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BHM 779



Public Financial Management **Module 3**

BHM 779 Public Financial Management

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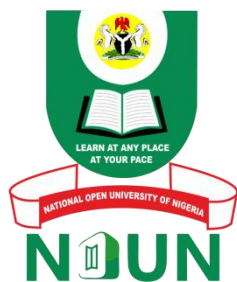
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Module I Budgeting in Public Sector

Unit I Budgeting in Public Sector

1.0 Introduction

In this unit, we will attempt to explain budget and emphasises on its application in the public sector administration especially as it affects developing economy like Nigeria. Budget is presented as a major financial management tool. The execution of a government's budget is carried out within an established legal framework for management of public finances as enshrined in the constitution and further elaborated in other statutes

2.0 Objectives

At the end of this unit, you should be able to:

- define budget
- explain the theory and practice of budgeting
- identify objectives and types of budgeting
- state the procedure for budgeting in the public sector.

3.0 Main Content

3.1 Budget: Definition

According to Chartered Institute of Management Accountants, a budget could be defined as a plan stated in quantitative monetary terms which is prepared and approved prior to a defined period of time usually showing planned income to be generated and/ or expenditure to be incurred during that period and capital to be employed to attain a given objective.

Budget is applied by users differently. In the individual / personal, business and public sector the scenario differs. For personal budget instinct and personal idiosyncrasies come to play; while in the business sector liquidity and profitability are the guiding barometer. The public sector budget considers the availability of funds and socio-political consideration uppermost alongside regulations cum policies.

Self-Assessment Exercise

Define budget.

3.2 Budgeting: Theory and Practice

Budgeting is the most important decision making process in public institutions. It is also the jurisdiction's most important reference document. A public budget has four basic dimensions, as itemised below.

1. It is a political instrument that allocates scarce public resources among the social and economic needs of the jurisdiction.
2. It is a managerial and administrative instrument: it specifies the **ways** and **means** of providing public programs and services; it establishes the cost of programme and criteria by which these programmes are evaluated for efficiency and effectiveness; it ensures that the programme will be reviewed or evaluated at least once during the budget year.
3. It is an economic tool that can direct a jurisdiction's economic growth and development.

It is an accounting instrument that holds government officials responsible for the expenditure of funds with which they have been entrusted.

Planning, budgeting and public expenditure

In the introduction section above, we stated that execution of government budget is based on established framework and constitutional expectations. The legislative frame contained in the statutes of the country has been arraigned to ensure that government has access at all times to financial resources to defray approved public expenditure. The legislative framework also ensures that the government's access to financial resources other than tax revenues is not utilised before certain set of limits, which, if exceeded, would compromise the government's ability to finance its operations in the years ahead and could be inflationary, thereby causing fiscal imbalances in the economy.

3.3 Objectives of Budgeting

Budget is a management tool. Pandey (2005) ascribes the following to be the purpose of budgeting- for both business and public sector.

- Planning – compels planning to take place
- Coordination – helps to coordinate and integrate all efforts to achieve objectives
- Control – facilitates control by providing definite expectations in planning phase
- Evaluation – ensures evaluation of past with present and future
- Communication – improves the quality of communication
- Utilisation – optimum use of resources
- Improvement – leads to productivity
- Efficiency – it leads to self-assessment of the organisation.

A good budget should be able to fulfill these objectives.

3.3.1 The Influence of Keynes

Before the intervention policy put forward by a British economist- John M. Keynes, in the wake of the Great Depression of the 1930's, that government spending could be critical in managing an economy by stimulating demand when resources were underutilised and unemployment was high; the annually balanced budget was a common feature of most governments' budgetary practices. His thought created the notion of budgetary policy as an instrument by which a country can execute macroeconomic policy.

Self-Assessment Exercise

State the purposes of budgeting.

3.4 Types of Budgets

In the public sector, the classifications accorded budget are balanced, surplus or deficit, annually balanced, cyclically balanced and functional finance, incremental, priority resource, rolling, fixed and flexible budgets. You are to note the following.

- **Balanced**-when revenue projections and expected expenditures in a budget are presumed equal.
- **Surplus**-the presumed excess of revenue projections over estimated expenditure.
- **Deficit**-if the expenditure estimates in a budget outweigh the revenue projections.
- You should note that in Nigeria (at the federal, state or local government levels), all budgets are either surplus or balanced, with major source of balancing either internal or external debt contraction.
- **Annually- balanced- budget-** common feature of most government budgetary practice. With time most economists observed that an annually balanced budget rules out government fiscal activity as a counter cyclical stabilising force. It is a tool to curtail undesirable and uneconomic expansion of the public sector.
- **Cyclically-balanced-budget**-is the one balanced over the course of business cycle rather than being annually balanced. Therefore, government could initiate its counter cyclical influence while at the same time balancing the budget.
- **Functional finance**-is based on the assurance of a non-inflationary full-employment which is balancing the economy and not the budget.

Another type of budget is **line-item budgeting**. Also, take note of the following.

1. The line-item budget was the original budget format-each item of expense had a literal line in a ledger book; this is the traditional or incremental system
2. It classified budgetary accounts according to narrow, detailed objects of expenditure (such as motor vehicles, clerical workers or reams of paper) used within each particular agency of government, generally without reference to the ultimate purpose or objective served by the expenditure.

3. It is useful as a record of expenditures and the criteria against which audits could measure compliance.
4. It is widely used, mostly, in the local governments as their basic budget format or as a supplement to more sophisticated formats. This is so because it offers such comprehensive details on proposed expenditures.

A major weakness of this budget is that it may allow the test to be made as to whether funds had been spent on the purposes for which they had been appropriated. Despite several budgetary innovations and experimentations, the **line-item** or **incremental budget** is the most commonly used method of budgeting.

Table 1.1: Sample of Line-Item Budget

<i>Expenditure</i>	<i>Last Year ('07)</i>	<i>Current Year ('08)</i>	<i>Next Year ('09)</i>
<i>Items</i>			
Salaries			
Materials			
Other expenses			
Total			

The main advantage of line-item budget is the ease of its preparation and it makes a simple comparison of performance from one fiscal period to another. The main problem is the difficulty of relating the line budget to the goals of the parent organisation. Without much reviews, past inefficient activities are carried forward, making some resources wasteful. This could be deduced from the sample table 1.1.

Performance budgeting

The concept of performance budgeting requires a performance measure to be stated alongside each line item, so that elementary calculations of unit cost and efficiency could be made. Line items were grouped or categorised in functional items. For example, refuse collection department's workload could be determined on the basis of the number of houses and businesses served, which made it relatively easy to calculate how much trash is generated each week, month or year. Using this measure, the efficiency of collection could be compared to a base period and a base cost. This system is recommended by World Bank and International Monetary Fund to countries seeking to reform their budgetary system.

