

Financial Accounting and Reporting Skill

By

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1.0 Introduction

Financial Accounting is a specialized branch of accounting that keeps track of a company's financial transactions' using standardized guidelines. The transactions are recorded, summarized and presented in a financial report or Financial Statement such as Income statement or Statement of Financial Position.

However, the importance of financial accounting provides an organization's stakeholder with business statement allowing them to know if the organization is making or losing money.

- It is equally very important to note that reporting skill is necessary for an Accountant to report his financial statement. The report need to be arranged in such a way to be understood. Therefore, a report is a systematic and well organised document which defines and analyses a subject or problem, and which may include:
 - the record of a sequence of events
 - interpretation of the significance of these events or facts
 - evaluation of the facts or results of research presented
 - discussion of the outcomes of a decision or course of action
 - Conclusion and
 - Recommendation(s).

Report writing is essential to our roles as an Accountant because we communicate up and down the office ladder except it is skillfully done, we might not be able to convey the right message

2.0 Overview of National Chart of Account

The National Chart of Account is an integrated budget and accounting classification system which primarily for implementation of system that is IPSAS compliant.

The Chart of Accounts (COA) may be defined as a complete list of budget and accounting items where each item is uniquely represented by a code and grouped into tables of related data for the purposes of tracking, managing and reporting budgetary and accounting items in an orderly, efficient and transparent manner.

- It is also a created list of codes which can be represented by numeric, alphabetic, or alpha-numeric symbols.
- The three tiers of government in the past had different building blocks of COA consisting majorly of two parameters (Administrative and Economic Segments)
- Consequently, the need for the unification of the COAs of the three tiers of government becomes imperative.
 - The NCOA was designed after due consultations with all the Local Government Councils, States and Federal Government of Nigeria in consideration with their peculiar needs.
- The convergence of the COAs of the three tiers government to a unified COA will enhance the attainment of minimum reporting requirement that is in line with international best practices.

2.1 Objective of COA

- The NCOA is an effective reporting system with significant objectives which includes but not limited to the following:

- To give ample opportunity for comparability;
- Unification and harmonization of coding, budgeting, and accounting system;
- To bring about global interpretation of Nigeria GPFS;
- Nationally consistent financial reporting;
- Improvement in transparency and accountability;
- To ease computerization of accounting system.

2.2 Structure of the National Chart of Accounts

Administrative segment;

- The Administrative segment assigns responsibility for each transaction whether revenue centres (receipt) or cost centre (payment).
- It addresses the “Who” element of each transaction.

Economic segment;

- The Economic segment answers the “What” question of every transaction.
- Every receipt must be from a particular source e.g. Contractor Registration Fee. Likewise, every expense must be on a particular item or object e.g. Purchase of Drugs and Medical Supplies.

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Functional segment;

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

- Functional Classification or Classification by Functions of Government (COFOG) is defined as a detailed classification of the functions, or socio-economic objectives, that general government units aim to achieve through various kinds of outlays.
- A “Functional” classification organizes government activities according to their broad objectives or purposes (for example, education, social security, housing, etc.).
- Government expenditure measured according to internationally recognised functional categories.
- A functional classification is especially useful in analysing the allocation of resources among sectors.
- Functions and Sub functions will be assigned at the point of budget and planning for every transaction or initial set up.

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?
- Policy is a deliberate plan of action to guide decisions and achieve rational outcomes.
- Programme may be defined as a long-term outline of a government function that is designed to meet specific policy objectives of the government.
- Projects – Programmes are further broken down into projects. Budgeting and Accounting are carried out along project lines.
- Objectives represent the specific result desired within a fixed period of time.

Fund segment;

- The Fund segment addresses the “Financed by” element of a transaction.
- Fund refers to the various pools of resources for financing government activities.
- The Fund Segment will fast track the implementation of IPSAS particularly with respect to the full disclosure of government revenue including external assistance.

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 use of Geo Codes will make it easier for agencies with oversight function like monitoring and evaluation (M&E) mandates to locate projects across the country.

Issues and challenges

- Misclassifications of Accounting Transactions ;
- Timeliness of Submission of Transcripts Leading to Seamless Consolidation of the Financial Statements;
- Bridging the Knowledge gaps in Using the National Classification System;
- Need for Computerized Accounting IT Training and Re-training;
- Resistance to Change;
- Re-engineered Business Process;
- Migration of Clean Data;

- Back up Devices and Data Restoration; and
- Continues Management and Political Support.

