

**COURSE  
GUIDE**

**DES 213  
INTRODUCTION TO PUBLIC FINANCE MANAGEMENT**

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## **Introduction**

Welcome to **Introduction to Public Finance Management. DES213**

**DES213:** Introduction to Public Finance Management is a two-credit and one-semester undergraduate course for Public financial management student. The course is made up of twelve units spread across fifteen lectures weeks. This course guide gives you an insight to public financial management in a broader way and how to apply such in Administration. It tells you about the course materials and how you can work your way through these materials. It suggests some general guidelines for the amount of time required of you on each unit in order to achieve the course aims and objectives successfully. Answers to your tutor marked assignments (TMAs) are there.

## **Course Competencies**

This course is basically on Public Financial Management because as you are aspiring to become an Administrator, you must be able to apply such on a real-life situation. The topics covered include Introduction to Public Financial Management, Macro Economic Framework for Managing Public Financial Management, Legal and Regulatory Framework for Managing Public Financial Management, Success Factors of good Public Financial Management, Financial Reporting, Analyzing Financial Report, Accounting Practice and Financial Management Cycle, Financial Misconduct, Introduction to Budgeting, Revenue Management, Supply Chain Management and Public Asset Management and Fraud Prevention. You will be taken through the meaning of public finance management principles, concepts importance and their application to practical problems.

## **Course Objectives**

To achieve the above aims, there are some overall objectives which the course aims at achieving. Although there are set out objectives for each unit, included at the beginning of the unit- you should read them before you start working through the unit. You may want to refer to them during your study of the unit to check on your progress. You should always look at the unit objectives after completing a unit. This is to assist the students in accomplishing the tasks entailed in this course. This way, you can be sure you have done what is required of you by the unit.

At the end of the course period, the students are expected to be able to:

- Identify the principles, concepts of public finance management as it relates to real life situation.
- Discuss the fundamentals or elements of public finance management as it relates to the public sector.
- Analyse the success factors of public finance management.
- Explain the Legal and Regulatory Framework for Managing Public Financial Management.
- Explain Budget, Budget process, Methods of Budgeting system and Budget principles as it relates to the Nigeria system.
- Explain Financial Reporting and its importance to the users of accounting information (example of users; Government, The public at large, Investors, Management, Creditors, etc)
- Explain Accounting practices as it cut across various aspect in accounting, for example, Audit practices, Tax practices, Forensic practices, Book-keeping, etc
- Discuss the functions of public procurement management or supply chain management for public and private sector.
- Explain public Asset Management and Fraud Prevention and how it can help to curb corruption in the public sector.
- Apply financial management cycle in a real life situation.

### **Working Through this Course**

To successfully complete this course, you are required to read the study units, referenced books and other materials on the course.

Each unit contains self-assessment exercises called Student Assessment Exercises (SAE). At some points in the course, you will be required to submit assignments for assessment purposes. At the end of the course there is a final examination. This course should take about 15 weeks to complete and some components of the course are outlined under the course material subsection.

### **Study Units**

There are four (4) modules and twenty-one (21) units in whole for this course. They should be studied carefully and diligently. The modules and units are listed as follows:

## **Module 1: INTRODUCTION TO PUBLIC FINANCIAL MANAGEMENT**

- Unit 1 Introduction to Public Financial Management
- Unit 2 Macro Economic Framework for Managing Public Financial Management
- Unit 3 Legal and Regulatory Framework for Managing Public Financial Management
- Unit 4 Success Factors of good Public Financial Management

## **MODULE 2 FINANCIAL REPORTING AND AUDITING**

- Unit 1 Financial Reporting
- Unit 2 Analyzing Financial Report and Audit
- Unit 3 Accounting Practice and Financial Management Cycle
- Unit 4 Financial Misconduct

## **MODULE 3 BUDGETING**

- Unit 1 Introduction to Budgeting
- Unit 2 Revenue Management
- Unit 3 Supply Chain Management
- Unit 4 Public Asset Management and Fraud Prevention.

Each study unit will take at least two hours, and it include the introduction, objective, main content, self-assessment exercise, conclusion, summary and reference. Other areas border on the Tutor-Marked Assessment (TMA) questions. Some of the self-assessment exercise will necessitate discussion, brainstorming and argument with some of your colleges. You are advised to do so in order to understand and get acquainted with historical economic event as well as notable periods.

There are also textbooks under the reference and other (on-line and off-line) resources for further reading. They are meant to give you additional information if only you can lay your hands on any of them. You are required to study the materials; practice the self-assessment exercise and tutor-marked assignment (TMA) questions for greater and in-depth understanding of the course. By doing so, the stated learning objectives of the course would have been achieved.

## References and Further Readings

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- Adams, R.A.(2014). Public Sector Accounting and Finance Made Simple 6thedn. Allen, R; Hemming, R., & Potter, H.B. (2013).The international handbook of public financial management.New York (N Y): Palgrave Macmillan.  
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- For further reading and more detailed information about the course, the following materials are recommended:
- Human Resource Management Reader (2013).Human Resource Management Course. Ethiopian Civil Service University. ICAN (2014).Public Sector Accounting and Finance Study Text.(1sted.) United Kingdom, Berkshire: Emile Woolf International International Accounting Standards Board (2010). The conceptual framework for financial reporting(1stedn). London. IASB
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- Soltani, B. (2008). A closer look at financial reporting: Understanding the fraud risks associated with corporate reporting is vital to maintain organizational well-being, available on <http://www.thefreelibrary.com>
- Technical Competency Explanatory,(2016). A Framework for Federal Authority for Government Human Resources. United Arab Emirates.
- The Case of Halaba Special Woreda Town Administration Ethiopia (SNNPR). IRA International Journal of Management & Social Sciences 6(2),188-234.
- Tiwari, P. (2017). Assessing Factors Affecting Revenue Management in Public Sector:
- Wang ,X.(2006). Financial management in the public sector: tools, applications and cases, NewYork (NY): M.E. Sharpe Armonk
- Yasin, N. (2012). Problem of tax revenue administration in Somali land Harergeisa Municipality. ECSU institute of tax and customs Administration

### **Presentation Schedule**

The presentation schedule included in your course materials gives you the important dates of the year for the completion of tutor-marking assignments and attending tutorials. Remember, you are required to submit all your assignments by due dates. You should guide against falling behind in your work.

## **Assessment**

There are two types of the assessment for this course. First are the tutor-marked assignments; second, the written examination.

In attempting the assignments, you are expected to apply information, knowledge and techniques gathered during the course. The assignments must be submitted to your tutor for formal Assessment in accordance with the deadlines stated in the Presentation Schedule and the Assignments File. The work you submit to your tutor for assessment will count for 30 % of your total course mark.

At the end of the course, you will need to sit for a final written examination of two hours' duration. This examination will also count for 70% of your total course mark.

## **How to get the Most from the Course**

In distance learning the study units replace the University Lecturer. This is one of the greatest advantages of distance learning, you can read and work through specially designed study materials at your own pace and at a time and place that suit you best. Think of it as reading the lecture instead of listening to a Lecturer. In the same way that a Lecturer might set you some reading to do, the study units tell you when to read your books or other material, and when to embark on discussion with your colleagues. Just as a Lecturer might give you an in-class exercise, your study units provides exercises for you to do at appropriate points.

Each of the study units follows a common format. The first item is an introduction to the subject matter of the unit and how a particular unit is integrated with the other units and the course as a whole. Next is a set of learning objectives. These objectives let you know what you should be able to do by the time you have completed the unit. You should use these objectives to guide your study. When you have finished the unit, you must go back and check whether you have achieved the objectives. If you make a habit of doing this you will significantly improve your chances of passing the course and getting the best grade.

The main body of the unit guides you through the required reading from other sources. This will usually be either from your textbooks or reading sections. Some units may require for you to have a discussion and practical problem solving sections. You will be directed when you need to embark on these and you will also be guided through what you must do. The purpose of the discussion and practical problem solving sections of some certain public



financial problems are in two fold. First, it will enhance your understanding of the material in the unit. Second, it will give you analytical skills to evaluate economics and practical problems. In any event, most of the practical problems solving skills you will develop during studying are applicable in normal working situations, so it is important that you encounter them during your studies.

Self-assessments are interspersed throughout the units. Working through these tests will help you to achieve the objectives of the unit and prepare you for the assignments and the examination. You should do each self-assessment exercises as you come to it in the study units.

The following is a practical strategy for working through the course. If you run into any trouble, consult your tutor. Remember that your tutor's job is to help you. When you need help, do not hesitate to call and ask your tutor to provide it.

1. Read this Course Guide thoroughly.
2. Organize a study schedule. Refer to the 'Course overview' for more details. Note the time you are expected to spend on each unit and how the assignments relate to the units. Important information, e.g. details of your tutorials, and the date of the first day of the semester is available from study centre. You need to gather together all this information in one place, such as your diary or a wall calendar. Whatever method you choose to use, you should decide on and write in your own dates for working breach unit.
3. Once you have created your own study schedule, do everything you can to stick to it. The major reason that students fail is that they get behind with their course work. If you get into difficulties with your schedule, please let your tutor know before it is too late for help.
4. Turn to Unit 1 and read the introduction and the objectives for the unit.
5. Assemble the study materials. Information about what you need for a unit is given in the 'Overview' at the beginning of each unit. You will also need both the study unit you are working on and one of your textbooks on your desk at the same time.
6. Work through the unit. The content of the unit itself has been arranged to provide a sequence for you to follow. As you work through the unit you will be instructed to read sections from your textbooks or other articles. Use the unit to guide your reading.
7. Up-to-date course information will be continuously delivered to you at the study centre.
8. Work before the relevant due date (about 4 weeks before due dates), get the Assignment File for the next required assignment. Keep in mind that you will learn a lot by doing the assignments carefully. They have

been designed to help you meet the objectives of the course and, therefore, will help you pass the exam. Submit all assignments no later than the due date.

9. Review the objectives for each study unit to confirm that you have achieved them. If you feel unsure about any of the objectives, review the study material or consult your tutor.
10. When you are confident that you have achieved a unit's objectives, you can then start on the next unit. Proceed unit by unit through the course and try to pace your study so that you keep yourself on schedule.
11. When you have submitted an assignment to your tutor for marking do not wait for its return before starting on the next units. Keep to your schedule. When the assignment is returned, pay particular attention to your tutor's comments, both on the tutor-marked assignment form and also written on the assignment. Consult your tutor as soon as possible if you have any questions or problems.
12. After completing the last unit, review the course and prepare yourself for the final examination. Check that you have achieved the unit objectives (listed at the beginning of each unit) and the course objectives (listed in this Course Guide).

### **Online Facilitation**

The course, Public Finance Management (DES 213), will expose you to basic concepts and principles in Public Finance Management. This course will give you an insight into the use of public finance management in solving economics problems in the private and public sector.

On successful completion of the course, you would have developed critical and practical thinking skills necessary for efficient and effective discussion and problem solving in public finance management issues and Budgeting system in Nigeria. However, to gain a lot from the course please try to apply everything you learnt in the course in order to improve efficiency.

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## **Module 1: INTRODUCTION TO PUBLIC FINANCIAL MANAGEMENT**

- Unit 1 Introduction to public financial management
- Unit 2 Macro Economic Framework for Managing Public Financial Management
- Unit 3 Legal and Regulatory Framework for Managing Public Financial Management
- Unit 4 Success Factors of good Public Financial Management

### **Unit 1 INTRODUCTION TO PUBLIC FINANCE MANAGEMENT**

#### **Unit Structure**

- 1.1 Introduction
- 1.2 Intended Learning Outcomes
- 1.3 Main Content
  - 1.3.1 What is the public finance management?
- 1.4 Objectives of Public Finance Management
- 1.5 The 'P' in public finance management
- 1.6 Summary
- 1.7 References/Further Readings/Web Resources
- 1.8 Possible Answers to Self-Assessment Exercise(s)



#### **1.1 Introduction**

Governments all over the world have a responsibility to provide goods and services for their citizens in an efficient and effective manner despite having differing ideologies and value systems. The environment in which economic activity takes place, therefore, depends upon the people, the resources available within the nation, the system in place to provide welfare for her citizens. It is widely understood that Public Finance Management (PFM) is fundamental to attaining sustainable development objectives, reducing unemployment and poverty. PFM is a branch of financial management concerning the mobilization of revenue, allocation of nations (public) funds in a way that will achieve reduction in wastage and poverty. It includes the study of government and how funds are been managed. It enables the government spent efficiently and with integrity, provides confidences to the donors, help to build trust for donors and investors. PFM is a lever to nation development, to raising funds effectively, planning and executing budget decisions and transparently. The current agenda of the United Nation (UN) vision2030 on sustainable development that will be led by countries if it is to have

lasting transformative effect required greater reliance on PFM systems. It is universally accepted that good PFM is a necessary for achieving sustainable development. PFM is at the center of any nation's system.



## 1.2 Intended Learning Outcomes

By the end of this unit, you will be able to:

- Define and explain the term Public Finance Management (PFM)
- Explain the objectives of PFM.
- Identify the P in PFM.



## 1.3 What is The Public Finance Management (PFM)?

Public finance management refers to the set of laws, rules, systems and processes used by sovereign nations to mobilize revenues, allocate public funds, and undertake public spending account for funds and credit results (Lawson, 2015). According to Potter and Diamond (1999), PFM refers to the procedures established by law or regulation for the management of public monies. Through the budget process, this includes formulation, execution, reporting and is concerned with aspects of resource mobilization and expenditure management in the public sector (ACCA's policy document, 2012). Some of the private sector lacks the moral sentiment and incentives of a responsible government to provide for various segment or the economy, including the underprivileged, the public sectors role in relevant. In Nigeria, government expenditure on public services account for more than 40% of the nation's Gross Domestic Product, and this is almost same in most countries, hence interest and expectations of this service is high and management of public monies need to be able to withstand scrutiny from all spheres of the economy.

The PFM system involves several stakeholders that include states and non-state actors such as the academies, civil societies and political parties. These stakeholders are engaged in the PFM cycle to ensure that the system operates effectively and transparently while preserving accountability. The cycle explained that some interest groups are critical of spending public monies to avoid increasing the tax burden, others are clamoring for more spending even if that will result into increase in tax burden. It is also clear that with reference to civil society, this category embraces a variety of interest groups with different mission and views on public spending. However, in achieving success in the public financial management, the following key variables are considered as a

major player; Policy Formulation; Budget Formulation; Budget Authorization; Budget Execution; Budget Accountability and External Audit and Evaluation. Budget is a special tool in analyzing Public Financial Management. Therefore, understanding the elements that makes up public financial management is germane.

**Policy Formulation:** Policy formulation as it relates to public financial management regard budget as one of the government's most important policy documents. The budget process should facilitate this policy role in all phases of the budget cycle. For a state to develop a more advanced PFM approach their budget systems, should evolved away from this traditional model to make them more policy relevant. Budget should be more comprehensive in its coverage and better integrating recurrent and capital components of budgets; procedurally forcing budget participants to think interns of policy delivery rather than input use; and backing up these new budget procedures with various enforcement mechanisms. For example, ministry of finance and ministry of budget and planning should be merged as a single ministry like the current merging in Nigeria by the Buhari administration.

**Budget Formulation:** This another budgetary process that covers the estimation of government revenues, the determination of budgetary priorities and activities within the constraints imposed by available revenues and by borrowing limits, and the translation of approved priorities and activities into expenditure levels. This will in turn result to more transparent and effective public financial management.

**Budget Authorization:** The budget authorization constitutes the phase of the budgetary process. The legislature reviews and modifies the budget proposal of the President and formulates an appropriate bill following the process established by the Constitution, which specifies that no money may be paid from the treasury except in accordance with an appropriation made by law. This window is used to view budgets that have been processed for a selected budget. The basic forms of budget authority are: appropriations, authority to borrow, contract authority and authority to obligate and expend, offsetting receipts and collections.

**Budget Execution:** The process by which the financial resources made available to a state are directed and controlled towards achieving the purpose and objects for which such budgets were approved. The process involves compliance with legal, institutional, macroeconomic requirement in order to attain an effective financial management of public resources to achieve the objectives of development programme.

**Budget Accountability:** The act or requirement to record the reasoning behind all recommendations or decisions when a preparing a budget.

This includes both estimates of revenues and desired expenditures. This is to help ensure the budget is prepared in the most responsible way possible so that sustainable development can achieve in the state.

**External Audit and Evaluation:** Adequate mechanism of external control is an integral part of any sound PFM system. External audit institutions (outside the control of the executive, but in most cases reporting to the legislative exist in virtually every country, but their effectiveness varies significantly. External audit institutions can vet a government's compliance with legally binding fiscal rules, including through the analysis is of the reliability of the relevant accounting information and of the possible materialization accounting risks. Hence, the adoption of a fiscal value with the creation of independent watch dog responsible for the evaluating the likelihood of compliance of a proposed budget.

Self-Assessment Exercises 1

Discuss the Elements of Public Finance Management?

#### 1.4 OBJECTIVES OF PUBLIC FINANCE MANAGEMENT (PFM)

**The main** objectives of PFM are to achieve overall fiscal discipline allocation of the nation's resources to priority needs, and efficient and effective public service delivery. Arsalan and Nida (2012), identified four specific objectives that effective public finance management should entail:

- a. **Aggregate Finance (Fiscal) Management:** Is a known fact that state sources for revenues from natural resources available to the state such as collection of taxes from the public, borrowings, disposal of owned corporation's etc. annual budgets are used to allocate these resources to various public departments according to the priorities that have been identified and agreed upon by the stakeholders. PFM ensures that revenue collections and public spending are consistent with targets for the fiscal sustainability and maximizing revenues mobilization, resource allocations in accordance with policy priorities.
- b. **Operational Management:** Some operational aspects are directly affected through financial managements. These are:
  - i. **Assets Acquisition and Disposal:** Capital assets financing is a key decision required in financial management resources, since it involves huge outflow of resources. In a good governance structure,



authorization is requiring consent from all the stakeholders before execution of material contracts.

**ii. Treasury Management:** In public finance, sound treasury management balances the value maximization objective of the government with the need to maintain liquidity for the discharge of institutional liabilities. Investment opportunities with medium risks are preferred to that with low risk since public monies are at stake.