Performance Budgeting (PB) is a system wherein managers are provided with the flexibility to utilise organisation's resources as required, in return for their commitment to achieve certain performance results. It is a system of planning, budgeting and evaluation that emphasises the relationship between money budgeted and result expected

Characteristics of a performance budget

- It helps in identification of mission, goals and objectives of an organisation.
- It links strategic planning information with the budget.
- Development and integration of performance measures into budget.
- Expenditures are classified into very broad areas like, personnel, operating expenses and capital outlays, rather than specific line-items.

Advantages

- It has more of a policy-making orientation since it links plans, measures and budgets.
- It forces departments and policy-makers to think about the big picture.
- It provides better information about the impact of budget decisions on people.
- It gives department's increased budgetary flexibility and incentives for generating budget savings.
- It allows for ongoing monitoring to see if agencies are moving in the right direction.
- It helps in developing unit costs for the activities. Activity-based costing may be applied under this approach.
- It strengthens legislative decision-making and oversight.
- It enhances financial accountability to citizens, decision makers and governmental monitoring agencies, and
- It supports better management and evaluation.

Performance information can increase public accountability and public services. Furthermore, performance information provides decision makers information they need for evidence-based policy-making.

The primary disadvantage associated with it is the emphasis on quantity, not quality, of the activity being monitored. Besides, the link between performance measures and resource allocations are subject to political choices. There may also be lack of credible and useful performance information. In addition, difficulties may arise in achieving consensus on goals and measures. There could also be dissimilarities in programme and fund reporting structure as well as the limitations of information and accounting system.

Table 1.2: Performance Budget

Expenditure Items	Function N1	Function N2	Function 3	Total
Salaries				
Materials				
Other expenses				
Total				
Percent				100%

Table 1.3

Detailed head (Financial targets or expenditure)	Total Budget
	N
Salary	XXXXXX
Wages	XXXXXX
Office expenses	XXXXXX
Rent	XXXXXX
Stationery	XXXXXX
Supplies	XXXXXX
Diet	XXXXXX
Medicines	XXXXXX
Grants	XXXXXX
Vehicles	XXXXXX
Others	XXXXXX
Categories of manpower: Gazetted	XXXXXX
Non-gazetted	XXXXXX

Programme budgeting

Programme budgeting system focuses on the output services that the programme provides to its users. It also readily relates to overall organisational goals and objectives. Under this system, budget request of public agencies or departments include funding and outputs and outcomes expected to be produce as a result of that funding

The legislature establishes performance targets for outcomes and outputs in the implementing act to appropriations act. Public organ then report their actual performance in their long range programme plans and budget requests for the following fiscal year. Incentives are given when performance exceeds standard or disincentives when it falls below standards. These incentives and disincentives can be monetary or non-monetary.

Zero-Based Budgeting (ZBB)

Zero-based budgeting is a cost-benefit-approach to budgeting which ensures value for money activities which involves the use of decision packages. It is a budget for public sector organisation in which all expenditures must be justified afresh each year and not just amounts in excess of the previous year. Under zero-based budgeting, nothing is considered as sacrosanct. Every time, the managers or directors are supposed to start from scratch or writing on a 'clean slate'.

ZBB is claimed to be a new technique of planning and decision-making. It reverses the working process of traditional budgeting. In traditional budgeting, departmental managers or directors need to justify only increases over the previous year budget. This means what has been already spent is automatically sanctioned. While in ZBB, no reference is made to the previous level of expenditure, every department function is reviewed comprehensively and all expenditures rather than only increases, are approved. ZBB is a technique, by which the budget request has to be justified in complete detail by each divisional manager or director starting from the zero-base. The zero-based budgeting is indifferent to whether the total budget is increasing or decreasing.

4.0 Conclusion

The public sector budget considers the availability of funds and socio-political consideration uppermost alongside regulations cum policies of the country.

5.0 Summary

In this unit, we defined budget and analysed budgeting theory and practices; the unit also considered objectives of budgeting, types of budgets and budget making process in Nigeria as a developing country.

6.0 Self-Assessment Exercise

1. Explain the theory and practice of budgeting.
2. What is the objective of budgeting in the public sector?

7.0 References/Further Reading

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Unit 2 Budgeting Control in the Public Sector

1.0 Introduction

In the last unit, you were exposed to the definition of budget, its theory and practice, the objectives of budgeting, the influence of Keynes, types of budgets and the processes involved in budget making. In this unit, we shall explain budget in government sector and budgetary control as a primary device for ensuring compliance in public sector funding. The decisions are based on available policy thrust of the government on such funding.

2.0 Objectives

At the end of this unit, you should be able to:

- explain government budget
- define budgetary control concept
- discuss budgetary objectives in government sector.

3.0 Main Content

3.1 Government Budget

The description of government intentions and policies presented by a financial plan with details of estimates stating the receipts and proposed expenditures under various classifications is known as government budget.

- It is a projection of the flow of funds and how the funds will be expended to achieve stated objectives of individuals, households, business firms, institutions and governments.
- Budget is a financial plan which typically is made up of detailed estimate of expenditures, revenues- surplus or deficit for the present and successive fiscal years.
- Government budget is not mere accounting statement of proposed expenditures and anticipated revenues; it bears the fruits of conscious policy decisions about the amount involved.
- Government budgetary policy is fiscal policy directed to specific activity within the framework of the budget. Essentially, government budget is the instrument employed in the actualisation of development plans hence, has legal backing. The Nigerian system of budgeting is usually for a year- from January to December.

Self-Assessment Exercise

Explain government budget.

There are two essential aspects of budget framework, namely- capital and recurrent estimates:

1. recurrent budget includes recurrent revenue and recurrent expenditure. This category consists of items for the smooth running of government and of consumption nature like salaries, purchase of stationery as well as maintenance of infrastructure.
2. capital budget includes capital receipts and capital expenditure. The annual capital budget is the instrument through which planned targets are translated to a programme of action. It is worthy of note that recurrent expenditure surplus and development loan stocks usually come under capital receipts with the defined development plan known as Rolling plan in Nigeria.

The economic policy objectives of a nation namely- stabilisation of the economy, indigenisation, income distribution, balanced development, socio-cultural growth etc. are focused through the budget.

3.2 Budgetary Control in the Public Sector

Budget and budgetary control is the backbone of any financial control system. The emphasis of financial control was in the private sector. Recently, the general attitude in the public sector has been geared toward financial control because of the reality of scarce public resources which need proper management even at the macro-level. Nowadays, public accounts committees have been formed at the ministerial level and other agencies of government. Government prepares a master budget which is supported by budget classification in terms of revenue, capital expenditure and cash budget. The budget targets are, convention all evolved not by consensus, but from top to bottom. The incremental approach to budgeting overshadows the zero-based and programme-cum-performance approaches.

