THE EFFECT OF PUBLIC SECTOR REFORMS ON PUBLIC SECTOR BUDGETING AND ACCOUNTING SYSTEMS IN NIGERIA.

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July, 2011.

APPROVAL

This thesis titled "THE EFFECT OF PUBLIC SECTOR REFORMS ON PUBLIC SECTOR BUDGETING AND ACCOUNTING SYSTEMS IN NIGERIA", written by Okoroafor, Eunice Ngozi Akpala with registration number PG/Ph.D/05/45092 has been certified and approved as meeting the standard required in partial fulfillment for the award of Doctor of Philosophy (Ph.D) degree in Accountancy of University of Nigeria.

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Head of Department

CERTIFICATION

This is to certify that this thesis titled, "THE EFFECT OF PUBLIC SECTOR REFORMS ON PUBLIC SECTOR BUDGETING AND ACCOUNTING SYSTEMS IN NIGERIA", is original and has not been submitted in part or full for any other Diploma or Degree of this or any other similar Institution.

………………………………………	…………………
Okoroafor Eunice Ngozi Akpala	**Date**
PG/Ph.D/05/45092	

DEDICATION

To the loving memory of my hero, late Chief Onyighi Okoroafor.

and

My Maker, Almighty God

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One can never be fully equipped to undertake this kind of project without the assistance of others. So, this doctoral thesis could not have been completed without the support and encouragement of many to whom I owe appreciation and gratitude. However, I take full responsibility for any error that may occur in this work.

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ABSTRACT

The study examined the compatibility of the public sector reforms and the accounting systems in the Nigerian public sector. In particular, the Fiscal Responsibility Act 2007, being a major framework for carrying out the public sector reforms in Nigeria, is examined in order to determine in what ways, if any, the provisions therein would require a reform in public sector budgeting and accounting systems to enhance transparency, accountability and economic development in Nigeria. The study employed the descriptive and ex-post facto research designs. The descriptive research design employed the cross-sectional method which consisted of surveys and field studies in the analyses of the primary data. The primary data and secondary data were subjected to statistical analyses using the paired-wise t-test, correlation analyses, simple regression analyses, and sample t-test statistical models. The findings revealed that the present cash-based accounting and budgeting systems have not supported the achievement of economic and development targets as major objectives of the Public Sector Reform and the Fiscal Responsibility Act (FRA). Also, it discovered that the present cash accounting and budgeting systems do not ensure accountability and efficiency in the public sector and that the current cash accounting and budgeting systems are not congenial to GDP growth as one of the aims of the Public Sector Reforms. This research also established that there is significant relationship between the attainability of fiscal policies and financial reporting systems and that there is need for a reform of the public sector accounting and budgeting systems to be able to achieve the objectives of the Nigeria Public Sector Reforms as provided for in the Fiscal Responsibility Act. A model was developed by the researcher as a guide for economic and fiscal planning, and to reflect the relationship which has been established by the findings of this research. The practical and theoretical implications of the model developed in this work is that a desired economic index can be used to derive and prepare budget estimates much the same way that economic variables can be used to predict economic indicators. Based on the findings of this study, it is recommended that the Public Sector Reform in Nigeria should be backed up with a reform of the public sector accounting and budgeting systems to be able to achieve the reform objectives. Having done this much, further work should be carried out to determine the best way to implement accrual accounting to achieve fiscal transparency, accountability, efficiency, and economic growth in Nigeria, given the level of development in general and IT in particular.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

Nigeria is a country endowed with abundant natural economic resources. But despite the abundance of national wealth, Nigeria has remained underdeveloped and is ranked among the poorest nations of the world (King, 2003; Soludo, 2007).

Since there is abundance of resources, Nigeria's poverty level and underdevelopment can only be attributed to mismanagement and corruption, facilitated by weak, inappropriate and malfunctioning public sector. In fact, Phillips (2006) has opined that the greatest hindrance to progress has been the boom and bust mode of economic management in Nigeria. This has been encouraged by the dominance of oil in the economy. According to the European Commission (2002), "the quality of management of public finances in Nigeria represents the principal constraint on development". The IMF has a similar view (King, 2003).

The federal government of Nigeria under Olusegun Obasanjo embarked on far-reaching economic reforms designed to deliver sustainable economic growth, wealth creation, and improve the quality of life of the Nigerian citizen. The economic management reform, which is an integrated package of various economic reforms, was started in 2004.

The implementation of the comprehensive economic reform programme is in four main areas: Macroeconomic Reform; Structural Reforms; Government and Institutional Reforms; and Public Sector Reforms (Iba, 2007). However, these main areas are interlocking and actually form a continuum, intended to work together to achieve the common goal of better and more transparent management of public resources, probity, accountability, and economic growth. These are supposed to address the various sectors of the economy.

Under the Macroeconomic Reforms Programme, government adopted prudent oil price-based fiscal rule; introduced Medium Term Expenditure Framework (MTEF) and Medium Term Sector Strategies (MTSS); improved implementation of monetary policy by Central Bank; undertook a bank consolidation exercise to strengthen financial sector; adopted trade liberalization policies; and undertook the privatization of some government enterprises.

Under the Structural Reforms Programmes, there has been a bank-consolidated exercise to strengthen financial sector; trade liberalization reform; and privatization of some government enterprises. These are intended to open up the economy and to encourage private investment, both foreign and domestic.

Under Institutional and government reforms, government introduced the Due Process mechanism in public procurement; adopted the Extractive Industries Transparency Initiative (EITI) in Nigeria; and established the Economic and Financial Crimes Commission (EFCC) as well as the Independent Corrupt Practices Commission (ICPC) to address corruption in public offices.

Under the public sector reform, there has been a restructuring of some government agencies and an increased focus on service delivery. Being so, public expenditure and matching results with expenditure form the focal point of the reforms in this area. The reforms in this area have given rise to a number of Bills and Acts such as the Fiscal Responsibility Act and the Public Procurement Act.

Until recently, Nigeria was heavily indebted to the Paris Club of creditors (to the tune of $30.4billion). The bulk of this debt (60% precisely) was forgiven and cancelled when it appeared that Nigeria was tending towards more transparent management of its resources. There were efforts by the government to convince the world that it was serious about improving the economic and development indices that ranked Nigeria among the poorest, most corrupt, and least developed countries in the world.

Nigeria came to the realization that there is need to instill some prudence in the management of public resources. In pursuit of this, the Fiscal Responsibility Bill was proposed by the Federal Government through the Federal Ministry of Finance. According to the then Minister of Finance, Nenadi Usman, the Fiscal Responsibility Bill is expected to underpin Nigeria's economic growth as Nigeria's finances will be managed at a very high standard; and to revolutionalize the budgeting process (The African Economy, 2006).

Among other means of achieving the above, the Fiscal Responsibility Bill contains a clause which seeks to make states, agencies, and other arms of government financially responsible. The clause states that the servicing of debt shall be the direct responsibility of the government that incurs the debt. For starters, the federal government refunded a total of US$2.605billion to the excess crude oil account from seven states. This amount represents the excess amount withdrawn from the account to settle the seven states' share of the US$12.4billion debt owed to the Paris Club (The African Economy, 2006).

The economic and public sector reforms have certainly led to fiscal reforms whose framework is the Medium Term Fiscal Strategy. The Medium Term Fiscal Strategy comprises the Medium Term Revenue Framework and the Medium Term Expenditure Framework.

The medium-term fiscal strategy is one of the components of the economic management reform framework of the Federal Government of Nigeria. It is a principal component of the public expenditure management system of the economic reform geared towards channeling resources to fund developmental needs in an efficient, effective and transparent manner. It is a public sector reforms strategy.

The fiscal strategy of the federal government, being a component of the economic management reform is embodied in the Fiscal Responsibility Act 2007. The Fiscal

Strategy Paper documents a summary of how the Federal Government proposes to conduct its fiscal affairs for a three-year period.

1.2 STATEMENT OF THE PROBLEM

The issues of accountability, transparency, probity, and budget implementation are at the heart of the developmental problems of the Nigerian economy. It is widely accepted that the quality of management of public finances in Nigeria is a principal constraint on its development. It is against this background that the researcher seeks to examine if the Public Sector Reforms and the objectives of Fiscal Responsibility Act 2007 can be successfully achieved without reforms in the Public Sector Accounting and Financial Reporting Systems in Nigeria.

The Public Sector Reform was embarked upon to improve efficiency, fiscal accountability and transparency in the public sector. These, in turn, should translate to improved economic and development indicators such as per capita, fiscal balance, rate of inflation, GDP, citizen welfare in terms of life expectancy, availability of adequate health and other social services, as well as good business climate needed to expand the economy.

The Fiscal Responsibility Act (2007) is one of the frameworks provided for the implementation and achievement of the public sector reform objectives undertaken by the government. Among other provisions, it seeks to provide the framework that will ensure prudent management of public resources in order to increase citizen welfare and rapid economic growth by matching input with output.

However, when the economic indicators for the past ten (10) years up to the year 2003 (before the commencement of the Public Sector Reform that necessitated the Fiscal Responsibility Act 2007) are compared with those of subsequent years up to 2008, there has not been much difference nor improvement. For example, the percentage increase of per capita income between 1994 and 2003 averages 5.28% against those of annual expenditure which averages 23% for the same period. The economy has not recorded much improvement thereafter. The average percentage increases in per capita GDP and federal government expenditure from 2004 to 2008 are 3.49% and 21.7% respectively. Indeed, whereas the annual expenditure increased by 26% in 2007 and 32% in 2008 against their respective previous years, the per capita GDP for the same periods increased marginally by 3.15% and 2.69% respectively. These statistics show that despite the marginal increase in welfare being far less than the marginal increase in expenditure, there is actually a decline in welfare in 2008 in spite of the existence of the Fiscal Responsibility Act 2007.

Inflation is also on the rise which is an indication that not enough goods are available to meet demand. Also, there has not been much improvement on the quality and availability of healthcare delivery and services to the ordinary citizen. Life expectancy of 54 years has indeed declined to 47 years according to World Bank figures; and infant mortality rate of 114 per 1,000 live births has not recorded any appreciable improvement over the period in question, as it is still among the highest globally. Adult literacy rate has also not seen much improvement. These are evidences that the increases in budgetary allocations have not increased the welfare of the citizens nor have they translated to any appreciable improvement in the economic indices.

This existing state of affairs can be attributed to the inadequacies of the present cash-based budgeting and accounting systems used in the Nigerian public sector. The cash budgeting and accounting systems focus on actual cash flows and whether monies are released as appropriated. They do not give enough information that can be used to evaluate the performance of those entrusted with public resources. They pay no attention to whether or not the resources so appropriated are efficiently utilized. This poses serious hindrance to prudent management of the nation's resources, macro-economic stability, accountability, transparency, and efficiency in the use of the nation's resources, which are among the major objectives of the Fiscal Responsibility Act. And so it can be adduced that more needs to be done so that the objectives of the economic reforms can be achieved.

1.3 RESEARCH OBJECTIVES

The main objective of this research is to examine whether the Public Sector Reforms and the objectives and provisions of the Fiscal Responsibility Act can be achieved without reforms in the Public Sector Accounting and Budgeting Systems in Nigeria.

Specifically, this research aims to achieve the following objectives:

1. To determine whether the current public sector accounting and budgeting systems are appropriate for the realization of sectoral targets as a major objective of the Fiscal Responsibility Act (FRA).
2. To determine whether the present cash accounting and budgeting systems ensure accountability and efficiency in the public sector.
3. To determine whether the current accounting and budgeting systems are congenial to GDP growth as one of the aims of the Public Sector Reforms.
4. To ascertain whether accrual-based accounting and budgeting systems can be viable alternatives for the implementation of the Fiscal Responsibility Act and the Public Sector Reforms in Nigeria.

1.4 RESEARCH QUESTIONS

This research is guided by the following questions:

1. To what extent can the existing cash accounting and budgeting systems in the Nigerian public sector be appropriate for the realization of desired sectoral targets as a major objective of the FRA?
2. To what extent do the present cash budgeting and accounting systems ensure accountability and efficiency in the Nigerian public sector?
3. How congenial are the current budgeting and accounting systems in providing support to fiscal policies meant to grow per capita GDP?
4. Which budgeting and accounting systems would be more suitable for the implementation of MTEF and MTSS as provided for in the FRA in order to achieve fiscal transparency, accountability and efficiency in Nigeria?

1.5 HYPOTHESES

1. The existing cash accounting and budgeting systems in the Nigerian public sector are not appropriate for the realization of desired sectoral targets as a major objective of the FRA.
2. There is negative relationship between accountability and efficiency and cash-based accounting and budgeting systems in the Nigerian public sector.
3. The current budgeting and accounting systems are not congenial in providing support to fiscal policies meant to grow per capita GDP.
4. Objective number four does not lend itself to statistical analysis using raw data. Therefore, the research question is used as basis to undertake an in-depth study of the various accounting systems with a view to establishing that which best suits the implementation of performance-based budgeting as provided for in the FRA via the MTEF and MTSS.

1.6 SCOPE OF THE STUDY

The Fiscal Responsibility Act 2007 is an Act of the Federal Republic of Nigeria. Sections 17 and 54 of the Act provide that States and Local Governments that wish to implement the provisions contained therein may receive assistance from the Federal Government. In effect, this Act is not binding on States and Local Governments. Therefore, this study will focus on the effect of the public sector reforms on the public accounting and budgeting systems of the Federal Government of Nigeria.

1.7 SIGNIFICANCE OF THE STUDY

A number of scholars have made efforts on the link between fiscal reforms and economic growth in developing countries (Goode, 1993; Hemming et al, 2002; Khalid, 1996; Lucas, 1988; Easterly and Sergo, 1993; Diamond, 2006; Ossowski, 2008). However, to the best of my knowledge, no study has been done on fiscal responsibility and accounting system, and how proper coordination between fiscal responsibility and accounting could achieve the economic objective of fiscal transparency, accountability, poverty reduction and economic growth in the Nigerian setting. This research seeks to bridge this gap.

This research which seeks to examine the compatibility of the public sector reforms and the public accounting systems in the Nigerian public sector should be useful as a guide to policy makers in the implementation of public sector reform and the FRA2007 in order to achieve maximum impact and the desired goals of enhanced fiscal discipline, transparency, accountability, and economic growth. This work has indeed begun engendering interests from hitherto non-committal and indifferent persons to take a closer look at the FRA and the provisions contained therein. This expectedly should create healthy discussions and debates which may lead to interests to further research in this and other aspects of the public sector reforms in Nigeria. Therefore, academics and researchers will find this work useful both as foundation for further research work and as reference material.

This study will provide useful insight for accountants in the public sector on the dynamism of the accounting profession and the role that accounting plays towards achieving the objectives of any economic reform process.

1.8 LIMITATIONS OF THE STUDY

Works of this nature are usually time-consuming and can be a drain on financial resources. Besides, getting the needed materials, especially source documents, proved quite difficult. In addition, getting the respondents for oral interviews was an especially daunting task as one experienced so many cancelled appointments without notice. This resulted in repeated visits in many instances. Even then, not all those intended for oral interviews actually participated as the time frame for an academic work such as this is not indefinite. However, the number of those that were actually interviewed far outnumbered those that were not by a 92% to 8% margin.

Many more respondents in diverse locations outside of Abuja, Enugu, and Aba could have been included in the sample size but for limits imposed by student budget constraints.

1.9 OPERATIONAL DEFINITION OF TERMS

Accrual Budgeting

This is a budgeting process in which appropriations for running costs and some other items cover full costs, including depreciation, and other increases in liabilities.

New Public Management (NPM)

NPM refers to a set of broadly similar structural, organizational, and managerial changes in the public sector. It shifts the emphasis from traditional public administration to public management. NPM systems permit greater flexibility of inputs and processes in return for greater emphasis on outputs and performance. Whereas the traditional public administration focuses on adherence and compliance with legislative appropriations, the New Public Management (NPM) focuses on performance evaluation and result-oriented accountability.

Public Sector Reform (PSR)

PSR is used here to refer to the totality of the economic reform programme embarked upon by countries to tackle corruption in the public sector and bring about more transparency, accountability, and probity in the management of public resources. This programme was started in Nigeria in the year 2004 under the Obasanjo administration.

Resource Accounting

This is a set of accruals accounting techniques for reporting on expenditure by departments and the relationships between expenditure and departmental objectives. This is opposed to cash accounting, which records payments and receipts when they are paid or received.

Resource Budgeting

Resource Budgeting involves using Resource Accounting information as the basis for planning and controlling public expenditure. It requires agencies and departments to consider the costs of capital consumption and to match their costs to the time of the related service delivery activity.

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CHAPTER TWO
REVIEW OF RELATED LITTERATURE

2.1 INTRODUCTION

It is the basic right of the public and taxpayers to have accurate and reliable financial statements that reflect the complete operations and financial situation of government and other public sector entities (Treen et al, 2006). Also, there is growing recognition that accountability for the management of a nation's resources is fundamental if democratic institutions are to survive (Staats, 1996). The result is a growing interest in performance management and fiscal reforms in many countries.