3.0 Financial Statement;

Financial Statements are 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.

- **Components of Financial Statements**

A complete set of financial statements comprises:

- a. Statement of financial position;
- b. Statement of financial performance (statement of consolidated revenue fund);
- c. Statement of changes in net assets/equity;
- d. 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.

3.1 Statement of Financial Position

This is also known as Balance Sheet or Statement of Assets and Liabilities. It is a Statement that shows Assets, Liabilities and Net Assets/Equity of an Entity. Both Assets and Liabilities are categorized as Current and Non-Current in the Statement of Financial Position.

- As a minimum requirement, the face of the statement of financial position shall include line items that present the following:

a. Property, plant, and equipment (PPE)

- These are tangible items held for use in the production or supply of goods or services, for rental to others or for administrative purpose; and are expected to be used for more than one reporting period.

b. Investment property

- These are Cash Generating Assets held by an entity.

c. Intangible assets-

- Intangible Assets are identifiable non - monetary Asset without physical substance. In other words, there are assets that can generate economic benefits but cannot be seen physically or felt.

d. Financial Assets

Loans and receivables

- **e.** Investments accounted for using the equity method;

- **f.** Inventories

These are assets in the form of materials or supplies to be consumed in the production process; in the form of materials or supplies to be consumed or distributed in the rendering of services; held for sale or distributed in the ordinary course of operations; or in the process of production for sale or distribution.

- **g.** Recoverable from non-exchange transactions (taxes and transfers);

These are outstanding collections arising from non exchange transactions.

- **h.** Receivables from exchange transactions

These are outstanding collections arising from exchange transaction.

- **i.** Cash and cash equivalents;

Cash and its Equivalents comprise cash at hand, at bank and cash invested in easily convertible instruments;

- **j.** Taxes and transfers payable;
- **k.** Payables under exchange transactions;
- **l.** Provisions;
- **m.** Financial liabilities-accounts payable
- **n.** Minority interest, presented within net assets/equity; and
- **o.** Net assets/equity attributable to owners of the controlling entity.

3.2 Statement of Financial Performance

This is also known as Statement of Revenue and Expenses, Income Statement, Operating Statement, Profit or Loss Account. The statement shows income accrued to the entity from all sources and expenditure incurred during the period.

As a minimum requirement, the face of the statement of financial performance should include the following line items:

- **a.** Revenue from operating activities;
- **b.** Surplus or deficit from operating activities;
- **c.** Finance costs;
- **d.** Share of net surpluses or deficits of associates and joint ventures accounted for using the equity method;
- **e.** Surplus or deficit from ordinary activities;
- **f.** Extraordinary items;
- **g.** Minority interest share of net surplus or deficit; and

- **h.** Net surplus or deficit for the period.

3.3 Statement of Changes in Net Assets /Equity

This Statement explains the changes in Net Assets of an entity. In other words, it details the change between the current and prior period for net assets balances. Net assets/equity refers to the residual measure in the statement of financial position (assets less liabilities). It may be positive or negative. These changes may be caused by many factors including:

- a. Surplus/deficit during the period,
- b. Significant changes in Accounting Policies,
- c. Correction of Prior Year Errors,
- d. Assets Revaluation
- e. Effect of Translation of Foreign Exchange transactions etc.

3.4 Cash Flow Statement

This is a Statement that reports inflows and outflows of cash and cash equivalent during a reporting period. It serves to analyze the changes in cash and cash equivalents.

- **Purpose for preparation of Cash flow Statement:**

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.
- d. 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.

- e. A cash flow statement, when used in conjunction with other financial statements, provides information that enables users to evaluate the changes in net assets/equity of an entity, its financial structure (including its liquidity and solvency), and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities.
- f. It also enhances the comparability of the reporting of operating performance by different entities.

Method of Preparing Cash flow Statements

The IPSAS 2 has identified two methods of preparing Cash flow under Accrual Basis of Accounting- Direct and Indirect. The Standard also provides that cash flows of entities should be categorized into three activities as follows:

- a. Operating Activities
 - b. Investing Activities
 - c. Financing Activities
- **Operating Activities**

Cash flows from operating activities are primarily derived from the principal cash-generating activities of 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 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

Investing Activities are items on the Cash flow Statement that report the aggregate changes in an entity's position resulting from amount spent on investment in Non-current Assets such as Property, Plant & Equipment (PPE), Investment Property, Financial Instruments etc.