**iii. Review and Performance Evaluation:** This is a critical process to identify and understand the mistake of the past. This will help to formulate and implement insightful strategy in the future. Insightful performance evaluation may result to new discoveries and revolutionary solutions to problems. For instance, the government of the day can phase out activities that do not add value for the optimal use of limited public funds.

**iv. Reporting to Stakeholders:** Stewardship accounting and financial accountability obligation can be achieved through the preparation and publication of annual audited financial statements in entities annual reports. This is an important means to show how the public sector discharges its financial management responsibilities and to account for public funds as it increases transparency and accountability.

**c. Governance:** Good governance assigns the decision making structure to persons that can be relied upon for the effective discharge of their responsibilities and this will only be possible when people with the right set of technical skills and proven capabilities of managing their roles have been employed. Sound PFM is inextricably link with anti-fraud and corruption cultures. An independent internal audit function within a public entity has an integral role towards its good governance.

**d. Fiduciary Risk Management:** Flexible fiduciary risk management is needed to mitigate anticipated and unanticipated risk that public entity face while pursuing their objectives. Auditing of public financial statements by the external auditor is a way through which the risk that may deter the achievement of desired objectives of public entity can be address.

Self-Assessment Exercises 2

Discuss some operational management aspects that are directly affected through financial managements?

## 1.5 The 'P' In Public Finance Management

According to the Chartered Institute of Public Finance and Accountancy (2009), observed distinction between the features of PFM with other financial management environments are as follows:

- a. A taxpayer relationship with citizens and customers, rather than one defined principally by consumer interests and choice. This relationship calls for high standards of governance, probity, sound financial administration, steward of public resources and overt compliance with regulatory standards.
- b. A heightened expectation of integrity, transparency and accountability to the public.
- c. A culture of cost centers rather than profit centers. Efficiency and value for money drivers may need to be internally generated, rather than result from market force.
- d. Inelastic resources – there is competition for resources between service demands that can always consume more funds, and that may be beyond direct control, such a demographic change. Funding envelopes may be determined independently of expenditure pressures, or the relationship may be inverse, for example, when a recession increases demand whilst reducing tax base and income sources.
- e. Dependency on external funding sources of variable reliability, that can create instability in planning and implementing expenditure program.
- f. Management of demand levels that are constrained not by other techniques that may involve difficult choices like queuing and rationing.
- g. A political environment that imposes pressures and risks that may be calibrated differently from business risks. For example, the risks of ceasing a service feel much greater for a politically driven organization. Electoral timetables can influence the timing of decisions. Prioritizations and resolution of the competing demands for resources is essentially a 'political' and value driven process rather than a technocratic solution.
- h. There is an endemic risk that policy and financial planning take place independently.
- i. Service delivery may take place in a system of devolved financial responsibility that increases the complexity and risks to understanding financial implications.
- j. A balance to be continuously negotiated between the objectives of founders, whether government or external donors, and more locally driven priorities.
- k. A set of administrative processes that is characteristics of the public sector, such as tax administration or concessionary charging. These

typically involve a political judged tension between social outcomes (e.g. antipoverty policies) and administrative efficiency (e.g maximizing income collection)



## 1.6 Summary

In this unit, we can conclude that public finance management is the study of government. Financial management is the process of planning, practices, and evolution after the organisation public entities require money to operate, money pays for personnel costs, service debts, events and facilities. Understanding how we spend money will help the state we support succeed, regardless of our role in the state? This unit conclusion will lead us to the next unit titled “Macroeconomic Framework for Managing Public Finance Management”.

In this unit, we have discussed extensively on introduction to public finance management (PFM) such as meaning of public finance management (PFM), objectives of PFM while the P in public finance management ( i.e the distinct features of PFM ) was also examined.



## 1.7 References/Further Readings/Web Resources

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## 1.8 Possible Answers to SAEs

### Answers to SAEs 1

- **Policy Formulation:** Policy formulation as it relates to public financial management regard budget as one of the government's most important policy documents.
- **Budget Authorization:** The budget authorisation constitutes the phase of the budgetary process.
- **Budget Accountability:** The act or requirement to record the reasoning behind all recommendations or decisions when a preparing a budget.

### Answers to SAEs 2

- **Assets Acquisition and Disposal:** Capital assets financing is a key decision required in financial management resources, since it involves huge outflow of resources.
- **Review and Performance Evaluation:** This is a critical process to identify and understand the mistake of the past.
- **Reporting to Stakeholders:** This is an important means to show how the public sector discharges its financial management responsibilities and to account for public funds as it increases transparency and accountability.

## **Unit 2:       MACROECONOMIC FRAMEWORK FOR MANAGING PUBLIC FINANCE MANAGEMENT**

### **UNIT STRUCTURE**

- 2.1 Introduction
- 2.2 Intended Learning Outcomes
- 2.3 Main Content
  - 2.3.1 Meaning of Macroeconomic framework
- 2.4 Fiscal Policy and Public Finance Management
- 2.5 Macroeconomic consequences of fiscal
- 2.6 Summary
- 2.7 References/Further Readings/Web Resources
- 2.8 Possible Answers to Self-Assessment Exercise(s)



#### **2.1 Introduction**

Macroeconomic framework is concerned with the analysis of fiscal policy or macro fiscal analysis which deals with how fiscal policy affects macroeconomic outcomes and how macroeconomic considerations influence fiscal policy choices. However, the macroeconomic consequences of fiscal deficits such as debt sustainability, fiscal targeting, and adjustment countercyclical fiscal policy are to be discussed.



#### **2.2 Intended Learning Outcomes**

By the end of this unit, you will be able to:

- Explain the meaning of macroeconomic framework
- Know the traditional and modern approaches to public finance management
- Identify macroeconomic consequences of fiscal policy



#### **2.3 Macroeconomic Framework – A definition**

Macroeconomic framework “is a set of sectorial projections (for the real external, fiscal and monetary sectors), consistent with each other, consistent with the policy framework and consistent with the macroeconomic goals” (Allen, Hemming & Potter, 2013). However, macroeconomic framework is an aggregate indicators such as GDP,

unemployment rates, national income, price indices, and the interrelations among the different sectors of the economy to better understand how the whole economy functions.

#### Self-Assessment Exercises 1

Explain Macroeconomic Framework.

### **2.4 Fiscal Policy and Public Finance Management.**

The traditional approach to public finance highlights three main fiscal policy functions of government- allocation, distribution and stabilization.

The primary microeconomic function is the allocation and distribution of public resources redirected by government to provide economic social and administrative infrastructure and services that support growth and economic and development and to transfer revenue and purchasing power from the advantaged to the disadvantaged to improve social outcomes. Macroeconomic functions after results into efficiency and equality improvements that will contribute to sustainable growth stability.

PFM is concerned more with expenditure than it is with taxation. It is more about the practical capacity that has to be developing to ensure that fiscal instruments are used to their full advantage.

In order to achieve an effective macroeconomic outcome there should exist the chain that links PFM, fiscal management instruments, fiscal policy objectives, this will enable PFM to influence macroeconomic developments and that, by implication can be compromised by inadequate PFM arrangements and capacity.

However, it is clear that spending efficiency (allocative efficiency) that focused on the most valued programs and (technical efficiency) which is concerned with meeting programs and projects at least cost – is the key to governments achieving the most key can with a given level of public resources. This is where PFM can play a central role through reasonable taxation and responsible borrowing and then focus on how the government budget and off budget resources allocation mechanisms can be used to maximise efficiency in the use of public funds.

### **2.5 Macroeconomic Consequences of Fiscal Deficits.**

The following are macroeconomic consequences of fiscal deficits:

- (a) The government's financial balance: is concerned on how government finances her deficit that reflects in the government financial balance.

$\text{Expenditure} - \text{Revenue} = \text{Fiscal Deficit} = \text{Domestic Borrowing} + \text{Monetary financing} + \text{Foreign Borrowing}.$

The equation above highlights the components of deficit financing – borrowing from the domestic private sector (individuals, Firms, Financial Institutions and the rest of the public sector (public financial institutions, state- owned enterprises), having the Central bank expand the money supply and borrowing from foreign government, overseas private investors and lenders, and international agencies. However, the manner fiscal deficit is financed by government is always a policy choice, and the choice that is made should take into account the macroeconomic consequences of different financing alternatives.

- (b) The economy's saving- investment balance spending and revenue levels; the structure of taxes and spending are relevant when assessing macroeconomic impact of fiscal policy but when attention turns to the impact of fiscal policy on macroeconomic aggregates, it is the fiscal deficit that is usually most relevant. One way to observe that is fiscal deficit as a component of the economy's saving-investment balance, which is an identity of  $\text{Government savings} + \text{private savings} + \text{Foreign savings} = \text{Government investment} + \text{Private investment}.$

The equation above explains that there must be enough aggregate savings to finance aggregate investment.

In practice, saving is ascertained by many current and future considerations, and the sized of any private savings response to fiscal deficits. The impact of fiscal policy on private investment and the presumption is that fiscal policy deficit for any change in the fiscal balance feeding through to the current account balance although circumstances could result in much smaller or much larger offsets.

- (c) Debt Sustainability; It has been observed that prolonged deficits lead to an accumulation of debt that can create macroeconomic problems over the medium term as rising interest payments contribute to higher deficits macroeconomic effects of debt are the following definitions.

- Primary deficits /gross domestic product (GDP)
- Fiscal deficits/GDP-Interest payments/GDP and
- $\text{Interest payments/GDP} = \text{Interest Rate} \times \text{Debt/GDP}$

The rate of interest is the effective interest rate on the debt (i.e it is determined as  $\text{interest payments/debts}$ ).  $\text{Debt/GDP}$  is the debt ratio with typically being measured in gross terms. It then follows that:  $\text{Change in (Debt/GDP)} = \text{Primary deficits/GDP} + (\text{Interest Rate} - \text{Growth rate}) \text{Debt/GDP}$

The equation above provides the basis for debt sustainability analysis (DSA) The DSA is an assessment of the government's ability to make the fiscal policy adjustments needed to achieve solvency.

Debt sustainability analysis produces debt projection over a time span when macroeconomic projections are more reliable and fiscal policies are predictable which in practice more than a few years is. However, debt sustainability analysis compares uncertain outcomes with arbitrary debt limits. It provides useful impact into fiscal policy discussions, and can serve to focus attention on the implications of alternatives policy choices, but it has been used with care.

- (d) Fiscal targeting and adjustment; Debt sustainability analysis suffer some limitations that provides the basis for fiscal targeting and by implication, for fiscal adjustment and this shows that must directly links fiscal deficits and debt with PFM, since PFM is both constrained by and must be consistent with whatever fiscal targets are in place. While the fiscal balance is the most commonly used headline fiscal indicator. This is useful where debt is a clear constraint such as is so high in the markets and is a significant risk premium in the interest rates but where debt where debt is less of constraint, fiscal targeting should be guided more by the short-term macroeconomic consequences of fiscal imbalances. However, even where debt is a constraint, such considerations could call for a more ambitious fiscal balance target than debt sustainability concerned along world demand.
- (e) Countercyclical Fiscal Policy; The government can use both spending and taxations to respond to variations in economic activity. It can employ spending increases and tax costs to provide a fiscal expansion or stimulus, in an economy where aggregate demand is weak, growth is low and a recession is looming or has hit.

Government can also use spending cut and tax increases to apply a fiscal contraction to an economy that is growing too fast, there is a risk of inflation, and balance of payments problems as domestic supply constraints begin to bind.

#### Self-Assessment Exercises 2

Discuss the macroeconomic consequences of fiscal deficits?





## 2.6 Summary

In this unit, we can conclude that macroeconomic framework of fiscal policy is concerned with how fiscal policy affects macroeconomic outcomes and how macroeconomic considerations influence fiscal policy choices, public financial management responsibility, how macroeconomic consequences can be showed and how it can be resolved by having a shift from the traditional approach of allocation, distribution and stabilization to the modern approach of concentrating more on expenditure than tax. The conclusion of this unit will lead to the next unit which is titled “Legal and Regulatory Framework for Managing Public Finance Management”.

In the unit, we have discussed extensively on the meaning of macroeconomic framework; the impact of fiscal policy on public finance management and macroeconomic consequences of fiscal deficits.



## 2.7 References/Further Readings/Web Resources

Allen, R., Hemming, R. and Potter, B (2013).The International Handbook of Public Financial Management. London: Palgrave MacMillan. <https://www.palgrave.com/gp/book/9780230300248>  
Pimenta,C., & Pessoa, M. (2015). Public financial management in Latin America.New York (NY): Rightslink.



## 2.8 Possible Answers to SAEs

### Answers to SAEs 1

1. macroeconomic framework is an aggregate indicators such as GDP, unemployment rates, national income, price indices, and the interrelations among the different sectors of the economy to better understand how the whole economy functions.

### Answers to SAEs 2

- (a) The government’s financial balance: is concerned on how government finances her deficit that reflects in the government financial balance.
- (b) Debt Sustainability It has been observed that prolonged deficits lead to an accumulation of debt that can create macroeconomic problems over

the medium term as rising interest payments contribute to higher deficits  
macroeconomic effects of debt are the following definitions

- (c) Countercyclical Fiscal Policy. The government can use both spending and taxations to respond to variations in economic activity.

### **Unit 3: LEGAL AND REGULATORY FRAMEWORK FOR MANAGING PUBLIC FINANCE MANAGEMENT**

#### **UNIT STRUCTURE**

- 3.1 Introduction
- 3.2 Objectives
- 3.3 Main Content
  - 3.3.1 Legal Framework that Governs Public Finance Management in Nigeria
  - 3.3.2 What Is Legal Framework?
- 3.4 Public Finance Management is governed By the Nigerian Constitution
  - 3.4.1 Regulatory Framework That Governs PFM in Nigeria.
- 3.5 Public Finance Management is regulated by the following Regulations
  - 3.5.1 Some Reforms in the Nigerian Public Finance Management
- 3.6 Summary
- 3.7 References/Further Readings/Web Resources
- 3.8 Possible Answers to Self-Assessment Exercise(s)



#### **3.1 Introduction**

The legal and regulatory framework that underlies the Public Financial Management system includes tax laws, budget system laws and country's constitution besides laws, there are regulations relating to public finance management. Laws, budgets and regulations are essential to the task of public finance management. An appropriate legal and regulatory framework for a public financial management system should reflect an awareness of the link/between the strategic policy objectives of the government and the system and process relating to public financial management with referred to expenditure, so as to conform to the constitution principles and legislative responsibility and good governance, apart from the legal and regulatory framework that help to govern public finance management in Nigeria. The country also embarked in Economic Reforms and Governance Project (ERGP) sponsored by the world Bank to address the challenges of transparency, accountability, corruption and poor public service delivery this lead to the introduction of integrated personnel payroll and information system, Government integrated financial management information system, E- payment, Treasury Single Account etc.



### 3.2 Intended Learning Outcomes

By the end of the unit, you will be able to:

- Explain the legal framework that governs public finance Management in Nigeria.
- Discuss the regulatory framework that governs public finance management in Nigeria



### 3.3 Legal Framework that Governs Public Finance Management in Nigeria

Public finance is the study of the role of the government in the economy. It is the branch of economics that deals with the revenue and expenditure of government or public institutions to achieve desirable objectives. Public financial management is the administration of funds used to deliver or provide public services such as education, health care, infrastructure among others. However, public finance management is concerned with public accountability and it is therefore governed by various statutory act or laws.

#### 3.3.1 What Is Legal Framework?

Legal framework is a broad system of rules that governs and regulates decision making, agreements, laws, etc. It includes procedures regulations, guidelines, codes of conduct and other regulatory documents.

Self-Assessment Exercises 1  
What is Legal Framework?

### 3.4 Public Finance Management Is Governed By The Nigerian Constitution

- i. **Nigeria Constitution:** Public finance management is governed by the constitution of the Federal Republic of Nigeria, 1979 as amended 1989 and 1999 is one of the legal frameworks that regulate the mobilization of revenues, allocation of public funds, undertakes public spending account for funds and audit results. It also defines the expenditure and revenue collection responsibilities that are under their review.
- ii. **Audit Ordinance of 1956 or Act Of 1956:** These Act section 13 sub-sections 1-3 mandates the Accountant-General of the

- Federation to furnish the Auditor-General for the Federation with the nation's financial statement. This will enable the results obtain on how the financial resources of the public to be audited to ensure public accountability and transparency.
- iii. **Finance (Control and Management) Act of 1958, cap 144, 1990:** The Act governs the management and operation of public funds. It regulates the accounting system, the books to be kept and the procedure to be followed in the preparation of accounts and financial statements.
  - iv. **Public Procurement Act 2007:** This act established the National Council on Public Procurement (NCPP) and the Bureau of Public Procurement (BPP) as the regulating authorities responsible for monitoring and over sight of public procurement, harmonising the existing government policies by regulating setting standards and developing the legal framework and professional capacity for public procurement in Nigeria. The Act sets standard for organization procurements, methods of procurements of works, goods, consultancy and non-consultancy service as well as the procurement approval threshold for the Bureau of Public Procurement, Tenders Boards and Accounting officers for all Ministries, Department and Agencies.
  - v. **Fiscal Responsibility Act 2007:** This Act provides for the prudent management of the country resources, ensures long term macro-economic stability of the national economy, and secures greater accountability and transparency in fiscal operation in within a medium term fiscal policy framework the establishment of the fiscal responsibility and commission to ensure the promotion and to enforcement of the country's economic objectives. The Act emphasises the preparation of Medium Term Expenditure Framework Annual Budget, Budgetary Execution and Achievement Targets, collection of public revenue, Public Expenditure, Debt and indebtedness, borrowing, transparency and accountability.
  - vi. **Other Laws Guiding Public Finance Management:** Other laws guiding public finance management include the Independent Corrupt Practices and Other Related Offences Commission (ICPC) Act of 2000, Economic and Financial Crime Commission Establishment Act,2002, Nigeria Extractive Industries Transparency Initiative (NEITI) Act,2007 Appropriation Acts, Code of Conduct Bureau and Tribunal Act, 1991 and Money Laundering Act,1995.

### 3.4.1 Regulatory Framework That Governs PFM in Nigeria

Regulatory framework is an accountability mechanism, a method by which the regulator accounts for the responsibilities conferred upon it.

Regulatory framework for public financial management is essential to ensure that the needs of the public (stakeholders) are met and to regulate the behaviour of government towards their citizens in order to achieve sustainable development.