Poor public expenditure management in Nigeria has greatly hampered the quality of government capital projects (Okonjo-Iweala and Osafo-Kwaako, 2007; Soludo, 2007; King, 2003). This has resulted in poor service delivery to citizens. Strengthening the budget preparation and execution process was urgently needed in order to improve the efficiency of government spending and improve service delivery to the Nigerian public (Okonjo-Iweala and Osafo-Kwaako, 2007). According to Okonjo-Iweala and Osafo-Kwaako (2007), weaknesses in budget implementation and monitoring had in the past, resulted in low quality of government expenditures and many incomplete projects.

Oversight of public expenditures was further made difficult due to fiscal decentralization in Nigeria, which allocated about half of total government revenues to states and local governments, with the remainder being allocated to the federal government (Okonjo-Iweala and Osafo-Kwaako, 2007).

Since the oil boom era, Nigerian governments allowed oil income to influence spending. What is more? The political structure meant that the federal government collects all oil revenue which it then distributes to states and local governments in accordance with the prevailing revenue-sharing formula (Okonjo-Iweala and Osafo-Kwaako, 2007). Government also distributed oil money, via large contracts, to individuals who had enough wealth and pedigree to influence those in power. The result is that all tiers of government in Nigeria spend far more than they earn such that between 2000 and 2005, Nigeria had a deficit of more than one trillion naira (Phillips, 2006). External and domestic debt amounted to 70% of Gross Domestic Product (Phillips, 2006; Soludo, 2003). This meant that current revenue is largely used to service debt. But even as the national debt grew, past governments did little or nothing to control public expenditure.

According to *ThisDay* newspaper report which was based on a comprehensive study conducted by the International Budget Partnership (IBP) in 2008, "Nigeria is among 25 countries in the world that provide scant or no budget information to enable the public hold the government accountable for managing their money" (Ikokwu, 2009). The study went on to conclude that nearly 50% of national governments are successful in hiding "unpopular, wasteful and corrupt" spending from the public. In the study, Nigeria scored 19 on a scale of 1 to 100 in the Open Budget Index (2008).

The objective of the study, according to the Director of IBP, Warren Krafchik, is to "promote increased public access to government budget information" as this can lead to "concrete improvements in people's lives." According to Krafchik, "open budgets are empowering. They empower people to be the judge of whether or not their government officials are good stewards of public funds" (OBI, 2008).

Among the issues raised in the research report is that little time is devoted to public hearing and scrutiny of budgets. 24 out of 84 countries covered in the study, are in the league of those whose legislature receive budget appropriations six weeks or less before the budget year begins.

One of the facts discovered in the study is that the less transparent countries are those that depend heavily on revenues from oil and gas resources, and foreign aid. Also, those with weak democratic structures and institutions or autocratic regimes are less transparent.

Nigeria certainly falls into the category of less transparent countries in the OBI (2008). This is a natural consequence of mismanagement and corrupt governance with which Nigeria had been plagued before now. As a matter of fact, by 1999, corruption was practically institutionalized in Nigeria. As a result, there has been poor economic management, hostile environment for the private sector, weak and inappropriate public sector, and poverty and inequality (Philips, 2006).

In a bid to find solution to the poor economic management situation and other developmental challenges, the Obasanjo administration embarked on economic reforms. In pursuit of this, a number of sectoral reforms were packaged for implementation. Strengthening the budget preparation and execution process was urgently needed in order to improve the efficiency of government spending and improve service delivery to the Nigerian public (Okonjo-Iweala and Osafo-Kwaako, 2007; Soludo, 2007). In the past, weaknesses in budget implementation and monitoring resulted in low quality of government expenditures and many incomplete projects.

Therefore, macroeconomic reform aimed at improving budgetary planning and execution, and to provide a platform for sustained economic diversification and non-oil growth became a major objective of the Nigerian government under former President Olusegun Obasanjo (Okonjo-Iweala and Osafo-Kwaako, 2007; Soludo, 2007).

2.2 THE ECONOMIC AND PUBLIC SECTOR REFORMS IN NIGERIA

The second tenure of the administration of former President Olusegun Obasanjo witnessed the beginning of a comprehensive reform programme meant to strengthen economic development and improve the welfare of the citizens. The economic management reform, which is an integrated package of various economic reforms, was started in 2004. The reform programme was based on the National Economic Empowerment and Development Strategy (NEEDS). NEEDS is a ‘home-grown’ economic development strategy which focused on four main areas: improving the macro-economic environment, pursuing structural reforms, strengthening public expenditure management, and implementing institutional and governance reforms(Okonjo-Iweala and Osafo-Kwaako, 2007).

The implementation of the comprehensive economic reform programme is in four main areas: Macroeconomic reform; structural reforms; government and institutional reforms; and public sector reforms(Iba, 2007). Under the Macroeconomic Reforms Programme, government adopted prudent oil price-based fiscal rule; introduced Medium Term Expenditure Framework (MTEF) and Medium Term Sector Strategies (MTSS); improved implementation of monetary policy by Central Bank; undertook a bank consolidation exercise to strengthen financial sector; adopted trade liberalization policies; and undertook the privatization of some government enterprises. One of the major challenges was to introduce an appropriate fiscal rule to cut the link between public expenditures and oil revenue earnings. This way, external shocks to the economy would be minimized.

Under the Structural Reforms Programmes, there has been civil service reform, deregulation of government activities, bank-consolidation exercise to strengthen the financial sector; trade policy reform; and privatization of some government enterprises. Under Institutional and governance reforms, government introduced the Due Process mechanism in public procurement; reformed public expenditure management; adopted the Extractive Industries Transparency Initiative (EITI) in Nigeria; and established the Economic and Financial Crimes Commission (EFCC) as well as the Independent Corrupt Practices Commission (ICPC) to address corruption in public offices. Under the public sector reform, there has been a restructuring of some government agencies and an increased focus on service delivery.

Besides these, partnerships were formed with other countries giving rise to frameworks such as NEPAD. In addition, some other reform frameworks were premised on UN Millennium Development Goals.

2.3 A LOOK AT THE FISCAL RESPONSIBILITY ACT (FRA 2007)

The Fiscal Responsibility Bill was passed into law on July 30, 2007 by President Umaru Musa Yar'Adua and thus became an Act. It was published as Government Notice No. 80 in the number 126, volume 94 of the Federal Republic of Nigeria Official Gazette as Act No. 31 and covers pages A1041 -1065.

The Fiscal Responsibility Act 2007 has fourteen (14) parts and fifty-seven sections. Part I contains sections 1 to 10 of the Act. These deal with the establishment of the Fiscal Responsibility Commission and spell out the functions and powers of same. The Commission consists of a Chairman, who is the Chief Executive and Accounting Officer, and members and ex-officio members drawn from the Federal Ministry of Finance, the six geo-political zones of the federation, as well as from civil society groups and organized labour.

The Fiscal Responsibility Commission has the responsibility to monitor and enforce the provisions of the FRA 2007. It also has the responsibility to "disseminate such standard practices including international good practice that will result in greater efficiency in the allocation and management of public expenditure, revenue collection, debt control and transparency in fiscal matters". The Commission is also to undertake fiscal and financial studies, analysis and diagnosis and disseminate the result to the general public among other functions. Section 3(2) confers independence on the Commission in the discharge of its duties.

Part II of the Act contains sections 11 to 17 in which the Medium-Term Expenditure Framework is established as a macro-economic framework. Details on the components and preparation of the Medium-Term Expenditure Framework are also spelt out in this part.

Part III is titled "The Annual Budget". It provides for the guidelines in the preparation of the Annual Appropriations, as well as the components and accompaniments. Section 18 provides for the Medium-Term Expenditure Framework as the basis for the preparation of the annual estimates of revenue and expenditure to be presented to the National Assembly under section 81(1) of the Constitution.

Part IV covers sections 21 to 24 of the FRA 2007 and provides guidelines for the budgetary planning of public Corporations and other related agencies.

The provisions for the execution of the budget and achievement of targets are set out in Part V of the Act. This part contains sections 25 through to 31. Details of how the budget is to be implemented are spelt out in these sections. In addition, conditions for virements are set out in Section 27(2). Section 30 provides for monitoring and evaluation of the budget implementation on a quarterly basis. The responsibility to assess the attainment of fiscal targets is placed on the Minister of Finance, through the Budget Office. The report therefrom is to be sent to the Fiscal Responsibility Commission and the Joint Finance Committee of the National Assembly and also published on the Federal Ministry of Finance website as well as mass and electronic media.

Part VI confers on the Executive arm the powers to make forecast of revenue estimates for the following year and present same to the National Assembly at least thirty days before the deadline for submission of its budget proposals. The revenue estimates are to be broken down into monthly collection targets.

Section 35 is the only section covered in Part VII of the Act and addresses the issue of excess revenue. The section stipulates that such excess proceeds should be deposited in a separate account which shall form part of the respective Consolidated Revenue Fund to be maintained at the Central Bank of Nigeria (CBN). The CBN is also empowered to invest such excess funds on behalf of the concerned government. Subsections 5, 6 and 7 set the conditions under which such excess funds may be accessed by the government.

Part VIII covers sections 36 through 39 and deals with Public Expenditure. Section 36 sets the conditions for increasing government expenditure which requires that such requests must be consistent with the provisions of the Appropriation Act and also accompanied by an estimate of the budgetary or financial impact in the year it becomes effective and in the two subsequent years. Section 38 stipulates that all contracts with regards to the execution of annual budget must comply with rules and guidelines on the following:

a) procurement and award of contracts; and
b) due process and certification of contract.

Parts IX and X provide the framework for debt management and set the rules and requirements for borrowing. Sections 41 through 47 are covered in these two parts. Section 42 empowers the President to set overall limits for the amounts of consolidated debts of the three tiers of the federation in line with the provisions of items 7 and 50 of Part 1 of the Second Schedule to the Constitution of the Federal Republic of Nigeria. This section also stipulates measures to address violations of such limits. The Fiscal Responsibility Commission has the responsibility to publish, on a quarterly basis, both the amounts of the consolidated debts of each tier of government and a list of governments that have violated the limits with indication of the amount by which the limit was exceeded. Section 43 of same Part IX places responsibility for the servicing of external debts and the cost of such servicings directly on the Government that incurs such debts. Section 44 specifies that the purpose for which borrowing is intended be clearly presented alongside a cost-benefit analysis, detailing the economic and social benefits derivable from such purpose. Section 47 prohibits states and local governments from borrowing externally as Federal Government guarantee shall be a requirement for such borrowings.

Part XI--- "Transparency and Accountability" contains sections 48 through 50 and provides in more details steps to be taken to ensure transparency in the conduct of fiscal and financial matters of the Federal Government. This part prescribes the publication of the audited accounts of the Federal Government not later than two years following the commencement of the Act, and subsequently, not later than seven months following the end of each financial year. In addition, S49(3) assigns the responsibility for the publication of general standards for the consolidation of public accounts to the Office of the Accountant-General.

The enforcement of the FRA is contained in Part XII. Section 51 provides that any person may acquire legal capacity to enforce the provisions of the Act by obtaining prerogative orders or other remedies at the Federal High Court. Such a person does not have to show any special or particular interest.

Part XIII covers sections 52 through 55 containing miscellaneous provisions such as collaterals, use of proceeds from sale of public assets, technical and financial assistance to States and Local Governments, and the powers of the president with respect to this Act. Section 52 provides that government securities may be offered as collateral to guarantee loans or other financial transactions so long as such securities are duly listed on the stock exchange. But the economic value of any such security is as defined by the Ministry of Finance.

Section 53 of Part XIII places restriction on the utilization of proceeds of sale of public assets. This section provides that such proceeds shall not be used to finance recurrent and debt expenditure but could be used to liquidate existing liabilities directly charged against such assets.

Section 54 provides that the Federal Government may provide assistance to States and Local Governments that adopt fiscal responsibility legislations similar to this Act for the modernization of their tax, financial and asset administration.

Section 55 of this Act confers on the President the power to make regulations generally for the purposes of bringing into effect the provisions of this Act.

Part XIV gives the interpretations of some terms in the context they are used in the Act. For example, in the context of the Act, Cost-benefit-analysis means "an analysis that compares the cost of undertaking a service, project or programme with the benefits that citizens are likely to derive from it". Section 57 gives the citation of the Act as the Fiscal Responsibility Act, 2007.

The Act is to provide framework for the implementation of public sector reforms started by the Obasanjo administration. It is perceived to be the latest and most potent legal instrument which can be used to lay a lasting legacy in the public sector reform efforts (Olaniyi 2006). The Act is also expected to strengthen Nigeria's economic growth.

Several provisions in this Act suggest a shift in paradigm. According to Usman (2006), former Federal Minister of Finance,

> *Nigeria urgently needs a Fiscal Responsibility Bill in order to instill some prudence in the management of our public finances. There are a number of major components of this bill such as improving openness in our public budgeting; setting clear rules on the management of public finances; providing transparency in budget preparation, execution and reporting; ensuring prudent public debt management; and introducing key performance indicators to help us focus on results. I believe that by introducing the Fiscal Responsibility Bill, Nigeria's public finances will be managed at a very high standard, and this will underpin our continued economic growth.*

This Act brings about an introduction of performance indicators to help decision-makers focus on result. The emphasis is no longer on inputs alone as this Act effectively creates an input-output dimension in fiscal and financial management in Nigeria. There is a lot of emphasis on matching result with objectives and resources utilized.

For example, section 11 (3) (e) provides that "a statement describing the nature and fiscal significance of contingent liabilities and quasi-fiscal activities, and measures to offset the crystallization of such liabilities" shall be contained in the Medium Term Expenditure Framework (MTEF). Section 19 provides that the Annual budget shall be accompanied by:

(i) a copy of the underlying revenue and expenditure profile for the next two years (S19 (a));
(ii) measures on costs, cost control and evaluation of results of programmes financed with budgetary resources (S19 (d)). Sections 21(2)(b), 22 and 23 add a competitive edge to the way public enterprises are run.

2.4 THE MEDIUM-TERM EXPENDITURE FRAMEWORK (MTEF)

MTEF is defined by Alta Fölscher (2007) as a comprehensive, government-wide spending plan that links policy priorities to expenditure allocations within a fiscal framework—linked to macroeconomic and revenue forecasts—usually over a three-year forward planning horizon.

The MTEF, in Nigeria, is an economic and fiscal strategy document that covers a three-year period but which is revised and updated every year in the manner of a rolling plan. It is the document that spells out the maximum amount that the Federal Government should spend in a particular financial year. This is known as the Expenditure Ceiling. In addition, it also spells out how this amount is to be allocated to the major heads and sub-heads of expenditure. It is this document that spells out the budget objectives and aligns the nation's developmental needs and goals with the available resources in line with the fiscal regime as spelt out in the Fiscal Responsibility Act. Thus, the MTEF is more or less the working paper for the achievement of the economic and public sector reforms in Nigeria.

The MTEF is subject to the approval of the Federal Executive Council (FEC) before it can be sent to the National Assembly for ratification. For this purpose, the MTEF and the Medium-Term Revenue Framework (MTRF) alongside the Fiscal Strategy Paper which are summarized statements on how the Federal Government proposes to conduct its fiscal affairs for the next three years are prepared for FEC consideration. At this stage, required spending trade-offs are properly debated and agreed on. On approval, the MTEF is sent to the National Assembly.

According to Fölscher (2007), successful MTEFs denote more than just a set of multiyear spending plans. They should be the outcome of an approach to budgeting that requires early policy prioritization, a better evaluation of competing policies and programs, and a deliberate matching of current and medium-term plans with available resources through a disciplined process. MTEFs have been proposed as an essential element of modern budgeting practice.

2.5 THE MEDIUM-TERM SECTOR STRATEGY (MTSS) POLICY TOOL

According to Folscher (2007), different countries have applied different mechanisms within MTEFs to improve the quality of information used to make resource allocations. He goes on to state that an important aspect of this trend is the introduction of program classification and a performance orientation, often combined in parallel program performance budgeting systems (Folscher, 2007).

The MTEF is not a substitute for the annual budget as annual Appropriations are still prepared every year. However, the annual estimates and appropriations are prepared in consonance with the provisions of the MTEF. In order to achieve this, Ministries, Departments and Agencies (MDAs) are required to identify and develop key initiatives in the form of projects and programmes that they will embark upon to achieve their goals and objectives. These are documented as Medium-Term Sector Strategy (MTSS). However, these goals and objectives must be consistent with the economic and developmental goals of the government.

Each MDA is expected to clearly articulate and document their key initiatives. These key initiatives are also required to be costed, phased over a three-year period and linked to expected outcomes. It is to be especially noted that the outcomes as contained in the MTSS are used as policy documents against which budget proposals of the MDAs are evaluated (Budget Office of the Federation, 2009). Although the Fiscal Responsibility Act was signed into law in 2007, the MTSS, according to the Budget Office of the Federation (2009), has been a feature of the budget preparation process since 2005. The Budget Office reckons that this covers at least 80% of MDAs Expenditure (Budget Office of the Federation, 2009).