Cash outflows that result in a recognized asset in the statement of financial position are eligible for classification as investing activities.

Examples:

- 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,
- c. Intangibles, and other long-term assets;
- d. 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);
- e. Cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);
- f. Cash advances and loans made to other parties (other than advances and loans made by a public financial institution);
- g. Cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a public financial institution);
- h. 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
- i. 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

Financing Activities are activities that result in changes in the size and composition of the capital structure of a reporting entity that are not its primary business. 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:

- 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.

3.5 Statement of Comparison of Budget and Actual Amount

Presentation of Budget Information in Financial Statements is covered by IPSAS 24 . Statement of Comparison of Budget and Actual Amount otherwise refers to Performance Report shows/indicates the performance of a reporting entity. It compares actual performance of an entity with the approved budget. This Report is very essential as it enables users to ascertain the budget performance of the reporting entity.

An entity shall present a Separate Financial Statement, that is, a Statement of comparison of Budget and Actual amounts in the complete set of Financial Statements as specified in IPSAS or as an additional budget column in the primary financial statements where the Financial Statements and the Budget are prepared on a comparable basis. The additional column will identify original and final budget amounts and if the entity so chooses, difference between the budget and actual amounts.

The Financial Statements and Budget are prepared on comparable bases when the basis of accounting, reporting period, and classification structure are the same.

The following information is to be disclosed in the Financial Statements:

- a. Whether changes between the original and final budget are a consequence of re-allocation within the budget, or of other factors:
 - i. By way of note disclosure in the financial statements; or
 - ii. In a report issued before, at the same time as, or in conjunction with the financial statements, and shall include a

cross reference to the report in the notes to the financial statements.

- b. The explanation on the budgetary basis and classification basis in the approved budget.
- c. The period of the approved budget
- D. The entities included in the approved Budget
- Detailed format of Statement of Comparison of Budget and Actual amounts and Additional Budget Column can be seen on chapter 29 (Presentation of Budget Information in the Financial Statements).

3.6 Note the accounts

The **Notes** to the Financial Statements are an integral part of the financial reporting process. They provide important detailed disclosures required by IPSAS, as well other information provided voluntarily by management. It must be properly cross reference in the financial statement. The notes include;

Statement of Accounting Policies

- Statement of Accounting Policies is one of the Statements that should be presented in the Financial Statements. They are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

3.6.1 Other Disclosures in the Financial Statements

- Other Minimum Disclosures in the Financial Statements as prescribed by IPSAS 1, supplementing the disclosures required by individual IPSAS are:
 - a. Disclosure of measurement bases used;

- b. Information required by IPSAS that is not presented on the face of the GPFS;
- c. Disclosure of the extent to which transitional provisions have been used;
- D. Presentation of judgements that management has made in the process of applying the public sector entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements;
- e. Disclosure of the domicile and legal form of the entity;
- f. A description of the nature of the entity's operations;
- g. A reference to the relevant legislation governing the entity's operations;
- h. Disclosure of the name of the controlling entity and the ultimate controlling entity of an economic entity.

3.7 Segment Reporting

- A segment is a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of evaluating the entity's past performance in achieving its objectives and for making decisions about the future allocation of resources.
- Segment Reporting enables users of the financial statements to better understand the entity's past performance and to identify the resources allocated to support the major activities of the entity and to enhance transparency of financial reporting and enable the entity to better discharge its accountability obligations. For more details, see chapter 33.0 (Segment reporting)