International Financial Reporting Standards (IFRS) argued that regulatory framework includes procedures, regulations, guidelines, codes of conduct, and other regulatory documents- complements financial and budget laws by clarifying or filling in gaps and should be regulatory reviewed.

### **3.5 Public Finance Management is regulated by the following Regulations**

- i. **Financial Regulations:** these are the accounting manual of government ministries, extra ministerial departments that deals with financial and accounting matters. They set out the procedures and steps to be followed in treating most of government transactions.
- ii. **Finance/ Treasury Circulars:** these are admin -tools that are used to amend the existing provision of financial regulations, public services rules and the introduction of new policy guidelines.
- iii. **The Financial Regulations (2009 Edition):** The financial regulations are powerful control tools used in the public sector funds management. They are the accounting manuals of the three tiers of government of public frauds. The rules spelt 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.

#### Self-Assessment Exercises 2

1. Write short note on the following:

Treasury Single Account (TSA).

Government Integrated Financial Management Information System (GIFMIS).

Integrated Personnel Payroll and Information System (IPPIS).

### **3.3 Some Reforms in the Nigerian Public Finance Management**

In 2004, the country embarked on economic reform and government project (ERGP) sponsored by the world bank to address the challenges of transparency, accountability, corruption and poor service delivery faced by the Federal Government of Nigeria. Some reforms in the Nigeria public finance management are as follows:

**Treasury Single Account (TSA):** This unified structure of government bank accounts gives a consideration view of government cash resources. The primary objective of this TSA is to ensure effective aggregate control over government cash balances, thus, facilitates government cash management by minimising borrowing costs and effective aggregate control of cash as a key element in monetary and budget management. It also permits complete and timely information in government cash resources. TSA enhance greater transparency in public finance management; facilitate more reliable and accurate accounting and improved reporting.

### **3.5.1 Government Integrated Financial Management Information System (GIFMIS)**

GIFMIS is a sub component of the ERGP that will support the public resource management and targeted anti-corruption initiatives area through modernizing fiscal processes using better methods, techniques and information technology. The GIFMIS aid strategic management of public financial resources for enhanced accountability, transparency, cost effective, public service delivery, and economic growth and poverty reduction efforts. The broad objective of GIFMIS is to implement a computerised financial management information system for the government, which is efficient, effective, and users friendly and which increases the ability to demonstrate accountability and transparency to the public and cooperating partners.

However, GIFMIS can only be successful if these are present: sustained management support, effective organization change; good project scope management; adequate project team composition etc.

**National Chart of Account (NCOA):** the chart of accounts (COA) also called national chart of account provides a robust mechanism and form the classification of public resource under the budget as well as tracking public resources under the budget executive and seeks to support the adoption of more transparent and modern economic and financial management systems and process that are less prone to corruption.

### **Integrated Personnel Payroll and Information System (IPPIS)**

IPPIS is one of the transformation agenda of the Federal Government of Nigeria with the aim of creating a centralised data base system for Nigerian public service with single accurate source of employee information that provides integration with other business application. The objective of IPPIS is to provide a centralised data base to aid government's manpower planning and decision making; greatly improve management reporting and information and enhance the confidence in payroll costs and budgeting.

**Excess Crude Account (ECA):** ECA is the name of Nigerian government account that is created to save revenues- in excess of budgeting benchmark price -that were generated from the sales of oil. The primary objective of ECA was to protect Nigeria planned budgets against shortfall caused by the volatility of crude oil prices. By detaching government expenditures from oil revenues, the ECA aimed to insulate the Nigerian economy from external shocks. It sought to protect public expenditure from being pattered on the boom- and bust cycles of the international oil market

**Sovereign Wealth Fund (SWF):** SWF was approved in 2011, by Nigeria's National Economic Council a plan to replace (ECA), primarily to ameliorate the controversies surrounding the ECA'S legality. SWF consisted of three sub-funds i.e the stabilization to support the budget in times of economic stress including to hedge against volatile crude oil prices, the future generations fund – to save for future generations of Nigerians; and the Nigeria infrastructure fund – to invest in domestic infrastructure. The objective of SWF was structured to ensure more productivity and transparency by statute.

**Debt Management Office (DMO):** DMO was established to harmonize the monitoring of Nigeria's debt profile which was hitherto done by a great number of government units without any form of coordination. The DMO shrewd sourcing of fund to finance government deficit at affordable costs and manageable risks, mindful avoidance of debt crisis and achievement of steady growth and economic development-improvement of the nation borrowing capacity and other debt related functions

**E-Payment System:** This is a set of interactive elements, operational mechanisms and institutional arrangement for domestic currency payments in an economy. The objectives of e-payment among others are to enhance quality of service and there will be better value or money spent, to eliminate corruption associated with the previous payment system through cheque and cash. E-payment system provides positive effects on fiscal and monetary policy management as it reduces the amount of cash in circulation and this enables monitoring by regulators; and will reduce fraud, corruption; and financial irregularities.

**Other Reforms of Nigerian Public Finance Management:** The other reforms include adoption of International Public Sector Accounting Standard (IPSAS): These are set of accounting standards issued by IPSAS Board for use by the public sector entities around the world in the preparation of financial statements. Its major objective is to improve the quality of general purpose financial reporting by public entities, leading to better informed assessments of the resource allocation



decisions made by governments, thereby increasing transparency and accountability. Automated Accounting Transactions Reading Reporting System (ATTRS): This is an ICT based Accounting Software application which facilitates the input of Accounting Transactions, reconciliation and the generation of Standard Accounting Reports that meet required Standard of the Treasury. The implementation of the Accounting Transaction Recording and Reporting System (ATTRS) has opened the doors widely for the Treasury to appreciate the essence and benefits derivable from the computerization of Government Accounting System. Medium Term Expenditure Framework (MTEF): is a medium term high level strategic plan of the government, usually three years in Nigeria and which form the basis of annual budgeting taking into consideration the law requirement that spending should not exceed revenue by more than 3% of GDP. It shifts the psychology of budgeting from “needs” to an “availability of resources”. The objectives includes; 1. To improve macroeconomic balance, including fiscal discipline through good estimates of the available resource envelop, which are then to make budget that fit squarely within the envelop; to increase greater budget predictability as a result of commitment to more credible sectoral budget ceilings; etc. and Fiscal Strategy Paper (FSP): This is a 3- year transparent planning and budget formulation tool used for linking policy, planning and budgeting over a medium term. The FSP consists of the macroeconomic model that indicates estimates of revenue and expenditure, fiscal targets, risks as well as government financial obligations.

### Self-Assessment Exercises 3

Discuss Other Reforms of Nigerian Public Finance Management?



### 3.6 Summary

In this unit, we can conclude that legal and regulatory framework is a broad system of rules that governs and regulates decision-making; agreements; laws etc. This is essential as it enables stakeholder’s needs to be met. The introduction of some economic reforms have helped to address challenges such corruption, transparently, poor public service delivery, accountability etc and the implementation of these reforms is beginning to yield results such as sustained political will, commitment, capacity enhancement, etc. The conclusion of this unit will led to the next unit titled “Success Factors of Good Public Financial Management and Institutional Framework”

In this unit, we discussed extensively on economic reforms that guides public finance management such as the legal framework (constitution, audit ordinance, fiscal responsibility, public procurement, etc.) and some economic reforms that were introduced when the country embarked on Economic Reforms and Governance Project (ERGP) sponsored by the World Bank to address the challenges of transparency, poor services delivery, accountability, corruption, etc.



### 3.7 References/Further Readings/Web Resources

Lawson, A. (2015) Public financial management. SDRC professional development reading pack No.6. Birmingham, UK: University of Birmingham.



### 3.8 Possible Answers to SAEs

#### Answers to SAEs 1

1. Legal framework is a broad system of rules that governs and regulates decision making, agreements, laws, etc. It includes procedures regulations, guidelines, codes of conduct and other regulatory documents.

#### Answers to SAEs 2

1. Treasury Single Account (TSA): This unified structure of government bank accounts gives a consideration view of government cash resources
2. Government Integrated Financial Management Information System (GIFMIS) GIFMIS is a sub component of the ERGP that will support the public resource management and targeted anti-corruption initiatives area through modernising fiscal processes using better methods, techniques and information technology.
3. Integrated Personnel Payroll and Information System (IPPIS) IPPIS is one of the transformation agenda of the Federal Government of Nigeria with the aim of creating a centralised data base system for Nigerian public service with single accurate source of employee information that provides integration with other business application.

#### Answers to SAEs 3

1. International Public Sector Accounting Standard (IPSAS): These are set of accounting standards issued by IPSAS Board for use by

- the public sector entities around the world in the preparation of financial statements.
2. Transactions Reading Reporting System (ATRRS): This is an ICT based Accounting Software application which facilitates the input of Accounting Transactions, reconciliation and the generation of Standard Accounting Reports that meet required Standard of the Treasury
  3. Fiscal Strategy Paper (FSP): This is a 3- year transparent planning and budget formulation tool used for linking policy, planning and budgeting over a medium term.

## **Unit 4: Success Factors of Good Public Financial Management and Institutional Framework**

### Unit Structure:

- 4.1 Introduction
- 4.2 Intended Learning Outcomes
- 4.3 Main Content
  - 4.3.1 Importance of Sound Public Financial Management
  - 4.3.2 Why Public Financial Management (PFM)?
  - 4.3.3 The Key Elements for Public Financial Management Success
  - 4.3.4 Key Principles of PFM System
- 4.4 Institutional Framework for Managing PFM
  - 4.4.1 Institutional framework
  - 4.4.2 Level of institution
  - 4.4.3 Types of institutions
  - 4.4.4 Global Bodies
  - 4.4.5 Regional Bodies
- 3.5 National Bodies in Ministry of Finance
- 4.6 Summary
- 4.7 References/Further Readings/Web Resources
- 4.8 Possible Answers to Self-Assessment Exercise(s)



### **4.1 Introduction**

Public financial management (PFM) is about ensuring that public fund is use effectively and efficiently. It provides with information to make decisions and to know if they are using resources effectively. Managing finances in the public sector is an integral part of bringing services to the people . For all these to be achieved there must be an effective PFM system in the country which depends on a network of interlocking processes, within a framework of institutions at global, regional, national level and sit in a wider global context of governance and accountability, consultation and citizen involvement, performance management and leadership. The quality of PFM depends on how well the individual institutions work, the quality of inputs provided to the system, the feedback and control mechanisms that ensure a focus on objectives.



## 4.2 Intended Learning Outcomes

By the end of this unit, you will be able to:

- Explain the importance of PFM
- Discuss the reasons why you preferred PFM
- Identify key elements for PFM success
- Discuss the key principles on which PFM system should be built upon
- Explain the institutional framework for managing PFM.



## 4.3 Importance of Sound Public Financial Management

A sound public financial management system is important for democratic governance, macro-economic stability, effective use of resources available and poverty reduction. Sound public financial management system can also help to prevent corruption and foster aid effectiveness. A situation where a government of a country is able to make use of her resources effectively and efficiently in order to achieve the economy purpose of the country.

- i. Sound PFM is fundamental to achieving development objectives and reducing poverty.
- ii. It enables public funds to be managed and spent efficiently and with integrity
- iii. It helps to give donors necessary confidence against their own fiduciary risk.
- iv. It is a lever to broader country development.
- v. To raise revenues effectively
- vi. Planning and executing budget decisions reliably and To build trust for the donors and investors

### Self-Assessment Exercises 1

Explain the importance of Sound Public Finance Management.

### 4.3.2 Why Public Financial Management (PFM)?

The followings are reasons for public finance management in a nation.

1. Governments are responsible to their citizens and taxpayers for implementing effective systems of public financial management

- and for utilising those resources, to safeguard, and ultimately enhance, a country's sovereignty.
2. Taxpayers of any nation expect their public finances to be well-managed. They expect them to be allocated effectively, used to deliver quality services, and to provide a secure and stable environment in which society may exist and prosper. They also expect finances to be collected and expended fairly and according to the laws, with surpluses, deficits and debt levels understood and in control.
  3. Private and public sectors are closely independent and must have confidence in each other if they are to work together to grow nation.. This kind of confidence requires public accountability and transparency in decision- making and reporting from the government of the day.
  4. PFM is so essential such that when expectations are not met, confidence is lost which can lead to significant consequences like foreign investment difficult to attain, the cost of public debt may rise; donors funds difficult to attract, increase in unemployment rate, reduction in economic growth, and poor living standards of the public, increase in poverty level.

#### Self-Assessment Exercises 2

What are the reasons for public finance management in a nation

### 4.3.3 The Key Elements of Public Financial Management Success

The eight key elements for PFM success are as follows:

1. **Climate for Reform:** This is essential for PFM success because widespread recognition and acknowledgement show that change is fundamental along with a commitment from key stakeholders to affect the necessary reforms.
2. **Governance-The Legal and Institutional Framework:** A well-defined legal and regulatory framework helps to facilities the implementation of efficient and effective public service arrangements. Appropriate institutions must be in place, as well as a set of recognised codes, standards and practices.
3. **Governance:** The Value System- The public entrust tax-paying citizen funds to the government and expects them to be used appropriately. Yet the appropriate attitudes and behaviours are not always out rally embedded. An open, honest and responsible approach to the manner services are planned executed and reported that signifies a strong intent to work in the public interest.

4. **Capacity and Capability:** This key element of PFM success ensures that the appropriate resource resources are available to support the application of each aspect of PFM particularly interims of people and systems. PFM reforms process cannot be successful without putting necessary systems in place, engaging the right skilled personnel to implement them.
5. **Fiscal and Policy Framework:** Budget is the main output of PFM systems through which public funds are financed. A credible budget is essential reflecting the expected financial impact of the government's policies and its use of resources. As a result this element of PFM success is that of a clear defined and comprehensive fiscal and policy framework.
6. **Performance Management:** Successful implementation of the budget both in macro terms and at the organisational level. The budget must be well managed, monitored and reported to achieve the anticipated outcomes, with-value for money, the efficient and effective services delivery, and financial compliance acting as overriding principles.
7. **Reporting:** Prior researchers have shown that there is positive relationship between the level of fiscal transparency and measures of fiscal sustainability. Therefore, appropriate transparent reporting against planned outcomes is a key element of PFM success helping governments to be accountable for their fiscal actions.
8. **Scrutiny and Assurance:** Reported information must be reliable and relevant whether for decision- making, accountability, or transparency purposes. It must also be capable of withstanding scrutiny from different levels and forms of reviews. Information should be subjected to effective scrutiny and assurance, thus generating confidence in its verity. Subjecting such information to further scrutiny by an independent (external) and it enhances the confidence of the information.

#### Self-Assessment Exercises 3

What are the key elements of public finance management?

#### 4.3.4 Key Principles of PFM System

According to Simson, Sharma and Aziz (2011), good PFM system is built on a set of key principles, such as:

- i. Comprehensive and clear legislature framework, rules, and procedures.
- ii. Effective institutions with clear mandates.
- iii. Transparency and accountability in government operations.

- iv. Effective coordination of national planning and budgeting functions and processes.
  - i. Credible budgeting processes and budgets.
  - ii. Broad non-governmental involvement throughout the planning and budgets
  - iii. Planning and budgeting cycle, and
  - iv. Effective legislature oversight.

#### **4.4 Institutional Framework for Managing PFM**

The institutional framework is the structure, processes and systems for managing of public finances such as the financial management system in the public sector. The management of public funds in most cases is measured in terms of budget formulation, budget execution, accountability and reporting and budget evaluation.

##### **4.4.1 Institutional framework**

The institution framework depicts the structure of agencies and organisations that are directly involved in promulgating, operating, developing and overseeing PFM standards and practices.

##### **4.4.2 Level of institution**

Three levels have been identified in this text:

- International: institutions whose ambit and influence is intended to apply across the world. This includes worldwide organisations, such as the World Bank, and other organisations whose ambit and influence extends across a number of countries, responding to the organisation's priorities and particular interests.
- Regional: institutions whose ambit and influence extend beyond a single country within a defined, usually geographical, region of the world. The key types are financial institutions funding development, associations of finance accountancy and audit professionals, the Supreme Audit Institution's regional working groups, and several important topi based initiatives.
- National: institutions whose ambit and influence apply within the boundaries of a single country.

#### Self-Assessment Exercises 4

What are the key principles of public financial management success?



### 4.4.3 Types of institutions

The following are PFM institutions:

#### A. International sponsors

- i. World Bank The Bank provides finance and advice to developing countries for the purposes of economic development and eliminating poverty, through a family of five international organisations: International Bank for Reconstruction and Development (IBRD); International Development Association (IDA); International Finance Corporation (IFC); Multilateral Investment Guarantee Agency (MIGA); International Centre for Settlement of Investment Disputes (ICSID). The World Bank Institute (WBI) is the capacity development arm of the World Bank, and helps countries share and applies global and local knowledge to meet development challenges. WBI builds capacity for development by

providing learning programmes and policy advice on economic management, financial and private sector development and governance.

- ii. International Monetary Fund (IMF): The International Monetary Fund (IMF) was established to promote international monetary cooperation, exchange stability, and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease balance of payments adjustment.
- iii. Donors: Individual countries may maintain programmes of assistance that express their own government's priorities. Within broad aims such as the Millennium Development Goals they may focus on defined regions or substantive priorities, for example, water and sanitation or supporting small businesses, and they may be involved in multilateral programmes. Regional emphases may reflect historical cultural ties. Countries may differ in the balance they strike between relief and tackling the causes of poverty and their commitment to building global partnerships for those working on development.
- iv. OECF-DAC (Development Assistance Committee). The Paris Declaration (2005) asserted that a robust public financial management (PFM) system is vital to the effectiveness of aid funds. Since the Declaration, the OECD-DAC was working, through a Joint Venture on Public Financial Management, to help partners and donors alike fulfil their commitments and to share PFM knowledge among donors and partner countries. A new PFM

Task Force have recently been established to support the Working Party on Aid Effectiveness.

- v. Others: Other bodies with global reach may mobilise funds from sources different to those of the government-subscribed institution described above. They may also complement regionally based donor institutions, such as Multilateral Development Banks (MDBs) or the European Commission (EC). The United Nations arms, and bodies such as international charities and emergency relief organisations have targeted or self selected objectives. These may be general, such as the relief of poverty; sectoral, for example focussing on children, health or refugees; or may relate to more specific activities such as providing medical assistance. These bodies form part of the institutional architecture because they inject very large amounts of funding, and in countries where governments are seen as having weak capacity to implement assistance effectively, they may be chosen conduit for action. They are therefore part of landscape in addressing donor coordination.