Costing and cost control in most of the public sector enterprises is not given appropriate attention. They pay lip service to cost and maintenance of standards. Cost reduction drives are seldom undertaken. The concept of just-time-inventory is not practiced in public sector undertakings. Variance analysis is not a regular feature and the resultant effect of such analysis is not effectively utilised. Raw material consumption norms and optimum inventory limits have been developed by some of them. To be effective in this, extensive costing systems and appropriate procedure need to be in place for their operation.

Internal audit is an important component of financial controls. It has been given adequate attention in public enterprise's management in terms of its location, organisation, empowerment, resource allocation, staffing and performance. It is usually headed by an executive at the middle or senior level.

Self-Assessment Exercise

Name the importance of budgetary control in the public sector.

The concept of budgetary control

Budgetary control is a system of controlling costs which include the preparation of budgets. Budgeting is thus only a part of the budgetary control. Budgetary control is defined by Chartered Institute of Management Accountants as "the establishment of the budgets

relating to the responsibilities of the executive to meet the objective if an organisation and the continuous comparison of actual with budgeted estimates so that if remedial is necessary it may be taken at an early stage”.

- It can also be defined as “a continuous process which reviews and adjusts budgetary targets during the financial year and produces a control mechanism to hold budget holder to account”
- This means that budgetary control is a technique encompassing the entire process starting from the preparation of the budget or the action plan, covering monitoring and review culminating in corrective action.

The focus of budgetary control is to:

- establish target of performance/budget
- record the actual performance
- compare the actual performance with the budgeted
- establish the differences and analyze the reason
- respond immediately, for corrective actions.

3.3 Objectives of Budgetary Control

The following are the objectives of budgetary control.

- To plan – a budget provides a detailed plan of action for activities over a definite period of time. By planning, many problems are anticipated long before they arrive and solutions sought through careful study. Example relates to government’s plan for infrastructural development in a particular year for an area that is in need.
- To coordinate – budgeting aids managers in coordinating their efforts so that objectives of the organisation are harmonised with the objectives of its constituents. This will help in achieving result. Like the different sector need to be achieved and prioritised in the light of the scarce resources.
- To communicate – a budget is a communication device. The approved budget indicating the details of planned activities assist in communicating the plans. The copies are distributed to the different ministries, extra ministerial departments and agencies.
- To control – the budget ensures that plans and objectives are being achieved. Control in budgeting may be synthesised effort aimed at keeping management informed of what pre-determined plans will be achieved. Control comes through variance analysis and reporting
- To motive – careful budgeting control motivates the human resource of the organisation.

Advantages of budgetary control

- Planning- it provides a well-organised plan based on facts. It provides definite objectives with regard to future operation.
- Control- it enables management to control each function, sector, ministry or department in order to achieve the best possible result.
- Coordination- it promotes and encourages coordination between departments of activities for the attainment of the overall good of the organisation/institution
- Cost consciousness- it makes management to become more cost conscious and eliminate waste and inefficiency in its operations
- Management by exception- it is a time saving mechanism as attention is directed to areas of more pressing needs.
- Management Responsibility- it enables each manager to assume responsibility which is clearly established
- Measurement of performance- it provides a means of measuring the performance of individual managers and the various cost centers or departments by comparing targets against the performance of the manager can be assessed.
- Communication and motivation- it involves communication between top management and lower levels on how to attain the objectives. This motivates managers to achieve the target set.
- Prevention of waste- it prevents waste of physical resources such as labour, equipment, machinery etc. Duplication of efforts is avoided as the most efficient and effective use of these resources is expressed in the budget
- Authorisation and delegation- it explicitly and expressly authorises the budget's policy thrust on approval of the master budget of the organ be it private or public. By the acceptance of the budget by the sectors concerned, responsibility for executing the policy can be delegated to desk officers.

Limitations of budgetary control

- The budget plan is based on estimates- budgets are based on forecasts and forecast estimates. Absolute accuracy is not possible in forecasting and budgeting. The strength or weakness of the budgetary control system depends to a large extent on the accuracy with which estimates are made.
- Danger of rigidity- budget will not stand the test of time if not flexible because of the dynamic and continuous change in business condition.
- Management tool- budget is only a tool of management and cannot replace it. Its execution will depend on the will and nature of management concerned. The tool is as good as its applier.

- Expensive technique- budget operation is costly, requiring specialised staff as well as incidental expenditure; however the cost used should not exceed the benefits to be derived there from.
- Inappropriate condition- budgets are developed round existing organisational framework which may be inappropriate for current conditions.
- Endangers morale and productivity- budgets state clear objectives, realistic fulfillment of the desired established goal will be difficult.

Self-Assessment Exercise

Discuss the objectives of a budgetary control system.

Functions of budgetary control

It increases efficiency.

1. It reveals inefficiency.
2. It reduces greater losses since it is a continuous measuring of actual and budgeted positions.
3. The causes of variances between the budgeted and actual are identified to chart the remedial process to forestall such.
4. It checks over-expenditure on the part of spending officer.

Master budget

Public sector undertakings prepare master budget which is supported by budget classification under three sub-heads, namely:

1. revenue
2. capital expenditures and
3. cash budgets.

This is a functional budget and a summary of all the related functions of government.

4.0 Conclusion

Budgetary control is explained as the establishment of the budgets relating to the responsibilities of the executive to meet the objective if an organisation and the continuous comparison of actual with budgeted estimates so that if remedial action is necessary it may be taken at an early stage.

5.0 Summary

In this unit, attempts have been made to describe government budget, essential features and the importance of budgetary control in the public sector. The functional budget is known as the master budget summarising all the main functions of government

6.0 Self-Assessment Exercise

1. Classify government budget.
2. Itemise the essential features of budgetary control.

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Unit 3 Appropriation in the Public Sector

1.0 Introduction

In this unit, we shall explain appropriation, authorisation and control of budget process in a democratic Nigeria. Attention will be given to the legal and institutional framework.

2.0 Objectives

At the end of this unit, you should be able to:

- explain appropriation and budget making process
- discuss authorisation and the process of budgeting in Nigeria
- identify the legal and institutional framework of budget in Nigeria.

3.0 Main Content

3.1 Appropriation- Budget Making Process

The process of budgeting cuts across all political settings whether it is developed or developing nation. Budgeting is a major preoccupation in government at the federal, state and local levels of governance. Budget is the tool of decision and literally the biggest process. It involves a lot of lobbying at both chambers of the national assembly. This is also found at the state legislature floor. For this reason Nigerian politicians has been pre-occupied with what Aaron Wildavsky termed the “politics of the budgetary process”.

This, of course, consists of two fields of play for politics and governance:

1. defending clientele (members of constituency) against revenue hikes such as tax increases and
2. seeking to attract government spending programme that will benefit clientele.