2.6 DEFINITION AND CHARACTERISTICS OF PUBLIC SECTOR

Public sector is that sector of the economy run by the government to provide certain goods and services to the entire populace at reasonable price. In addition to general government, the public sector includes entities that are majority owned by the government, such as state-owned enterprises or state financial institutions. Its instrumentality is the public administration system which emphasizes compliance with written rules and regulations (Ouda, 2004). Being so, it focuses on input, that is, ensures that resources used are as approved; not necessarily ensuring that they are used effectively and efficiently.

It is highly centralized and so limits discretion because managers are not really responsible for their departments. It is run by bureaucrats who carry out government programmes essentially in compliance with set rules and regulations and is also characterized by a system that lacks performance measurement and so there is no incentive to encourage efficiency and effectiveness (Ouda, 2004).

2.7 WHAT IS PUBLIC SECTOR REFORM?

The word ‘reform’ implies change. The dictionary meaning of ‘reform’ as given by the *Oxford Advanced Learner’s Dictionary (new 7th edition)* is “change that is made to a social system, an organization, etc. in order to improve or correct it”.

Public sector reform is one of the elements of economic reforms (Wynne, 2007; Ouda, 2004). **Public Sector Reform has in the past focused on structural reforms and capacity building. Increasingly now the focus is the need for governments to demonstrate quality improvements and value for money in public services.** It entails role changes and impacts on public/private relationship, resource use and efficiency, and decentralized planning. It is actually an integrated package of reforms that may include financial reforms, public service reforms, and workplace relations (Ouda, 2004).

Public sector reform is a process in which private sector style management approaches are introduced into the public sector (Wynne, 2007; 2004). This has come to be termed New Public Management (Wynne, 2007; Hood, 1991). The New Public Management emphasizes the application of private sector management techniques as well as simulation of competitive market behaviour (Ellwood and Wynne, 2003). This includes the use of private sector style accrual accounts (Wynne, 2007).

New Pubic Management has become a trend; its ideas have come to be regarded as universal and as being applicable everywhere, regardless of the special circumstances of different countries or regions of the world (Christensen and Laegreid, 2002).

The techniques associated with New Pubic Management, including accrual accounting, have now become generalized in the sense that they are now seen to be how public sector entities in general should be managed, controlled and structured. They have become apolitical and are now promulgated and defended on the basis of technical expertise rather than their ideological considerations (Wynne, 2003).

2.8 COMPONENTS OF PUBLIC SECTOR REFORMS

Public sector reform is an encapsulation of several reform packages, each intended to address particular areas of the public sector for efficient and improved performance. According to Ouda (2003), areas for reforms in the public sector include:

i. Civil reform
ii. Fiscal management and budgeting
iii. Executive decision-making and cabinet systems
iv. Performance management
v. Alternative services delivery
vi. Changes in the role of government and state
vii. Privatization of state-owned enterprises
viii. Legislative and regulatory reform
ix. Management reform
x. Accounting reform, etc.

2.9 REASONS FOR REFORMS

Several factors have led many governments of the world to undertaking public sector reforms. According to Ouda (2004), public sector reforms are carried out to address economic crises or to meet the challenges brought about by increased globalization. A number of countries have made significant progress in their efforts at public sector reforms in the past three decades. The New Zealand, United Kingdom and Australia were among the first to start (Ouda, 2004). Canada and United States have since joined the league.

The New Zealand embarked on reforms to meet the economic crises it faced (Wynne, 2003). According to Ball (1994), the economic and fiscal position faced by the government of New Zealand as at 1984, was sufficiently serious to require significant economic reform.

England, on the other hand, pursued the use of accrual accounting techniques in its public sector to provide a more accurate measurement of resources consumed; to account for the use of capital and current resources consistently, in terms of resource consumed; a financial reporting structure to match resources used to departmental objectives, and linking these objectives to quantified measures of output and performance.

As stated earlier, the main objective of fiscal and financial reforms is the transformation of public budgeting and accounting systems from focusing on control inputs to that of outputs or outcomes (Wynne, 2007). The expectation is that this will, in turn, improve operational efficiency and promote result-oriented accountability. The experiences of developed countries like England that have undertaken such reforms successfully are relevant to developing countries like Nigeria contemplating reforms of their budgeting systems to align with the needs of the 21st century.

Some of the factors that have led many countries into undertaking public sector reforms are discussed below:

a) <u>Economic Crises</u>

Economic crises result from wrong or misapplication of economic policies and tools such that the desired objectives are not achieved. The result is often the direct opposite of that which should be expected. Thus, measures that should grow the economy have instead often led to contraction of the economy. Many development professionals have argued that economic growth is the prime engine of development. But, despite enormous investments in economic growth programs, many countries do not experience the economic growth the programs were designed to achieve, nor do they improve in other key development indicators. (O'Brien, 2003).

The major symptoms of an economy in crises include sick and non-performing economy and public institutions, unfair and unaffordable social policies, as well as financial deficits (Ouda, 2003). Nigeria is a country that has wallowed in economic crises for the better part of its existence as an independent nation-state. According to King (2003), Nigeria may be the most challenging and important development country in the world today. This is because despite being the world's sixth largest oil exporter, Nigeria is by far the world's most populous extremely poor country. With an annual GDP growth of about 2.25 percent and an estimated population growth of 2.80 percent per annum, there has been a contraction in per capita GDP over the years that had resulted in a deterioration of living standards for most citizens (Okonjo-Iweala and Osafo-Kwaako, 2007; Soludo, 2007; King, 2003).

David T. King (2003) has described Nigeria as a country of spectacularly failed economic policies, rising poverty and return to subsistence; with public utility services that are among the worst in the world--- at least two-thirds of households are not connected to electricity; half of the adult population are not literate; access to water is extremely limited; impossible urban transportation; and an average of fifty households for each telephone land line. Indeed, according to Soludo (2007), Nigeria's economic development tragedy stands out (Okonjo-Iweala and Osafo-Kwaako, 2007; King, 2003; World Bank, 2003), with an economy that shrank to a third of its size between 1981 and 2007; and a per capita GDP that was 20% less than it was in the 1970s and a debt burden of over 70% of GDP.

b) <u>Demand for Accountability in Government</u>

According to Vakabua (1996), the elements of accountability exist in any relationship where one party (an agent) performs some functions on behalf of another party (the principal). An agent, according to him, is one to whom the principal delegates power and entrusts resources for safeguarding (stewardship) or to carry out specific tasks on the principal's behalf. Therefore, agents, being holders of delegated power, owe duties to the ultimate power holders.

There has been growing and louder public demands for accountability in government. Accountability in this context means that the agents have to properly demonstrate that they have exercised the power conferred, achieved the goals and objectives, and used the resources provided effectively and efficiently (Vakabua, 1996).

The main objective of budgeting reforms is the transformation of public budgeting systems from solely focusing on control of inputs to that of measuring output or outcomes against inputs to ascertain effectiveness and performance (Wynne, 2007). This, in turn, will improve operational efficiency and promote result-oriented accountability.

c) Corruption

Corruption is a major impediment to development (Walter, 2003). It thrives where there is no transparency and proper accountability. The fight against corruption is critical because corruption is pervasive, and affects all the sectors and areas in the development of any economy (Maldonado, 2003).

The reason that developing countries have remained so for so long is the lack of accountability in the public sector. That is why public funds find their way into private accounts.

Corruption erodes trust and confidence in the political system. It also inhibits investment and job creation (Maldonado, 2003; O'Brien, 2003; Walter, 2003). Therefore, any political system that seeks to function effectively must have the political will to fight corruption as this gives credibility and legitimacy to government (Walter, 2003).

Corruption also curtails the ability of governments – federal, states, and local – to finance and provide social services such as education, health, water, etc (Okonjo-Iweala and Osafo-Kwaako, 2007; Maldonado, 2003; O'Brien, 2003; Soludo, 2007; Walter, 2003). It prevents the participation of civil society in the oversight of how public resources are utilized (Maldonado, 2003; O'Brien, 2003).

The fight against corruption is not an event, but a long-term and complex process that requires firm commitment and determination in addition to a permanent partisan with an active attitude from all stakeholders (Maldonado, 2003).

A bane of Nigeria's existence since the oil boom of the 1970s has been the reputation for corruption. Corruption and poor governance affected growth and public service delivery in Nigeria in various ways. Corruption distorts the climate for doing business and serves as a tax on private investments (Okonjo-Iweala and Osafo-Kwaako, 2007). The significant additional costs that poor public services impose on the Nigerian business sector fundamentally compromise the country's ability to develop (King, 2003). In a corrupt environment, resources for human capital and other needed investments, such as in infrastructure, health and education are often diverted. There are various ways in which this may occur, including procurement fraud, patronage for access to services, absenteeism and misuse of facilities (Okonjo-Iweala and Osafo-Kwaako, 2007).

Prior to the recent reforms, the Nigerian public sector underperformed and imposed a significant financial drain on the treasury (Okonjo-Iweala and Osafo-Kwaako, 2007; Soludo, 2007). State-owned enterprises often were managed poorly, with a great deal of both hidden and overt corruption.

In a report by Okonjo-Iweala and Osafo-Kwaako (2007), analytical studies on the extent of corruption in Nigeria prior to the recent reforms were often very negative. For example, the report, *"Nigeria's Economic Reforms: Progress And Challenges"* (2007), shows that a survey of Nigerian firms in 2002 revealed widespread bribery across various public institutions. According to the survey, about 70 percent of firms reported the need to give bribes to obtain trade permits; about 83 percent paid bribes to obtain utility services; about 65 percent paid bribes when paying taxes; an estimated 90 percent paid bribes during procurement; and 70 percent of firms acknowledged the need for bribes to obtain favourable judicial decisions. Also, there was widespread perception of the leakage of public funds (Kaufmann et al, 2005). In addition, 100 percent of Nigerian firms surveyed agreed that public funds were diverted to private groups in contrast to about 78 percent of firms in Russia, and about 45 percent of firms in South Africa (Okonjo-Iweala and Osafo-Kwaako, 2007)..

d) <u>Globalization</u>

Globalization has necessitated public sector reforms in many countries of the world (Shun, 2002). This factor is one that cannot be overlooked as what happens in one country of the world affects others, either directly or indirectly. Ouda (2003) has predicted that public sector reform is a must for most countries of the world whether or not they want it because of globalization and other internal factors.

Developing countries are faced with the challenge of delivering immediate and measurable results to citizens, donors, trading partners, foreign investors, and creditors (Olivier, 2003). The ability to meet this challenge enhances confidence in the public sector and also contributes to economic growth and prosperity. Conversely, the public sector plays important role in the economic growth and prosperity of a country. It is also vital in meeting the challenges of delivering immediate and measurable results to stakeholders.

According to Olivier (2003), the implementation of modern and government-focused financial management system is a key enabler in the pursuit of economic growth and prosperity. However, it also represents a challenge to developing countries as good governance and fiscal responsibility have gained international focus. This is because not only are developing countries expected to deliver measurable results to their citizens, they are also expected to do same to other stakeholders such as trading partners, foreign investors, donors, and creditors.

Globalization offers opportunities and prospects for leapfrogging for economic growth, as well as preferential and differential trade concessions under bilateral and multilateral relations. Examples would include the U.S. AGOA, the EU-ACP-Cotonou Agreement and other impending economic partnership agreement (King, 2003).

In 2008, the Institute of Chartered Accountants of Nigeria disclosed that they had concluded arrangements to affiliate with IFAC and adopt the IPSAS. But besides the emergence of international accounting standards, many practices overseas influence local expectations and demand (Shum, 2002).

2.10 WHAT IS AN ACCOUNTING SYSTEM?

Accounting can be described as "a series of activities which are linked and form a progression of steps, beginning with observing, then collecting, recording, analyzing and finally communicating information to its users" (Glautier and Underdown, 1987). It is the language of business by means of which the key affairs of an economic entity are expressed and summarized (Wilkinson, 1993). Accounting has also been defined by Summers (1991) as a "collection of principles and rules that govern the transformation of data into the information used in management processes". The transformation is accomplished by a system consisting of components, namely, people, machines, and methods, organized to accomplish a set of specific functions (Summers, 1991). As such, Accounting can be viewed as a system that provides financial information needed for the overall functioning of an entity.

Accounting systems are information systems with the main purpose of collecting and collating data which are processed to provide both quantitative and qualitative information. They exist wherever there is economic activity. Accounting systems deliver financial and managerial information prepared in a known way, about revenues, expenses, assets, liabilities, and equity (Summers, 1991). An Accounting system is then the totality of methods and procedures as well as the processes adopted by an economic entity for applying fundamental accounting concepts to its financial transactions as well as its financial reporting systems. It reflects the unique structure of an economic entity and therefore is said to be the model of that entity (Summers, 1991).

The major objective of Accounting, as an information system, is to monitor an organization's dimension of economic activity. This, it does by processing data according to known rules, and delivering precise information that is useful to those who plan and manage the entity's activities, as well as to interested outsiders (Summers, 1991). It supplies consistent and reliable information framework for managing operations as it comprehensively covers revenues, expenses, assets, liabilities, deficits, and surpluses. Thus, an accounting system enables business activities to be undertaken and sustained by accurately keeping track of the economic life of the organization. It does this by using factual inputs consisting of budget and transaction data, expressed in monetary units; processes the data by means of very specialized procedures, that is, accounting procedures and applications; and produces output consisting of reports based on the input data and tailored to the needs of internal and external users.

The accounting system is unique in the sense that it generates output that forms the basis for:

i. much of the control exercised in other parts of the organization;
ii. judgements by external parties about the organization's financial health;
iii. control of the accounting system's own activities (Summers, 1991).

Resource managers require the consistent and reliable information that an accounting system provides because it serves as a continuous historical record showing the results of past plans and activities so they can be evaluated and perpetuated or changed. The accounting system is the most important element or sub-system of an organization. This assertion is justified by the following reasons given by Glautier and Underdown (1987):

i. The Accounting Information System enables management and external information users to get a picture of the whole organization.

ii. The Accounting Information System links other important information systems within the same entity as information produced by these other systems can be expressed in financial terms in planning strategy to attain organizational goals.

Accounting system provides information used to assess both the efficiency and effectiveness of decision-making. Efficiency is the analysis of input-output relationships while effectiveness measures the extent to which policy objectives are attained.

An accounting system should present and disclose all accounting information that will assist users to assess the financial liquidity, profitability, and viability of the reporting entity in a logical, clear, and understandable manner. Therefore, an accounting system must be such that enhances the attainment of the overall objective of the organization.

2.11 TYPES OF ACCOUNTING SYSTEMS

Basically, accounting systems are classified based on the accounting principles that determine when transactions or events should be recognized for financial reporting purposes. Accounting systems are generally classified into four broad categories. These are:

i. Cash
ii. Modified cash
iii. Modified accrual
iv. Full accrual.

However, this classification is schematic as accounting requirements depend on programmes and institutions. Moreover, all accounting systems in the public sector ultimately have the budgetary or appropriation accounting as their common denominator so as to track appropriations, supplementary estimates, virements, and the uses of appropriations.

2.12 CHARACTERISTICS OF ACCOUNTING SYSTEMS

2.12.1 CASH ACCOUNTING SYSTEMS

The cash-based system of accounting is that which recognizes transactions only when there is exchange of cash. And so, under cash accounting system, revenue is recorded only when it is received while expenses are recorded only when they are actually paid. This is so irrespective of whether the revenue or expenditure relates to the period of accounting or not.

Cash accounting systems treat all receipts and payments as income and expenditure respectively. There is no distinction made between loans which are liabilities and other revenues such as taxes, tariffs, sale of products, and so on. Both receipts from borrowings and earnings from other sources of revenue are treated as income in calculating the surplus or deficit for the particular year in which they are received (Shum, 2002). In the same manner, money lent out, recurrent expenditure, and capital expenditures are all treated as expenditure.

The cash system of accounting is both convenient and easy to match with the objectives of public service which is parliamentary accountability (Beechy, 2007; Ouda, 2004; Wynne, 2003). Besides, budget appropriations are made under the assumptions of cash receipts and disbursements, and all unspent appropriations are expected to lapse into their respective funds at the end of each accounting period.

The audit and control of cash accounting systems are simple and relatively easy to implement and operate in the public sector (Boothe, 2005; Wynne, 2003). The relatively simple operational requirements and strong link to the traditional budget and revenue systems in addition to limited coverage of transactions, as these are restricted only to those that result in cash payments or receipts, as well as those that occur within the accounting period are some of the reasons given by Athukorala and Reid (2003) as the advantages of cash accounting system.

On the other hand, nearly everyone agrees that cash-basis accounting is inadequate for all but the tiniest organizations (Beechy, 2007). The reason is that cash-basis enables managers to hide the true results of operations and the true financial position of the organization by manipulating the cash flow. Liabilities are hidden from view on the financial statements, as are receivables and other assets.