#### **4.4.4 Global Bodies**

A number of umbrella organisations have been set up at global level by finance professionals to promote specific topics, to disseminate knowledge and to uphold the professional standards and status of their dispersed membership.

- i. The Chartered Institute of Public Finance and Accountancy (CIPFA) CIPFA is one of the leading professional accountancy bodies in the UK and the only major specialist in the world devoted to excellence in public sector governance and financial management. It is responsible for the education and training of professional accountants and for their regulation through setting and monitoring professional standards. Uniquely among the professional accountancy bodies in the UK ,CIPFA has responsibility for setting accounting standards for local government, a significant part and professional development through publications and events, and advises on public finance issues in the UK and internationally. CIPFA is a founding member of IFAC, has an increasing portfolio of advisory positions in international for a and works in partnership and collaboration on improving public financial management globally.
- ii. International Federation of Accountants (IFAC) IFAC is the global organisation for the accountancy profession. IFAC develops international standards on ethics, auditing and assurance, education, and public sector accounting standards. It also issues guidance to support professional accountants. It also issues guidance to support professional accountants in business, small and

- medium practices, and developing nations. A membership of 157 members and associates in 123 countries represents 2.5 million accountants employed in public practice, industry and commerce, government and academia.
- iii. **Public Expenditure and Financial Accountability Initiative (PEFA)** PEFA was developed to provide a shared pool of information of PFM that can facilitate dialogue on reform priorities among domestic and external stakeholders. Its objectives are formulated in a manner that: encourages country ownership; reduces the transaction costs to countries; enhances donor harmonisation; allows monitoring of progress of country PFM performance over time; addresses developmental and fiduciary concerns, facilitates improved impact of reforms.
  - iv. **International Organisation of Supreme Audit Institutions (INTOSAI)** INTOSAI operates as an umbrella organisation for the government external audit community. INTOSAI provides an institutionalised framework for supreme audit institutions (SAIs) to promote development and transfer of audit knowledge, improve government auditing worldwide and to enhance professional capacities, standing and influence of member SAIs in their respective countries. INTOSAI also issues the International Standards of SAIs (ISSAI). It sponsors the INTOSAI Development initiative that aims to develop institutional capacity of SAIs. INTOSAI has 188 Full Members and 2 Associated Members.

#### **4.4.6 Regional Bodies**

- i. **Multilateral Development Banks (MDBs)** In addition to the funding institutions established under the aegis of the World Bank, a number of multilateral Development Banks are regionally based, with shareholders drawn from the region and from partner countries. Their purpose is to promote economic and social development through loans, very long-term loans (credits) at below market interest rates, equity investment and technical assistance, sometimes grant aided. The term Multilateral Development Bank typically refers to the four Regional Development Banks: the African Development Bank (AFDB), the Asian Development Bank (ADB) the European Bank of Reconstruction and Development (EBRD) and the Inter-American Development Bank Group (IDB).
- ii. **Regional Associations of finance professional: Accounting** The accountancy profession has established a strong network at both regional and country level. Regional bodies include the umbrella organisations for recognised national associations of accounting professionals. Their purpose is to advancement and continuous development, to exchange technical information and best practice and undertake research, and to establish a medium for closer

- relations, regional mutual assistance among members. These organisations do not have a distinctively public finance focus, and do not themselves confer accountancy qualifications.
- iii. Supreme Audit Institutions Regional Working Groups Supreme Audit institutions (SAIs) are also well represented in regional bodies. There are seven Regional Working Groups gathered under INTOSAI, that provide training to improve the quality and performance of government auditors, promoting the exchange of information and cooperation among member institutions, and bringing together a membership from different countries. These are Asia (ASOSAI), which, for example, has 43 SAI members, EUROSAI, AFROSAI (with three language-based sub-groups), ARABOSAI, CAROSAI (Latin America and Caribbean), ECOSAI and ASOSAI (Middle East and North Africa). SAIs may also be buttressed by regional organisations aimed at strengthening the institutions such as the Southern African Institute of Government Auditors.
- iv. Internal audit: The Institute of Internal Auditors has members throughout the world who participate through their local chapters. Four regional bodies at present have formal agreements of cooperation with the IIA:
- The Asia Confederation of Institutes of Internal Auditors (ACIIA)
  - The European Confederation of Institutes of internal Auditing (ECIIA)
  - Federacion Latinoamericana de Auditores Internos (FLAI)
  - Union Francophone de l'Audit Interne (UFAI)
- v. Learning associations: OECD-DAC recognises initiatives to promote south-south learning as one of the tools to reflect on and spread good practice. Their significance to broader PFM success will be very much dependent on the quality and capacity of individual groups. Below are some of the better known examples.
- vi. Collaborative Africa Budget Reform Initiative (CABRI): CABRI is a pan-African network of senior budget officials in ministries of finance and /or planning. Its aim is to contribute towards the efficacy of public finance management in Africa. CABRI was officially launched in collaboration with the AFDB in 2008.
- vii. Public Expenditure Management Peer Assisted Learning network (PEMPAL): PEMPAL has created a network of public expenditure management professionals in various governments in the Europe and Central Asia (ECA) region. These professionals can benchmark their PEM systems against one another and pursue opportunities for 'peer' learning, as a means to enhance knowledge transfer.
- viii. Training providers: Most training providers in the field of PFM are thought to be single-country based. However, international firms offer consultancy and

training at all levels. There are also some regional providers, for example, the Eastern and Southern African Management Development Centre, and the Institute of Development Management (IDM), a partnership of the public sector, private organisations and industry of Botswana, Lesotho and Swaziland.

## 4.5 National Bodies

### i. Ministry of Finance

The functions of the Ministry of Finance have been described as four business lines:

- Macro fiscal condition and policy.
  - Budget formulation
  - Budget execution (including treasury, accounting policy, maintaining the public accounts, debt and cash management)
  - Revenue policy and management. Accompanying responsibilities may include financial sector regulation, standard setting, aid management, government personnel management, procurement, oversight of state owned enterprises, government internal audit and regional economic corporation. Because of their oversight role they may also be the champions of PFM in their countries across the whole public sector.
- ii. Accountancy bodies: Organizations equipped to support the professionalization of finance specialists are those that perform the functions of awarding qualifications by examination, requiring continuous professional development and maintaining a code of ethics and discipline. Other functions include interpreting and maintaining uniform standards of accounting, enabling and supporting accountability. There is a very large number of country based accountancy bodies. The primary, if not sole, focus of most of these bodies is the private sector and in many there is little if any public sector expertise. The South African Institute for Public Finance and Auditing (IPFA) is the only public sector specialist 'professional' institute outside the UK, and is being assisted by CIPFA to progress towards IFAC membership.
- iii. Central Bank: A central bank is the entity responsible for monetary policy of a country or of a group of member states. A bank can lend to other banks in times of need. Its primary responsibility is to maintain the stability of the national currency and money supply, but more duties that are active include controlling subsidized-loan interest rates and acting as a lender of last resort to the banking sector during times of financial crisis. It may also have supervisory powers, to ensure that banks and other financial institutions do not behave recklessly or fraudulently.

- iv. **Internal audit: Institute of Internal Auditors (IIA):** The Institute of Internal Auditors is an IFAC Affiliate and has its headquarters in the USA. It issues International Standards for Professional Practice of Internal Auditors, which are designed primarily for the private sector but are used in the public sector. It has 160,000 members in their country chapters.
- v. **Local training providers:**  
There are a very large number of training providers, with some specializing in finance training although few have real centers of excellence or expertise in PFM. Included in this category are the university and similar bodies, many of which offer training and related services including consultancy to the public sector.
- vi. **Supreme Audit Institutions (SAIs):** SAIs carries out the external audit of public sector bodies and is one of the key links in the formal system of financial accountability in most countries. The strengthening of partner country SAIs is therefore often seen as a lever for improvement of the effectiveness of PFM systems as a whole.

#### Self-Assessment Exercises 5

1. Explain Institutional Framework for Managing Public Finance Management.
2. Discuss the types of Institutions?



## 4.6 Summary

In this unit, we can conclude that sound PFM is crucial to achieving sustainable development and reduces poverty in a country. For any nation to achieve sound PFM such country should have in place a climate for reforms, a well-defined legal/regulatory framework that helps to facilitate the implementation of efficient and effective public service arrangements. Good PFM system can be built upon some key principles such as effective institutions with clear mandates broad non-governmental involvement, effective planning and budgeting cycle.

In the unit, we discuss the importance of PFM to a nation, the principles that sound PFM system must be built upon, reasons for nations to embark on public financial management and the required critical factors of the good/PFM.



#### 4.7 References/Further Readings/Web Resources

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Wang ,X.(2006). Financial management in the public sector: tools, applications and cases, New York(NY): M.E. Sharpe Armonk



#### 4.8 Possible Answers to SAEs

##### Answers to SAEs 1

Sound public financial management system can also help to prevent corruption and foster aid effectiveness its importance is to enables public funds to be managed and spent efficiently and with integrity, to give donors necessary confidence against their own fiduciary risk, And a lever to broader country development.

##### Answers to SAEs 2

1. Private and public sectors are closely independent and must have confidence in each other if they are to work together to grow nation.
2. Governments are responsible to their citizens and taxpayers for implementing effective systems of public financial management and for utilising those resources, to safeguard, and ultimately enhance, a country's sovereignty.

##### Answers to SAEs 3

1. Climate for Reform: This is essential for PFM success because widespread recognition and acknowledgement show that change is fundamental along with a commitment from key stakeholders to affect the necessary reforms.
2. Governance-The Legal and Institutional Framework: A well-defined legal and regulatory framework helps to facilities the implementation of efficient and effective public service arrangements.
3. Governance: The Value System- The public entrust tax-paying citizen funds to the government and expects them to be used appropriately.

#### **Answers to SAEs 4**

- Comprehensive and clear legislature framework, rules, and procedures.
- Effective institutions with clear mandates.
- Transparency and accountability in government operations.

#### **Answers to SAEs 5**

The institution framework depicts the structure of agencies and organisations that are directly involved in promulgating, operating, developing and overseeing PFM standards and practices.





**MODULE 2            FINANCIAL REPORTING AND AUDITING**

Unit 1	Financial Reporting
Unit 2	Analyzing Financial Report and Audit
Unit 3	Accounting Practice and Financial Management Cycle
Unit 4	Financial Misconduct

**Unit 1            Financial Reporting****Unit Structure**

- 1.1 Introduction
- 1.2 Intended Learning Outcomes
- 1.3 What is Financial Reporting
  - 1.3.1 Objectives of Financial Reporting
- 1.4 Challenges of Public Financial Report
- 1.5 Benefits of Public Financial Report
- 1.6 Summary
- 1.7 References/Further Readings/Web Resources
- 1.8 Possible Answers to Self-Assessment Exercise(s)

**1.1 Introduction**

This unit is to discuss the meaning of financial reporting, the characteristics, Benefits and challenges of financial reporting and its importance to users of accounting information.

**1.2 Intended Learning Outcomes**

By the end of this unit, you will be able to:

- Define and know the meaning of financial reporting
- Discuss the challenges and importance of financial reporting
- Explain the importance of financial reporting to the users such as the government.



## 1.3 MAIN CONTENT

### 1.3.1 WHAT IS FINANCIAL REPORTING?

Financial Reporting refers to the communication of financial information, like financial statements, to the financial statement users, like potential investors, employee, creditors and the public at large. Financial reporting is typically viewed as public and private companies issuing financial statements. The accounting and financial aspects of each and every department are recorded and are reported to various stakeholders. SchiavoCampo and Tommasi (1999) viewed financial reporting as an aim to improve budget compliance. They provide a means for internal or external stakeholders to assess government performance. Financial reporting entails extracting and presenting data from the accounting system in ways that facilitates analysis. Governments produce a range of reports for internal and external consumption. Financial Reporting is a very important and critical task of an organization.

A typical report includes daily flash reports on cash flows, monthly reports on budget execution, revenue reports, mid-year reports and annual financial statements or fiscal reports. Financial reports form a basis for the audit review of government performance.

Self-Assessment Exercises 1

What is Financial Reporting?

### 1.3.2 Objectives of Financial Reporting

According to International Accounting Standard Board (IASB), the objective of financial reporting is “*to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions.*”

The following are the objectives of financial reporting:

1. Providing information to the management of an organization which is used for the purpose of planning, analysis, benchmarking and decision making.

2. Providing information to investors, promoters, debt provider and creditors which is used to enable them to make rational and prudent decisions regarding investment, credit etc.
3. Providing information to shareholders and public at large in case of listed companies about various aspects of an organization.
4. Providing information about the economic resources of an organization claims to those resources (liabilities and owner's equity) and how these resources and claims have undergone change over a period of time.
5. Providing information as to how an organization is procuring and using various resources.
6. Providing information to various stakeholders regarding performance management of an organization as to how diligently and ethically they are discharging their fiduciary duties and responsibilities.
7. Providing information to the statutory auditors which in turn facilitates audit.
8. Enhancing social welfare by looking into the interest of employees, trade union and Government.

#### **1.4 Challenges of Public Financial Report**

Deloitte, (2018) Identified some challenges as follows:

1. Statutory deadlines for government financial reporting are decreasing as the legislature demands information to support policy decisions.
2. Orderly and controlled business processes through budget execution are required to ensure accurate accounting data is generated real-time.
3. Public Sector Accountants with excellent professional training are being hired but finds public sector workplaces do not live up to their training.
4. It also lack integration and in many cases still being largely paper-based and inefficient.
5. Whole-of-government financial reporting is generally the largest accounts consolidation exercise in any economy.

Self-Assessment Exercises

What are the challenges of financial reporting?

## 1.5 Benefits of Public Financial Report

1. Faster close strategies and implementation: It improves the usefulness of financial statements through earlier release while achieving efficiency in the financial reporting function.
2. Outsourced reporting services: Government can outsourced accounting and financial reporting services to an audit firm e.g Deloitte, KPMG,PWC, etc for a better and good financial report.
3. Government can hire expert who are knowledgeable in International Public Sector Accounting Standards(IPSAS)/ International Financial Reporting Standards(IFRS) to review compliance to international standards and to develop strategies for improving disclosures
4. Financial Management Information Systems: Strategies; Requirements Definition; project Management; Quality Assurance; Human Resource Development.
5. Audit firm can assist government entities to go beyond compliance and deliver financial statements as part of an Annual Report providing enhanced transparency to her citizens.
6. For the purpose of bidding, labor contract, government supplies etc., organizations are required to furnish their financial reports & statements.

### Self-Assessment Exercises 3

Discuss the Challenges and Benefits of Financial Reporting?

Discuss Financial Reporting in accordance with International Accounting Standard Board (IASB).



## 1.6 Summary

In conclusion, from the above definition and objectives of financial reporting it shows that financial reporting is very important from various stakeholders point of view. At times for large organizations, it becomes very complex but the benefits are far more than such complexities. Financial reporting contains reliable and relevant information which are

used by stakeholders such as the Public, Potential Investors, Employees, etc for various purposes. A good financial reporting that is prepared in line with the rules and principles helps in economic development. The conclusion of this unit will lead to next unit titled “Analyzing Financial Report and Audit”.

In this unit, we have defined and discussed financial reporting, benefits and challenges of financial reporting and how it corrected for better or good governance to the public at large.



### 1.7 References/Further Readings/Web Resources

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### 1.8 Possible Answers to SAEs

#### Answers to SAEs 1

1. Financial Reporting refers to the communication of financial information, like financial statements, to the financial statement users, like potential investors, employee, creditors and the public at large. Financial reporting is typically viewed as public and private companies issuing financial statements.

#### Answers to SAEs 2

- It also lack integration and in many cases still being largely paper-based and inefficient.
- Whole-of-government financial reporting is generally the largest accounts consolidation exercise in any economy.

#### Answers to SAEs 3

- Faster close strategies and implementation: It improves the usefulness of financial statements through earlier release while achieving efficiency in the financial reporting function.
- Outsourced reporting services: Government can outsource accounting and financial reporting services to an audit firm e.g. Deloitte, KPMG, PWC, etc for a better and good financial report

#### **Answers to SAEs 4**

1. Financial Reporting in accordance with International Accounting Standard Board (IASB). is “to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions.” Providing information to the management of an organization which is used for the purpose of planning, analysis, benchmarking and decision making

## Unit 2 ANALYZING FINANCIAL REPORT AND AUDIT:

### Unit Structure

- 2.1 Introduction
- 2.2 Intended Learning Outcomes
- 2.3 Analysing Financial Reporting
- 2.4 Ratio Analysis
  - 2.4.1 Current Ratio
  - 2.4.2 Quick Ratio or Acid Test
  - 2.4.3 Debtors' Payment Period
  - 2.4.4 Creditors' Payment Period
- 2.5 Audit
  - 2.5.1 Objectives of Auditing
  - 2.5.2 Advantages
  - 2.5.3 Disadvantages
- 2.6 Summary
- 2.7 References/Further Readings/Web Resources
- 2.8 Possible Answers to Self-Assessment Exercise(s)



### 2.1 Introduction

This unit is to analyze financial reporting using ratio analysis and to discuss Audit, the advantages and disadvantages. Financial reporting has to be analysed or interpreted in order to measure the quality of management and how solid the capital base of the sector is.



### 2.2 Intended Learning Outcomes

By the end of this unit, you will be able to:

- Analyse Financial Reporting using ratio analysis.
- Explain the importance and limitation of using ratio to analyse financial reporting.
- Discuss Audit, its advantages and disadvantages





## 2.3 Analysing Financial Reporting

This can be defined as the art and science of translating the figures shown in the financial statements in such a way as to reveal the strengths and weaknesses of a business and the attributable causes. Any financial statement can be interpreted; consequently, management accounts, final accounts and interim account lend themselves to critical analysis.

Financial reporting analysis is also defined as the judgment process, which aims at evaluating the current and past financial positions and the results of an entity with the primary objectives of determining the best possible estimates about future conditions and performances. In analysing, financial reporting using ratio analysis in single or number of variables to compute for a given ratio and compare it with a given standard to determine whether performance is good or bad. In other words, for the purpose of this lecture, we will restrict our analysis of financial reporting to ratio analysis.

