeting** – This is the operation of a fixed budget over a certain period of time, usually a year. The budget becomes fixed for the duration of the period concerned and revisions are not allowed till the end of the period.

- **Flexible Budget** – This is a budget that recognises the difference between the fixed and variable costs and gives room for result determination and evaluation under the varying levels of activities. Thus, it accommodates changing levels of production and facilitates the control of production reports for the prevailing levels of activities. It is a budget which takes
cognizance of cost behaviour and adjusts according to the level of activities attained. It is used for control purposes.

- **Capital Expenditure Budget** – it is the budget prepared in the public sector for capital projects such as the construction of bridges and major road projects. The expenditure on the projects are financed from the Development Fund.

- **Base Estimate** – the base estimate for the current year is obtained by taking last year’s budget and deducting the value of one-off transactions. Transactions that are one-off are those which do not recur year-in-year-out.

- **Revised Estimates** – Is the review done on the original budget to make provisions for changes that occur during the year such as increase in salaries, fees, charges, etc.

- **Continuous Budget** – Continuous budget or rolling plan can be defined as the continuous updating of a medium-term plan spanning a specified period of time. For example, 1998 – 2012’ within which special and core capital projects such as the completion of Ajaokuta Steel Rolling Mill, will be accomplished. The time-horizon is a challenge or target date
within which the capital project is expected to be completed. However, if constraints do not permit accomplishment, a fresh plan period will emerge to accommodate the development. Nigeria started adopting Rolling plan from the year 1990. The country had ‘1990 – 1992’ Rolling to start with.

(4e.) ALPHA LOCAL GOVERNMENT COUNCIL
CASH BUDGET FOR THE 4TH QUARTER ENDING 31ST DEC 2005

<table>
<thead>
<tr>
<th></th>
<th>OCT</th>
<th>NOV</th>
<th>DEC</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>RECEIPTS</td>
<td>=N’000</td>
<td>=N’000</td>
<td>=N’000</td>
<td>=N’000</td>
</tr>
<tr>
<td>Actual Revenue for the month</td>
<td>1,672</td>
<td>2,450</td>
<td>1,980</td>
<td>6,102</td>
</tr>
<tr>
<td>Outstanding Revenue for Aug</td>
<td>60</td>
<td>-</td>
<td>-</td>
<td>60</td>
</tr>
<tr>
<td>Outstanding Revenue for Sept.</td>
<td>225</td>
<td>45</td>
<td>-</td>
<td>270</td>
</tr>
</tbody>
</table>
## Outstanding Revenue for Oct.

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>368</th>
<th>460</th>
<th>92</th>
<th>920</th>
</tr>
</thead>
</table>

## Outstanding Revenue for Nov.

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th></th>
<th>247.2</th>
<th>309</th>
<th>556.2</th>
</tr>
</thead>
</table>

## Outstanding Revenue for Dec.

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th></th>
<th></th>
<th>208</th>
<th>208</th>
</tr>
</thead>
</table>

## Fed Statutory allocation

<table>
<thead>
<tr>
<th>Allocation Type</th>
<th>1,360</th>
<th>-</th>
<th>1,560</th>
<th>2,920</th>
</tr>
</thead>
</table>

## State Govt. allocation

<table>
<thead>
<tr>
<th>Allocation Type</th>
<th>450</th>
<th>380</th>
<th>600</th>
<th>1,430</th>
</tr>
</thead>
</table>

## In lieu of rate

<table>
<thead>
<tr>
<th>In lieu of Rate</th>
<th>95</th>
<th>106</th>
<th>78</th>
<th>279</th>
</tr>
</thead>
</table>

## TOTAL REVENUE (A)

<table>
<thead>
<tr>
<th></th>
<th>4,230</th>
<th>3,688.2</th>
<th>4,827</th>
<th>12,745.2</th>
</tr>
</thead>
</table>