4.0 Operating Surplus and computation

- Operating Surplus is the financial outcome of the operations of a government Agency at the end of the financial year of the Agency;
- The financial outcome could result in a loss where the revenue or income of the Agency is less than the expenditure at the end of the year;
- The outcome could also result in profit where the revenue or income of the Agency is much more than the expenditure.
- In most cases Agencies declare losses year in year out and this has become worrisome to the Government.
- Government believes that Agencies with Commercial mandates should turn over some income into the Consolidated Revenue Account at the end of their financial year.
- Government requires revenue to implement the budget.
- For this reason the FRA provides that every agency must remit 80% of Operating Surplus into the Consolidated Revenue Fund.
- They are to retain 20% in their respective Development Reserve Fund.
- Agencies continued to declare losses hence agencies are rarely rendering Operating surplus into the CRF.
- There is need for the Accountant-General of the Federation to have power to reconstruct the Accounts of the Agencies subject to the Audit of the Auditor General of the Federation.
- In the absence of such a power, the Federal Government issued a recent circular that all Agencies must remit all revenues to the CRF.
- As between circular and provisions of the FRA the FRA prevails hence Government is not receiving much from Operating Surplus.

- The computation of operating surplus is to take 20% of excess of income over expenditure of any agency after external audit and request the Agency to remit the amount into the CRF.
- One other challenge is the fact that most Agencies do not conduct external statutory audit on time hence the delay in determining whether there is operating profit or loss.
- The department responsible for collecting and Accounting for operating Surplus is The Revenue and Investment Department of Office of Accountant-General of the Federation

As the result of the challenges enumerated above this circular was issue to put an end to non-remittance of operating surplus to CRF

APPROVED TEMPLATE FOR THE COMPUTATION OF OPERATING SURPLUS OF GOVERNMENT AGENCIES/PARASTATALS

In furtherance of Part 1, Section 3, Part IV Sections 21 and 22 of the Fiscal Responsibility Act, 2007, the Fiscal Responsibility commission has defined and provided a template for the Computation of Operating Surplus.

2. This approved template is congruent to all the three Finance Circulars Nos: **BO/RVE/12235/259/VII/201** dated 11th November, 2011, **FMF/HMF/2015/I** dated 8th December, 2015 and **BO/RVE/12235/259/VII268** dated 7th July, 2014.
3. For the avoidance of doubt and in order to prevent varied interpretations arising from the contents of these aforementioned Circulars; it is expedient to further reiterate the following guidelines:
 - a) all Federal Agencies fully funded from the Treasury are mandated to remit 100 percent (100%) of their Internally Generated Revenue (IGR) to the Consolidated Revenue Fund (CRF);
 - b) all partially-funded Federal Government Agencies/Parastatals should limit their annual budgetary expenditure to no more than 75 percent (75%) of their gross revenue, and remit the 25 percent (25%) to the CRF

or pay 80 percent (80%) of their Operating Surplus computed according to the approved template to the CRF, whichever is higher;

- c) all Corporations, Agencies and Government-owned companies listed in the schedule referred to in Section 21 of the Fiscal Responsibility Act, 2007 (as amended) including the additions by the Honorable Minister, Federal Ministry of Finance (FMF), shall pay 80 percent (80%) of their Operating Surplus to the CRF, while 20 percent (20%) will go to the General Reserve Fund of the Organization, so created for that purpose;
- d) institutions that operate other revenue generating ventures, in addition to their core mandates, are required to prepare separate financial statements of such ventures; and
- e) Compute the Operating Surplus of those revenue generating ventures based on approved template provided in figure I.

Non-allowable expenditure: In the computation of operating surplus, Agencies shall not be allowed to charge the following types of expenses:

- a) Salaries in excess of scales approved by National Salaries, Incomes and Wages Commission;
- b) Monetization of medical and other allowances;
- c) Business class travel for officers other than Chairman and Chief Executive Officer;
- d) Personal loans to staff in excess of approved limits, including unapproved mortgages, among others;
- e) Expenditure in excess of approved mandates;
- f) Donations to individuals, including those to political and charitable organizations as charitable donations; and
- g) Expenses in respect of conference meetings in excess of approved circular on frequency of meetings.