Often the process requires skillful displayed of an initiative as revenue or expenditure may serve to conceal its nature. For example, government housing assistance to low-paid workers is categorised as expenditure. Government housing assistance to high-paid workers (tax deductibility of mortgage interest payment) is presented as an exemption on the revenue side. One is a direct expense and one is a tax expense. How do they differ?

Spending on the highway is characterised as the provision of necessary infrastructure. Spending from general taxation on public transportation is assigned the category “losses”. Again, how do they differ? In many respect, the inter-play between the President and the National Assembly represent the ultimate show-down. You should note that the play will be heightened in its drama as the National Assembly and President are from opposing parties. The issues are:

- both have budget offices to support them in analysis and in repackaging deals into budget options
- both have enormous standing and access to the public through the media

Eventually, the president must send his budget to the National Assembly. The National Assembly, if hostile, will extremely amend it and return it; the President must decide whether and to what extent to use the power of veto. Behind the scene, horse traders, lobbyists continue to parley.

Owing to its importance and the way in which it is conducted, the budget game should never under-estimated or ignored by public administrators. At the same time, its centrality should not divert attention far from the substantive merits of new and existing policies as embedded in the constitution, rather than the gamesmanship with which funds for them may be sought or denied.

Self-Assessment Exercise

Explain appropriation in budgetary process.

According to Kiragu, Kithinji, effective financial management is critical feature of a public administration system. He noted that the key objectives of an effective public financial management system are as follows.

- Proper planning and budgeting for public expenditures
- Effective and efficient administration of government revenues
- Proper use of budget resources
- Effective control of public expenditure
- Accounting and reporting on public finance
- Full accountability for all public spending

3.2 Authorisation - Budgetary Process in Democratic Development

The importance and sensitivity of the finance management function in the conduct of public affairs underpinned by the comprehensive legislative and other statutory provisions on what, how, where and by whom public resources are obtained and utilised. Usually, this key aspect of public financial management are enshrined in the constitution, elaborated in specific acts of parliament (National Assembly) and reinforced and enforced through supplementary legislation (financial regulations); usually issued by the Minister of Finance with the authority of National Assembly. For example, the constitution of most Anglo-phone countries in Africa, including Nigeria, stipulates that:

- all government revenue will be collected under the authority of parliament (National Assembly) and paid into one Consolidated Fund, from which all funds for public expenditure purposes shall be paid

- no public moneys shall be spent without the authority of the parliament
- government expenses shall be made only for the purposes authorized by the parliament
- all moneys spent out of the Consolidated Fund must be accounted for before the parliament
- the office of the Auditor General will operate independently of the executive arm of the government

3.3 Control- Legal and Institutional Framework of Budget Making Process

Here, you are to note the following.

- The preparation of the annual budgets is, essentially, the duty of the executive and the approval that of the legislature.
- Statutorily, the section 81 of 1999 constitution of the Federal Republic of Nigeria empowers the president of the nation to prepare and present an annual estimate of revenue and expenditure of each fiscal year in a specific format to the National Assembly for approval.
- Presidency through the budget department initiates budget policy which is sent to the Ministry of Budget and Planning for consolidation.
- Guidelines are given to various ministries in form of call circulars for action in the various ministries.
- These are collated and sent back to the Ministry of Budget and Planning for further review, revision and modification by the draft estimate committee before transmission to the President who would present same to the National Assembly for approval.
- In summary, there are three phases of approval namely; the Ministerial, the Executive and Legislature.

Self-Assessment Exercise

What is the role of executive in budgetary process?

Budget making process—appropriation, authorisation and control

You would deduce that the structure and government budget is the subject of successive waves of innovation. This is so because the ultimate statement of what a government stands for and spends is found in the texture of its budget. The budget is the key focal point of public administration. It places authority and huge power in the hands of those who shape it.

The waves of innovation gave birth to different types of budget in the public sector owing to its timeless potency as follows. Budgeting in government comprises two main arms, namely- the budgetary procedure and the budgeting system.

Budgetary procedure- this consists of practices, processes, institutional arrangements, documentations, norms and conventions governing budgets preparation, approval, implementation, appraisal and review.

Budget system- this means the management process that provides framework for acquisition, allocation and utilisation of resources by pre-setting decision rules and other operational mechanism which governs the entire allocation process. The budget cycle is a complete set of events which occurs in the same sequence yearly and cumulating into the approved budget. It has four phases, namely:

- executive preparation and submission
- legislative consideration and enactment
- execution
- audit and review.

Phase One

Government objectives are articulated in terms of economic, social and welfare parameters. The priorities and expected levels of achievement act as indicators. These are made known both to the Ministry of Budget and the Council of Economic Advisers. Based on this, the Ministry of Finance (Federal and State level) issues call circulars inviting ministries, departments, and their agencies to submit advance proposals of revenues and expenditures for the next financial year (budget).

In response to this call, these units of government send their advance proposals (revenues and expenditures) to the Budget Ministry to collate them for consideration by the inter-ministerial body of officials selected from the treasury, establishment, National Planning and the Federal Ministry of Works. The officials of each ministry and their agencies, led by their accounting officers (permanent secretaries) will appear before the inter-ministerial committee of officials to defend their respective proposals. After this, the inter-ministerial committee completes its review exercise, transmits its decision in form of advice and recommendations through the budget ministry to the Federal Executive Council (Cabinet).

The Federal Executive Council- made up of political heads of the ministries, i.e. federal ministers and state commissioners will then deliberate on the budget. At this point of political consideration, the programmes of the party in power and the particular preference of the chief executive (President or Governor) tend to gain attention than all other economic rationality and budgetary models and frameworks that the budgetary process had gone through. Under the presidential system of government, the draft of the estimate is sent to the State House of Assembly and the National Assembly, as the case may be. You should note that Section 81 (1) of 1999 Constitution place the responsibility for budget preparation on the President or the Governor at state level. The flow chart of budgetary process in Nigeria is shown in figure 3.1.