Cash-based reporting and management may provide incomplete or misleading information and perverse incentives (McClarin, 2000). It fails to recognize future costs associated with current government activities. Also, it does not properly align costs with the provision of goods or services (Ouda, 2003; McClarin, 2000). Cash-based Government Accounts is inadequate because it reports all receipts and payments as income and expenditure respectively. For example, no distinction is made between receipts from borrowing and those from taxes—both are treated as revenue in calculating the surplus or deficit for the particular year in which they are received (Shun, 2002).

Another problem with cash-basis, according to Thomas Beechy (2007), is that assets and liabilities are not recorded and thus are hidden from outsiders while accrual-basis recognizes liabilities when the obligation arises as in amounts owed for goods or services received but not yet paid for, and also recognizes financial assets when the organization has the right to receive them as in amounts receivable for goods delivered or services performed.

Under a pure cash basis of accounting, no liabilities are recognized. Accordingly, neither liabilities due in the current period (short-term liabilities) nor liabilities which are owed beyond the current period (long-term liabilities) are recorded in the operating accounts of that period. As a result of not recognizing the long-term liabilities (for example, pensions and compensated absences) as well as their costs not being recognized and reported, the governments do not make plans to meet these liabilities when they come due. And this, in turn, leads to increasing the deficit in a certain period more than in the other periods (Ouda, 2006).

The Public Sector Committee (PSC) of the International Federation of Accountants (IFAC) has identified in its study 1 (1991) seven objectives of governmental financial reporting. Of the seven objectives only the first three are met by a cash-based governmental accounting system. Those objectives are as follows:

i. indicating whether resources were obtained and used in accordance with the legally adopted budget.
ii. indicating whether resources were obtained and utilized in accordance with legal and contractual requirements, including financial limits established by appropriate legislative authorities.
iii. providing information about how the government or unit financed its activities and met its cash requirements.
iv. providing information about the sources, allocation and uses of financial resources.
v. providing information that is useful in evaluating the government's or unit's ability to finance its activities and to meet its liabilities and commitments.
vi. providing information about the financial condition of the government or unit and changes in it.
vii. providing aggregate information useful in evaluating the government's or unit's performance in terms of costs, efficiency and accomplishments.

Based on the aforementioned, it can be inferred that the cash basis does not meet the objectives of governmental accounting and financial reporting, and of course, it does not meet the users' needs. It does not indicate the relationship between the expenditure and results, and this inhibits the formulation and execution of economically meaningful budgetary policy.

2.12.2 MODIFIED CASH ACCOUNTING SYSTEM

The modified cash basis of accounting as the name suggests evolved from the cash accounting system. But it also has limited attributes of the accrual system. This system recognizes transactions whose cash receipts or disbursements are expected to occur within a specified period in the following fiscal period. During this complementary period, the books are held open so that cash flows resulting from transactions of the previous period are recorded for that period (Reid and Athukorola, 2003). However, revenues in this system are ideally reported on purely cash basis.

2.12.3 MODIFIED ACCRUAL SYSTEM

The modified accrual basis of accounting combines some attributes of both the cash and the accrual systems. Modified accrual accounting system recognizes transactions when they occur irrespective of whether cash is paid or not. However, the costs of all items acquired are expensed, that is, written off in the period of acquisition. This is irrespective of whether they are capital expenditure or recurrent expenditure (Reid and Athukorola, 2003). So, under this system, there is no recognition of deferral cost that will be consumed in future periods for physical assets that will provide services in the future. Also, the modified accrual basis of accounting recognizes current assets and liabilities (Hughes and Minovski, 2004).

The major advantage of this system is that it provides adequate framework for assessing liabilities and arrears because of its recognition of transactions when they occur as opposed to when the cash is paid or received (IFAC, 1991). Financial statements produced under modified accrual accounting system give more information when compared with the cash system. Such financial statements cover revenues, expenditures, financial assets, liabilities, and also net financial resources.

Supplies are considered consumed and assets are written off as soon as they are acquired. Therefore, physical assets that will provide services in the future are "written off" (or "expensed") in the period acquired. It does not produce the information needed to measure performance because it does not recognize capital assets. If financial reports do not include physical assets there is not sufficient disclosure of the resources for which the government is accountable (Cortes, 2004).

2.12.4 ACCRUAL ACCOUNTING SYSTEM

Accrual accounting evolved to take care of the increased complexity of business. Private sector operations are predominantly based on the accrual system of accounting (Boothe, 2005; Beechy, 2007). Under this system, revenues are recorded when they are earned and expenditures are recognized and recorded as soon as liability is known or when benefit is received (McClarin, 2000). This is not withstanding that the receipt or payment of cash may take place wholly or partly in another accounting period (Blondal, 2004).

Where expenses overlap into another period, the amount is apportioned to the appropriate periods in the proportion in which it affects those periods. Thus, with this system, accounting measurements are based on the substance of transactions rather than merely on when cash is received or disbursed. Besides, full accrual basis of accounting includes total assets and liabilities (Hughes and Minovski, 2004).

However, the operational requirements are relatively complex as the accrual system records the estimated future effects of current transactions and policy changes (Boothe, 2008; Blondal, 2004). Also, the audit and control of this system is both challenging and demanding (Boothe, 2008). But despite the above, the accrual system finds strength in its wider coverage as it covers both cash and non-cash transactions (Boothe, 2008; Blondal, 2004).

The major benefit of accrual accounting is that it allocates revenues and expenses of government correctly over time (Boothe, 2008). Accrual accounting spreads the costs of assets over its life and so an asset does not appear as ‘free good’ after its initial purchase. It follows therefore that accrual accounting encourages more careful and prudent use of public assets/resources as it forces those entrusted with such to demonstrate their efficient and successful management in achieving expected results (Blondal, 2008; Ouda, 2003).

Financial accounting provides only the financial picture of the performance of a government or other public sector organisation. Increasingly other non financial performance information is being developed to supplement financial information (Simonsen and Armitage, 2006; FEE, 2003). The adoption of accrual accounting serves to strengthen the relationship between financial and non-financial information (FEE, 2003; OECD, 2002).

Thus, accrual accounting provides a framework for better planning and decision-making, as well as sound financial management and an objective way of measuring the effectiveness and efficiency of government policies; facilitates both vertical and horizontal comparisons of performances in addition to recognizing and highlighting present and future liabilities that must be met (FEE, 2003). Besides, accrual accounting provides the framework for evaluating a government's performance in terms of its service costs, efficiency, and accomplishments (Parry, 2005).

According to Professor Andy Wynne (2007), the major disadvantages of the move to accrual based accounting appear to be the costs involved and the increased complexity of the financial statements produced. In the same work cited above, he itemized the summarized costs of introducing accrual accounting in the public sector as given by IFAC's International Public Sector Accounting Board as follows:

- identifying and valuing existing assets
- developing accounting policies
- establishing accounting systems, including the purchase of computer systems and pilot testing these systems
- developing the necessary skills and providing training for both the preparers and users of financial information (Wynne, 2007).

2.13 THE BUDGET AND ITS FUNCTIONS IN THE PUBLIC SECTOR

A budget can be defined as a financial and / or quantitative statement prepared and approved prior to a defined period of time for the purpose of attaining a given objective (ICAN Study Pack, 2006). This definition implies that a budget is a key component of planning. Indeed, budgets are financial plans for the future through which objectives as well as the means by which to achieve them are identified (Hansen and Mowen, 1997). They are used to exercise control, evaluate performance, communicate, and encourage coordination (Simonsen and Armitage, 2006; Foltin, 1999).

The budget in the public sector is seen primarily as a document that sets limits on various government expenditures. But Simonsen and Armitage (2006), Foltin (1999), and Horngren and Sundem (1990) are of the opinion that budget in an effectively managed entity must be much more than a spending authorization. Budgeting, according to Horngren and Sundem (1990), is primarily attention-directing as it helps resource managers to focus on operating problems early enough for effective planning or action.

There are two major dimensions to consider in public sector budgeting. These are:

i. the budgeting procedure or process and
ii. the budgeting system.

The first concerns the mechanics, that is, how the budget is prepared (Hansen and Mowen, 1997). This has to do with practices, documentations, and norms which govern the preparation, approval, implementation, and review of the budget. The second concerns the reaction of those concerned to a budgetary system. This second element has to do with the management process which provides the framework for the procurement, allocation, and use of available resources by setting in advance the operational criteria by means of which corporate goals are achieved. This element requires careful consideration because budgeting is a human activity and therefore carries a strong behavioural dimension. In fact, according to Hansen and Mowen (1997), the success or failure of budgeting depends on how well management considers its behavioural implication.

2.14 BENEFITS OF BUDGETING

The major benefits of budgeting are given by Horngren and Sundem (1990) as follows:

i. Budgeting, by formalizing the managers' responsibilities for planning, compels them to think ahead.
ii. Budgeting provides definite expectations that are the best frameworks for judging subsequent performance.
iii. Budgeting aids managers in coordinating their efforts so that the objectives of the organization as a whole harmonize with the objectives of its parts.

2.15 PURPOSES OF BUDGETS

Budgets, according to Horngren (2004) and Simonsen and Armitage (2006), are generally designed to carry out various functions such as planning, evaluating performance, coordinating activities, implementing plans, communicating, motivating, and authorizing actions. However, the last-named role seems to predominate in government and not-for-profit budgeting (Horngren, 2004). Moreover, The dynamics that surround public budgeting play out in a financing context in which the aim is not to make money by spending money, but to reach a wide range of public objectives, some of them intangible. And so, an approved budget or Appropriation Act serves as a framework for the activities of the government or its agencies for a particular fiscal period (ICAN, 2006). The various purposes which a budget serves in the public sector can be summarized as follows:

i. It is an economic and financial document which highlights government policies designed to promote economic growth, full employment, and improve the standard of living.
ii. It serves as a useful guide for the allocation of available resources.
iii. It serves as a control apparatus by means of which the Legislature exercises its oversight function over the Executive to ensure accountability of the resources entrusted to them.
iv. It represents the requests of the Executive and the legislative approval to collect and disburse funds. (ICAN, 2006).

However, the purposes of a budget, according to Simonsen and Armitage (2006) and Thornton (1978), are as follows:

i. Communicate ideas and plans to everyone affected by them. A formal system is necessary to ensure that each person is aware of what he or she is supposed to be doing.
ii. Coordinate the activities of different departments or sub-units of the organization. This concept of coordination implies, for example, that the purchasing department should base its budget on production requirements, and that the production budget (that is, direct labour budget and machinery utilization budgets, etc) should in turn be based on sales expectations.
iii. Establish a system of control by having a plan against which actual results can be progressively compared and variance analyzed for prompt attention and action.
iv. Motivate employees to improve their performances. The level of attainment usually incorporated in the budget is a realistic figure for the budget period.

2.16 TYPES AND CHARACTERISTICS OF BUDGETS

Budget systems are classified according to the nature of the appropriations. However, except for a few obligation-based budgets, two broad categories exist:

· ***Cash-based budget*** in which most of the appropriations are authorizations to make annual commitments and to pay;

· ***Accrual-based budget*** when in which appropriations for running costs and some other items cover full costs, including depreciation, and other increases in liabilities.

Most scholars further classify these two categories into the following types according to their features and characteristics:

2.16.1THE LINE-ITEM/INCREMENTAL SYSTEM

This is a budget system that concentrates on the nature of income and expenditure. It uses the revised current year budgetary values of income and expenditure as the starting point for determining the budget for next year. Therefore, once an item appears in the budget, its inclusion in future budgets is taken for granted and only incremental changes in the values are considered (ICAN, 2006). In an incremental line-item budgeting system, decision making about the bulk of spending is thus reduced to concentrating on changes in various input items—personnel, equipment, maintenance, utilities, or transportation—

that make up programs rather than to looking at programs (or subprograms) as wholes. Hence, though all programs are affected negatively by spending cuts, no single program needs to be shut down, and the difficult process of negotiating the discontinuation with stakeholders can be avoided (Fölscher, 2007). So, the budgeting process involves picking last year's figures and adding a percentage of those same figures to arrive at the current year's estimates. However, the percentage is based on factors such as:

(i) Trend of economic events

(ii) Inflation and deflationary tendencies

(iii) Availability of funds.

The line-item budgeting system has the advantage of being simple and easy to understand and operate. Besides, it narrows the areas open to conflict and does not require professional or technical skills to operate. In addition, it is cheaper to produce and also not time-consuming.

Fölscher (2007) has stated that line-item incremental budget systems include an array of institutionalized behaviors that detract from good budget outcomes, including the misconception that budgeting means requesting resources equal to what spending ministries perceive their real needs to be—and then some. So, instead of budgeting being the practice of planning for available resources, agencies perceive that there is always more money available and that the initial budget ceiling they receive is merely a device to limit the number of requests with which the ministry of finance has to contend. As enumerated in ICAN Study Pack (2006), the disadvantages therefore include the following:

i. Past errors are carried into the current and future budgets as allocations are made on a routine and incremental manner.

ii. It fails to fund new programmes

iii. Reference is not made as to the objectives to be achieved

iv. Other alternatives are not considered

v. It is based on organizational structure rather than programmes, and so fails to spell out the relationship between capital and recurrent expenditures

vi. It results in continual growth of budget totals related to inflation instead of serious economic needs or growth.

2.16.2 ZERO-BASED BUDGETING SYSTEM (ZBBS)

The ZBBS is a programme budgeting method that requires every item of expenditure to be justified as if the particular programme or activity is taking off for the first time. Thus, the budget is prepared from a 'zero-base' of expenditure cost (ICAN Study Pack, 2006). This means that each item of proposed expenditure is re-justified each year. In essence, a project segmented and each segment justified in accordance with the budget provisions. This system of budgeting consists of the following major processes:

i. The formulation of operational plans which identifies decision units. This involves dividing the organization into parts as responsibility centres, profit centres, cost centres, investment centres, and so on, depending on the type and objectives such an organization. Specific managers are assigned to each decision unit with well-defined and measurable objectives.

ii. The description of each decision unit as a decision package. This involves the identification of alternative methods and ways of performing the same operation or function. This enables management to select the best alternative course of action.

iii. The appraisal and ranking of programmes and activities in order of priority and in a competitive manner.

iv. The allocation of resources to each of the selected decision packages based on the following criteria:

  - whether the activity is specifically required by law;
  - whether the organization has the resources and technical skills to implement the activity;
  - whether the package is cost-effective; and
  - whether the package will be politically acceptable.

The ZBBS has the advantage of being able to reflect current market values. All activities are evaluated and justified and so is good for profit-oriented projects. Moreover, a review of activity performance is provided for and so important and viable projects continue to receive funds. Also, unexpected events that occur during the financial year can be more readily adjusted for since it focuses attention on the future rather than the past.

Despite the above advantages, there are some hindrances to its adoption. For example, it is not possible to sub-divide every activity into decision units. There is also the problem of coordination of different activities. Bureaucrats often frustrate its implementation and hence effectiveness as it requires the reform of accounting system for the purpose of evaluation and control (ICAN Study Pack, 2006, Simonsen and Armitage, 2006). Also, fixing the minimum level of expenditure is problematic when determining the decision packages as these may not be in conformity with expenditure ceilings. Moreover, it is argued that it is not so good for recurrent expenditure. These factors, in addition to paucity of reliable data and adequately qualified and competent manpower in the public service to implement the system, have limited its usefulness in the public sector (Simonsen and Armitage, 2006).

2.16.3. PLANNING, PROGRAMMING AND BUDGETING SYSTEM (PPBS)

PPBS is a budgeting approach based on systems theory, output, and objective orientation. It is based on programmes which involve grouping of activities with common objectives. PPBS has been defined as "a system associated with corporate management which identifies alternative policies, presents the implication of their adoption and provides for the efficient control of those policies chosen. It embraces several established concepts and analytical techniques within the framework of a systematic approach to decision-making, planning, management and control. The principal features of PPBS are that it relates to objectives, it relates to outputs, it emphasizes choice".

PPBS is a programme-oriented management approach which examines needs over a medium- to long-term period. The system is designed to plan up the debate on making choices in terms of what to do, when to do it, and how much to do. A major feature of of the PPBS is its focus and emphasis on input-output/outcome dimension.

2.16.3.1 BASIC ELEMENTS OF PPBS

a. Identification and enumeration of goals and objectives of the organization.
b. Defining the total system in detail, including the environment of the objectives, available resources, the programmes and their objectives among others.
c. Planning and analyses which entail continuous process of developing, comparing and analyzing alternative programmes, so as to evolve the most appropriate package for the organization.
d. Developing appropriate measures of performance for the programmes of the organization.
e. Expressing the agreed package of programmes, complete with resource requirements and expected results in the form of 'programmed budgets'.
f. Establishing reporting and control mechanism to monitor and evaluate programme performance so as to ascertain the attainment or otherwise of the desired objectives.
g. Developing a multi-year programme and financial implications annually.

Some of the advantages associated with PPBS have been given as follows (ICAN, 2006; Horngren, 2004; Hansen and Mowen, 1997; Horngren and Sundem, 1990):

i. Provides information on the objectives and expected outputs/outcomes of programmes of the organization.
ii. It is futuristic and lays emphasis on long-term effects of programmes.
iii. Provides a framework for accountability.
iv. Compels organizational self-study and analyses.
v. Promotes optimal use of resources.
vi. It leads to rapid economic development.