Fig I: Computation of Operating Surplus/(Deficit)

	₦	₦
Operating Surplus/(Deficit) as per Account (Unadjusted)		XXXX
<u>Add:</u>		
i) General Provisions	XX	

ii) Depreciation/Amortization	XX	
iii) Donations	XX	
iv) Capital Expenditure	XX	
v) Benefits-in-kind	XX	
vi) Political Expenses	XX	
vii) Subscriptions	XX	
viii) Unbudgeted Expenses	XX	
ix) Undisclosed Income/Non Core-Income	<u>XX</u>	<u>XXX</u>
		<u>XXXX</u>

Deduct:

(1) Approved Expenses omitted	<u>XX</u>	<u>XXX</u>
Operating Surplus (Adjusted)		<u>XXXX</u>

Appropriation

Consolidated Revenue Fund (CRF)	80%	xxx
General Reserve Fund of the Organization	<u>20%</u>	<u>xxx</u>
		<u>xxxx</u>

5. To ensure that Agencies properly account to the Treasury all revenue and expenditure, that are to submit detailed **Monthly Trial Balance** showing clearing revenue and expenditure on each source of fund (statutory allocation, Aid & Grants, Retained IGR, etc.) in accordance with IPSAS Accrual Basis of Accounting.

6. **Disclosure Requirement:** Agencies listed in the schedule to the Act FRA 2007) including the additions by the FMF should ensure that the following additional information is fully disclosed as note to their audited financial statements;

- a) expenditure incurred on behalf of supervisory ministry and any other organ of government involved in oversight or regulatory functions;
- b) salaries and allowances paid to each member of the Board of Directors, Governing Council, Commission which are outside or above the amount approved in the circulars issued by the Revenue Mobilization, Allocation and Fiscal Commission and the National Salaries, Income and Wages Commission;

- c) all expenses incurred on overseas training, overseas medicals, welfare, local travels and training;
- d) the number of management and other staff on payroll;
- e) list of donations, sponsorships, gifts and the beneficiaries during the year;
- f) schedule of cost of collection and fees paid, including any contract signed for revenue collection by third party;
- g) schedule of staff loans granted, repayments made and the age analysis of outstanding loans; and
- h) Details of assets sold or transferred to staff or Board members during the year.

5.0 Review of Fiscal Responsibility Act 2007

- Fiscal Responsibility and Fiscal Federalism are prominent Public Financial Management concepts.
- The two concepts are very applicable in the Nigerian political setting but differ in meaning.
- While Fiscal Responsibility is adherence to discipline, integrity, transparency and accountability in governance, Fiscal Federalism is the assignment of revenue and expenditure functions to the different tiers of government, namely Central, State and Local Governments in a federal system of government.
- Fiscal Federalism and inter-governmental fiscal relations are often used interchangeably. Intergovernmental fiscal relations refer to the fiscal transactions and coordinating arrangements among the various tiers of government in a federation (Musgrave and Musgrave, 1989).

- The nature of intergovernmental fiscal relations constitutes an extremely relevant consideration for the attainment of fiscal nationality and macroeconomic stability in a federal structure of government.
- The 1999 constitution of the Federal government of Nigeria gives each tier of government a set of responsibilities around which programmes are articulated and budgeted for, and for which expenditure requirements need to be funded (Ezeabasili & Herbert, 2007).
- Government intervention through fiscal policy is geared towards the achievement of macroeconomic stability and real growth.
- This interventional role is warranted by the failure of market mechanisms, due mainly to market imperfections to efficiently allocate resources and achieve a stable equilibrium and fair distribution of income (Okunroumu, 2000).
- However, public sector management in Nigeria since independence has failed to deliver the much expected macroeconomic stability.
- This is evident from the pattern of public spending. Specifically, between 1970 to 2004, government expenditures have shown persistent fiscal deficits.
- This has led to poor macroeconomic performance, for example, through rising interest and exchange rates, increases in money supply, low real gross domestic product and negative trade balances during much of this three-decade period, Structure of government, with different tiers as noted above.

Again, because Nigeria operates a federal system of government, each tier of government adopts its own fiscal policy without proper coordination or alignment and without caring about its systemic effect

Economic Stability

- The implication is that resources are not properly coordinated and purposefully deployed to projects with specific macro-economic goals. This, in turn, retards macroeconomic stability.
- Even with the progressive increase in revenue accruing to governments over the last three decades, there has been growing misplacement of fiscal priorities as resources, have been increasingly frittered away or diverted to trivial macroeconomic pursuits.
- In effect, resources have not been utilized in non-trivial projects that would have turned around the fortune of the country for good.
- For how long will seeming fiscal irresponsibility in Nigeria continue to dwarf economic development?, how can it be curbed or checkmated?
- This is the context of the Fiscal Responsibility Act 2007 which has been replicated in most States in Nigeria now.
- The Fiscal Responsibility Act is designed to:-
 - improve governmental fiscal coordination;
 - pursuit of greater macroeconomic stability;
 - promote fiscal prudence and
 - sound financial management of public resources.
- The Act provides legal backing for ensuring:-
 - compliance with agreed fiscal benchmarks,
 - enabling environment for accelerating economic growth, and
 - elimination of excessive expenditure and thus
 - limiting the danger of running unsustainable deficits by the different tiers of government.