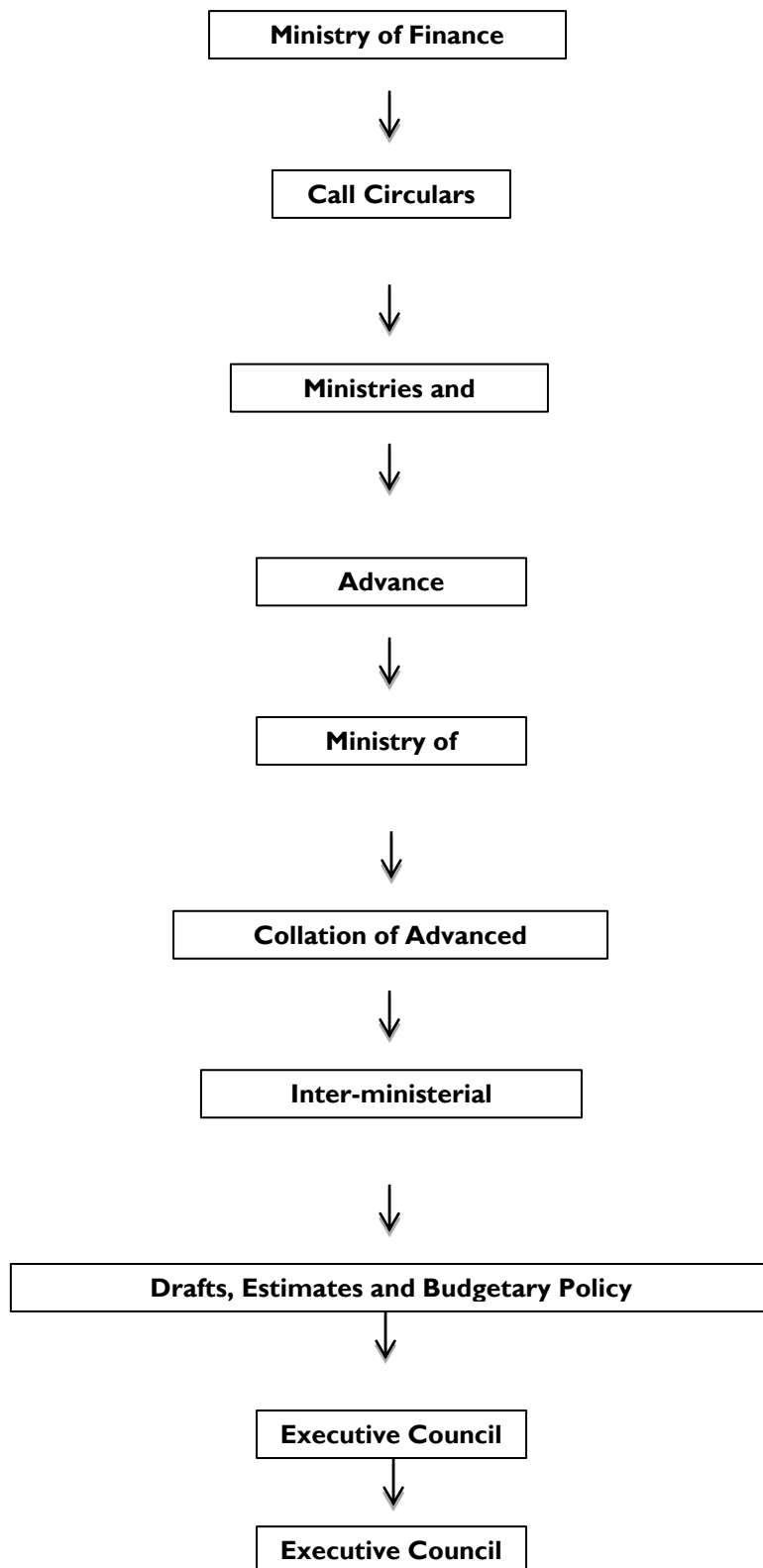


Figure 3.1: Flow Chart of Budgetary Process in Nigeria

(Source: Philip Adeotun (1980), cited in Ola and Offiong (2008). *Government Budgetary Process in Nigeria*. (Mimeograph). University of Nigeria.)

Phase Two

This phase involves legislative consideration and enactment. More political factors are brought to bear on the draft budget. Ideally, it is expected to be concluded before the beginning of the budget year. In this phase, the budget is sent to the National Assembly at the national level and to the House of Assembly at the state level, where debates are held to accept more amendments if suggested before it is passed into law. The national and state assemblies reserve the rights to call on both the political and technical heads of the ministries and agencies to defend their proposals.

Eventually, the bill is returned to the President/Governor for assent, which is an approval authority. However, in a situation where there is a delay in approval of appropriation bill in respect of any financial year, the chief executive (President at the federal level or Governor at the state level or Chairman at the local government council) may authorise expenditure in default of appropriation for a period not exceeding three months. Such authorised amounts should not exceed the amount so authorised by the legislature during the immediate preceding financial year (refer to Sections 82 and 122 of the 1999 Constitution).

Phase Three

This is the implementation stage of the budget and schedules of financial disbursement are contemplated by the budget department. The implementation is fraught with problem of timely release of funds which could be caused by administrative bureaucracy. This has a tendency of delaying the execution of programmes and projects of various ministries and their agencies.

Phase Four

This is the audit stage and the review stage, which constitutionally, requires a post-mortem evaluation of government accounts by the Auditor-General of the Federation or the State, as the case may be – Federal, State and Local Governments. The auditor-generals then submit their reports to the various assemblies (national and state). The Auditor-General's basic function in the Nigerian budgetary process is the prevention of fraud, ensuring that there is a legislative authority for all payments being made or expenditure being incurred.

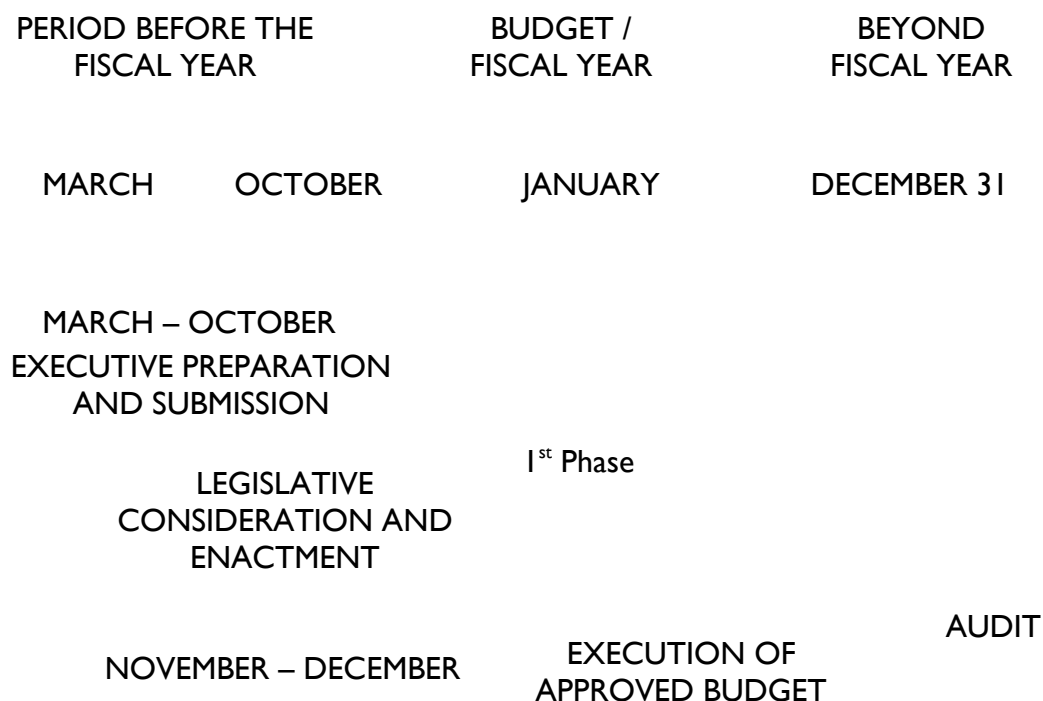


Figure 3.2

Source: Koleade, Oshisami. (1992). Cited in Ola and Offiong (2008). *Government Accounting and Financial Control*. Ibadan, Nigeria: Spectrum Books Limited, p. 55.