The disadvantages are similar to those of ZBBS (ICAN, 2006; Simonsen and Armitage, 2006; Horngren, 2004; Hansen and Mowen, 1997) and include natural resistance to change from bureaucrats, transitional problems at the introductory stage, reforming the accounting system to cater for the requirements of the new concept, paucity of data, shortage of adequately qualified staff in the public sector, and heavy demand on resources.

2.16.4. PERFORMANCE BUDGETING

This is a budgeting technique used for presenting public expenditures in the form of functions or projects to be undertaken, highlighting the cost involvements. The anticipated costs are compared with expected incomes or outputs (ICAN, 2006). The focus of this technique is on results or outputs achieved rather than how much has been expended (ICAN, 2006; Horngren, 2004).

The essential features of a performance budgeting system are (ICAN, 2006; Horngren, 2004; Hansen and Mowen, 1997):

i. Classification of budgets in terms of functions and activities
ii. Measurement of work done or output provided by each activity
iii. Expressing the budget in a manner that facilitates direct comparison between cost of project and the anticipated income or benefit
iv. Monitoring of actual cost and performance against the budgeted results or expectations.

The advantages and disadvantages are same as those of PPBS. It must be pointed out at this juncture that there is not much difference between Programme Planning Budgeting System and Performance Budgeting. Indeed, some authors use both terms interchangeably while others are of the opinion that both are same (Hansen and Mowen, 1997).

2.16.5 ROLLING/CONTINUOUS BUDGETING SYSTEM

This budgeting system requires the preparation of a budget on a regular basis. This is done by adding the equivalent of the expired period, say a month, quarter, six months, or as the case may be, to the remaining portion of the budget yet to be executed. This is so that at every point in time, there is a one-year budget available. It entails continuous updating of short-term budget so that the budget can reflect current conditions. It is a method which attempts to help an organization overcome the problem resulting from frequent unexpected or unforeseeable changes in activities and on future costs. Therefore, it is an attempt to prepare targets and plans which are more realistic and certain by shortening the period between the preparations of budgets (ICAN, 2006; Horngren, 2004).

One major advantage of this system is that it allows flexibility. A continuous budgeting system allows for more frequent re-assessements and revision of the budget in the light of changing economic events (ICAN, 2006). However, it has the disadvantages of requiring higher costs and efforts as well as the problem of deciding on the suitable length of period to be used to justify the extra cost and work involved.

2.17. THE PLACE OF ACCOUNTING SYSTEMS IN PUBLIC SECTOR REFORMS

Public sector administration is based on the philosophy of compliance with written rules and regulations. It focuses on a blind-following of instructions which limits discretion and creates incentives to avoid risk (Ouda, 2003).

The system under which public administration is based focuses on input instead of output. Indeed, there is no relationship between input and output (Beechy, 2007; Parry, 2005; Ouda, 2004). There is a lack of performance measurement system and therefore it creates a system, in which managers are not completely responsible for their departments (Ouda, 2004). This limits accountability and efficiency.

The public sector has traditionally been known to be cash-based (Wynne, 2003; McClarin, 2000). The cash system is well suited to the annual appropriations and revenue collection systems found in public sector administration whose main focus is parliamentary accountability (Boothe, 2008). The cash-based government accounts are prepared mainly to report back to the Legislative Council on the actual outturns vis-à-vis the approved budget after the end of a financial year (Shum, 2003; Wynne, 2003).

Generally, cash accounting system in the public sector serves legislative purposes, that is, budget compliance; and even then only partially. This is so because it only serves to give authorization to receive or disburse funds as approved by legislature (Wynne, 2007). Whether or not these are used to achieve that for which they are meant is of little consequence.

Public sector reform is a dynamic process carried out to encourage a culture of performance (Wynne, 2007; Ouda, 2005). It is a complex, cross-sectoral, and multi-disciplinary process that governments undertake in response to either internal or external pressures, or both (Ouda, 2004). Being multi-disciplinary, public sector reform can take a number of forms. It can be implemented through a number of initiatives and frameworks such as civil reform, fiscal management and budgeting, performance management, accounting reform (Ouda, 2003) among others. In essence, therefore, public sector reform is carried out to make the public sector more responsive to the needs of government and the people and may come as an integrated package of reforms including financial reforms.

Accounting is an information system that plays a crucial role in any reform process undertaken by government and government agencies and departments (FEE, 2003; Ouda, 2003). Accounting and financial reporting systems are very important in budget management, financial accountability, and policy decision-making.

Financial and fiscal reforms usually are part of economic reform package. So also are accounting reforms. They are usually carried out as a means to an end because there must be a correspondence between public sector administration and government accounting system. According to Ouda (2003), “the more the correspondence the public administrators’ culture with the culture upon which governmental accounting system is premised, the more easily change occurs”.

2.18 CHALLENGES OF ACCOUNTING REFORM IN THE PUBLIC SECTOR

One of the reasons advanced for the unsuitability of accrual accounting in the public sector is that it is complex and difficult to understand (Boothe, 2008; Blondal, 2005; Ouda, 2004). However, FEE-PSC (2007) argues that accrual accounting can be presented in a format that non-accountants can understand the key messages. This, the argument goes on, can be achieved by highlighting the key performance indicators. This assures that the benefits to the decision-makers using the accrual-based accounts are realized (FEE-PSC, 2007). Besides, according to the above argument, all that every user of accrual-based financial statement has to do is to have a solid understanding of the principles of assets, liabilities, income, and expenditure (FEE-PSC, 2007).

Other reasons advanced for the unsuitability of accrual accounting in the public sector, especially in developing countries, is in the area of capacity. As Boothe (2008) puts it, "capacity may be very constrained in two key areas: human resources and IT".

Boothe (2008) is of the view that developing countries face many barriers to adopting accrual accounting in the public sector. Some of these challenges, he argues, stem from their lack of capacity in the areas of human resources and IT. Wynne (2007) observes that governments have traditionally had few qualified accountants in their civil service because of the simplicity of their cash accounting systems. Based on this fact, Athukorola and Reid (2003) contend that capacity constraints can be overwhelming. Allen and Tommasi (2001) add that Accrual accounting therefore requires the availability of many highly skilled accountants both inside and outside the government.

Successfully implementing accrual accounting it requires basic Information Technology (IT) know-how. But in the opinion of Hepworth (2002), more complex IT systems will be required to implement accrual accounting than those associated with a traditional cash system. Wynne (2007) insists that IT capacity must be able to respond to the new and additional requirements that the introduction of accrual based accounting, budgeting and performance measurement will introduce.

2.19 THE IMPACT OF PUBLIC SECTOR REFORM ON PUBLIC SECTOR ACCOUNTING SYSTEM

Public sector reforms usually have substantial impact on public sector accounting system. This is because accounting, being an information system, plays the crucial role of communicating the activities of the reporting entity (Alesina and Perotti, 1995; Alesina and Ardagna, 1998). Ouda (2006) argues that Fiscal reform requires the enabling accounting system to achieve desired economic growth.

The impact of public sector reforms on the accounting system has been such that the concept of accountability in the public accounting system has changed. The concept of accountability has changed from procedural compliance to accountability in terms of efficiency and results (Ouda, 2003). The effectiveness and efficiency of public sector managers in the use of resources to achieve specific results have become one of the objectives of budgetary and accounting reporting systems (Simonsen and Armitage, 2006; Ouda, 2003). The reform processes in the public sector have necessitated the adoption of more complex management techniques and tools such as are used in the private sector in order to realize these objectives (Wynne, 2007; Parry, 2005; Ouda, 2003). This, by extension, has meant that complex system of performance audit to measure efficiency and effectiveness, as well as financial implications of decisions taken, be applied as well (Boothe, 2005; Ouda, 2003).

Financial and accounting reforms are most often necessitated by the need to address adverse economic situations and are usually accompanied by public sector reforms. For example, the New Zealand carried out financial reforms as part of movements to make its economy more competitive, in addition to making its government more accountable (Ouda, 2003; McClarin, 2000). England adopted Resource Accounting as a step towards achieving financial management reforms. The Financial Management Initiative of England was laid down in 1982 but resource accounting and budgeting was introduced in 1993 as a means of achieving value for money and accountability (Ouda, 2003).

Resource accounting applies accrual techniques for reporting on the expenditure of government and forms a framework for analyzing expenditure by departmental aims and objectives (Connolly and Hyndman, 2005). These are related to outputs where possible. Resource accounting is the central tool for effectively managing resource use and reducing resource costs; a process for recording and tracking both the amount and cost of the various resources used by facilities (Douglass, 2006).

2.20 THE NEED FOR ACCOUNTING REFORMS IN THE PUBLIC SECTOR

As stated earlier, public sector accounting reforms are generally undertaken to achieve economic reform objectives (Wynne, 2007; Ouda, 2003). Accounting reforms in the public sector basically means a shift from the cash-based system to the accrual-based system of accounting (Parry, 2005; Ouda, 2003); although Wynne (2003) has argued that government accounting reforms are not always to accruals. He however admits that the move to accrual accounting is part of the reform in the public sector that has resulted to the New Public Management concept (Wynne, 2003).

Accrual-based system is typically used in the private sector and is more complex than the cash system traditionally used in the public sector (Parry, 2005; Blondal, 2004; McClarin, 2000). The cash accounting model is not an input-output model and therefore does not measure performance (Ouda, 2004). But it is also argued that because public sector accounting has no profit concept, it has no need for the accrual model (Beechy, 2007; Chan, 2003; Wynne, 2003). However, this argument is flawed by the concepts of solvency and performance which are equally relevant in both government and commercial entities (Parry, 2005).

Solvency refers to the ability of an economic entity to meet its obligations, and remain in operation on a continuing basis. The solvency of a government can be evaluated with the debt to assets ratio, which is Long-term Debt to Total Assets (Simonsen and Armitage, 2006). The result indicates the percentage of assets that are financed by liabilities.

Performance measurement is the process of determining how effectively and efficiently resources are used for the delivery of services and the administration of programs. According to Simonsen and Armitage (2006), evaluating performance is a goal all organizations must accomplish in order to continually improve efficiency and effectiveness.

The most commonly used measures of performance are effectiveness and efficiency. Effectiveness measures compare actual outcomes to those desired at the beginning of the period while efficiency is measured by the outcome to input ratio (Simonsen and Armitage, 2006).

Wynne (2007), though skeptical about the move to accruals in the public sector, admits that "Accrual accounting can play a key role in New Public Management developments as the means by which measurements are made, achievements are documented and negotiations take place". He also thinks that "there is an increasing role for the private sector in providing public sector services in addition to the adoption of private sector style management practices under the New Public Management" (Wynne, 2007). According to him, the New Public Management has also led to the adoption of private-sector-style financial statements including the equivalent of a profit and loss account, a balance sheet and a cash flow statement. Also, Jones and Pendlebury (1984) have mentioned that an effective managerial planning and control system is an essential requirement of public sector organizations.

Giving reasons for advocating that Hong Kong should move to the accruals system, Man-To Shun (2003) pointed out the inadequacies of the cash accounting system in meeting the objectives of budgeting, financial and accounting systems in the public sector. He identified these reporting objectives of government accounting and financial statements as follows:

• *First, the accounts must be able to demonstrate budget compliance in terms of both scope and amounts—i.e. for what purposes and by how much—through a piece of legislation each year.*

• *Second, the accounts should report fairly on the Government's financial performance and position. As mentioned earlier, the existing cash-based Government Accounts are clearly deficient in this aspect.*

• *Third, information should be provided to facilitate planning, informed decision-making, and subsequent monitoring and evaluation so that public services can be delivered efficiently and effectively. Owing to the high-level nature of annual Government Accounts, it may be asking too much for such detailed information to be made available that is often required at more frequent intervals during a financial year. The financial reporting regime, however, should engender the easy production of this kind of information through the establishment of the relevant financial reporting framework.*

• *Fourth, the Government should be accountable for the scarce resources entrusted to it by the citizenry. By accountable is meant the Government should provide information on how much is in its custody and what it has done about it—particularly in respect of the changes that may not have been easily discerned from the accounts. Cash accounting may not provide the best way for the Government to discharge its responsibility in this respect.*

Public sector accounting reform was effectively started in 1991 by the New Zealand (Ball et al, 2000), followed five years later by the central governments of the United States and Australia and then the United Kingdom and Canada in 2001 (Ouda, 2003). In the view of Wynne (2007), any move to the introduction of private style financial statements and changing the basis of public sector accounts to the accrual basis should only be introduced as part of an overall reform strategy for public sector financial management.

Public sector reforms are themselves necessitated by either the need to address economic crises (internal factors) or as a result of globalization (external factors). However, whichever be the case, reforms in the public sector have led to a shift from the traditional public administration system to the improved and pragmatic management system known as New Public Management. The shift from old public administration to New Public Management has had fundamental implications for budgeting (Rose, 2003). Traditional budgeting practices focus on economy of inputs, financial regularity, and adherence to procedure. NPM systems permit greater flexibility of inputs and processes in return for greater emphasis on outputs and performance. Whereas the traditional public administration focuses on adherence and compliance with legislative appropriations, the New Public Management (NPM) focuses on performance evaluation and result-oriented accountability. This new public sector management system has the following features (Ouda, 2004):

(i) focuses on output instead of input
(ii) increases individual responsibility of managers
(iii) gives the managers discretion in the use of resources
(iv) measures performance in terms of efficiency and effectiveness.

Most performance measures can be classified into four categories: inputs, outputs, efficiency, and effectiveness. Input measures determine volume or amount of resources used to provide a service to citizens. Output measures gauge the amount of services provided to citizens. Efficiency measures determine the correlation between inputs and outputs. The first three measures are typically financial, including amount of expenditures, labour hours, and unit cost. Effectiveness measures, on the other hand, estimate the quality and productivity in providing services to citizens and often use non-financial data (Simonsen and Armitage, 2006; Parry, 2005). Accrual accounting provides the platform for such measurements as it readily provides the framework that strengthens the relationship between financial and non-financial information (FEE, 2005).

Scott (1996) has argued that if a country has already made a commitment to a results-based management system that explicitly specifies the objectives of a government entity, the adoption of the accrual accounting system and the application of modern cost accounting principles will improve the ability of the government to assess the costs of achieving those objectives.

The new public management (NPM) has given rise to new paradigms and roles for the public sector accounting system. According to Parry (2005), five key changes brought about by public sector reforms require the application of accrual system of accounting to government financial management. These are:

(i) Management of public sector performance which requires the ability to compare resources with physical output performance targets;

(ii) Decisions on alternative methods of rendering goods and services, including outsourcing; cost control, and resource allocation require accrual measures of costs.

(iii) Setting user fees where cost recovery is the government objective requires accrual basis of cost measurement.

(iv) The need for government balance sheet that can be used to evaluate the level of sovereign risk and hence government borrowing capacity.

(v) The need to identify and measure government liabilities and intergenerational liabilities.

Measuring the performance of governmental entities has been the subject of various publications and research studies for many years (Chaney, Mead, and Schermann, 2002; Ittner and Larcher, 1998; Kline, 1997; Poister and Streib, 1999; Steinberg, 1998). In the 1960s, an interest in program budgeting, and in the 1970s, program evaluation, created the need for performance measures (Simonsen and Armitage, 2006). Prudent budgeting, collection and analysis of data, and comparisons to benchmarks are all necessary elements in performance measurement. Accrual accounting provides a framework that make the above possible by generating the type of data useful for such evaluations.

Globalization has become a factor in public sector reforms in many countries of the world (Ouda, 2004, 2003; Shum, 2002). One of the evidences of globalization has been the emergence of international accounting standards. This means that different countries are guided by same accounting standards. For example, the United Nations System has made a number of pronouncements following a survey conducted to seek improvement in the Public Sector Accounting Systems of member countries, in regards to budgeting practices, training, data classifications, methods and application procedures. The objectives of such professional pronouncements can be summarized as follows (ICAN Study Pack, 2006):

(a) To develop and harmonize the public sector financial reporting, accounting and auditing practices.

(b) To put into practice the same accounting standards throughout the world, in order to make comparisons possible and meaningful.

(c) To make guidelines available for practitioners, in order to maintain high reporting standards.

Of the various pronouncements, those that are particularly relevant to this paper are summarized and tabulated below alongside the current accounting and budgeting system operational in the Nigerian public sector.

Table 2.1: Comparison of UN prescriptions against Nigeria's current Public Sector Budgeting and Accounting Systems.

UN Prescription	Nigeria's Budgeting and Accounting System	Remarks
National Accounts should be developed and prepared in a manner that they would effectively disclose the economic and financial results of programme operations, including the measurement of revenues, identification of costs and determination of the operating results of the Government and its Agencies.	The cash based system of Accounting operates in the public sector.	Programme management is in its infancy with the introduction of the Planning, Programming, and Budgeting System as part of the economic and public sector reforms.
National Accounting Systems should be capable of serving the basic financial information needs of development, planning and appraisal of performance in physical and financial terms	Cash-based system.	The Fiscal Responsibility Act 2007 stipulates Medium Term Fiscal Strategy budgetary framework which is the equivalent of Programme Planning Budgeting System.
The National Accounts should be maintained in a manner that provides economic and financial data that are useful for economic analyses and re-classification of governmental transactions	Cash-based accounting and Budgeting System	The current cash system cannot generate the data needed to comply with this prescription.