Self-Assessment Exercises 1

Define Financial Reporting

## 2.4 Ratio Analysis

Ratio analysis involves expressing one figure as a ratio or percentage of another, to bring out the weakness or strength in an organisation's day to day affairs. In public sector, looking at the financial statement of Government department, Ministry or Corporation, the various figures disclosed would not be sufficiently revealing in terms of the strength or otherwise of the establishment, for well informed judgment to be made. Ratios can be grouped into four categories such as:

- Profitability ratios
- Gearing ratios
- Liquidity ratios and
- Shareholders' investment ratios

The Federal, State and Local Government councils use mostly liquidity ratios to measure the ease with which obligations due in the year can be met. The three tiers of Administration operate the cash basis of accounting. Government parastatals, Agencies, Ministries and Extra-Ministerial department while some commercial or quasi-commercial makes use of accrual basis.

In line with the aforementioned ratios above, public sector activities considers them relevant.

#### 2.4.1 Current Ratio

This is the ratio of current asset to current liabilities and can be obtained from statement of financial position and this is the formula:

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

An organisation should have enough current assets that give a promise of cash to meet short-term commitments of paying off current liabilities. However, as a general rule, the ideal ratio for Government parastatals, Agencies and Departments is 2:1.

#### 2.4.2 Quick Ratio or Acid Test

This is the ratio which is more revealing of the solid liquidity position, It is also obtained from the statement of financial position and this is the formula:

$$\frac{\text{Current Assets less Stock}}{\text{Current Liabilities}}$$

Public Sector or Private Organisations are not able to convert all their current assets into cash quickly. For Government parastatals, Agencies and Departments with a fast stock turnover, a quick assets ratio can be computed. The ideal ratio is 1:1. And it is important in improving the liquidity.

#### 2.4.3 Debtors' Payment Period

This measures the average length of time it takes a Corporation's debtors to pay; it is only an estimated average payment period. The formula for computing the payment period is:

$$\frac{\text{Debtors for Goods or Services}}{\text{Sales (Credit)}} \times 365 \text{ days}$$

The immediate payment of cash by the debtors put the Government parastatals, Agency and Departments in a better cash position.

### 2.4.4 Creditors' Payment Period

This measures the average length of time it takes Government parastatals, Agency and Departments under focus to pay its creditors. The formula is as follows:  $\frac{\text{Trade or Expense Credit Purchases} \times 365 \text{ days}}{\text{Stock Turnover Period}}$  This indicates the average number of days that items of stock are held for sale or in the store. The stock turnover is calculated as:

$$\frac{\text{Cost of Goods Sold} \times 365 \text{ days}}{(\text{Opening Stock} + \text{Closing Stock})/2}$$

Average stock is the average of the opening and closing stock figures. The shorter the period, the healthy the situation is in making the best use of funds.

## 2.5 Audit

Public audit is the examination of the records and reports of an enterprise or governmental department by experts or persons other than those responsible for their preparation. Although every transaction cannot be verified by an independent authority, external audits can nonetheless provide reasonable assurance about the governance and discharge of the financial management responsibility by the organisation and that it represents value for money. It can also highlight any shortcomings for management action. (Arsalan & Nida, 2012).

Auditing is a process carried out by qualified Auditors during which the accounting records and the financial statements of an enterprise are subjected to examination by independent Auditors with the main purpose of expressing an opinion in accordance with his terms of appointment. (Adams, 2014).

Self-Assessment Exercises 2

Define Auditing.

### 2.5.2 Objectives of Auditing

The objectives of auditing could be divided into two:

- a. The primary objectives and
- b. the secondary objectives
- a. The primary objectives is to enable the Auditor to report as to whether the financial statement present 'a true and fair view' of the

financial affairs of the organisation during the period under review and as at the end date.

- b. The secondary objectives of an audit are to detect and prevent Errors and Frauds. Errors are omission or mistakes made by an accountant that are not intentional while Fraud is a deliberate omission or mistake made by an accountant in order to enrich himself/herself.

Self-Assessment Exercises 3

What are the primary and secondary objectives of auditing?

### 2.5.3 Advantages of Audit

1. Auditing helps to assure the shareholders that their business enterprise is been run or managed in their interest.
2. Audited accounts could be more easily acceptable by the Inland Revenue for Tax purposes.
3. Audited accounts can be very useful for investigating bank loan or overdraft.
4. Audited accounts can be used as a basis for business combination such as merger and acquisition.
5. Auditing helps to prevent or detect fraud or errors within an enterprise.
6. Strengthen the internal country system of the enterprise.

### 2.5.4 Disadvantages

1. When the financial statements are not properly prepared, it can lead to poor financial report
2. Auditing attracts extra cost
3. Auditing could also lead to delay in the presentation of the audited financial statement.

Self-Assessment Exercises

What are the advantages and disadvantages of Audit?.



## 2.6 Summary

In conclusion, financial reports are subject to internal audits to ensure that the rules and regulations at the department or ministerial level, in terms of procurement processes, contract management and other basic requirement, have been enforced. In order to ensure transparency in the public sector and to also avoid cosmetic accounting or window dressing in the financial report. The conclusion of this unit will lead to the next unit titled “Accounting Practice and Financial Management Cycle”.

In this unit, we have analysed financial reporting using ratio analysis and also defined Audit, advantages and disadvantages as it relates to the public sector.



## 2.7 References/Further Readings/Web Resources

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## 2.8 Possible Answers to SAEs

### Answers to SAEs 1

Financial reporting analysis is also defined as the judgment process, which aims at evaluating the current and past financial positions and the results of an entity with the primary objectives of determining the best possible estimates about future conditions and performances.

**Answers to SAEs 2**

Auditing is a process carried out by qualified Auditors during which the accounting records and the financial statements of an enterprise are subjected to examination by independent Auditors with the main purpose of expressing an opinion in accordance with his terms of appointment.

**Answers to SAEs 3**

The primary objectives is to enable the Auditor to report as to whether the financial statement present 'a true and fair view' of the financial affairs of the organisation during the period under review and as at the end date. While The secondary objectives of an audit are to detect and prevent Errors and Frauds.

**Answers to SAEs 4**

The advantages of auditing are as follows:

1. Auditing helps to assure the shareholders that their business enterprise is been run or managed in their interest.
2. Auditing helps to prevent or detect fraud or errors within an enterprise.

The disadvantages of auditing are as follows:

3. Auditing attracts extra cost
4. Auditing could also lead to delay in the presentation of the audited financial statement.

## Unit 3      Accounting Practice and Financial Management Cycle

- 3.1 Introduction
- 3.2 Intended Learning Outcomes
- 3.3 Accounting Practice
- 3.4 The types of accounting practice
- 3.5 Management Cycle
- 3.6 Summary
- 3.7 References/Further Readings/Web Resources
- 3.8 Possible Answers to Self-Assessment Exercise(s)



### 3.1 Introduction

This unit is to define, discuss accounting practice and financial management cycle for a better and transparent public sector.



### 3.2 Intended Learning Outcomes

By the end of this unit, you will be able to:

- Explain Accounting practice
- Discuss the Financial Management Cycle
- Explain the meaning and importance of Accounting and Management cycle.



### 3.3 Accounting Practice

Accounting practice is the system of procedures and controls that an accounting department uses to create and record daily/weekly/monthly transactions. Accounting practice should ideally be extremely consistent, since there are a large number of business transactions that must be dealt with in exactly the same manner in order to produce consistently reliable financial statements. (Bragg, 2018). The importance of accounting practice cannot be overemphasized and that will lead us to the type of accounting practice.

#### 1.4 The Types of Accounting Practice

- i. Public Sector Accounting practices
- ii. Audit practices
- iii. Tax practices

- iv. Forensic Accounting practices
- v. Management Information System practices
- vi. Management Accounting practices
- vii. Financial Management practices
- viii. Book Keeping/ Accounting operation practices

The above listed types of accounting practices can further be explained below:

- i. **Public Sector accounting practices:** Is the presentation, measurement and budgeting and interpretation of public funds to the users. The basis of accounting is divided into two: a. Cash basis and b. Accrual basis.
  - a. **Cash basis:** This is the basis of accounting under which revenue is recorded only when cash received, and expenditure recognized only when cash is paid, irrespective of the fact that the transactions might have occurred in the previous accounting period.
  - b. **Accrual basis:** Under this basis, revenue is recorded when earned and expenditure acknowledged as liabilities when known or benefits received, notwithstanding the fact that the receipts or payments of cash have taken place wholly or partly in other accounting periods.

However, prior to this date, the public sector accounting was based on cash basis but as at today, the public sector accounting is based on accrual basis.

However, in the public sector, there is a shift in the budgeting system from the conventional budgeting system to Activity base budgeting and Zero base budgeting. While, the financial measurement is based on value for money, the non financial measurement is based on Balanced score card and key performance indicator.

- ii. **Audit practices:** This is the independent examination of financial statement by an independent person called the auditor in order to ensure that the financial statement presents a true and fair view in his professional opinion. There are other services that can be rendered by the auditor and these services include;
  - a. Accounting
  - b. Taxation
  - c. Secretarial services
  - d. Management Advisory
  - e. Investigation
  - f. Liquidation and Receivership.



- iii. **Tax Practices:** A tax preparation practice specializes in preparing individual, partnership and corporate income tax returns. In this type of practice, tax returns are generally assigned to accountants by their specific area of specialization. Tax practice is a different aspect on its own and it require an accounting knowledge and that is why Chartered Accountant practices tax also.
- iv. **Forensic Accounting Practices:** Forensic accounting is a special type of auditing that is most often discussed in the legal arena. Forensic Accounting provides an accounting analysis that is suitable to the court which will form the basis for discussion, debate and ultimately dispute resolution. The integration of accounting, auditing skills yields the specialty known as Forensic Accounting.
- v. **Management Information System practices:** This is the processing of data to information in specialized accounting software. More companies are realizing the benefits of specialized accounting software, specifically management information systems, but many companies do not have personnel with the education or knowledge needed to perform a complicated software setup or conversion.
- vi. **Management Accounting Practices:** Chartered Institute Management Accountant (CIMA) defines Management accounting as the application of the principles of accounting and financial management to create, protect, preserves and increase value for the stakeholders of for-profit and non-profit enterprises in the public and private sectors. Management accounting is essentially necessary for an organization in reacting positively to the rising changes and developments affecting business profitability. Management Accounting Practice areas are: Cost transformation and Management; External Reporting; Financial strategy; Internal control; Investment

Appraisal Management and Budgetary control. And based on the definition of Management accounting provided in earlier. The major purposes of management accounting are:

- a. Provision of financial and non-financial information for taking decisions on how to efficiently utilize an organization's resources through proper planning.
- b. Establishing of an effective control system.
- c. Providing better means of measuring performance of different segments in the organization.
- d. Examining the competitive strength of an organisation.
- e. Assisting the organisation in the areas of product and technological innovations.
- f. Motivating managers and subordinates in improving productivity.

- g. Assisting the organisation to identify and eliminate non value-added activities.
- h. Focusing on continuous improvement towards cost and quality.
- i. Safeguard an organisation's resources.

**Vii Financial Management practices:** Financial management entails planning, organising, controlling, monitoring and evaluating the financial resources of an organisation to achieve its overall objectives. And it is concerned with making decisions about the provisions and use of a firm's finances. Financial management is the life wire of every business organization. The objective of financial management practices is to gain a better understanding of the financial management best practices and the areas are:

- Working Capital Management
- Budgeting process, roles and the responsibilities
- Investment Appraisal system
- Financial Statements
- Cash Flow system
- Auditor' report

#### Viii **Book- Keeping Practices**

Bookkeeping is the term used to describe everyday accounting such as processing accounts payable and accounts receivable, making bank deposits, processing payroll and preparing month-end financial statements. This is also another type of accounting practice but does not require the professional interpretation aspect to the users of accounting information. This type of practice is common among small businesses. For example, a sole proprietor business, partnership business, joint venture business etc. Bookkeeping helps in maintaining and providing the latest financial position of the business and, therefore, assumes great significance. It is advisable to maintain books of account for the following reasons:

- They provide up-to-date information about the business
- They reflect the outcome of transaction made during the period under review.
- They give information about the state of affairs of the business at regular intervals.
- They help government, individuals and other authorities to decide about the incidence of various Taxes.
- Their books help to analyse the performance of the business and
- It also help to compare the performance of several businesses

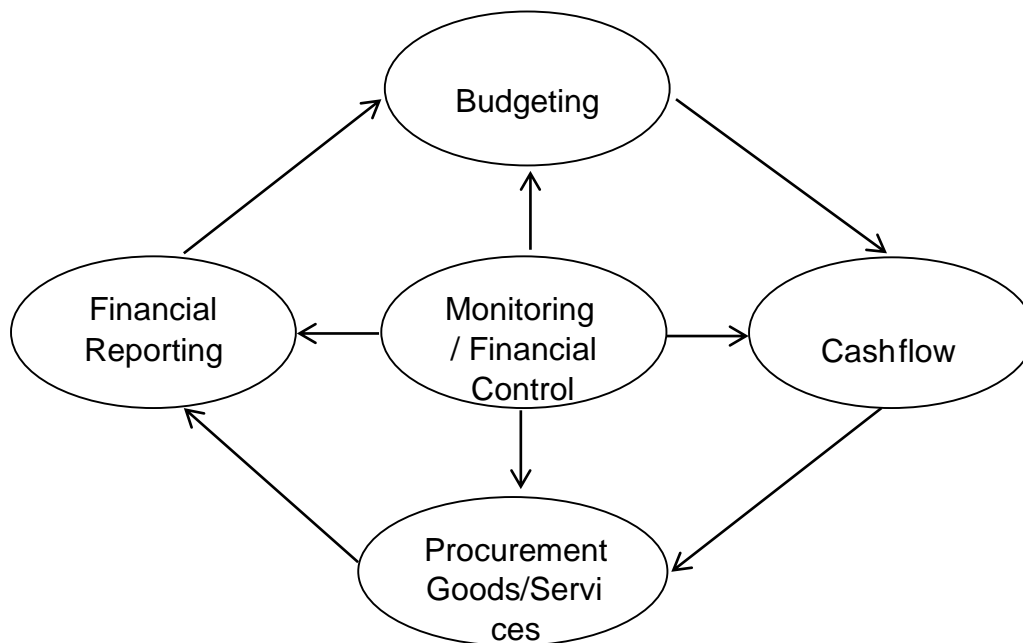
#### Self-Assessment Exercises 1

Discuss types of Account practices.

Explain Forensic Accounting.

### 3.5 Financial Management Cycle

Financial Management Cycle can be defined as the monitoring of finance involving receiving income and reporting income and expenditure to organizational policy makers (such as the Board) and to donors. The financial management cycle has to do with the planning and control of financial spending for effective and efficient purposes. Effective public sector financial management and service delivery is a continuous process of planning, implementation, evaluation, audit and improvement based on the outcomes. Financial management cycle can be represented diagrammatically. Thus:



*Fig. 1: Financial Management Cycle: Source: Financial Planning Management Development. Winter (2000)*

#### Self-Assessment Exercises 2

What do you understand by the term accounting practice?

The key factors of the cycle are:

- Budgeting is all about what the organisation plans to do and how it allocates the necessary resources to make goods/service delivery possible.
- Cash flow is the total amount of money being transferred into and out of a business especially as its affecting liquidity.

- Monitoring/Financial Control is confirming that planned service outcomes are achieved within allocated budget and controls are been put in place.
- Financial Reporting is all about the strength and weakness of the financial statement and how it can be improved upon.

However, in conclusion, FMC stands for Financial Management Cycle and relates to the way governments manage public resources (both revenue and expenditure) and the immediate and medium to-long-term impact of such resources on the economy or society. As such, FMC has to do with both process (how governments manage) and results (short, medium, and long term implications of financial flows).

### Self-Assessment Exercises 3

Discuss Financial Management Cycle?  
Write short notes on Audit and Tax practices?



## 3.6 Summary

In this unit, we conclude that Accounting practices and Financial Management Cycle relates to the way government manage her public resources effectively and efficiently in order to ensure that medium and long term financial flows are in line with the set standard, principles and rules of the practice. The conclusion of this unit will lead to the next unit titled “Financial Misconduct”.

In this unit, we have discussed extensively on accounting practices and Financial Management Cycle. The type of accounting practices was discussed in details and the way government manages her public resources.



## 3.7 References/Further Readings/Web Resources

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Winter (2000).The Manager series “Understanding and Using Financial Management Systems to Make Decisions” Boston MA.FPMD.



### 3.8 Possible Answers to SAEs

#### Answers to SAEs 1

1. **Public Sector accounting practices:** Is the presentation, measurement and budgeting and interpretation of public funds to the users.  
**Audit practices:** This is the independent examination of financial statement by an independent person called the auditor in order to ensure that the financial statement 68 presents a true and fair view in his professional opinion.  
**Tax Practices:** A tax preparation practice specializes in preparing individual, partnership and corporate income tax returns.
2. **Forensic Accounting Practices:** Forensic accounting is a special type of auditing that is most often discussed in the legal arena. Forensic Accounting provides an accounting analysis that is suitable to the court which will form the basis for discussion, debate and ultimately dispute resolution.

#### Answers to SAEs 2

1. Accounting practice is the system of procedures and controls that an accounting department uses to create and record daily/weekly/monthly transactions.

#### Answers to SAEs 3

1. Financial Management Cycle can be defined as the monitoring of finance involving receiving income and reporting income and expenditure to organizational policy makers (such as the Board) and to donors.
2. Auditing: This is the independent examination of financial statement by an independent person called the auditor in order to ensure that the financial statement 68 presents a true and fair view in his professional opinion.
3. Tax Practices: A tax preparation practice specializes in preparing individual, partnership and corporate income tax returns.

## Unit 4 Financial Misconduct

- 4.1 Introduction
- 4.2 Intended Learning Outcomes
- 4.3 Financial Misconduct
- 4.4 Types of Fraud
  - 4.1.1 Misappropriation of assets fraud
  - 4.1.2 Bribery and Corruption Fraud
  - 4.4.3 Financial Statement Fraud
  - 4.4.4 Factors that Enhanced Financial Statement Fraud
- 4.5 Solutions on how to curb financial misconduct
- 4.6 Summary
- 4.7 References/Further Readings/Web Resources
- 4.8 Possible Answers to Self-Assessment Exercise(s)



### 4.1 Introduction

This unit is to define financial misconduct, reasons for financial misconduct, effects and solution to curb the financial misconduct. Financial misconduct is aspect that needs to be checked by providing and the necessary checks and controls for better governance.