The following, though not exhaustive, can be listed as public financial control authorities in Nigeria.

The constitution

The Constitution serves as the foremost control authority on financial matters just like and other matter of national interest. In it, is embedded all rules through which the country is governed. For example, it provides for the custody of all revenues or other moneys raised or received by the federation and the conditions and manners for their disbursement or utilisation. The provisions of the constitution are control measures and serves as an authority on which public fund is operated. The constitution lays down the procedures for public fund control and compliance which protect it from abuse.

The president, governors or local government chairmen

The constitution vests executive powers (see Sections 5 (1-5) of the 1999 Constitution) on the President and his counterparts in other tiers of government. As a result, they have powers over public financial matters and indeed, their consent and assent must be obtained for any public financial transaction. In their wisdom, they can refuse consent or assent if any foul play is suspected or an abuse is sensed. Public accountability lies on their heads and they are respectively accountable for any financial mismanagement of their states and localities.

The legislature

The legislature is the formal law-making body of a country. In any democratic setting, all annual expenditures are controlled by the legislatures. For example, the budget or the annual estimates must be approved by the legislature before it can become legal and disbursable. The Executive Annual estimates are subject to reduction or addition by the legislature. They also have powers over supplementary estimates. The power of the legislature to control public funds is absolute and even the courts cannot challenge its decisions. The legislature also has powers over the custody and withdrawal of public funds. The legislature also has powers to enact money bills and laws. The Audit Act of 1956 and the Finance (Management and Control) Act of 1958 are cases in point. They all buttress the financial control authority of the Legislature.

The minister of finance or commissioners for finance in the states

Though all ministers are appointees of the president and only carry out tasks on his behalf, there is need to single out the Minister of Finance. This is because it is his ministry that disburses and provides control over funds in other ministries. Usually, before budgets are formalised, the ministry of Finance which, in most cases, embodies or has supervising power over the department of the budget, peruses and seeks clarifications where necessary on the financial estimates of other ministries. It has powers to advise the President on public financial matters. The Ministry of Finance's broad objectives in financial administration includes:

- the development of initiatives for the formulation of policies on fiscal and monetary matters
- the harnessing and mobilisation of internal and external financial resources for development
- the supervision of the insurance industry
- the supervision and supervisory control of ministries, departments and agencies of government in financial matters
- management of foreign exchange
- external and internal borrowing, government-owned enterprises, public debt, trustee securities, etc.
- the National Insurance Corporation of Nigeria, and
- the Nigerian Re-Insurance Corporation and the Federal Savings Bank.

The accountant-general of the federation

This is another control authority. The Accountant-General is vested with the responsibility of keeping the accounts of the Federation. Indeed, the Financial Regulations describes him as the "Chief Accounting Officer of the receipts and payments of the Government of the Federation funds". He was conferred with this status by virtue of Ordinance 27 of 1937. He

is responsible for the general supervision of the accounts of all ministries and departments within the Federation and for compilation of the annual financial statements of government.

The Federal treasury is under his control. Indeed, he operates the main government funds accounts annually for the receipt and disbursement of federal money, and ensures that there are adequate machineries in public offices for the control of public funds. Though, the finance ministry has overall responsibility for financial administration, it is the Accountant-General who finally releases money from the government funds after the warrants for same must have been issued by the Minister of Finance. His importance in public financial control cannot be undermined. Though he acts mainly on ministerial directives, he could raise alarm where public funds are to be abused or misused.

The Revised Financial Regulations of 1976 vests enormous powers on him. Some of these powers include: the powers to conduct surprise inspections of government accounts (FR 112) and of the cashbooks of revenue collections (FR 311) and to disallow expenditure which has been incorrectly charged to a vote (FR 516).

The auditor-general of the federation

Auditing is a crucial factor in ensuring proper control of public funds or any fund for that matter. The duties and responsibilities of the Auditor-General formally came to light through the Audit Act of 1956. Section 7 (3) of this Act provides the authority for the existence of his office. Due to the importance attached to the Office of the Auditor-General, relevant sections of subsequent Nigeria's Constitutions stipulate procedures for appointment, tenure of office and duties (powers to audit public accounts and conduct investigations).

The responsibilities of his office constitute perhaps, the most important financial control function within the overall financial control system. He ensures that public funds are not misappropriated, lost or abused. He is regarded as the watchdog of the people over the spending of public funds. He works in league with the Accountant-General of the Federation who must submit the financial statements of the Federation to him and he in turn after auditing submits his report to the National Assembly to be considered by a committee of the House responsible for public accounts. One significant aspect in the exercise of his function is that he cannot be subjected to the direction or control of any other authority or person (see Section 85 (6) of the 1999 Constitution). However, what is important is that the Auditor-General is a crucial factor in public financial control. A sound financial base strives in the effectiveness and efficiency of an Auditor-General.

The role of the treasury

At the heart of any organised government is the treasury function. The treasury is the financial organisation of the Federal Government which receives keeps and disburses its funds, on the directives of the Accountant-General. As the final port of disbursement, the Treasurer or any Treasury officials can raise alarm if there are suspected misappropriations. The Treasurer, if sufficiently satisfied that a disbursement is wrong, can stay action on such disbursement. There are cases where Treasurers have stopped payments on misappropriation grounds, and by this, they contribute in controlling public funds.

The budget

This is another significant control authority which had been exhaustively discussed above. Budget simply means estimates for expected revenues and expected expenditures in a given period though mostly annually. It is just a quantified plan and direction put in place by management or public officials, to achieve set objectives. The Budget of a country therefore provides the quantification course of action of the ruling government. It serves as a guide to actions of government. In a democratic setting, the legislature must approve the budget before it becomes binding.

Permanent secretaries

Permanent Secretaries are career officers and by the nature of their permanence, they can be held accountable for any misdeed at any time. The Permanent Secretaries assist the ministers at the national level and commissioners at the state level on crucial decision making at various levels and stages.

The Central Bank of Nigeria (CBN)

The CBN serves as the sole monetary authority through its control of the monetary policy of government. As part of its functions, it serves as the Bank of the Government and Bankers to other Banks. Foreign exchange transactions are its responsibility. Indeed, it has enormous control over public funds and could raise alarm where foul play or abuse is suspected. It is also saddled with the responsibility to print currency, thus having control over physical government funds. Again, since most Government businesses are transacted through the CBN, it can refuse suspected transactions.