## PAYMENTS:

<table>
<thead>
<tr>
<th>Payment Type</th>
<th>492.0</th>
<th>504.0</th>
<th>762.5</th>
<th>1,758.5</th>
</tr>
</thead>
</table>

## Other charges

<table>
<thead>
<tr>
<th>Payment Type</th>
<th>168.0</th>
<th>124.4</th>
<th>250.0</th>
<th>542.4</th>
</tr>
</thead>
</table>

## Rent

<table>
<thead>
<tr>
<th>Payment Type</th>
<th>130.4</th>
<th>212.0</th>
<th>182.6</th>
<th>525.0</th>
</tr>
</thead>
</table>
### WORKINGS

<table>
<thead>
<tr>
<th>WK1 - Summary</th>
<th>OCT</th>
<th>NOV</th>
<th>DEC</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td>670.8</td>
<td>2110.4</td>
<td>4,958.2</td>
<td>670.8</td>
</tr>
</tbody>
</table>

STARRY GOLD ACADEMY +2348023428420, +2347038174484, info@starrygoldacademy.com, www.starrygoldacademy.com
### Net cash balance

<table>
<thead>
<tr>
<th></th>
<th>OCT</th>
<th>Nov</th>
<th>DEC</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,439.6</td>
<td>2,847.8</td>
<td>1,831.9</td>
<td>6,119.3</td>
</tr>
</tbody>
</table>

### Closing cash balance

<table>
<thead>
<tr>
<th></th>
<th>OCT</th>
<th>Nov</th>
<th>DEC</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,110.4</td>
<td>4,958.2</td>
<td>6,790.1</td>
<td>6,790.1</td>
</tr>
</tbody>
</table>

### Investible Fund

<table>
<thead>
<tr>
<th></th>
<th>OCT</th>
<th>Nov</th>
<th>DEC</th>
</tr>
</thead>
<tbody>
<tr>
<td>=N=’000</td>
<td>=N=’000</td>
<td>=N=’000</td>
<td></td>
</tr>
</tbody>
</table>

### Cash Surplus

<table>
<thead>
<tr>
<th></th>
<th>OCT</th>
<th>Nov</th>
<th>DEC</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,110.4</td>
<td>4,958.2</td>
<td>6,790.1</td>
<td></td>
</tr>
</tbody>
</table>

### Contingency

<table>
<thead>
<tr>
<th></th>
<th>OCT</th>
<th>Nov</th>
<th>DEC</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,500</td>
<td>1,480</td>
<td>2,800</td>
<td></td>
</tr>
</tbody>
</table>

### Investible funds

<table>
<thead>
<tr>
<th></th>
<th>OCT</th>
<th>Nov</th>
<th>DEC</th>
</tr>
</thead>
<tbody>
<tr>
<td>610.4</td>
<td>3,478.2</td>
<td>3,990.1</td>
<td></td>
</tr>
</tbody>
</table>

**SECTION C: ATTEMPT ANY TWO QUESTIONS IN THIS SECTION**
### QUESTION 5

(a) (1) Short-Life Polytechnics Calculation of Transitional Liability

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present value of the obligation</td>
<td>N’000</td>
</tr>
<tr>
<td>Fair value of plan assets</td>
<td>(520,000)</td>
</tr>
<tr>
<td>Past-service cost to be recognized in later periods</td>
<td>(9,000)</td>
</tr>
<tr>
<td>(24,000,000 x 3/8)</td>
<td></td>
</tr>
<tr>
<td>Transitional liability</td>
<td>251,000</td>
</tr>
<tr>
<td>Liability already recognized</td>
<td>(150,000)</td>
</tr>
<tr>
<td>Increase in liability</td>
<td>101,000</td>
</tr>
</tbody>
</table>

NB: The entity might (in accordance with the transitional provision of IAS 19) choose to either recognize the transitional liability of N101 million.
immediately or recognize it as an expense on a straight-line basis for up to five (5) years.