### 4.2 Intended Learning Outcomes

By the end of this unit, you will be able to:

- Explain the meaning of financial misconduct.
- What are the effects of financial misconduct on our economic development?
- Explain the suggested solution to curb the financial misconduct
- Identify the types of fraud and how they are been perpetuated



### 4.3 Financial Misconduct

Financial Misconduct should be taken to cover ‘fraud, corruption, theft, dishonesty or deceit by an employee, whether at the expense of institution, other employees or any other body or organisation’, as well as actions or inactions which fall below the standards of probity expected in public. That is to say any intentional act is regarded or termed as fraud. However, it is the responsibility of every employees working in the public sector or private sector to ensure or be aware that:

- Public Asset are protected
- Ensure that management and other practices accord with the standards of probity expected of public sector bodies
- Ensure that the resources available to it are used only for the organizational objectives as allocated.
- Fraud, corruption or any other kind of financial misconduct cannot be tolerated.

**Financial misconduct** is seen as fraud. And Fraud is a false representation of a matter of fact, whether by words or by conduct, by false or by concealment of that which should have been disclosed that deceives and is intended to deceive another, so that the individual will act upon it to her or his legal injury (Black Law Dictionary,2004). Fraud is commonly understood as dishonesty calculated for advantage. A person who is dishonest may called a fraudster.

Self-Assessment Exercises 1

Discuss Financial Misconduct?

#### 4.4 Types of Fraud

The types of fraud include:

- Misappropriation of assets;
- Bribery and corruption;
- Financial statement Fraud.

##### 4.4.1 Misappropriation of Assets Fraud

Misappropriation of asset is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing, indirectly causing accounting irregularities in financial statements (Kwok, 2005). Misappropriation of assets can be accomplished in a variety of ways including:

- a. Embezzling receipts (for example, misappropriating collections on accounts receivables or diverting receipts in respect of written-off accounts to personal bank accounts);
- b. Stealing physical assets or intellectual property (for example, stealing inventory, for personal use or for sale, stealing scrap for resale, colluding with a competitor by disclosing technological data in return for payment)

- c. Causing an entity to pay for goods and services not received (for example payment to fictitious vendors, kickbacks paid by vendors to the entity's purchasing agents in return for inflating process, payments to fictitious employees);
- d. Using an entity's asset for personal use (for example, using the entity's assets as collateral for personal loan or a loan to a related party)

#### **4.4.2 Bribery and Corruption Fraud**

Corruption is defined as bribery, that is payment in money or in kind that is given or taken in a corrupt relationship. It can also involve the abuse of entrusted power for private gain, or an inducement to show favour. The perversion or destruction of integrity in the discharge of public duties by bribery, favour and the use or existence of corrupt practices especially in a state or public corporation (Black Law Dictionary, 2004)

#### **4.4.3 Financial Statement Fraud**

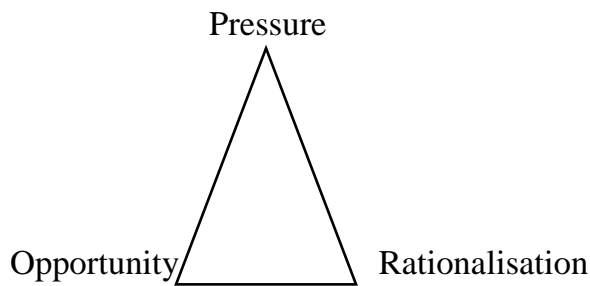
According to the American Institute of Certified Public Accounts (AICPA, 1988), Financial statement fraud is intentional or reckless conduct, whether intentional act or omission that results in materially misleading financial statements. It also entails gross and deliberate distortion of corporate records such as inventory manipulation or fraudulent transactions such as fictitious sales or orders. Fraudulent financial reporting may also entail the misapplication of accounting principles.

#### **4.4.4 Factors that Enhanced Financial Statement Fraud**

Association of Certified Fraud Examiners (2015) investigated a study and found that fraudulent financial reporting usually occurs as a result of certain environmental factors and opportunities, institutional or individual. These forces and opportunities add pressures and incentives that encourage individuals and companies to engage in fraudulent financial reporting. Where the right mix of forces and opportunities is reached, it can produce fraudulent financial reporting. The reason people commit fraud was first examined by Cressey Donale, a criminologist in 1950s. He wanted to find out what made people to commit fraud. According to him, there are three major factors that push people to commit fraud. They include pressure, opportunity and rationalization. In an attempt at explaining fraud in accounting, Cressey (1973) proposed the following function:

FRAUD = f (Pressure, Opportunity, Rationalisation)





**Fig. 2: The Triangle of Fraud Source: Cressey (1973)**

a. **Pressure** is the first factor that influences individuals to commit fraud and it refers to excessive force to achieve financial targets (for corporate entities and for individuals receives force from friends and relatives in order to measure up with the current trend or material things), to induce optimistic and unrealistic messages in annual reports. In addition, a firm may be threatened and pressured also by intense competition, by market saturation of sudden changes, acquisitions (merger) the financing need or cash flow problems.

b. **Opportunity** refers to those factors that enable fraud to be more easily committed and detection less probable. Therefore, ineffective controls or absence of control favours fraud intensions. These factors can be related directly to inadequate monitoring by management or the ineffectiveness of the board of directors or of the audit committee to oversee the reporting and the internal control.

c. **Rationalisation** is the trigger factor of the fraud act and refers to the fact that the perpetrator must have a mindset that would justify or rationalize the act of fraud. Detection of risk factors that push board members, management, employees to be predisposed to such intent may be quite difficult. Thus, when a company monitors people and processes to discourage and detect fraud, it must follow the three aspects, because fraud involves incentives or pressure to commit a fraudulent act, a perceived to do so, and some reasoning.

#### Self-Assessment Exercises 2

Discuss the fraud triangle.

#### 4.5 Solutions on how to Curb Financial Misconduct.

The following are some of the solutions on how to curb Financial Misconduct:

1. There should be Principles, rules and laws on the conduct of every staff or employees of the organization as it relates to financial misconduct.
2. Reporting Suspected Financial Misconduct is also a major impact in curbing financial misconduct in the public and private sector.
3. Immediate investigation of allegation on financial misconduct could also serve as a means of curbing fraud.
4. There should be encouragement in the aspect of employee emolument i.e staff should be paid good pay in line with their performance. Thus, it will reduce or minimize theft and fraud.
5. There should be reward for hard work such as bonus, Gifts, Promotion, etc it will curb financial misconduct.

Self-Assessment Exercises 3

What are the Factors that Enhanced Financial Statement Fraud?



#### 4.6 Summary

In this unit, we conclude that financial misconduct is a major area that needs attention so as to minimize the practices and such suggested solutions were provided in order to reduce further occurrence. The fraud triangle syndrome should be checked by the public sector most especially in the aspect of staff emolument and good working conditions as it is necessary. The conclusion of this unit will lead to the next unit titled “Introduction to Budgeting”

In this unit, we have discuss extensively on financial misconduct, factors that enhanced fraud, types of fraud, reasons for committing fraud and proffer solution to curb financial misconduct.



#### 4.7 References/Further Readings/Web Resources

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Cressey, D. (1973). *Other people's money*. Montclair: Patterson Smith

Kwok, B. K.B. (2005). *Accounting irregularities in financial statements: A definitive guide for litigators, auditors and fraud investigators*. Gower, Aldershot, Hants, England: Burlington, VT.

Soltani, B. (2008). *A closer look at financial reporting: Understanding the fraud risks associated with corporate reporting is vital to maintain organizational well-being*, available on <http://www.thefreelibrary.com>



## 4.8 Possible Answers to SAEs

### Answers to SAEs 1

1. Financial misconduct is seen as fraud. And Fraud is a false representation of a matter of fact, whether by words or by conduct, by false or by concealment of that which should have been disclosed that deceives and is intended to deceive another, so that the individual will act upon it to her or his legal injury

### Answers to SAEs 2

1. According to him, there are three major factors that push people to commit fraud. They include pressure, opportunity and rationalization.  
 Pressure is the first factor that influences individuals to commit fraud . In addition, a firm may be threatened and pressured also by intense competition, by market saturation of sudden changes, acquisitions (merger) the financing need or cash flow problems.  
 Opportunity refers to those factors that enable fraud to be more easily committed and detection less probable.  
 Rationalisation is the trigger factor of the fraud act and refers to the fact that the perpetrator must have a mindset that would justify or rationalize the act of fraud.

### Answers to SAEs 3

They include pressure, opportunity and rationalization.



## MODULE 3            BUDGETING

Unit 1	Introduction to Budgeting
Unit 2	Revenue Management
Unit 3	Supply Chain Management
Unit 4	Public Asset Management and Fraud Prevention

### Unit 1            Introduction to Budgeting

- 1.1 Introduction
- 1.2 Intended Learning Outcomes
- 1.3 What is Budget
  - 1.3.2 Uses of Government Budgeting
  - 1.3.3 The Purpose of Budget
- 1.4 The Nigerian Budget Process
  - 1.4.1 Challenges with Budgeting Process in Nigeria
  - 1.4.2 Importance of Government Budget
  - 1.4.3 Factors which Militate Against the Government Budgeting System
- 1.5 Methods of Preparing Budgets by Government in Nigeria.
  - 1.5.1 The main steps in Planning, Programming and Budgeting System
- 1.6 Summary
- 1.7 References/Further Readings/Web Resources
- 1.8 Possible Answers to Self-Assessment Exercise(s)



#### 1.1 INTRODUCTION

Budget is a financial and/or quantitative statement prepared and approved prior to a given period of time for the purpose of attaining a given objective. It is a tool used for planning in the public sector or the private sector for effective and efficient result and for corrective measures if any. However, budget and its processes is vital in every country.



#### 1.2 Intended Learning Outcomes

At the end of this unit students will be able to:

- Define Budget?
- Discuss the budget process
- Explain the purpose of a budget

- Examine the Nigeria budget system
- Discuss the methods of budgeting system in Nigeria
- Explain the challenges of budget system in Nigeria.
- State the Advantages and disadvantages of budget.



### **1.3 What is Budget?**

Budget can be defined as an estimate of income and expenditure for a given period of time usually a year. However, in its contemporary sense, budget means the plan of expenditure and revenue to balance that expenditure, of usually a public authority.

Oshisami (1992) sees a budget as a plan expressed in quantitative and usually monetary terms, covering a specified period of time. Normally the period covered is one year and this makes it a short-term plan. A budget is a financial and/or quantitative statement prepared and approved prior to a defined period of time for the purpose of attaining a given objective. A budget is normally for a year. A government budget shows authorized appropriations and estimated revenue. In Nigeria, government budgeting can be seen as a plan for financing the activities of the government during a fixed future period. Usually one year, prepared and submitted by the executive to the legislature whose approval is absolutely essential before the plan can be executed. The federal budget can be defined as a document from the government that sums up its revenue and expenditure for a fiscal year, which runs from January, 1 to December 31. It is a financial plan which spells out governments estimated revenue and proposed expenditure for a fiscal year.

#### **1.3.2 Uses of Government Budgeting**

Government is non-profit making entity based on that budgets are used:

- a. As a guide for the present and future.
- b. To plan, control and estimate the amount to be received and spent during a specified period
- c. To distribute limited resources.
- d. To motivate: Government motivates the staff through promotion and improved condition of services.
- e. As a means of evaluating performance: Budget is a target, it is a measure of performance.
- f. To inform managers about the results and operations of their responsibility domains.
- g. To evaluate economic and social policy.

- h. As a standard of measurement for the purpose of controlling on-going economic endeavors.

### 1.3.3 The Purpose of Budget

There are four main purposes which a government budget serves. These are as follows:

- A budget is an economic and financial document. It highlights government's policies which are designed to promote economic growth, full employment and enhance the quality of life of the citizen.
- It is a useful guide for allocation of available resources.
- Through the legislature, the Executive arm uses the budget as a means of accountability for the money earlier entrusted and the appropriations newly approved.
- The budget stands for the request of the Executive arm of Government for the legislature to collect and disburse funds.

## 1.4 The Nigerian Budget Process

The budget process in Nigeria has to go through four critical processes which are:

- a. **Drafting:** This is the first stage of the budget process, at this stage Mr. President is mandated by law to produce and submit projections of earnings and disbursements for the fiscal year to National Assembly (NASS). The Budget office of the Federation (BoF) then produces the Fiscal strategy paper (FSP) that summates government's complete budgetary policy. The FSP details the strategy objectives of Mr. President and is produced in conjunction with other Ministries, Department and Agencies (MDAs). The Federal Ministry of Finance (FMOF) submits an outline of the budget to Mr. President, who will then present same to Federal Executive Council (FEC) for their consideration and approval.
- b. **Legislative approval:** In a joint sitting of the Senate and the House of Representatives the Appropriation Bill is presented by Mr. President. The Appropriation committee in the Senate and the House of Representative will then examine and suggest revisions to the different sections of the budget. The parameters used to draft the budget are considered throughout the stakeholder discussions during which, the Executive and the Legislature are engaged in extended debates as it relates to :gas joint venture agreements and reimbursement for the Fiscal year, the review of the internal allocation of resources, oil and gas funding etc. At this stage, civil society groups are opportune to get involved and influence the budget process. The modifications are then merged and concluded

to become the Appropriation Bill for the Fiscal year after approval by the NASS. After this Bill is signed by the President and then, it becomes the Appropriation Act.

- c. **Implementation stage:** The third stage involves federal government MDAs, which receive funds for their capital projects every quarter. MDAs spend these funds based on the share of the budget from the Consolidated Revenue Fund (CRF) of the federation. The FMOF introduced a cash management committee to make sure that funds are made accessible to allow for the easy funding of the budget and ensure that it reduces borrowing.
- d. **Monitoring and Evaluation stage:** The stage involves monitoring and evaluation of the budget. The FMOF prepares an annual budget implementation report that reviews the level of execution of project implementation from various locations in the country, and the quality of each year's budget: MDAs involved on the monitoring process include: FMOF, NPC, NEIA (National Economic Intelligence Agency) PBMC (President Budget Monitoring Committee), OAGF (Office of Auditor-General of the Federation), NASS and office of the Accountant General for the Federation. The BOF, NPC; spending ministries, and agencies conduct physical inspection of the on-going and completed projects.

#### 1.4.1 Challenges with Budgeting Process in Nigeria

The budget process in Nigeria is characterized by some challenges such as:

- a. **Over bloated nature of the budget:** The partial funding of projects across the country and the high risk of these projects being abandoned in their partial state. In Nigeria, where some projects are ongoing and poorly funded, new projects are introduced, thereby increasing the risk of neglect, while some projects are poorly maintained through the various stages of completion; some are approved without detailed costing and engineering design.
- b. **Weak reporting culture of MDAs:** The MDAs reports do not adequately reflect projects that are ongoing as various stages of implementation are not stated. The MDAs do not adhere to proper monitoring and evaluation technique on their projects and the large number of MDAs projects makes it difficult to individually visit each project.
- c. **Unplanned Size of the recurrent expenditure:** Increases in the wage bill and in allocation to certain MDAs have resulted in bloated budget. This has made the budget skewed towards the recurrent spending while capital expenditure remained inadequate.



- d. **The nature of the budget process:** The budget is required to be reviewed at different stages with the possibilities of delays, like the drafting stage, legislative approval stage, implementation stage, and monitoring and evaluation stage.

#### 1.4.2 Importance of Government Budget

- a. **Proper resource pool allocation:** Budgeting helps the government to allocate resource in a useful and sustainable manner. Government uses past data to identify sections of the society in need of economic welfare policy and implementation. These policies help the government claim on share efficient governance and achieve economic stability.
- b. **Ensuring economic growth:** Budget permits the government to regulate the imposition of taxes in various sectors, investment and expenditure are some of the most prominent factors contributing to the growth of a nation's economy.
- c. **Growth of business and trading:** Businesses and enterprises look forward to the government budget as resources being allocated to various sectors are revealed. The government can encourage business owners to revise their policies accordingly and contribute to the country's economy prosperity.
- d. **Mitigating economic divide:** The government addresses economic disparity and inequality which is imminent threat to the country's economy by the introduction of public and economic welfare policies for the underprivileged sections of the society though the budget.
- e. **Administering operation of public sector units:** Industries operating in the public sector contribute immensely to the country's economy by providing employment to a lot of people and generating revenues. A budget helps the government focus appropriately on corporation (enterprises) in the public sector by introducing policies to aid their growth.
- f. **Prevention of waste:** A good budgetary system does not allow for abandoning projects as enough studies would have been carried out before subsequent approval.

#### 1.4.3 Factors which Militate Against the Government Budgeting System

The following are key factors that militate against effective and efficient implementation of government budget:

- a. **Human element** Top government officials in MDAs see budgeting as restraining and challenging. They tend to develop a lot of apathy towards its implementation. The lack of probity and accountability of some operatives affect successful budgeting.

- b. Uncertainties underlying data inputs In Nigeria, there are a lot of uncertainties in the data used for the preparation government budgets. The projections in revenue accruing from oil may not be forthcoming in view of the vagaries in the world market. Lack of efficient data base also hamstrings reliable forecasts.
- c. The type of project for which budget is prepared How successful a budget will be depends on the type of projects to which it relates. Some projects are popular while others are not. Those which are not popular may face stiff implementation problems.
- d. The problem of inflation Inflation tends to reduce the purchasing power of money when the value of money is falling, budget implementation may run into problems. The revenue available will not be able to cover the expenditure.
- e. Political social and cultural element Introducing innovation may be met with stiff opposition. Since a section of the country may not be willing to provide land for development purposes and there may be political instability, budget implementation is at risk.
- f. Changing government policies To implement a budget a lot depends on the policy of government. Government policies have to be harmonized and be consistent for effective budget implementation. Frequent changes of government policies affect budget implementation.
- g. The problems of debt management and optimal use of limited resources There is the challenge of striking a balance between what part of the nations resources should be used for servicing debts and the amount that should be utilized for economic development.
- h. Fiscal indiscipline Under the incremental budgeting system spending officers tend to expend the last naira available in a year's budget in order to justify the demand for increased allocation in the subsequent year, with little or nothing to show under the current dispensation.

#### Self-Assessment Exercises 1

Discuss the Budget process?