Source: Adapted from ICAN study pack, 2006.

The above UN pronouncements require the application of accrual accounting techniques such as management and cost accounting capable of generating data that can be used to produce information useful for performance evaluation and decision-making purposes. The system of National Accounts in Nigeria is cash-based and at best only minimally complies with these prescriptions. The cash basis of accounting does not allow the incorporation of the United Nations pronouncements in Nigeria as it cannot generate data that are useful for cost analyses and performance evaluation. Therefore, the cash basis constrains the implementation of these pronouncements and therefore the realization of their objectives.

Among the key developments in public sector governance over the past two decades is the strong recommendation and encouragement by international bodies such as the Organization for Economic Co-operation and Development (OECD), the International Monetary Fund (IMF), and the World Bank to move from cash accounting system to private sector-based accrual system (Boothe, 2008; IMF, 2001). The proponents of such change point to the benefits of accrual system of accounting which include transparency and better management of physical assets (Blondal, 2003). Accrual accounting in the public sector would mean that public sector entities report on the extent to which they have adequately maintained their operational assets (OECD, 2002).

One of the leading proponents of the move to accrual accounting is the OECD (Boothe, 2008). According to Boothe (2008), the OECD Journal of Budgeting which was launched in 2002 featured accrual budgeting and accounting prominently as OECD's review of best practices.

International accounting bodies have also been in the forefront in the effort to encourage public sector accounting to move to the accrual model (Wynne, 2004; Hepworth, 2003). According to Wynne (2004), the International Federation of Accountants (IFAC) Public Sector Committee has set itself the task of developing a full set of international public sector accounting standards and ensuring that these are adopted as widely as possible.

The IMF on its part now requires that countries' submissions to one of its key statistical publications, Government Financial Statistics Manual, present government revenue and spending statistics in accrual terms. For the international financial institution, "best practices is that the accounting system should have the capacity for accounting and reporting on an accrual basis, as well as for generating cash reports" (IMF, 2001b).

2.21 ADVENT OF ACCRUAL ACCOUNTING IN THE PUBLIC SECTOR

According to Wynne (2003), accrual accounting is not a modern approach to public sector accounting but part of the package of neo-liberal reforms. The accrual basis of accounting was adopted by the Birmingham City Council in 1850 (Wynne, 2003; Coombs and Edwards, 1996). However, the cash accounting regime was retained by HM Treasury in 1866 and equally used across the British Empire (Wynne, 2003).

Accrual accounting approach was first tried at a national level after the over-throw of the democratically elected socialist government of Salvador Allende in 1973. Consultants from Milton Friedman's department at Chicago University were heavily influential (Williamson, 1994). Neo-Liberal economic ideas were introduced including widespread privatization and accrual accounting for the much reduced public sector (Perez and Hernandez, 2003). One of the consultants argued, "if private sector enterprise and the market is good for producing steel, should they not also be good at producing pensions" (Williamson, 1994).

These experiments were quietly forgotten, perhaps because of the violence of the Pinochet regime. New Zealand, a parliamentary democracy, is now almost universally quoted as the originator of New Public Management ideas and the associated approaches to public sector accounting. Chile adopted the accrual regime at the central level in the mid-1970s under the Pinochet regime (Wynne, 2004). New Zealand followed suit in 1990 and the US federal government moved to accrual based accounting in 1997; but US state and local governments were to join much later in making the change. By the year 2000, three other central governments, namely, Australia, Canada, and the United Kingdom, had adopted the accrual basis for their annual financial accounts. Also by 2000, only eight of the 30 most developed countries –all members of the OECD – had not adopted accrual based accounting for any aspect of their public sectors (Wynne, 2007).

The UK government moved to accrual based accounting in 2001–2002 as did Canada in the following year. By the middle of 2003, half the OECD countries had adopted accrual based accounting for their central government accounts. Among the developing economies, South Africa is actively following a programme to change the basis of its public sector accounting to the accruals over the next few years. Mongolia has already adopted the accrual system too (Wynne, 2003).

2.22 REASONS FOR ADOPTING ACCRUAL ACCOUNTING IN THE PUBLIC SECTOR

According to FEE-PSC (2007), the public sector is increasingly moving towards accrual accounting since it helps governments to obtain a better picture of the performance of their policies.

In the opinion of some scholars, some issues have stimulated interest in accrual reporting and budgeting. Two of such reinforcing issues are (McClarin, 2000):

i. Concerns about sustainability of government activities
ii. Development of more performance-focused management systems.

It is widely believed that accrual accounting facilitates better planning, management and decision-making (FEE, 2005). It also provides tools for assessing financial resiliency and so provides a platform for effective management of financial resources (Wynne, 2007). Besides, accrual accounting assists better management of resources and thence performance management (McClarin, 2000).

One of the objectives of financial reporting is to enable objective comparison among and between organizations to be made. The FEE, being one of the proponents of accrual accounting in the public sector, argues that it permits more effective comparisons of some aspects of financial performance between government departments and agencies, as well as international comparison (FEE-PSC, 2007). For example, pre- and post- privatization comparison can be made more readily if both sets of financial statements are prepared on the same basis (FEE, 2007). Therefore, accrual accounting in the public sector will effectively meet one of the objectives of financial reporting.

Cash accounting, on the other hand, makes little or no reference to the liabilities that an organization will be required to meet in the future (FEE-PSC, 2007). It also does not recognize the benefits that purchased assets will give over the period of its useful life. For the above reasons, financial statements prepared on cash basis give limited information. Such information is of little or no use to resource managers as well as other decision-makers. According to FEE-PSC (2007), most countries that still practice cash accounting in their public sector also produce periodical balance sheet information. This perhaps point to the inadequacy of cash accounting even in the public sector, and the need for accrual based information.

In an attempt to explain the transition from the traditional public sector accounting system to a more informative system, Luder developed and published the Contingency Model Of Government Accounting Innovations. According to the publication, a more informative system performs the following two functions (Lüder, 1992):

i. It supplies comprehensive and reliable information on public finance.
ii. It provides the basis for improved financial control of government activities.

However, the *Contingency Model* (1992) was not explicit as to what constitutes a more informative system (Chan, 1994). But according to Ouda (2004), it can be inferred that such a system would call for full disclosure of a government's financial condition and performance measured under the accrual basis of accounting.

Chan (2003) has argued that government accounting has, in order of priority, the following three purposes:

- safeguarding the public treasury by preventing and detecting corruption and graft
- facilitating sound financial management through financial management, budgetary control and value for money and
- to help government discharge its public accountability.

2.23 ACCOUNTING SYSTEMS AND FISCAL REGIMES

Fiscal strategy refers to the direction and objectives of fiscal policy and the management of revenue and expenditure flows, assets and liabilities (Boothe, 2008). Fiscal reform is essential to achieving desired economic growth, but requires the enabling accounting system (Ouda, 2006).

There are indications that there is a positive correlation between accounting systems and fiscal rules and vice versa (Boothe, 2008). Accounting and budgeting systems are germane to monitoring the response of fiscal policy on the economy (Alesina and Perotti, 1995; Alesina and Ardagna, 1998). This is because it has been observed that different accounting systems tend to produce different results under different fiscal rules. According to Boothe (2005), changes in accounting regimes may require corresponding changes to fiscal rules. Similarly, Porteba and von Hagen (1999) claim that higher levels of transparency are associated with lower budget deficits. Also, the appropriateness of fiscal information is a critical determinant of accountability in government.

One of the reasons given for advocating a move to accrual accounting is that during periods of deficit reduction, cash accounting simply replaces fiscal deficits with infrastructural deficits by ignoring the depreciation of public capital (Boothe, 2005).

Advocates of accrual accounting in the public sector argue that the accrual system brings about changes in an inherent bias against the accumulation of capital (Boothe, 2005;

Blondal, 2004; Balassone and Franco, 2001). The cash system classifies capital spending as expenditure and tends to discourage capital investment under anti-deficit fiscal regimes because capital spending is financed with current revenue. This reduces the revenue available for other purposes. The accrual system, on the other hand, does not regard capital spending as expenditure for the period in which it was undertaken and can be financed by borrowing. Being so, the depreciation value is reflected in the accounts in place of total capital expenditure. Thus, instead of spikes in expenditures when individual capital projects are undertaken, these are incorporated into the annual operating expenditures through an allowance for depreciation (Boothe, 2005).

At the aggregate level, accrual-based fiscal indicators provide better information about the sustainability of fiscal policies. For instance, under the accrual system, the effects of pension policies on a government's balance sheet are disclosed (Blöndal, 2003; Shum, 2003; Matheson, 2002). The accrual basis of accounting also provides a stronger basis for government accountability because accrual accounting information cannot be manipulated as easily as cash-based information (Blöndal, 2004; FEE, 2003). The financial statement under cash system is manipulated by managing the timing of transactions and can be done by almost anyone. The relative complexity of the accrual system makes it less susceptible to manipulation. However, some authors have argued also that the need for exercise of professional judgment in some circumstances such as estimation of revenues and expenses under accrual system also opens it up for manipulation, but on a limited scope (Boothe, 2005; Hepworth, 2003).

Furthermore, accrual-based fiscal indicators provide a better measure of the effects of government policies on aggregate demand; highlighting such indices as the short-, medium-, and long-term effects in the economy brought about by changes in government spending and other fiscal policies(Athukorala and Reid, 2003; New Zealand Treasury, 1993).

The legislatures have traditionally been charged with one basic authority, the power of the purse (Ahsan, 1996). The implication of the foregoing is that legislatures not only appropriate money for various services, they also have to ensure that the moneys appropriated by them are spent according to legislative intent, in an economic and efficient manner, and that intended results are produced. Therefore, allocation of money by legislatures in many countries who follow an incremental budgeting process, has gradually become a routine and unproductive exercise (Ahsan, 1996).

According to Chan (2003), cash-based control alone is viewed as an inadequate framework for managing modern public services. As a result, many national governments have explored ways of improving their accounting systems, and some have looked with envy at the accounting and financial reporting standards in force in the private sector. Consequently, some have reformed, or are in the process of reforming, the way in which they control expenditure, establish budgets and report financial results (Chan, 2003).
The table that follows summarizes the comparative usefulness of accrual and cash accounting in government.

Table 2.2: Summary Comparison of Cash and Accrual Accounting

Criteria	**Cash Accounting**	**Accrual Accounting**
Ease of understanding	Simpler, but unfamiliar	Greater complexity, but familiar to more people
Ease of manipulation	Relatively easy to manipulate, but the issuance of the Cash Basis IPSAS is a big step forward	Ease of manipulation depends upon accounting and auditing standards
Comprehensiveness Cash information only	Cash information only	Includes cash information together with other information
Usefulness for managing liquidity	Provides only basic information	Provides cash information and commitment information (e.g., payment arrears)
Non-financial asset management	No information provided	Provides information on asset use
Comparability	Countries use a range of cash accounting bases, policies are generally not explained well Not consistent with GFS and SNA	Countries use different accrual accounting standards Consistent with GFS and SNA
Measuring sustainability of fiscal policy / considering intergenerational equity	Very limited usefulness	Useful, but needs to be supplemented with additional information (e.g., demographic profiles)
Credibility	Limited	Credit rating agencies, lenders and the media are more familiar with accrual financial statements Can lead to lower borrowing costs
Basis for determining fiscal strategy	Limited	Good, in conjunction with cash information
Accountability	Limited	Provides information on accountability for resources (e.g., fixed assets)
Basis for product/ service pricing	Limited	Good
Disincentives for fraud and corruption	Limited	Better than cash, but depends on the internal control environment (among other things)
Implementation	Information system costs can be higher (because of customization and limited availability)	Although information system costs may be lower, additional efforts are required to identify and value assets (among other things)
Ongoing operation	Ongoing information system costs can be higher because the systems are generally customized Cash accounting systems generally require more personnel to operate them. However, fewer qualified accountants are necessary	Ongoing operation of systems is more sustainable because (i) it is easier to attract and retain skilled staff; and (ii) subsidiary records are integrated (e.g., payables, receivables and asset registers)

Adapted from Athukorala and Reid (2003).

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3.1 INTRODUCTION

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 INTRODUCTION

This section deals with the research design and the procedure adopted in carrying out this study. It focuses on the research methodology describing the research design, research methods, methods and sources of data collection, sample size, sampling technique, population for the study and the method of data analyses.

3.2 RESEARCH DESIGN

Research design refers to the structure and constructional plan of a research work. It is the strategy or approach adopted in carrying out a scientific research. It is the framework upon which a research work is built aimed at identifying variables and their relationships to one another. According to Asika (1991), research design refers to specific structure and strategy for investigating the relationships among the variables of study.

This work is aimed at determining the role of accounting and budgeting systems in successfully achieving the objectives of the public sector reforms in Nigeria. It also seeks to determine the effect, if any, of the economic and public sector reforms on the public sector accounting and budgeting systems in Nigeria. This means that it is interested in finding out if the public sector reform, with its attendant fiscal management reforms has led or can lead to public sector accounting and budgeting reforms.

Therefore, the research design adopted in this study is the descriptive research design. This research design is appropriate because it seeks to determine the extent of the association between the variables and to draw inferences. Such inferences concerning the relationship between the variables involved can then be used for purposes of prediction; in this case, the effect of public sector reforms on public sector accounting and budgeting systems in Nigeria.

However, the ex-post facto research design is also adopted in addition to the above in order to make meaningful comparison between the pre and post FRA 2007 periods. This is especially necessary as the study seeks to determine whether or not there are changes in economic indices in both periods as an indication to the effectiveness of the Act. The result of the analyses is, ultimately, a pointer to whether or not there is need for reform of public sector accounting and budgeting systems in Nigeria to make the Act more effective.

A pre-test (pilot study) was conducted on twenty (20) respondents selected to reflect the population of study. They were asked whether the public sector reforms have made significant impact on public sector financial reporting systems (that is, accounting and budgeting systems). Twelve (12) affirmed, representing 60% success in the population (p) with eight (8) dissenting, representing 40% of failure in the population (q) p and q are dichotomic.

3.3 RESEARCH METHOD

Descriptive studies are of three major types. These are, according to Ezejelue and Ogwo (1990):

i. Case study;
ii. Longitudinal method; and
iii. Cross-sectional method.

In this study, the cross-sectional method which consists of surveys and field studies is employed. This method allows for representativeness as well as in-depth study of the population sample.

3.4 METHODS AND SOURCES OF DATA COLLECTION

According to Ikeagwu (1998), descriptive studies are not limited to any one method of data collection. In this study, desk research, oral interviews, field studies and surveys, in addition to the administration of questionnaire, are the methods applied in collecting data. Therefore, the sources of data for this work are both primary and secondary.

3.4.1 PRIMARY SOURCES OF DATA

The primary data for this research work include responses from interviews and questionnaire to both structured and unstructured questions. Other primary data sources include Central Bank of Nigeria and National Bureau of Statistics statistical and Yearbooks as well as examination and analyses of government official records. Journal articles, working papers, conferences, seminars, and workshops also provided useful sources of primary data.

The personal interviews as expected, give a lot of insight as regards the respondents' understanding of the necessity for the economic reforms as well as the contents and provisions of the Fiscal Responsibility Act (2007) and their views on whether the public sector accounting and budgeting systems might be affected by same. They have proven immensely valuable and have also formed part of the primary data used in this research.

3.4.2 SECONDARY SOURCES OF DATA

Researchers are generally agreed that no research project should be conducted without a search for secondary sources of information. This search, they opine, should be conducted early in the problem investigation and prior to any organized collection of information from primary sources (Green and Tull, 1978). This general rule has been observed in the course of carrying out this project.

The secondary sources of data form the bulk of chapter two which is a review of related literature and consists of both published texts and unpublished works. Included therein are studies of countries that have embarked on economic reforms generally and public sector reforms in particular. In addition, some of the secondary data are used to address research objective 4 and also to answer the research question for which data for statistical analyses are not available.

3.5 POPULATION FOR THE STUDY

Population, as defined by Onwumere (2009), refers to "all elements, subjects, and perhaps, observation in relation to a particular phenomenon" which may be finite or infinite. In this study, the effectiveness of the Fiscal Responsibility Act, that is, how far or well the public sector reforms have been able to achieve their objectives with the current cash accounting and budgeting systems, constitute the phenomenon.

The success or otherwise of fiscal and economic policies are gauged or determined by their impact on the economy as expressed by macro-economic and social/development indicators. Therefore, in line with the objectives set out in this study, the macro-economic indices used for this study are the GDP, Life expectancy, Adult Literacy Rate, Federal Government Expenditure, and Budgetary Allocations to the relevant sector. The study covers both pre-, that is, 1994 to 2003, and post-, that is, 2004-2008, FRA periods. This gives a total coverage of 15-year period.