5b. IPSAS 26 defines ‘impairment’ as a loss in the future economic benefits or service potential of an assets, over and above the systematic recognition of the loss of the assets’ future economic benefits or service potential embodied in an assets to the entity that controls it.

A good example will be a Motor-park built by a local council that is currently being used at 50% of capacity. Since it is held for commercial purposes and management has estimated that it generates a commercial rate of return when usage is at 80% of capacity and above.

The decline in usage has not been supported by significant increase in parking charges. The asset is therefore, regarded as impaired because its carrying amount exceeds its recoverable amount.
(b) An entity shall disclose the following for each material impairment loss recognized or reversed during the period for a cash-generating asset;

(i) The events and circumstances that led to the recognition or reversal of the impairment loss;

(ii) The amount of the impairment loss recognized or reversed;

(iii) For a cash-generating asset;

   □ The nature of the asset, and

   □ If the entity reports segment information in accordance with IPSAS 18, the reported segment to which the asset belongs, based on the entity’s reporting format;

(iv) For a cash-generating unit:

   □ A description of the cash-generating unit (such as whether it is a product line, a plant, a business operation, a geographical area, or a reported segment);
The amount of the impairment loss recognized or reversed by class of assets, and if the entity reports segment information in accordance with IPSAS 18, by reported segment based on the entity’s reporting format;

If the aggregation of assets for identifying the cash generating unit has changed since the previous estimate of the cash-generating unit’s recoverable amount (if any), a description of the current and former way of aggregating assets and the reason for changing the way the cash-generating unit is identified;

(vi) Whether the recoverable amount of the asset is its fair value less costs to sell or its value in use;
(vii) If the recoverable amount is fair value less costs to sell, the basis used to determine fair value less costs to sell (such as whether fair value was determined by reference to an active market); and
(vii) If the recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.
QUESTION 6

a. 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.

Advantages of Commitment Basis
Commitment accounts kept on a memorandum basis have several advantages. These include:
(a) A separate payment tabulation is available when required.
(b) Adjustments occurring when actual expenditure has been obtained does not affect the final accounts.
(c) It is an aid to financial control. A commitment is regarded as a charge which has been made on a budget provision.
(d) It takes a realistic view of financial transactions.
(e) It reveals an accurate picture of the state of financial affairs at the end of the period.
(f) It is used for both economic and investment decision making, as all parameters for performance appraisals are available.
(g) It aligns with the ‘matching concept.’
(h) It makes allowance for the diminution in the value of assets employed to generate the revenue of the enterprise.

**Disadvantages of Commitment Basis**
The system of Commitment Basis of Accounting has the following disadvantages:
(a) 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.
(b) Over-expenditure is more under commitment basis in the expectation that Government may finally release fund to settle the legal obligations.
(c) 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.
(d) 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.

b. It is not all organisations in Nigeria that should observe the public sector accounting rules. The application of the rules are limited to only government institutions. The following are the bodies/institutions that fall under the umbrella of public sector accounting rules:
- Federal government ministries, presidency, etc
- State government ministries
• Local government councils
• Government parastatals e.g. NITEL, NPA, etc
• Embassies and High commissions
• Judicial courts
• Government agencies, commission, board, e.g. NAFDAC, EFCC, ICPC, etc
• Government welfare organizations e.g. General Hospital, old people’s home, etc
• Government educational institutions e.g Fed. Govt colleges, university, etc

c. Financial Regulations –
The Financial Regulations are powerful control tools used in the public sector fund management. They are the accounting manuals of the three tiers of Government designed to guide the management of public funds. The rules spell out the system concerning the receipts and disbursements of funds and the procedures to ensure good accountability, prevention and early detection of frauds and errors
and other financial malpractices. These are regulations which are issued to regulate various financial matters and set rules and procedures for public accountability. They specify the rules and regulations on bank account opening, collection of revenue, security of documents, revenue control, cheque issuance, payment procedure, etc. It serves as an operational manual. It has 37 chapters each dealing with various aspect of government financial transactions e.g. Chapter 1 states financial authorities and responsibilities of government officers, Chapter 37 deals with unallocated stores, etc.