WHAT IS FISCAL RESPONSIBILITY

- According to Feingold (2004), fiscal responsibility is about balancing the budget and eliminating wasteful government spending.
- Fiscal responsibility is therefore the basic duty of any government-cutting wasteful spending and spending taxpayer money wisely.
- The long title to the Act aptly captures the import of this new legislation. It is made as an Act to:-
 - provide for the prudent management of the nation's resources:
 - ensure long term macroeconomic stability of the national economy;
 - secure greater accountability and transparency in fiscal operations within a medium term fiscal policy framework and
- the establishment of the Fiscal Responsibility Commission (FRC) to ensure the promotion and enforcement of the nations economic objectives and for related matters.
- Alhaji Aliyu Yelwa - Chairman Fiscal Responsibility Commission observed in the explanatory memorandum to the Act that:-
 - The Act among other things:-
 - establishes the Fiscal Responsibility Commission charged with:-
 - the responsibility of monitoring and enforcing the provisions of the Act
 - to ensure greater accountability, transparency and prudence in the management of the Nation's resources by the Federal Government, Government-owned corporations or companies and agencies and
 - provides incentives to encourage States and Local Government pass similar fiscal responsibility legislation."

- Signed into law by President Umaru Yara'adua on 30th July 2007,

Preparation of MTEF

- The Federal Government, is to prepare the Medium Term Expenditure framework in consultation with the states to cover a period of three financial years ;
- Present same to the National Assembly.
- Details of what it should contain, such as:-
 - the macroeconomic framework;
 - Fiscal Strategy Paper, expenditure and
 - revenue framework etc are also stated.
- The preparation of the framework shall be the responsibility of the Minister of Finance and in preparing it; he is to hold public consultations with interested stakeholders.
- BOF is to seek inputs from :-
 - the National Planning Commission,
 - Joint Planning Board, National Economic Commission,
 - National Assembly,
 - Central Bank of Nigeria,
 - National Bureau of Statistics,
 - Revenue Mobilization Allocation and Fiscal Commission and
 - any other relevant Statutory body.

- The Annual Budget is to be derived from the MTEF and it is to be accompanied by certain documents.
- These are the underlying revenue and expenditure profile for the next two years,
- detailed performance of the budget for the past 18 months,
- Fiscal Target Appendix, Fiscal Risk Appendix etc.
- States and Local Governments are urged in preparing their annual budget to adopt the provisions of this part with necessary modifications.
- Budgetary Planning of Corporations and other related agencies.
- Budgetary Execution and Achievement of Targets respectively.
- Corporations and agencies are to, at specified times submit schedules of their projected revenue and expenditure to the Minister of Finance who is expected to attach the estimates to the Annual Appropriation Bill to be sent to the National Assembly.
- The scheduled corporations are expected to establish a general reserve fund and to allocate one-fifth of their operating surplus to the fund while paying over the balance to the Treasury.
- Execution and achievement of targets.
- The Accountant General of the Federation is to prepare an Annual Cash Plan and based on this Plan, the Minister is to prepare and publish a Disbursement
- The responsibility of the Budget Office to monitor and publicly report on the implementation of the budget.
- As regards public revenue, the Act makes provision for its forecast and collection.

- The forecast is to include monthly collection targets and measures to combat tax fraud and evasion.
- The provisions for savings take care of situations where proceeds from crude oil exceed the reference commodity price. **(Benchmark Price)**
- Such sums in excess of the reference commodity price are to be saved.
- Conditions for increasing government expenditure, conditions for increasing personnel expenditure etc, are addressed .
- A person shall have legal capacity to enforce the provisions of this Act by obtaining prerogative orders or other remedies at the Federal High Court without having to show any special or particular interest.
- Unlike the other sections of this Act which only urge states and local governments to emulate the Federal Government by enacting legislations with similar provisions, the conditions for borrowing are automatically binding on all the tiers of government because these are issues on the Exclusive Legislative List reserved for the National Assembly under the 1999 Constitution.
- On Transparency and Accountability and the Federal Government is mandated to 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.
- The National Assembly is obliged to ensure transparency during the preparation and discussion of the Medium-Term Expenditure Framework, Annual Budget and the Appropriation Bill.
- The Federal Government is among other things, to publish its audited accounts not later than six months following the end of the financial year as well as