The population of study used to gather primary data to support the results of analyses and findings of the raw data comprises professional accountants both in the public and private sectors as well as accounting academics, public administrators of the rank of Directors, Deputy Directors, Assistant Directors, Chief Accounting and Financial Officers. The office of the Accountant-General and the Budget Office will also constitute part of the study population.

Also the Executive Chairman and the Commissioners of the Fiscal Responsibility Commission are part of the study population. But since the FRA (2007) is not binding on the states and local government areas, the relevant population consists only of the federal government officers.

It was not possible to source with certainty the data for the total population figure for this study. Therefore, Zigmund statistical formular was used to determine the sample size for the study. The formular is as stated below:

$$n = \frac{Zc^2pq}{e^2}$$

(Zigmund, 1979)

Where n = sample size as determined

p = proportion of success in the population from pilot survey=0.60

q = proportion of failure in the population from pilot survey=0.40

e = allowable sampling error

Zc = 1.96 which is the table value at 5% level of significance at two-tailed test.

3.6 SAMPLING TECHNIQUE

Green and Tull (1978) have observed that "much of the sampling in research is non-probability in nature". This means that samples are selected by some other process rather than by the use of a table of random numbers or other random-based device.

The sampling technique used in this research is the judgement, or purposive, non-probability method. This technique best suits this study given the highly technical and professional nature of the subject matter. Therefore, the judgement of the researcher has been exercised in selecting samples most relevant to the research objectives, and in the distribution of the questionnaire as well as in conducting the oral interviews. This is in line with the opinion of experienced researchers to the effect that purposive or judgement sampling technique has the advantage of allowing the researcher to handpick the samples based on the researcher's skill and prior knowledge that those elements would best serve the purpose of the study (Ikeagwu, 1998; Ezejelue and Ogwo, 1990).

3.7 SAMPLE SIZE FOR THE STUDY

Most research studies are carried out using a sample of the population. Sample is defined by Siegel (1994) as a small collection of units selected from the population. In other words, it is a subset of the population (Anderson, Sweeney, and Williams, 1996).

The sample used for this research is drawn from raw data extracted from the sources listed below and have been used for the constructing tables for data presentation and analyses in chapter four, as well as testing of the hypotheses in this study:

i. Central Bank of Nigeria Annual Report and Statement of Accounts (covering financial years 1990-2009);
ii. The Nigerian Statistical Fact Sheets on Economic and Social Development (2009);
iii. Central Bank of Nigeria Statistical Bulletin;
iv. National Bureau of Statistics Year Books, National Accounts, among others.

Photocopies of relevant pages and tables are attached as appendices (see APPENDIX A). Following are tables of the relevant population of macro-economic indices to be used in this study as constructed by the researcher using raw data extracted from the afore-mentioned sources.

Table 3.1: Literacy rate against Budgetary Allocation for selected years

Year	Literacy Rate in %	% change over previous year	Budgetary Allocation to Education (=N=mil)	% change over previous year
1994	55	0.00	10,283.8	28.6
1995	57	3.6	12,728.0	23.8
1996	57	0.0	15,350.0	20.6
1997	57	0.0	16,840.0	9.7
1998	57	0.0	23,688.1	40.5
1999	57	0.0	27,713.5	17.1
2000	57	0.0	56,568.2	104.1
2001	57	0.0	62,567.1	10.6
2002	57	0.0	69,033.8	10.3
2003	57	0.0	79,436.1	15.1
2004	62.0	8.8	85,600.0	7.8
2005	63.1	1.8	104,600.0	22.2
2006	57.2	-9.3	151,700.0	45.0
2007	66.9	17.0	197,600.0	30.1
2008	66.9	0.00	212,800.0	7.7

Source: Constructed by the Researcher with data sourced from CBN and NBS publications.

Table 3.2: Life Expectancy against Budgetary Allocation for selected years

Year	Life Expectancy in years	% change over previous year	Budgetary Allocation to Health (=N=mil)	% change over previous year
1994	52	0.00	3,042.3	14.7

1995	52	0.00	5,060.9	66.4
1996	53	1.9	4,838.0	-4.4
1997	53	0.00	7,343.0	51.8
1998	54	1.9	11,291.9	53.8
1999	54	0.00	13,737.3	21.7
2000	54	0.00	17,581.9	28.0
2001	54	0.00	35,422.0	101.5
2002	54	0.00	40,741.1	15.0
2003	54	0.00	39,685.5	-2.6
2004	54	0.00	52,407.0	32.1
2005	54	0.00	77,500.0	47.9
2006	54	0.00	94,500.0	22.0
2007	54	0.00	178,800.0	89.2
2008	54	0.00	195,400.0	9.3

Source: Constructed with data sourced from CBN and NBS publications.

Table 3.3: National GDP and Population figures for selected years.

Year	GDP(=N=million)	Population
1994	275450.53	96,763,496
1995	281407.4	99,501,903
1996	293745.36	102,317,807
1997	302022.54	105,213,401
1998	310890.6	108,190,940
1999	312183.47	111,252,744
2000	329178.71	114,401,196
2001	356994.26	117,638,750
2002	433203.5	120,967,927
2003	477532.99	125,620,213
2004	527576.03	129,175,262
2005	561931.4	132,830,925
2006	595821.61	140,003,542
2007	634251.1	144,483,655
2008	672202.55	149,107,132

Source: The population figures for the years 1994 to 2005 have been generated by the researcher using 1991 as the base year and the actual 1991 census figure of 88,992,220 and population growth rate of 2.83%. The 2006 population figure is the actual census figure sourced from National Population Commission, National Bureau of Statistics and the National Manpower Board. The estimated population figures for years 2007 and 2008 have also been generated by the researcher using the 2006 actual figure and the revised 3.2% population growth rate. (see APPENDIX A).

Table 3.4: Federal Government Expenditure for selected years.

Year	Total Expenditure (=N=million)
1994	160,893.2
1995	248,768.6
1996	337,217.6
1997	428,215.2
1998	487,113.4
1999	947,690.00
2000	701,059.40
2001	1,018,025.60
2002	1,018,115.80
2003	1,225,965.90
2004	1,426,200.00
2005	1,820,100.00
2006	1,938,002.50
2007	2,450,896.70
2008	3,240,820.00

Source: The figures for total federal government expenditures for the selected years have been extracted by the researcher from the Statistical Bulletin published by the Central Bank of Nigeria (see APPENDIX A).

However, the use of questionnaire was also applied to gather primary data used to support the results of analyses carried out using the raw data extracted from the sources indicated above. For this purpose, the sample size for the study was determined using

Zigmund statistical formular as it was not possible to source with certainty the data for the total population figure for.

Thus, the sample size for the study is determined using the following statistical formular which is given as:

$$n = \frac{Zc^2pq}{e^2}$$

(Zigmund, 1979).

Where n = sample size as determined

p = proportion of success in the population from pilot survey=0.60

q = proportion of failure in the population from pilot survey=0.40

e = allowable sampling error

Zc = 1.96 which is the table value at 5% level of significance at two-tailed test.

Therefore, sample size

$$n = \frac{1.96^2 \times 0.60 \times 0.40}{(0.05)^2} = \frac{0.921984}{0.0025}$$

= 368.7936

= 369 persons

Thus, the sample size for this research is 369 persons.

3.8 VALIDITY AND RELIABILITY OF RESEARCH INSTRUMENTS

Validity can be defined as the degree to which an instrument of measurement is able to measure what it was intended to measure in order to achieve the intended objectives. To ensure the validity and hence the reliability of the research instruments, care has been taken to eliminate factors that introduce bias such as application of inappropriate tools of analyses, ambiguous and leading questions, wrong respondent, questionnaire not properly completed nor returned, etc. But where this is not possible, steps have also been taken to reduce them to the barest minimum. Each of the instruments was therefore submitted to my project supervisor for scrutiny and corrections before distribution to the respondents.

Care was also taken to ensure the appropriateness and relevance of such instruments to the research in terms of content as well as structural validity. To this end, a pilot application of the instrument of measurement was applied. Where necessary, the instruments were restructured and refined to improve and ensure the validity and reliability of same.

3.9 METHOD OF DATA ANALYSIS AND MODEL SPECIFICATION

To achieve the objectives of this study, the frameworks and objectives of the public sector reforms and the fiscal strategy designed to achieve them are examined. In particular, the Fiscal Responsibility Act 2007, being a major framework for carrying out the public sector reforms in Nigeria will be examined in order to determine in what ways, if any, the provisions therein would require a reform in public sector budgeting and accounting systems to enhance transparency, accountability and economic development in Nigeria.

To this end, the data collected in the course of this study are subjected to analysis and used to test the hypotheses using appropriate statistical tools of analyses. Given that this study is a descriptive research which is employing the survey method in seeking to determine the extent of the association between the variables, simple frequency tabulations and percentages and the application of correlation coefficients, paired-wise t-test and sample t-test statistical formulae are considered suitable.

For objective number one, the paired-wise t-test statistical analysis tool is used to test the hypothesis. The model is as given below:

$$\bar{X} = {}^{\mu_0}/_{S\bar{x}}$$

where

$\bar{X}$ = average of the differences between the paired data estimates

μ_0 = the reference value

$S\bar{x}$ = standard error of differences = $s/\sqrt{n}$

where

s = standard deviation of the differences between the paired data estimates

n = number of each data paired

Degree of freedom (df) for the paired test = n - 1

Hypothesis number two is tested using the Correlation Analyses and Simple Regression statistical analyses tools to achieve objective number two. The model for Correlation Analyses is given as follows:

A,E = f(EXP)

where

EXP = Annual Capital Budgetary Allocations to relevant Sector

A,E = Life Expectancy in years, Literacy rate in percent as proxy for accountability and efficiency.

The model for Simple Regression Analyses is given as follows:

Y = a + bx + Ɛ

Where

Y =dependent variable; a = constant; b= coefficient of independent variable; x = independent variable; and Ɛ = error term.

When interpolated with the appropriate variables used in the study, then

EXP = $b_0 + b_1$ A,E

where

EXP = Annual Capital Budgetary Allocations to relevant Sector

A,E = Life Expectancy in years, Literacy rate in percent as proxy for accountability and efficiency.

The hypothesis for objective number three requires that sets of data for two periods (that is, before and after the introduction of reforms) be compared in order that difference of means be established. So, the sample t-test is used to test the data for hypothesis number three. The model is as given below:

$$t = \frac{\overline{X_1} - \overline{X_2}}{\sqrt{\frac{S_1{}^2}{n_1} + \frac{S_2{}^2}{n_2}}}$$

Where $t =$ parametric statistical test of difference of means.

$\overline{X_1}$ = mean of national gross domestic product before introduction of PSR.

$\overline{X_2}$ = mean of national gross domestic product after introduction of PSR.

$S_1{}^2$ = variance of national gross domestic product before introduction of PSR.

$S_2{}^2$ = variance of national gross domestic product after introduction of PSR.

n_1, n_2 = 5-year period;

Objective number four does not lend itself to the use of raw data for statistical analysis. Therefore, no hypothesis was formulated for it. However, the answers to the research question are used to achieve the objective.

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CHAPTER FOUR

DATA PRESENTATION AND ANALYSES

4.0 INTRODUCTION

In the course of this research, both primary and secondary data have been gathered for the purpose of scientifically using them to validate or refute the hypotheses formulated. This chapter presents the data so gathered. It also analyzes these data using the appropriate models as constructed in chapter 3. Furthermore, the conclusions from the research tests and analyses are drawn and related to the research hypotheses, questions and objectives.

4.1 DATA PRESENTATION AND ANALYSES

This section presents the data gathered during the research and the analyses of same. The section comprises two sub-sections. The first subsection (4.1.1) presents and analyzes in tables and graphical illustrations the data sourced from the sources listed and presented in chapter 3 under section 3.7. The second sub-section (4.1.2) presents and analyzes the data collected by means of questionnaire research instrument which are used as support to strengthen the results obtained with the raw data.

4.1.1 Presentation And Analyses Of Raw Data

The tables and graphs presented in this section are constructed by the researcher using the data extracted from tables 3.1, 3.2, 3.3, and 3.4 in section 3.7 of chapter 3.

Table 4.1: Target Literacy rate against Actual

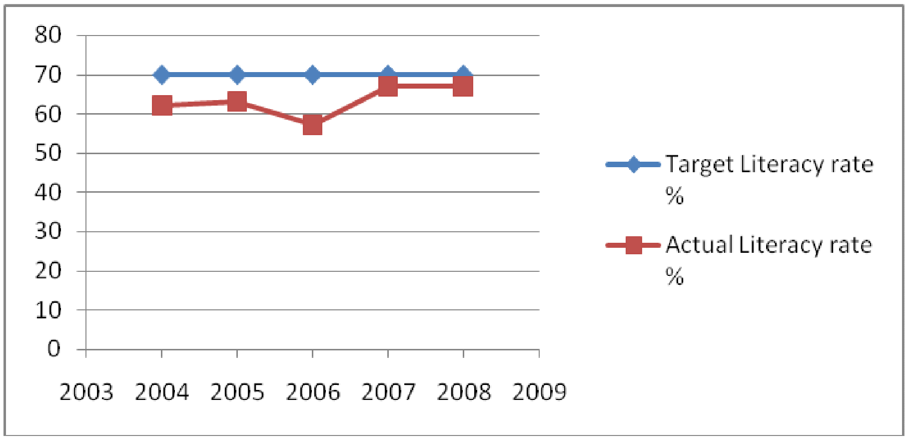
Year	Target Literacy rate %	Actual Literacy rate %
2004	70	62.0
2005	70	63.1
2006	70	57.2
2007	70	66.9
2008	70	66.9

Source: Constructed by the Researcher with data sourced from CBN, NBS and Office of the Honourable Minister, Economic Matters (2003) publications.

Analysis:

Table 4.1 above shows actual literacy rates from 2004 to 2008 alongside the target literacy rate set by the Federal Government to be achieved by the year 2003. This target is used as standard in this study because another has not been set after it. The table clearly shows that the set target has not been achieved despite the introduction and implementation of the public sector reforms. Following is a graphical illustration of table 4.1

Figure 4.1: Target Literacy rate against Actual



Source: Researcher

Analyses:

As illustrated in figure 4.1, the curve of the actual literacy rate achieved is consistently below that of the set target. This is despite the introduction and implementation of the PSR and FRA. This means that the PSR and FRA have not been effective in achieving set macroeconomic objectives.

Table 4.2: Target Life Expectancy (in years) against Actual

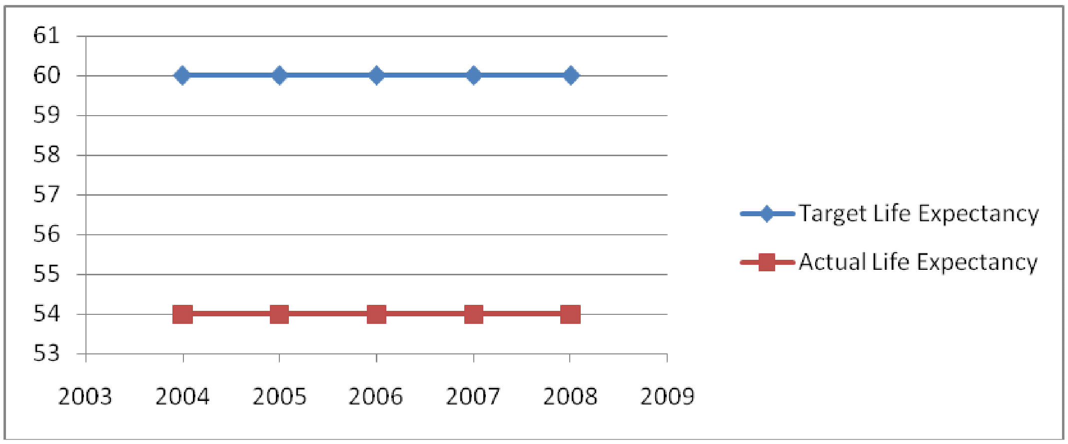
Year	Target Life Expectancy	Actual Life Expectancy
2004	60 years	54 years
2005	60 years	54 years
2006	60 years	54 years
2007	60 years	54 years
2008	60 years	54 years

Source: Constructed by the Researcher with data sourced from CBN, NBS and Office of the Honourable Minister, Economic Matters (2003) publications.

Analysis:

Table 4.2 shows actual life expectancy in years from 2004 to 2008 alongside the target of 60 years set by the Federal Government to be achieved by the year 2003. This target is used as standard in this study because another has not been set after it. As can be seen from the table, the actual life expectancy did not record any change during the period in question. A graphical illustration follows below (figure 4.2).

Figure 4.2: Target Life Expectancy (in years) against Actual



<u>Source:</u> Researcher

<u>Analysis</u>:

Figure 4.2 shows the curve of actual life expectancy in years running parallel with that of the standard. This means that there has not been any change either positively or negatively in actual life expectancy achieved even with the introduction and implementation of the public sector reforms.