**Purposes of Financial Regulations:**

- To provide a framework of financial management and control
- To ensure uniformity in preparation of governments account
- To serve as a training manual to all account officers
- It states the duties to be performed by government finance officers thereby eliminating role conflicts.
• It states the accounting system to be adopted in recording, preparing and reporting financial information
• It reduces the scope for fraudulent practices and ensure that financial operations remain within the law
• To ensure that internal audit gets the independence required for the performance of its control and monitoring functions without fear or favour

2d. some specific sections of the 1999 Constitution and their provisions:

<table>
<thead>
<tr>
<th>Section 80</th>
<th>Establishment of the Consolidated Revenue Fund (CRF)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section 81</td>
<td>Authorisation of expenditure from the CRF.</td>
</tr>
<tr>
<td>Section 82</td>
<td>Authorisation of expenditure in default of appropriations.</td>
</tr>
<tr>
<td>Section 83</td>
<td>Establishment of the Contingencies</td>
</tr>
<tr>
<td>Section</td>
<td>Description</td>
</tr>
<tr>
<td>----------</td>
<td>-------------</td>
</tr>
<tr>
<td>Section 84</td>
<td>Remuneration of Statutory Officers.</td>
</tr>
<tr>
<td>Section 84(4)</td>
<td>Comprehensive list of Statutory Officers.</td>
</tr>
<tr>
<td>Section 85</td>
<td>Audit of public accounts.</td>
</tr>
<tr>
<td>Section 86</td>
<td>Appointment of the Auditor-General for the Federation.</td>
</tr>
<tr>
<td>Section 87</td>
<td>Tenure of office of the Auditor-General for the Federation</td>
</tr>
<tr>
<td>Section 88</td>
<td>Power to conduct investigation by the National Assembly.</td>
</tr>
<tr>
<td>Section 89</td>
<td>Power as to matters of evidence</td>
</tr>
<tr>
<td>Section 149</td>
<td>Declaration of assets and liabilities and oaths of office</td>
</tr>
</tbody>
</table>
### List of Statutory Commissions

<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section 153</td>
<td>List of Statutory Commissions</td>
</tr>
<tr>
<td>Section 162</td>
<td>Establishment of the Federation Accounts.</td>
</tr>
<tr>
<td>Section 163</td>
<td>Allocation of other revenue.</td>
</tr>
<tr>
<td>Section 164</td>
<td>Federal grants-in-aid of State revenue</td>
</tr>
<tr>
<td>Section 168</td>
<td>Provision with regard to payments</td>
</tr>
</tbody>
</table>

**Below-The-Line Accounts**

These are the accounts created and controlled by the Accountant-General of the Federation, of which at the time of preparation of the budget, the exact amount of income receivable and expenditure incurable cannot be reasonably ascertained. The expenditure under the accounts is not budgeted for in the estimates. Examples include touring and spectacle advances, loans and deposits. In this case, deposits refer to money held
on behalf of third parties. The term also includes remittances and cash transfers in respect of the Nigerian Army, Police and Para-Military Organisations.

**Above-The-Line Accounts**
These are the expenditures budgeted for in the estimate. At the time of preparation of the budget they can reasonably be ascertained as to the exact amount of income receivable and expenditure incurable. Examples of costs which may be budgeted for are salaries and overhead expenses. Revenue items anticipated include collections for customs and excise duties.

**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 Imprest Cash Book.

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.

Self – Accounting Unit: - This is the unit that has the capacity and authority to receive and make payment. It is also responsible for keeping records of all its receipts and disbursement. It has control over its records. At the end of each month, a transcript will be prepared and sent to Accountant-general. Original vouchers will be retained by the unit e.g Ministry of Transport, Ministries of Works, etc.
Sub-Accounting Unit – This unit performs the same function as self accounting unit. However, the only difference is that at the end of each month, the original cashbook and duplicate copies of the vouchers are sent to the Accountant-General e.g. Federal pay offices.