4.0 Conclusion

In conclusion, we have realised from this unit that the politics of budgeting is not peculiar to Nigeria as a developing country; it cuts across all political settings whether it is developed or developing nation. The budget game is a major preoccupation in politics, occupying the time and energies of lobbyist politicians and officials at the federal, state and local of government.

5.0 Summary

In this unit, we discussed budgetary process in Nigeria, since 1999, in terms of appropriation, authorisation and control.

6.0 Self-Assessment Exercise

1. Narrate authorisation in the process of budgeting in a democratic Nigeria.
2. Identify the stages of budget making in Nigeria.

7.0 References/Further Reading

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Unit 4 Project Management in the Public Sector

1.0 Introduction

In this unit, we shall attempt to discuss project management as applied to the public sector. The private sector objective is always expressed in financial terms while the objective of a public sector enterprise is based on political and social consideration. You would be led through an insight of project management in government, using network analysis in executing projects.

2.0 Objectives

At the end of this unit, you should be able to:

- explain project management
- state the objectives of network in project management.

3.0 Main Content

3.1 Project Management

Management of big projects that consist of a large number of activities pose complex problems in **planning, scheduling and control**; especially, when the project activities have to be performed in a specified technological sequence with the help of PERT and CPM.

PERT = Program Evaluation and Review Technique

CPM= Critical Path Method

The phases of network analysis are **planning, scheduling and control**. Public sector project might be done through the use of social Cost-Benefit Analysis. It considers a number of issues such as environmental problems, opportunity costs and transfer prices. It is more subjective than the normal capital budgeting technique especially forecasting of future outcomes of proposed projects. It attempts to consider all the consequences of embarking on a project to determine the viability of a project, the time cycle that would be beneficial to the project and the cash flow or profit (cash flow is preferable)

Cost-Benefits Analysis Process- this establishes the objectives and possible advantages of a proposed project, ascertains alternative solutions to the problem, estimates and analyses the cost and benefits (this is a wide spectrum) . It also considers the costs and benefits that may accrue to anyone outside the project; it considers opportunity costs, the cost of obtaining an extra unit of a scarce resource and transfer payments including subsidies and grants from a federal government fund to a state or local government funds.

Self-Assessment Exercise

Explain project management

The following considerations are used as cost of capital in the public sector as it is difficult to calculate using private sector approach of market value, no interest, business or financial risk in government activities.

The social time preference rate- expresses the value which one places on consuming or owning an asset now as an alternative to consuming or owning it in future.

Government borrowing and lending rate- roughly the risk free rate of interest. The interest rate on treasury bills can be used.

The opportunity cost rate of interests- if a project has been under taken at the expense of another project, the rate of interest that compensates for the capital being freed for the alternative project is called the opportunity cost rate of interest.

Real cost of capital- this is used where the government set a target real rate of return for projects.

3.2 Network in Project Management

These are the summary of objectives of project:

- to minimise total cost
- to minimise total time
- to minimise cost for a given time
- to minimise time for a given cost
- to minimise idle resources.

In public jobs, some of the common applications of network analysis occur in project scheduling for:

1 the construction of roads, bridges, factories

2 budgeting procedures

3 new project launching etc.

Network can be applied for any purposeful chain of events characteristic of public work involving the use of time, labour, and physical resources including cash usually related to projects of a complex nature where the scale of operations resulted to corresponding greater financial and administrative problems.

Self-Assessment Exercise

List the objectives of network in Project Management

3.3 Project Management-Planning – Using Network

Management of a project involves planning expediently through coordinating efficiently the factors there in. Planning has not been given priority as projects were less complex; the rule of thumb method would work well. However, today, as projects have become more complex, project managers and public administrators have associated themselves increasingly to systematic planning and management. This section of the unit will lead you through the complexity services and you will affirm the need for systemic outlay of projects.

Projects are in stages- a life cycle which include: planning, execution and phase- out. At each stage of this life cycle, a variety of skillful requirements are involved. In effect:

- project unit human resources and with diverse knowledge and skills
- some go from project to project as they are needed –consultants.

In **project management and planning** the size and scope of projects varies widely according to the nature and purpose of the project. It is worthy of note, that all projects have something in common. The life cycle can be arranged into five phases:

- **concept**-the need for the project
- **feasibility**-expected costs-benefits analysis
- **planning**-details of work-human, time and cost
- **execution**-ensure project
- **termination**-target achieved.

Self-Assessment Exercise

List the processes involved in management of a project.

The network-symbols, diagram and convention

The first stage of analysis is to divide the project into a number of different activities. An activity is merely a particular piece of work identifiable as an entity within the project. If for example, the project under consideration is the servicing of a motor car, then one of the activities would be to check the brakes for wear.

Now an **activity** within a network is represented by an arrow, with the description of the activity written on it, as:

wear Check the brakes for



Note: In addition to activities, events are identified too.

Events mark the point in time when activity is completed and the next activity can be started. Events are normally represented by circles:

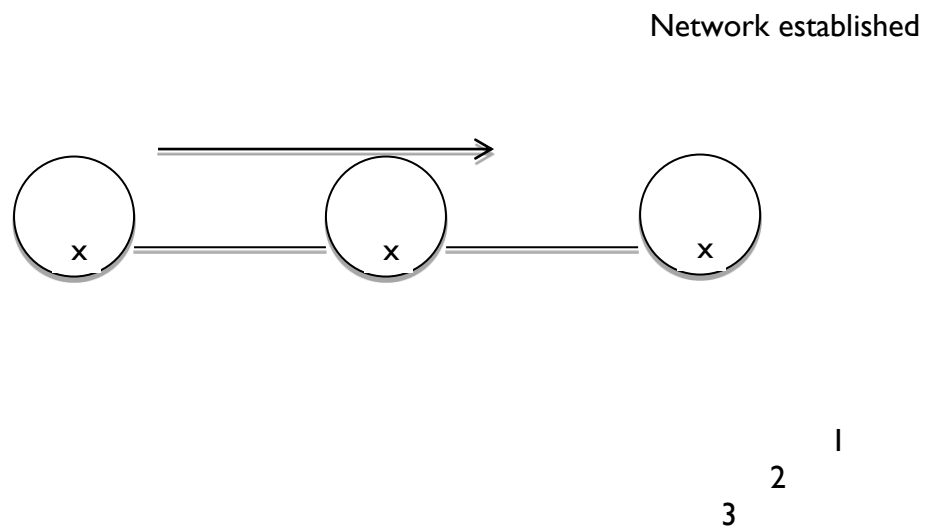


Figure 4.1

Network

A network is a convenient method of showing the logical sequence of activities in a project.

The event represents the point in time when activity is completed but also represents the point in time when activity can begin.