### 1.5 Methods of Preparing Budgets by Government in Nigeria

The budgeting approach used by government to allocate funds for a succeeding year is the line-item incremental method. The approach is oriented to expenditure itemizing proposed disbursements under different Heads and sub-heads of the various Ministries and Extraministerial Departments. The expenditure side of the line item or

incremental budgets is made up of personal emoluments, other changes and capital or development items.

a. **Line - items (incremental) budgeting**

This method involves picking last year's figures and adding a percentage to arrive at this year's budget. The percentage added is based essentially on: trend of economic level; inflation; and the available of funds.

**Advantages of line-item budgeting method**

- a. It is simple to understand and operate.
- b. It suits the country's level of development where there is paucity of data.
- c. It is cheaper to produce.
- d. It encourages the continuity of projects.
- e. It ensures that budget is translated in monetary language and relates to the relevant activity operations.
- f. Allocations into Heads and sub-heads facilitate the monitoring of performance.

**Disadvantages of the line-item budgeting methods.**

- a. It allows past errors to be carried forward.
- b. Detailed scrutiny is not contained in the budget. The budget preparation is consequently not well researched.
- c. It fails to clarify the cost of alternative method of achieving programmed objectives.
- d. It results in continual growth budget totals leaving to inflation, as opposed to serious economic needs.
- e. It fails to fund new programmes of high priority on a sufficiently reasonable scale.
- f. It does not clearly spell out the relationship between capital and recurrent expenditure.

b. **Zero- based Budgeting Method**

This is a programme budgeting reform that requires every item of expenditure to be justified as if the particular programme is taking off for the first time.

**Advantages of Zero-based Budgeting**

- i. It acts a tool for charge from which benefits are likely to accrue.
- ii. Low priority programmes can be eliminated.
- iii. Programme effectiveness can be dramatically improved.
- iv. It focus attention on the future rather than the past, old and new projects are therefore appraised on the same basis.
- v. It provides a better yardstick for the measurement of performance.
- vi. It allows for optimum allocation of resources.

### **Disadvantages of ZBB budgeting**

1. Problems of identifying suitable decision units.
2. It is not so good for recurrent expenditure. It has not been successful in the public sector.
3. It may cause a major shift in resources allocation.
4. Problems of producing suitable decision package which are self contained and understood by managers.
5. Bureaucrats often do not trust the approach and hence frustrate its effectiveness.
6. It involves the task of analysing and ranking a lot of data and information which a number of civil servants find difficult to manage.

### **c. Planning, Programming and Budgeting System (PPBS)**

This is a budgeting approach which is based on systems theory, and objectives orientation with substantial emphasis on resources allocation on the principle of economic analysis.

#### **1.5.1 The main steps in Planning, Programming and Budgeting System**

- i. Identification and enumeration of goals and objectives of the organization.
- ii. Defining the total system in detail, including objectives, environment, available resources, the programmes and their objectives, etc.
- iii. Planning and analysis: These involve continuous process of developing, comparing and analyzing alternative programmes, so as to evolve the most appropriate package for the organization.
- iv. Development of the appropriate measures of performance for the programmes of the organization.
- v. Programming and budgeting: the agreed package of "programmes" complete with resource requirements and expected results are expressed in the form of "programmed budget".
- vi. Reporting and controlling: Planning, Programming and Budgeting system requires sophisticated information service which is able to monitor the progress made towards meeting the organizational objectives. Performance evaluation, therefore, emphasizes the attainment or non-attainment of the desired objectives, rather than the amount spent which is the focus in traditional budgeting system.
- vii. Development, each year, of a multi-year programme and financial plan.

### **Advantages of Planning, Programming and Budgeting system**

The technique:

- i. Provides information on the objectives of the organization;
- ii. Lays emphasis on long-term effects;
- iii. Achieves effective use of budgeted resources and anticipated performance;
- iv. Ensures rational decision-making and forces those seeking budgetary allocations to consider alternatives;
- v. Leads to rapid economic development.

### **Disadvantages of Planning, Programming and Budgeting System**

The system is associated with the following disadvantages/problems:

- i. Natural resistance to change, particularly among the very Senior Officers in the Governmental hierarchy.
- ii. Transitional problems at the introductory stage.
- iii. Problem of staff shortage.
- iv. Paucity of data.
- v. Re-orientation of the old accounting system to cater for the requirements of the new concept.
- vi. Problem of data collection and physical monitoring.
- vii. It is difficult to install.
- viii. It makes heavy demand on resources.
- ix. The uncertainty of the future makes long term planning difficult.

### **d. Performance Budgeting**

Performance budgeting can be defined as a technique used for presenting public expenditure in form of functions or projects to be undertaken, highlighting the cost involvements. The anticipated costs are compared with the expected income. The focus of the technique is on results or output achieved, rather than how much has been expended.

The essential features of a Performance Budgeting System are as follows:

- a) Classification of budgets in terms of functions and activities.
- b) Measurement of work done or output provided by each activity.
- c) Expression of the budget in a way which allows direct comparison between a project's cost and the anticipated income or benefit.
- d) Monitoring of actual cost and performance against the budgeted results or expectations.

**e. 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.

**f. Flexible Budget:**

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

**g. 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 is financed from the Development Fund:

**i. 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.

**ii. Rolling Plan or Continuous Budget**

This can be defined as the continuous updating of a medium term plan spanning a specified period of time. For instance, In Nigeria, between the period of 1998 to 2000 within which special and core capital projects such as the completion of Ajaokuta Steel Rolling Mill which be accomplished. The time horizon in a challenge or target date within which the capital project is expected to be completed.

**Self-Assessment Exercises 2**

1. State the Advantages and Disadvantages of Zero Based Budgeting.
2. Write short note on the following:
  - Capital Expenditure Budget.
  - Flexible Budget.
  - Periodic Budget.
  - Performance Budget.



## 1.6 Summary

In this unit, we conclude that Budgeting is so important that it cannot be over emphasized and knowing the stages or processes of budgeting system in the public sector is germane. The methods of budget system in the public sector discusses all types of budget, advantages and disadvantages, how important a budget is to any given country. The conclusion of this unit will lead to next unit titled “Revenue Management”.

In this unit, we discussed the meaning of Budget, purpose of a budget, types of budget, advantages and disadvantages of budget methods in Nigeria and how budget are been prepared in Nigeria and we also discuss the stages or processes of budgeting system in Nigeria.



## 1.7 References/Further Readings/Web Resources

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ICAN (2014) Public sector accounting and finance (study text) : Victoria Island (VI): The ICAN press.

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## 1.8 Possible Answers to SAEs

### Answers to SAEs 1

1. The budget process is a process which has to go through Drafting, Legislative approval, implementation and Monitoring and Evaluation through a period of time for the purpose of attaining a given objective.

### Answers to SAEs 2

1. Advantages of Zero-based Budgeting
  - It acts a tool for charge from which benefits are likely to accrue.
  - Low priority programmes can be eliminated.
  - Programme effectiveness can be dramatically improved.

Disadvantages of ZBB budgeting



- Problems of identifying suitable decision units.
- It is not so good for recurrent expenditure. It has not been successful in the public sector.
- It may cause a major shift in resources allocation

2. **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.

**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 recognizes the difference between the fixed and variable costs and gives room for result determination and evaluation under the varying levels of **activities**.

3. **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.

## Unit 2 Revenue Management

### Unit Structure

- 2.1 Introduction
- 2.2 Intended Learning Outcomes
- 2.3 What is Revenue Management?
- 2.4 Importance of Public Sector Revenue Management
  - 2.4.1 Principles of Public Sector Revenue Management
- 2.5 Challenges of Public Sector Revenue Management
- 2.6 Summary
- 2.7 References/Further Readings/Web Resources
- 2.8 Possible Answers to Self-Assessment Exercise(s)



### 2.1 Introduction

In this unit, we shall discuss the importance of Revenue Management and how important it is for revenue management in the public sector in Nigeria. Revenue management is major aspect in the public sector that needs to be addressed in order to prevent mal administration of public funds.



### 2.2 Intended Learning Outcomes

By the end of this unit, you will be able to:

- Explain the meaning of Revenue Management
- Discuss the importance of Revenue Management in the public sector
- Analyse the Procedures and processes in Revenue Management in Nigeria.
- Explain the challenges of public sector revenue management



### 2.3 What is Revenue Management?

According to Technical Competency Dictionary, (2016) defined Revenue management as process that involves all the procedures necessary to ensure that the income of government departments is properly planned and fully accounted for, and that cash, once received is safeguarded and banked promptly or immediately. However, the revenue management reflects the planning and controlling of resources to

achieve the desired or set objectives as designed by the management. However, it also reflects the fact that the ownership of the tasks is shared with the departments which financial managers' serve. The role of the revenue management specialist is to provide advice, support and technical and professional expertise to assist line managers in fulfilling their responsibilities.

Revenue management plays a vital role in achieving the national objective of any country in order to enhance the economic development and social wellbeing of the society at large (Yasin, 2012). Revenue management assists the scarce resources of a country to be spent in efficient and effective manner, by enabling the wise utilization of both the available and the forecasted revenue so that exhaustive extraction and proper utilization of the revenue potential will be ensured (Tiwari,2017). Revenue Management enables Local government, State government and Federal government authorities to optimize the revenue collection process and efficiently manage ever changing tax law and legislative changes associated with revenue (Oracle, 2011). However, the effective, efficient and economy of government revenue will help in the good governance of a country.

Self-Assessment Exercises 1

Define Revenue Management?

## 2.4 Importance of Public Sector Revenue Management

The importance of public sector management cannot be over emphasized. The importance includes the followings:

1. There should be an effective and efficient monitoring of government revenue as against its expenditure (i.e for proper accountability or matching concept.)
2. The government should be ready to deal with any bottleneck as it relates to revenue management.
3. Revenue management is so vital that the government needs it for financial solvency so as to remedy capital project that are been purchased.
4. Revenue management will help the government to face some challenges that must be overcome so as to make progress in social, economic and political development.
5. Revenue management can increase the financial life wire of government.

Self-Assessment Exercises 2

Explain the importance of public sector revenue management.

### 2.4.1 Principles of Public Sector Revenue Management

The principles of revenue management include the followings:

- a) There should be public revenue management regulation for accountability purpose.
- b) National and international standard and guidance on best practice should be applied.
- c) There should be fair and equitable distribution of tax burden; applying ability to pay.
- d) There should be proper tools and techniques set by government to mobilize revenue.
- e) Revenue neutrality. An important economic principle in the design of taxes is that taxation should be "neutral". "Neutral" (in the economic sense) means that the tax does not alter the decisions about investment, production, consumption and trade that would be made in the absence of the tax unless the tax is deliberately intended to do so.
- f) Revenue management should ensure revenue productivity. And the main functions performed by revenue management cover the following areas:-
  - Planning for future income levels including the determination of income sources and tariffs
  - The physical collection of revenue through the cashier system.
  - There should be accounting for revenue collected in the government accounting system.
  - Ensuring safe and secure arrangements for handling cash and transferring it to government bank accounts (Technical Competence Explanatory Note, 2016).
  - Efficient and effective revenue management skill should be employed. And this can be achieved through the following:
    1. **Recruitment and Selection;** this is a process of attracting a qualified job applicant with a sufficient (good pay) amount and choosing the one among the applicants who best fit to the given job as required by the management of the organisation (HRM reader,2013)
    2. **Performance Management;** performance management helps a manager to measure whether the set objective is achieved or not so that managers motivate employees according to their performance based on the needs of employees.

3. **Career Planning;** is a sequence of attitudes and behavior associated with the services of job and work related activities. It will help for the organization to retain qualified personnel.
4. **Succession Management;** is the process for identifying and developing employees with the potential to fill key roles within the organization. Through the succession planning process, an organization recruits superior employees, develops their knowledge, skills, and abilities, and prepares them for advancement or promotion into ever more challenging roles. Succession planning increases the availability of experienced and capable employees that are prepared to assume key roles as they become available.

Self-Assessment Exercises 3

What are the Principles of Public Sector Revenue Management?

## 2.5 Challenges of Public Sector Revenue Management

The increasing complexity of the public administration environment and the continuous need to align the needs of society with limited resources require that funds are made available for a specific purpose and used for that purpose. However, in developing countries, specially, in Nigeria, there are many problems regarding utilization of the available resource for the intended purpose. As a result, the following weaknesses are frequently observed as:

1. Poor planning having no links between policy makings, Planning and budgeting:
2. Poor expenditure control
3. Inadequate funding of operations and maintenance
4. Little relationship between budget as formulated and budget as executed
5. Inadequate accounting system
6. Unreliability in the flow of budgeted funds to agencies and lower levels of government
7. Poor management of external aid.
8. Poor cash management
9. Inadequate reporting of financial performance and poorly motivated staff (the World Bank, 1998).



## 2.6 Summary

In this unit, we conclude that revenue management plays a vital role in the public sector and as a result of that the effectiveness and efficiency of government in revenue management helps in good governance. Prior to this date revenue management in the public sector has been a major challenge that needed attention because a lot of fraud have been perpetuated.

In this unit, revenue management was discussed extensively and the importance, principles and the challenges faced by government. Revenue management plays a vital role in both private and public sector in Nigeria at any given period.



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## 2.8 Possible Answers to SAEs

### **Answers to SAEs 1**

1. Revenue management as process that involves all the procedures necessary to ensure that the income of government 95 departments is properly planned and fully accounted for, and that cash, once received is safeguarded and banked promptly or immediately.

**Answers to SAEs 2**

1. The importance of public sector management cannot be over emphasized. Hence, There should be an effective and efficient monitoring of government revenue as against its expenditure (i.e for proper accountability or matching concept.) and The government should be ready to deal with any bottleneck as it relates to revenue management

**Answers to SAEs 3**

1. The principles of revenue management include the followings: a) There should be public revenue management regulation for accountability purpose. b) National and international standard and guidance on best practice should be applied. c) There should be fair and equitable distribution of tax burden; applying ability to pay
2. Some of the challenges of public sector revenue management are highlighted. Poor planning having no links between policy makings, Planning and budgeting: 2. Poor expenditure control 3. Inadequate funding of operations and maintenance.



## Unit 3      SUPPLY CHAIN MANAGEMENT

### UNIT STRUCTURE

- 3.1 Introduction
- 3.2 Intended Learning Outcomes
- 3.3 What is Supply Chain Management?
- 3.4 Supply Chain Management Process/Procurement Management Process
  - 3.4.1 Challenges in Public Procurement
- 3.5 Ways of Improving Supply Chain Management
- 3.6 Summary
- 3.7 References/Further Readings/Web Resources
- 3.8 Possible Answers to Self-Assessment Exercise(s)



#### **3.1 Introduction**

Supply Chain Management is a network of facilities that help in the distribution of goods and services. It also performs the functions of procurement of materials, transformation of these materials into immediate finished products. However, there are processes and principles of supply chain management and how it works in the public sector.



#### **3.2 Intended Learning Outcomes**

By the end of this unit, you will be able to:

- Explain the meaning of Supply chain management
- Discuss the processes and principles of supply chain management
- Evaluate supply chain management and how it works in the public sector.
- Explain the challenges of supply chain management and how to improve on it.



#### **3.3 What is Supply Chain Management**

Supply chain management is also known as public procurement management in public sector. And it can be seen as the things we do to influence the behaviour of the supply chain and get the results we want. Supply chain or procurement must ensure that goods and services are

delivered efficiently and on-time for programmes operations. Open and competitive procurement drives private sector innovation to deliver savings to government. According to Nagumey, (2013), defined supply chain as a flow that consist of products and services from; **Raw materials suppliers –to- Component and intermediate manufacturers/producers –to- Final product manufacturers/assemblies –to-Wholesalers and distributors –to-Retailers –to- The consumer** connected by **transportation and storage** activities, and **integrated** through information, planning and integrated activities. He also viewed that supply chain management is concerned with the efficient integration of suppliers, factories, warehouses and stores so that merchandised is produced and distributed:

- In the right quantities
- To the right location
- At the right time

In order to:

- Minimize total system cost
- Satisfy customers service requirements

In the public sector, failures in the supply chain can risk human life and well-being and the security of the nation. Public sector supply chains must reach citizens in the most remote location as well as having international reach to acquire technologies, expertise and commodities not otherwise available nationally (Deloitte, 2018). Public sector procurement operates in the markets where state-owned enterprises operate, and there is clear separation between governments' ownership function and shareholding. Public sector procurement also operates in monopolistic markets (for example, military equipment and supplies where government is often the only customer) and in the market where there are a small number of large customers.

In Nigeria, there is a legislative law on procurement; it is called the Public Procurement Act 2007. This act established the National Council on Public Procurement (NCP) and the Bureau of Public Procurement (BPP) as the regulating authorities responsible for monitoring and oversight of public procurement, harmonising the existing government policies by regulating setting standards and developing the legal framework and professional capacity for public procurement in Nigeria. The Act sets standard for organization procurements, methods of procurements of works, goods, consultancy and non-consultancy service as well as the procurement approval threshold for the Bureau of Public Procurement, Tenders Boards and Accounting officers for all Ministries, Department and Agencies.

However, research have proven that most jurisdiction have move beyond the days of inefficient controls where civil servants would bring old item to be issued with a new item from the stores.

Procurement is also a high risk area for corrupt activities and must be transparent and controlled to mitigate risks. Information technology can support transparency and controls but change management for implementation of these systems is key to ensure coverage of all procurements and all suppliers. The public procurement Act, 2007, established the national council on public procurement.