Vote Controller – this is the person responsible for monitoring the vote of each department. He serves the function of controlling the budgets by ensuring that money is available for the required expenditure.

Federal Pay Officer
This is an officer who is in charge of a Federal Pay Office in the State. He performs the same functions as those of a Sub-Accounting Officer. However, although the Sub-Accounting Officer is at the headquarters of each Ministry, the Federal Pay Officer handles the processing of all financial transactions between the Federal and State Governments.
REVENUE COLLECTOR

This is an officer, apart from a Sub-Accounting Officer, who keeps official receipts and collects specified forms of revenue on behalf of the Government. He is expected to keep a cash book. The Revenue Collector must not expend money out of his collection. He, therefore, has to account for the collections received intact.

FUNCTIONS OF THE REVENUE COLLECTOR

(a) Exercising supervision over the receipt of public revenue and ensuring their prompt lodgement into the banks.
(b) Promptly reflecting in the accounts, under the proper Heads and Subheads of the estimates, all monies collected by him on behalf of Government.
(c) Seeing that proper provision is made for the custody of public funds and securities.
(d) Supervision of all the officers under his authority who are entrusted with the receipts, custody and disbursement of public funds.
(e) Maintenance of efficient internal checks against the occurrence of malpractices.
(f) Checking all cash and stamps in his care; agreeing the amount with the balances in the Cash Book and Stamps Register.
(g) Making good any minor deficit which is not caused by theft or fraud and reporting accordingly in writing to the appropriate officer, e.g. Minister of Finance.

THE AUDITOR-GENERAL FOR THE FEDERATION (AuGF)
This is the officer responsible under the 1999 Constitution of the Federation, for the audit and reports on the public accounts of the Federation, including all persons and bodies established by law entrusted with the receipts, custody, issue, sale, transfer or delivery of any stamps, securities, stores or other property of the Government of the
Federation and for the certification of the annual accounts of the Nation. He is given free hand to examine the accounts in such a manner as he may deem fit.

POWERS/FUNCTIONS OF THE AUDITOR-GENERAL FOR THE FEDERATION

The Auditor-General for the Federation has the following powers:

(a) Power of access to books and records of all Ministries and Extra-Ministerial Departments, at reasonable times.

(b) Power to request for information and explanations necessary for his duties.

(c) Power to carry out special/ad-hoc investigations in any Ministry and Extra-Ministerial Department.

The Auditor-General for the Federation shall carry out the following statutory functions:

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

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

- **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.

- **Value-for-Money (Performance) Audit** – to ascertain the level of economy, efficiency and effectiveness derived from government projects and programmes.
The scope of work of the Auditor-General include: audit of the books, accounts and records of federal ministries, extra-ministerial offices and other arms of government;
ঔ vetting, commenting and certifying audited accounts of all Parastatals and government statutory corporations in accordance with the Constitution of the Federation;
ঔ 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;
ঔ audit of the Accountant-General’s Annual Financial Statements;
ঔ auditing and certifying the Federation Account;
ঔ deliberation, verification and reporting on reported cases of loss of funds, stores, plants and equipment as stipulated in the Financial Regulations;
ঔ pre and post auditing of the payment of pensions and gratuities of the retired military and civilian personnel;
ঔ periodic checks of all Government Statutory Corporations,
Commissions, Authorities, Agencies, including all persons and bodies established by an Act of the National Assembly; and
♦ revenue audit of all government institutions.