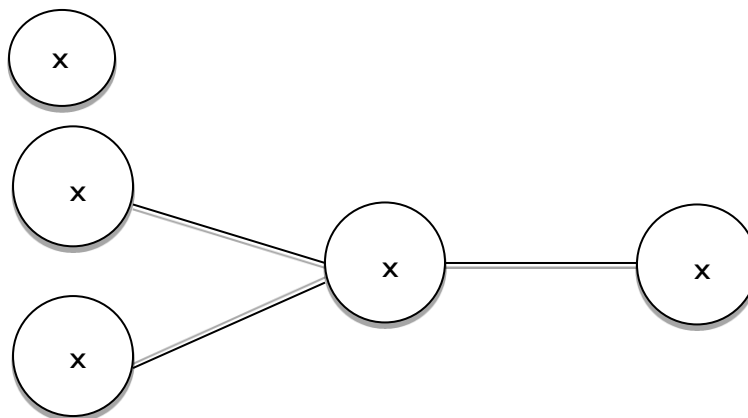


Figure 4.2

The activities depend upon more than one activity or vice versa. The point of networking can be from one individual or source and terminates in dual results or contact points.

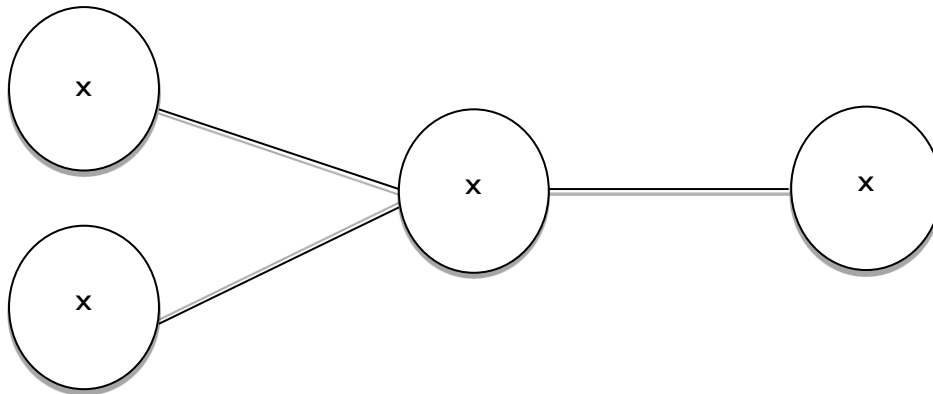


Figure 4.3

Dependence tables

The first task of network analysis is to sort out the logical sequence of activity. This is done by constructing a dependency table by listing all activities according to priority. For example, a financial manager can affect the volume of credit sales and collection period and consequently investment in accounts receivable. This is called a dependable change in credit policy. Credit policy hence is used to refer to combination of decision variables like, initially, to start with credit standard, credit terms, and credit collection. The financial manager proceeding activity influences the activities thereof.

Constructing a dependence table (trend) is often the most difficult part of project analysis, hence, in public sector project management; experts are engaged as consultants in their different phases of the project.

Network diagram

The network diagram below is composed of a number of arrows and notes. These arrows represent the flow of project activities. A network diagram is generally preferred to portray the project's activities as follows:

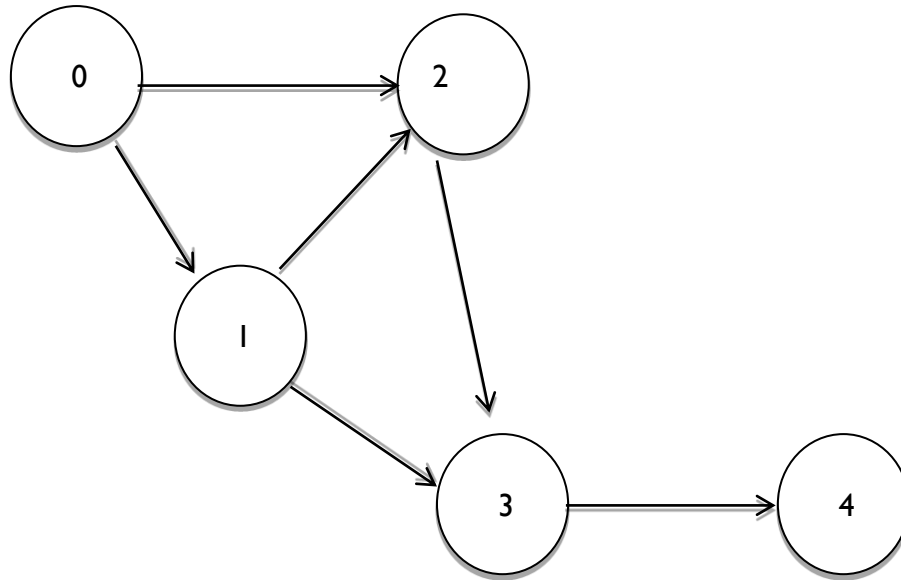


Figure 4.4

The network diagram shows relationship among major activities of a project. For example, 0 to 1 has been completed, 1 to 2 is completed, 2 to 3 is also completed, and the circle has to be full by 1 to 3 which is the final spot and 3 to 4 is remote in to check if the project can start the test of time.

A path is a sequence of activities that leads from the starting node to the finishing node. The project life cycle is equals to the expected time of the longest path. The longest path is the critical path because of the depth and value of activities involved for the completion of the project. There is always an allowable slippage for any path which is called **slack**, and it reflects the difference between the length of a given path and the length of the critical path. The slack brings about flexibility in terms of implementation requirement.

Basic network terminology

Activity- a task or job work which takes time and resources

Event- a point in time and indicates the start or finish of an activity or activities. An event is represented in a network by a circle or node.

Dummy activity- is an activity that does not consume time and resources. It is merely to show clear, logical dependencies between activities so as not to violate the rules for drawing network.

Critical activity is an activity that lies on the critical path.

Critical path is the path network that gives the shortest time in which the whole project can be completed

Total project time: Critical Path Method (CPM)

The main determinant of Performance Evaluation Review Technique (PERT) and Critical Path Method (CPM) networks are analysed and interpreted as whether activity times as or estimated are probabilistic or deterministic. If the time estimates can be made with the high degree of confidence, the actual time would not differ significantly. We say the estimates are deterministic. If estimated times are subject to variation, we say the estimates are probabilistic. Probabilistic time estimates include an indication of the extent of probable variation.

4.0 Conclusion

You were led through public sector financial management and the use of modern strategic planning in project management against the rule of thumb which was the order of the day in the years past.

5.0 Summary

In this unit, you learnt about the following- project management-Planning and nature of project; the network-diagram and convention; Critical Path Method(CPM) etc.; you have been shown how they are useful in the public sector, despite associated limitations. In the next unit, we shall discuss government debts, enterprises and multi-nationals.

6.0 Self-Assessment Exercise

1. Identify the objectives of network in project management.
2. Discuss project planning and management approach in public sector.

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