- A person shall have legal capacity to enforce the provisions of this Act by obtaining prerogative orders or other remedies at the Federal High Court, without having to show any special or particular interest.
- . The fiscal responsibility law in Nigeria is structured after that of Brazil.
- Since year 2000, when the law became operational in Brazil, it has diminished chaos and corruption in the public sector management and the economy is on the upswing.
- It is expected that Nigeria's Fiscal Responsibility Law/act will deliver the same benefits as that of Brazil, streamlining economic priorities and manage the economy in a way that delivers significant benefit to the Nigerian people.
- Finally Brazil is about the first black nation that operates fiscal responsibility law and execution (Guardia and Sonder, 2004).

6.0 Transactions Management & compliance with Financial Regulations and Accounting standard

It is important to note that all financial transactions need to comply with relevant financial regulations and accounting standard. We shall look at some;

1. Bank Reconciliation; in line with FR716 all MDAs that are self Accounting are expected to prepare bank reconciliation on each bank account kept.
2. Responsibilities of the Political head; In line with FR 116 the political head of a ministry shall be the Minister while that of a parastatal and other arms of government shall be the Chairman of the Parastatal. However, any directive to the Accounting Officer by political head having financial implications shall be in writing.
3. Remittance of tax and vat; In line with FR 234 it is mandatory for Accounting Officers to ensure full compliance with the dual roles of making provision for Vat and WHT due on supply and services contract and actual remittance of same.

4. Idle fund in the Missions; In line with FR 711 Idle funds in the accounts of missions abroad may be invested short term deposit but with approval of the Accountant – General of the federation. Note that the interest accrue shall be paid to CRF.
5. [FR 734 Bank charges; No government agency shall place government funds in any commercial bank where COT will be charged.
6. FR 739 Investment of idle funds; Idle funds in the Bank Accounts of MDAs shall only be invested in Treasury Bill in accordance with extant circulars.
7. FR 1401 Personal Advance; Personal advances which are cash loans to individuals officers in the employment of the Federal Government of Nigeria. This personal to the officer
8. FR 1402 Advance non personal; are those advances granted to an officer in his official capacity for a programme.
9. FR 1412 Authority for Estacode; The following estacode shall be to officers on oversea tour;
 - a. Minister/SGF/HOS \$900 per diem
 - b. Permanent Secretary \$600 “ “
 - c. Officers on GL 15 – 17 \$425 “ “
 - d. Officers on GL 07 – 14 \$381 “ “
 - e. Officers on GL 01 – 06 \$206 “ “
10. FR 1705 Prepayment audit of payment voucher; The head of Internal Audit unit in all MDAs shall ensure that 100% pre- payment audit of all checked and passed vouchers is carried out.
11. FR 2001 Responsibility for vehicles; The accounting Officer shall be responsible for ensuring that there are effective control in the use of government vehicles. For this purpose, he will ensure that the following records are maintained;
 - a. Vehicles control’s register.
 - b. Requisition/approval for journey
 - c. Vehicle’s log book
 - d. Vehicle maintenance register
12. FR 2007 Service chart; Service chart should be prepared by transport officers showing the details of vehicles owned by ministries, the type of repair undertaken at the previous service, current problems, date of next service etc, Similar charts showing the service history of a vehicle from the date of purchase till its present age should also be compiled. This will enable the board of survey to determine the appropriate moment to board a vehicle.

- 13.FR 2303 Instruments for incurring expenditure; Local purchase order, Job order and Formal contract agreement.
- 14.FR 2909 Proof of Eligibility; All bidders in a contract for public procurement must show proof of eligibility for the award of the contract. They must prove the following amongst others,
- a. They possess the necessary technical qualification;
 - b. They possess the machinery, equipment and manpower for the job;
 - c. They have the legal capacity to enter into the contract ie they are not under a receivership nor they insolvent;
 - d. They are not tax evader
 - e. None of the director has been convicted in respect of any offence/crime involving fraud financial misappropriation

Revenue from Non-Exchange Transactions

•Non-exchange transactions are a transaction where an entity 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.