QUESTION 7

(a) Provisions, contingent liabilities and contingent assets that are not covered by IPSAS 19 will include the following:

(i) Those provisions resulting from financial instruments that are carried at fair value;

(ii) Those provisions, contingent liabilities and contingent assets resulting from executory contracts, other than where the contract is onerous subject to other provisions;

(iii) Those provisions and contingent liabilities arising from social benefits provided by an entity for which it does not receive consideration that is
approximately equal to the value of goods and service provided directly in return from the recipients of those benefits;

(iv) Those provisions and contingent liabilities in insurance entities from contracts with policy holders;

(v) Those provisions and contingent liabilities covered by another IPSAS;

(vi) Those provisions arising in relation to income taxes equivalents;

(vii) Those provisions and contingent liabilities arising from employees termination benefits that arise as a result of a restructuring;

(b) For each class of provision, an entity should disclose the following in its financial statements:

(i) The carrying amount at the beginning and end of period;

(ii) Additional provisions made in the period, including increase to existing provisions;

(iii) Amount used (that is, incurred and charged against the provision) during the period;
(iv) Unused amount reversed during the period;
(v) The increase during the period in the discounted amount arising from passage of time and the effect of any change in the discount rate.

Fiscal federalism basically describes the general normative framework for assignment of functions to the different levels of government and appropriate fiscal instruments for carrying out these functions. There are two aspects to it namely political and administrative.

The political aspect is the constitutional division of powers between tiers of government each of which is supposed to be coordinate and independent, while

The administrative is more a matter of administrative fiat and involves the delegation of functions to subnational levels of government based on guidelines and controls created by higher levels of government (e.g. federal or state).
(b) Arguments of its desirability

The desirability of fiscal federalism lies in the fact if properly implemented in a country can foster economic growth and development. This is because it enhances the effectiveness and efficiency of the government in the provision of essential public goods and services, revenue sharing arrangement and intergovernmental resource transfers, among others.

For example, government would be effective and efficient if it undertakes only those functions which it can best perform. Indeed some functions are best performed by the central government and others by the lower level governments.

The expenditure assignment function, a critical element of fiscal federalism provides the general guidelines for the allocation of spending powers and responsibilities to different levels of government, especially with respect to the provision and delivery of public goods and services.
Once the assignment function is done with, fiscal federalism provide clear guidance based on the socio-economic and political dynamics of a country on how revenue should be shared among tiers of government.

Towards equalizing development across a country, fiscal federalism also provides guidance with respect to principles should guide intergovernmental transfers or grants.

**Identification of the elements of fiscal federalism**

The elements of fiscal federalism are:

(i) The rationale for adopting a federal structure in a country
(ii) Objectives of fiscal relations;
(iii) Rules for the assignment of functions and sources of income to different tiers of government, i.e. the expenditure assignment arrangement;
(iv) The efficiency of free migration from one jurisdiction to another;
The role of inter-government resource transfers and their most desirable forms i.e. revenue allocation; and

Principles for intergovernmental transfers

The argument of mutually exclusive or interdependent

The correct argument here is that the six elements of fiscal federalism are interdependent rather than been mutually exclusive. Every of the elements rely on the other and collectively they determine the success or failure of fiscal federalism in a country.

In other words, every of the elements cannot be in isolation of the other. All of them together define the nature and character of intergovernmental fiscal relations in a country.

To start with if the rationale for the adoption of a federal structure and/or fiscal federalism is not clear or lacking, the objectives of fiscal relations will also not be clear, realistic and achievable.
Without clear fiscal relations objectives, the expenditure assignment function would be largely ad hoc and not focused. This is because the underlying objectives of fiscal relations would guide the assignment of functions to the different levels of government.

Even though theoretical guidance exists, however, what works best is informed by exigencies and experiences of a country. These exigencies and experiences are what the objectives of fiscal relations would capture or reflect.

Once the expenditure assignment function is faulty, the allocation of revenue would also be faulty and create conflicts among and within tiers and levels of government.

Likewise, the efficiency of migration from one jurisdiction to another as well as intergovernmental transfers/grants would also be affected.

Summarily, each elements of fiscal federalism is important and interdependent in making for a successful fiscal decentralisation and intergovernmental relations in a country.