1. Membership of National Council on Public Procurement (NCPP)
  - Minister of Finance, as Chairman
  - Attorney-General and the Minister of Justice of the Federation
  - Secretary to the Government of the Federation
  - Head of service of the Federation
  - Economic adviser to the President
  - Six part-time members representing:
    - Nigeria Institute of Purchasing And Supply Management
    - Nigeria Bar Association
    - Nigeria Association of Chambers of Commerce, Industry, Mines and Agriculture
    - Nigeria Society of Engineers
    - Civil Society
    - The Media
    - Director-General of the Bureau who shall serve as the secretary to the council.
2. Objectives of Bureau of Public Procurement (BPP): The public procurement Act, 2007, established the bureau, its objectives include:
  - a. Harmonization of existing government policies and practices on public procurement and ensuring probity, accountability and transparency in the procurement process;
  - b. Establishment of pricing standards and benchmarks;
  - c. Ensuring the application of fair, competitive, transparent, value for money standards and practices for the procurement and disposal of public assets and services;
  - d. Attainment of transparency, competitiveness, cost effectiveness and professionalism in the public sector procurement system.
3. Functions of Bureau of public procurement (BPP): The functions of the Act includes:
  - Formulating the general polices and guidelines relating to public sector for procurement for approval of National Council on Public Procurement (NCPP)
  - Publishing and explaining the provisions of the Act;

- Certifying Federal Government procurement prior to the award of the contract;
- Supervising the implementation of established procurement policies;
- Monitoring the prices of tendered items and keeping a national database of standard prices;
- Publishing the details of major contracts in the procurement journal;
- Publishing paper and electronic editions of the journal and maintaining an archival system for the procurement journal;
- Maintaining a national database of the particulars and classification and categorization of Federal contracts and service providers;
- Collating and maintaining in an archival system, all federal procurement plans and information;
- Undertaking procurement research and surveys;
- Organizing training and development programmes for procurement professional;
- Periodically reviewing the socio-economic effect of the policies on procurement and advise National Council on Public Procurement accordingly; Preparing and updating standard bidding and contract documents;
- Preventing fraudulent and unfair procurements and where necessary to apply administrative sanctions; o. Reviewing the procurement and award of contract procedures of every entity to which the act applies;
- Performing procurement audits and submits report to the National Assembly bi-Annually;
- Introducing , developing, updating and maintain related database and technology;
- Establishing a single internet portal that shall serve as a primary and definitive source of all information on government procurement containing and displaying all public sector procurement information at all times;
- Coordinating relevant training programmes to build institutional capacity;

#### Self-Assessment Exercises 1

Discuss the functions of Bureau of Public Procurement (BPP)?

### 3.4 Supply Chain Management Process/Procurement Management Process:

The supply chain management principles include the following:

- **Transparency** - This principle requires that information about the public procurement process is accessible to all bidders and stakeholders except for confidential information.
- **Integrity** - This refers to the reliability of bidding information provided by the procuring entity to all bidders and other stakeholders. It is all about public confidence.
- **Economy** - This principle is about efficiency, value for money, fair price and managing public resources with due care and diligence so that money spent represents good value.
- **Openness** - Public procurement requirements must not be kept in secret but should be open to all those qualified to participate in the bidding and the public, except for confidential information.
- **Fairness** - It means treating all bidders in the same way and without bias. For instance, no preferential treatment should be given to certain bidders compared to the rest.
- **Competition** - There should be no hindrance to participation in procurement and all tender requirements must be proportionate to the subject of the contract.
- **Accountability** - This requires that individuals are responsible for their actions and decisions. Everyone involved must be accountable and must be sanctioned when they err against the rules.

#### Self-Assessment Exercises 2

Explain the principles of supply chain management.

#### 3.4.1 Challenges in Public Procurement

Supply chain management or public procurement management has the following challenges and they include:

- **Political expediency:** There can be pressure to undertake procurements not planned for and undue influence to change tender awards.
- **Lack of confidentiality:** Leakages of information on the tendering process for personal gain to third parties have been reported and this is contrary to the law.
- **Lack of capacity or expertise:** A number of procurements have been handled poorly, and wrong procurement decisions have been

made. Some tenders have ended up being awarded to unqualified bidders, leading to poor outcome. This reflects the inadequate capacity of the decision-makers in assessing the qualifications of the bidders. This can be overcome by use of outside expertise.

- **Lack of robust procedures:** Procurement manuals or handbooks may not be available in procuring entities to help staff in acquainting themselves with procurement rules and guidelines.
- **Lack of procurement planning:** Most procuring entities fail to prepare procurement plans. Hence, they end up making emergency procurements and using wrong procurement methods.
- **Poor records management:** There is a need to invest in training of staff, and to provide a conducive office environment, etc.
- **Negative perception of procurement:** Because of the tedious procedures, public procurement is seen as a hindrance to programme implementation, while many see it as a source of corruption.
- **Poor management of contracts:** There is lack of proper supervision in the implementation of projects and less qualified members of staff usually manage contracts.
- **Poor staff retention:** Procuring entities find it difficult to retain qualified and experienced staffs, which usually leave for greener pastures.

### 3.5 Ways of Improving Supply Chain Management

- Assisting governments to develop procurement policies, procedures and system that mitigate risks.
- Design procurement plans and strategies for programmes that are based on high quality market research to understand supply chain and enhance transparency.
- There should be reviews of price and market intelligence to achieve value-for-money.
- There should be a good store management system for basic supplies management to warehousing for health and defense.
- Supporting government's anti-corruption efforts through procurement audit service, forensic audits to support investigation, etc
- Electronic government procurement system.

#### Self-Assessment Exercises 3

Explain the challenges of supply chain management.



### 3.6 Summary

In this unit, we conclude that supply chain management is the same as public procurement management in the public sector, the challenges and way forward in curbing the bottle neck of supply chain management is a key to successful governance. However, we also looked at the law regulating public procurement in Nigeria. The conclusion of this unit will lead to next unit titled “Public Asset Management and Fraud Prevention”.

In this unit, we have discussed extensively on supply chain management, the principles, processes, challenges and remedies in solving procurement management bureaucratic hurdles. The legislative law regulating public procurement was also discussed.



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### 3.8 Possible Answers to SAEs

#### Answers to SAEs 1

1. The functions of the Act includes: a. Formulating the general polices and guidelines relating to public sector for procurement for approval of National Council on Public Procurement (NCP) b. Publishing and explaining the provisions of the Act; c. Certifying Federal Government procurement prior to the award of the contract;

### Answers to SAEs 2

1. The supply chain management principles include **Transparency** - This principle requires that information about the public procurement process is accessible to all bidders and stakeholders except for confidential information. • **Integrity** - This refers to the reliability of bidding information provided by the procuring entity to all bidders and other stakeholders. It is all about public confidence. • **Economy** - This principle is about efficiency, value for money, fair price and managing public resources with due care and diligence so that money spent represents good value.

### Answers to SAEs 3

1. Supply chain management has the following challenges and they include: • **Political expediency**: There can be pressure to undertake procurements not planned for and undue influence to change tender awards. • **Lack of confidentiality**: Leakages of information on the tendering process for personal gain to third parties have been reported and this is contrary to the law. • **Lack of capacity or expertise**: A number of procurements have been handled poorly, and wrong procurement decisions have been made.



## Unit 4 Public Asset Management and Fraud Prevention

### Unit Structure

- 4.1 Introduction
- 4.2 Intended Learning Outcomes
- 4.3 What is Asset Management?
  - 4.3.1 Objectives of Public Asset Management
- 4.4 Driving Forces for Efficient and Effective Public Asset Management
  - 4.4.1 Factors that Hinders the Efficient and Effective Public Asset Management
- 4.5 Fraud
  - 4.5.1 What is fraud?
  - 4.5.2 Frauds as Civil and Criminal Wrongs
  - 4.5.3 Benefit of Fraud Prevention Check Up
  - 4.3.4 Fraud Prevention
- 4.6 Summary
- 4.7 References/Further Readings/Web Resources
- 4.8 Possible Answers to Self-Assessment Exercise(s)



### 4.1 Introduction

This unit is to define Public Asset Management and Fraud Prevention, discuss the importance as it relates to the government and the society at large.



### 4.2 Intended Learning Outcomes

By the end of this unit, you will be able to:

- Explain the meaning of Public Asset Management
- Explain the meaning of fraud and its prevention
- What are the factors that hinder public asset management?
- What is fraud?
- Explain the importance of fraud prevention to the government and the society at large.
- List and explain the objectives of public asset management.

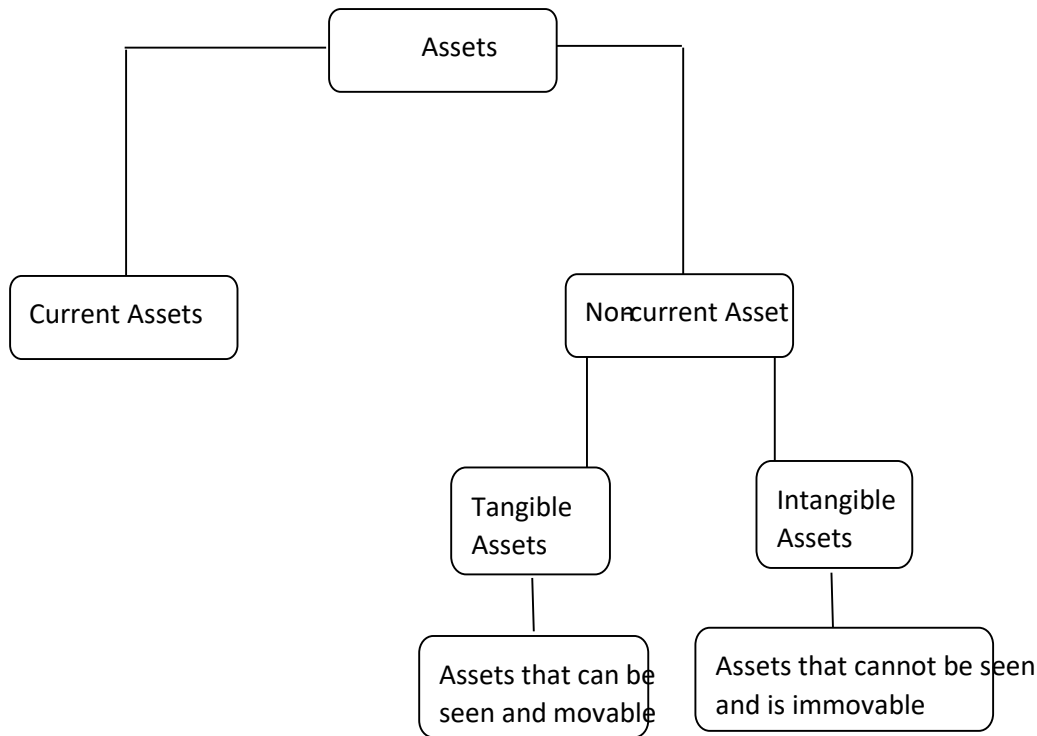


### 4.3 What is Asset Management

Kaganova, McKellar and Peterson (2006) defined asset management as the process of decision-making and implementation relating to the acquisition, use, and disposition of real property. This definition applies to both the private sector and the public sector.

**Public Assets Management:** According to Builta, (1994) defines asset management as the process of maximizing value to a property or portfolio of properties from acquisition describes the functions of managing property assets either as investment assets or as operational assets. In addition, the definition identifies the objective of non-current asset management that is, maximizing value to a property or portfolio of properties

Public asset management involves a variety of components that work together for efficient service delivery and low cost. These components involve every internal element of public asset management including response to relevant external environmental factors. Conjointly, components of non-current asset management constitute a public asset management system that determines challenges of asset management in the public sector (Lu, 2011). However, developing an appropriate system is an essential issue for effective and efficient management of public assets. In other words, Asset can be classified into current asset and non-current asset, and non-current asset can be further classified into tangible asset (these are asset that can be seen and it is movable) and intangible asset (these are asset that cannot be seen and it is immovable). Asset can further be classified using diagram below:



Government is responsible for the handling and maintaining of public asset. Government obtains assets in different ways from private businesses. Government revenue is mainly obtained through statutory authority while private businesses receive revenue from the sale of goods and services. On this basis, in the public sector, an asset is a public economic resource that is obtained or controlled by government as a result of past transactions and events, including legal obligations. Generally, public assets are indispensable means by which government operates to provide public services and produce public goods. There are three tiers of government (Federal Government, State Government and Local Government) and they have the same statutory rules and laws in asset management. In the public sector, non-current assets are not purchased or constructed for commercial investment except in government-owned enterprises. Conversely, non-current assets are usually considered as an economic resource and as a means by which government fulfills its goals and objectives of service delivery to her/his citizens. However, Government major responsibility of managing public non-current assets is providing services for fulfilling government functions rather than having cash flow or selling non-current asset for profits (Builta, 1994).

#### Self-Assessment Exercises 1

Explain Asset Management.

### 4.3.2 Objectives of Public Asset Management

In the public sector, the objectives of public asset management include:

- to establish responsibility for public assets
- to provide for better utilization of property or assets
- to facilitate the physical inventory and
- to comply with the laws of the country

### 1.4 Driving forces for efficient and effective public asset management

In public sector, there are issues and requirements that drive public asset management to update its goals and objectives in order to maximize the value of properties at the least cost in the process of providing appropriate services for government agencies. The driving forces of public asset management include:

- New public management movement or control
- Where there is demands of financial payoff from real asset management
- Accounting reforms and
- An application of private sector practices to government non-current asset management

#### Self-Assessment Exercises 2

Explain the driving forces for efficient and effective public asset management?

### 4.4.1 Factors that Hinder the Efficient and Effective Public Asset Management

In the public sector, there are so many factors that hinder effective public asset management but for this study, we are going to restrict the hindrances to the following:

- Lack of proper maintenance of public asset
- Lack of centralized property management authority.
- Government turns to leasing real properties rather than constructing or acquiring new non-current assets.
- Lack of a well-established management information system (MIS) associated with property portfolios.

- Lack of accountability for stewardship and transparency in management process.

#### 4.5 What is fraud?

Fraud is a generic category of criminal conduct that involves the use of dishonest or deceitful means in order to obtain some unjust advantage or gain over another.

Fraud is an intentional deception made for personal gain in order to obtain unauthorized benefits (money, property etc.). In simple terms, it is defined as the use of one's occupation for personal enrichment through the deliberate misuse or application of the employing organisation's resources or assets. This act of fraud can be classified as either as a civil wrong or a criminal offence. (Okoye, Maimako, Jugu& Jat,2017)

##### 4.5.1 Frauds as Civil and Criminal Wrongs

**Civil Wrong:** The court system views fraud as a civil wrong otherwise it is known as "tort." Each jurisdiction has a specific definition of fraud, but it is generally considered to be the intentional misrepresentation of important facts. A victim under this category may sue the fraud perpetrators to avoid subsequent occurrence and recover monetary compensation. The circumstances where a civil wrong is considered, certain condition must be in place. And these include:

- a) Proving the state of mind of both the perpetrator and the victim at the time of the crime.
- b) Proving the fraud which has occurred with clear and convincing evidence.

In other words, civil fraud is an intentional, but not willful act. It is monetary and with noncriminal penalty. **Criminal Wrong:** This type of fraud is classified as criminal offence especially where the perpetrator is involved in the theft under false pretense. In this category, a fraud perpetrator may be prosecuted and imprisoned by relevant governmental authorities or regulatory agencies.

##### 1.5.2 Benefit of Fraud Prevention Check Up

Association of Certified Fraud Examiners (2016), viewed the benefits of fraud prevention check-up as follows:

- Fraud is a common risk that should not be ignored. Fraud is now so common that its occurrence is no longer remarkable, only its

scale. Any organization that fails to protect itself appropriately faces increased vulnerability to fraud.

- It is a great opportunity for your organization to establish a relationship with a Certified Fraud Examiner (CFE) because CFEs are experts in detecting fraud and helping organizations prevent it in the future.
- Strong fraud prevention processes help increase the investors' confidence.
- With the introduction of fraud prevention check-ups although organizations score very poorly in initial fraud prevention check-ups because they don't have appropriate anti-fraud controls in place. By finding this out early, they have a chance to fix the problem before becoming a victim of a major fraud. It's like finding out you have seriously high blood pressure. It may be bad news, but not finding out can be a lot worse.
- ACFE (2016) viewed that Fraud Prevention Check-Up can save your company from disaster. If you do not proactively identify and manage your fraud risks, they could put you out of business almost overnight. Even if you survive a major fraud, it can damage your reputation so badly that you can no longer succeed independently.
- It is profitable to prevent losses, and fraud prevention activities can help to ensure the stability and continued existence of a business.

### 1.5.3 Fraud Prevention

Fraud can be prevented in many ways, such as follows:

1. One of the most effective ways to deal with the problem of fraud is to adopt methods that will decrease motive, restrict opportunity and limit the ability for potential fraudsters to rationalize their actions
2. There should be regular training and creating awareness on how to stop fraud from reoccurring.
3. Companies policies, procedures and controls should be set as it relates to fraud.
4. There should be a formal approach to fraud prevention
5. Only authorized people or employees should be allowed to have access to a particular unit or centre.
6. There should be an introduction of continuous audit as this will prevent fraud from occurring and reoccurring.
7. Whistle-blowing policy of the organization should be able to protect the whistle-blower.
8. There should be commensurate reward system for whistle-blowing.
9. Good working condition of the employees.
10. There should be creation of strong internal control system.

### Self-Assessment Exercises 3

1. Fraud is criminal. Discuss?
2. Discuss the benefits of fraud prevention check-up?



#### 4.6 Summary

In this unit, we conclude that Public asset management involves a variety of components that work together for efficient service delivery and low cost. These components involve every internal element of public asset management including response to relevant external environmental factors such as Political, Economic, Social, Technology, etc. And the benefits of fraud prevention as viewed by the Association of Certified Fraud Examiners. The conclusion of this unit ends the module three.

In this unit, we have discussed extensively on Public asset management, fraud, and fraud prevention and how important they are to the public sector and private sector. Emphasis was on government to provide a good working condition for the employees and there should be commensurate reward system for whistle-blowing and further protection or security for the whistle-blower.



#### 4.7 References/Further Readings/Web Resources

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## 4.8 Possible Answers to SAEs

### Answers to SAEs 1

1. asset management is the process of decision-making and implementation relating to the acquisition, use, and disposition of real property. This definition applies to both the private sector and the public sector.

### Answers to SAEs 2

1. The driving forces of public asset management include: • New public management movement or control • Where there is demands of financial payoff from real asset management • Accounting reforms

### Answers to SAEs 3

1. Civil Wrong: The court system views fraud as a civil wrong otherwise it is known as “tort.” While Criminal Wrong: This type of fraud is classified as criminal offence especially where the perpetrator is involved in the theft under false pretense.
2. Fraud is criminal simply put, it involves the use of dishonest or deceitful means in order to obtain some unjust advantage or gain over another.
3. the benefits of fraud prevention check-up as follows: • Fraud is a common risk that should not be ignored. • It is a great opportunity for your organization to establish a relationship with a Certified Fraud Examiner (CFE) because CFEs are experts in detecting fraud and helping organizations prevent it in the future. • Strong fraud prevention processes help increase the investors’ confidence.