•**Revenue from Non-Exchange Transactions** is the main source of Revenue for Governments/Public Sector Entities.

Non-Exchange revenues are categorized into:

- a. Taxes;
- b. Transfers (Aid, Grants, Donations, etc)

•**Taxes** are economic benefits or service potential compulsorily paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide revenue to the government.

•**Transfers** are inflows of future economic benefits or service potentials from non-exchange transactions other than taxes e.g. debt forgiveness, aid, donations, grants, bequests, concessionary loans, service-in-kind etc.

Fines are economic benefits or service potential received or receivable by public sector entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Some transactions are made up of an exchange component and a non-exchange component. The entity should split the exchange component from the non-exchange component. Both components should be accounted for using their own specific recognition criteria.

Relevant Standard

The relevant Standard is **IPSAS 23**-Revenue from Non-exchange Transactions (Taxes and Transfers).

Recognition Generally, the criteria for recognition of Revenue from non-exchange transactions are:

a. It is probable that the future economic benefits or service potential associated with the resource will flow to the entity;

b. The fair value of the inflows can be measured reliably;

c. The entity has the ability to exclude or regulate the access of others to the benefits of the resource. This is an essential element of control that distinguishes an entity's resource from those public goods that all entities have access to and benefit from; and

d. An inflow of resources is probable when the inflow is more likely than not to occur. The entity bases this determination on its past experience with similar types of flows of resources and its expectations regarding the taxpayer or transferor that is Government.

Specifically, revenues from taxes are recognized together when a taxable event occurs.

Find below types of taxes, taxable events and timing for recognition:

Type of Tax

Income Tax:

- Individual
- Corporate
- Petroleum

Taxable Event

Earning of assessable income during the taxation period

Timing for Recognition

-Income tax deductions received through the Pay As You Earn (PAYE) is recognized at the point of receipt.

-Recognized by reference to the earning of assessable income by the taxpayers

Value Added Tax (VAT)

Undertaking of taxable activity during the taxation period

Point of sale of taxable goods and services.

Customs Duty	Movement of dutiable goods across the customs boundary	Point of the movement of dutiable goods across custom boundaries and custom controlled warehouses.
Property Tax	Passing of the date on which the tax is levied or the period for which the tax is levied	Point of occurrence of taxable event

Debt forgiveness is recognized as revenue at the carrying amount of the debt forgiven when the liability that was previously recognized is extinguished.

An entity is required to recognize service-in-kind in its financial statements. It shall recognize revenue and a corresponding expense at the fair value of the service received during the period in which the service is received (if such a value can be established).

Concessionary loans are given and received at below market value, the portion of the loan that is repayable, along with any interest payments, is an exchange transaction. However, the difference between the transaction price (loan proceeds) and the fair value of the loan on initial recognition is non-exchange revenue that should be recognized and accounted for as such.

There are instances where a transaction can be a combination of exchange and non-exchange transactions. In these instances the entity needs to determine what portion of the transaction is an exchange transaction and what portion is a non-exchange transaction and then recognize it separately.

Measurement

Revenue from non-exchange transactions shall be measured at the amount of the increase in net assets recognized by the entity i.e. at the fair value of the consideration received or receivable.

Disclosures

A. Revenues shall be recognized in the financial statements of the periods to which they relate.

B. In addition, an entity shall disclose by way of notes to the GPFS with respect to revenues from non-exchange transactions:

a. The amount of revenue from non-exchange transactions recognized during the period by major classes showing separately:

i. Taxes, showing separately major classes of taxes; and

ii. Transfers, showing separately major classes of transfer revenue.

b. The amount of receivables recognized in respect of non-exchange revenue;

c. The amount of liabilities recognized in respect of transferred assets subject to conditions;

d. The amount of liabilities recognized in respect of concessionary loans that are subject to conditions on transferred assets

e. The amount of assets recognized that are subject to restrictions and the nature of those restrictions;

7.0 Conclusion

From the above discussions, effective financial accounting and a sound reporting skill required personal effort. There is need to go through the training materials as many times as you can this is when you can proudly say you a professional.