Table 4.3: Literacy rate against Budgetary Allocation for selected years

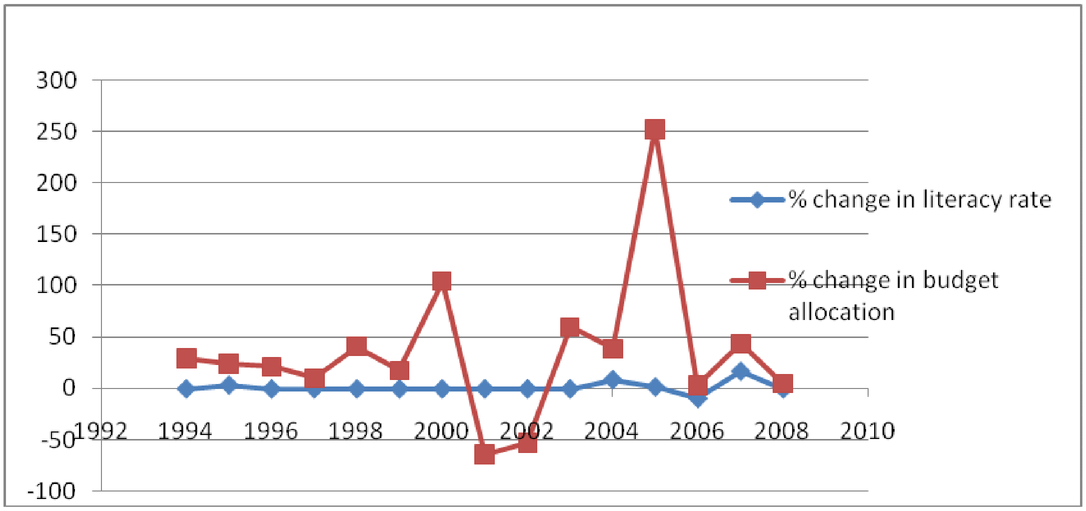
Year	Literacy Rate in %	% change over previous year	Budgetary Allocation to Education (=N=mil)	% change over previous year
1994	55	0.00	10,283.8	28.6
1995	57	3.6	12,728.0	23.8
1996	57	0.0	15,350.0	20.6
1997	57	0.0	16,840.0	9.7
1998	57	0.0	23,688.1	40.5
1999	57	0.0	27,713.5	17.1
2000	57	0.0	56,568.2	104.1
2001	57	0.0	62,567.1	10.6
2002	57	0.0	69,033.8	10.3
2003	57	0.0	79,436.1	15.1
2004	62.0	8.8	85,600.0	7.8
2005	63.1	1.8	104,600.0	22.2
2006	57.2	-9.3	151,700.0	45.0
2007	66.9	17.0	197,600.0	30.1
2008	66.9	0.00	212,800.0	7.7

Source: Researcher with data sourced from CBN and NBS publications.

Analysis:

Table 4.3 presents the percentage changes in literacy rates achieved against the percentage changes in their respective budgetary allocations from 1994-2008. The table above is presented graphically in figure 4.3 below to vividly illustrate the relationship between the percentage changes in literacy rates and annual budgetary allocations. This comparison seeks to establish the relationship between the changes in budgetary allocations and their outcomes.

Figure 4.1: Graphic analyses of percentage changes in literacy rates and budgetary allocations to Education from 1994-2008.



Source: Researcher

Analysis:

Figure 4.3 shows a scatter diagram depicting percentage in budgetary allocations against an almost straight line representing percentage changes in literacy rate. This shows that there is hardly any relationship between the changes in budgetary allocations and the development indicator represented by literacy rate. The changes in allocations are consistently higher than the percentage changes in literacy rate except for the years 2001 and 2002 in which the change in allocation recorded a steep decline. But even so, it should be noted that 2001 and 2002 fall within the pre PSR period. It can then be concluded that the expenditures have no significant bearing on their objectives.

Table 4.4: Life Expectancy against Budgetary Allocation for selected years.

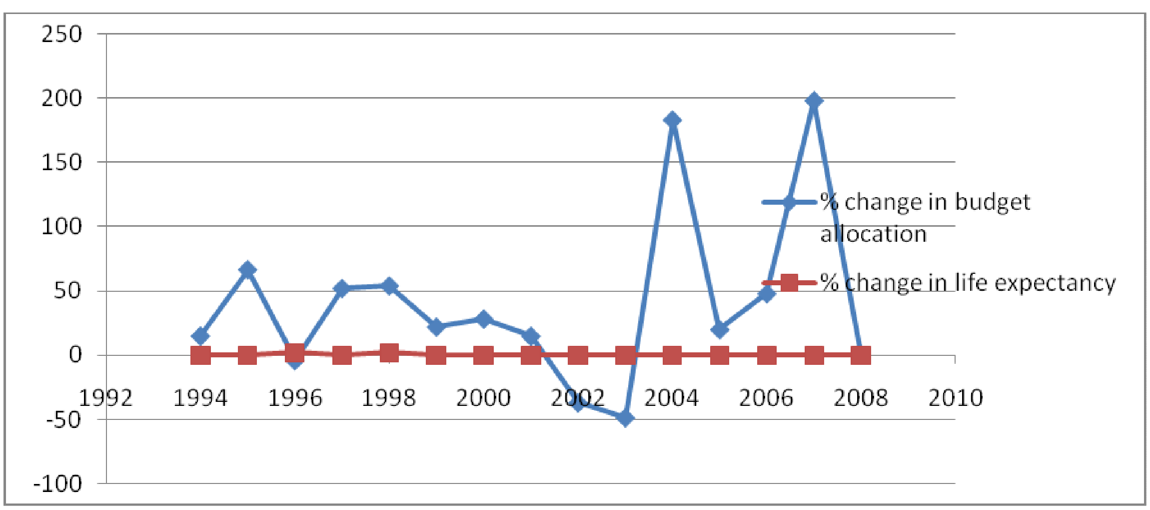
Year	Life Expectancy in years	% change over previous year	Budgetary Allocation to Health (=N=mil)	% change over previous year
1994	52	0.00	3,042.3	14.7
1995	52	0.00	5,060.9	66.4
1996	53	1.9	4,838.0	-4.4
1997	53	0.00	7,343.0	51.8
1998	54	1.9	11,291.9	53.8
1999	54	0.00	13,737.3	21.7
2000	54	0.00	17,581.9	28.0
2001	54	0.00	35,422.0	101.5
2002	54	0.00	40,741.1	15.0
2003	54	0.00	39,685.5	-2.6
2004	54	0.00	52,407.0	32.1
2005	54	0.00	77,500.0	47.9
2006	54	0.00	94,500.0	22.0
2007	54	0.00	178,800.0	89.2
2008	54	0.00	195,400.0	9.3

Source: Constructed by the Researcher with data sourced from CBN and NBS publications as presented in Table 3.2.

Analysis:

Table 4.4 presents the percentage increases in life expectancy against those of life expectancy achieved.

Figure 4.4: Graphic analyses of percentage changes in life expectancy and budgetary allocations from 1994-2008.



Source: Researcher

Analysis:
Figure 4.4 is a graphical illustration of the percentage changes in budgetary allocations and their corresponding percentages in life expectancy as presented in Table 4.4 above. It is also a case of scatter diagram against a straight line showing no significant relationship between the dependent and independent variables.

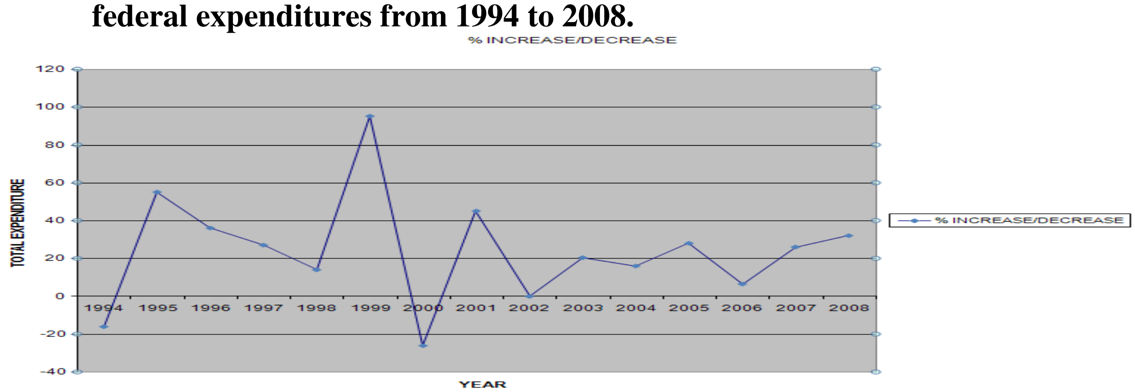
Table 4.5: Percentage increase (decrease) in government expenditure for selected years.

Year	Total Expenditure(=N=million)	%increase(decrease)
1994	160,893.2	(16)
1995	248,768.6	55
1996	337,217.6	36
1997	428,215.2	27
1998	487,113.4	14
1999	947,690.00	95
2000	701,059.40	(26)
2001	1,018,025.60	45
2002	1,018,115.80	0.01
2003	1,225,965.90	20.4
2004	1,426,200.00	16
2005	1,820,100.00	28
2006	1,938,002.50	6.5
2007	2,450,896.70	26
2008	3,240,820.00	32

Source: Researcher based on Table 3.3.

The figures for total federal government expenditures for the selected years have been extracted from the Statistical Bulletin published by the Central Bank of Nigeria as presented in Table 3.3. The percentages have been generated by the researcher based on the expenditure figures for the selected years.

Figure 4.5: Graphic illustration of annual percentage increase/decrease in federal expenditures from 1994 to 2008.



Source: Researcher

Analysis:

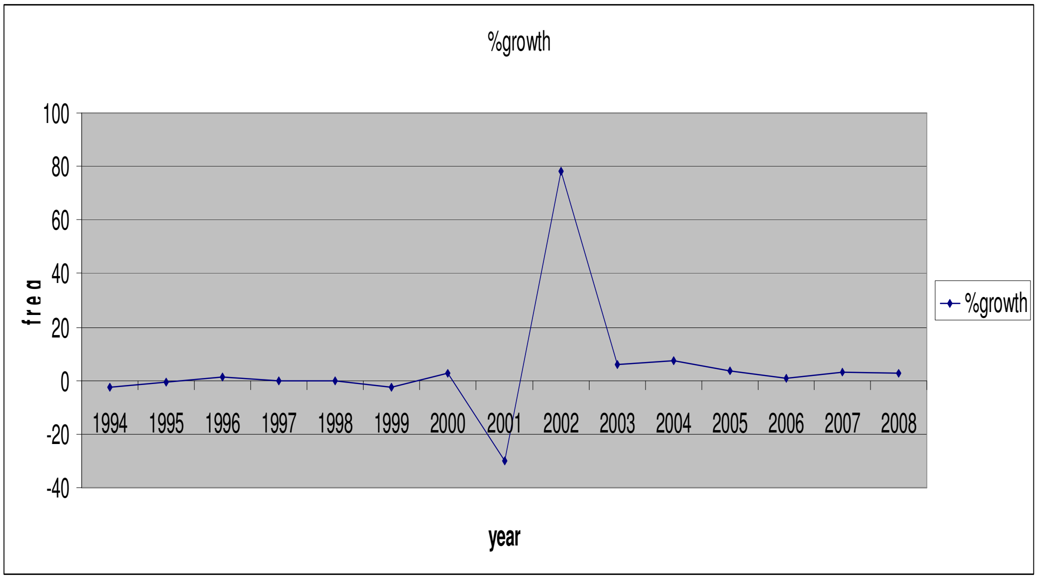
The graph above (Figure 4.5) presents annual Federal Government expenditures from 1994-2008 as presented in Table 4.5. The scatter diagram is a reflection of the spending pattern of the federal government. It is consistent with the view that government spending in Nigeria is largely a function of how much is the till, rather than any predetermined strategic plan.

Table 4.6: per capita GDP growth from 1994 to 2008

Year	GDP(=N=million)	Population	Per capita GDP(=N=)	%change
1994	275450.53	96,763,496	2,847	(2.53)
1995	281407.4	99,501,903	2,828	(0.67)
1996	293745.36	102,317,807	2,871	1.52
1997	302022.54	105,213,401	2,871	0.00
1998	310890.6	108,190,940	2,874	0.10
1999	312183.47	111,252,744	2,806	(2.37)
2000	329178.71	114,401,196	2,877	2.53
2001	356994.26	117,638,750	2,010	(30.14)
2002	433203.5	120,967,927	3,581	78.16
2003	477532.99	125,620,213	3,801	6.14
2004	527576.03	129,175,262	4,084	7.45
2005	561931.4	132,830,925	4,230	3.57
2006	595821.61	140,003,542	4,256	0.61
2007	634251.1	144,483,655	4,390	3.15
2008	672202.55	149,107,132	4,508	2.69

Source: The population figures for the years 1994 to 2005 have been generated by the researcher using 1991 as the base year and the actual 1991 census figure of 88,992,220 and population growth rate of 2.83%. The 2006 population figure is the actual census figure sourced from National Population Commission, National Bureau of Statistics and the National Manpower Board. The estimated population figures for years 2007 and 2008 have also been generated by the researcher using the 2006 actual figure and the revised 3.2% population growth rate. (see APPENDIX A).

Figure 4.6: Graphic illustration of the growth rate of per capita GDP in Nigeria for selected years.



Source: Researcher

Analysis:

The diagram above (Figure 4.6) illustrates the growth rate of per capita GDP in Nigeria as presented in Table 4.6. The curve is almost a straight line except in years 2001, which recorded an acute negative sloping, and 2002 which recorded an acute positive sloping. The nature of the graph shows that the GDP does not change much in line with the changes in expenditures.

Following is a tabulation (4.7) of percentage growth rates of both federal expenditures and per capita GDP for selected years and their comparison as illustrated in figure 4.5.

Table 4.7: Percentage increase (decrease) in expenditure and per capita GDP for selected years

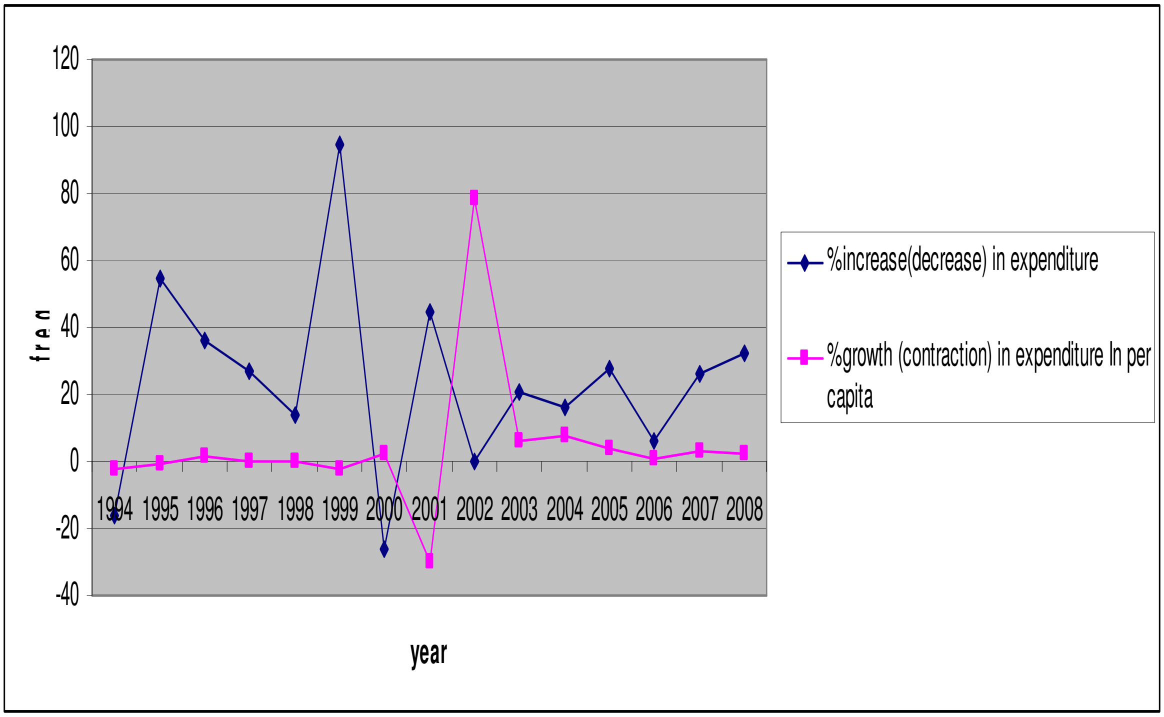
Year	% increase (decrease) in expenditure	%growth (contraction) in per capita
1994	(16)	(2.53)
1995	55	(0.67)
1996	36	1.52
1997	27	0.00
1998	14	0.10
1999	95	(2.37)
2000	(26)	2.53
2001	45	(30.14)
2002	0.01	78.16
2003	20.4	6.14
2004	16	7.45
2005	28	3.57
2006	6.5	0.61
2007	26	3.15
2008	32	2.69

Source: Researcher

Analysis:

The table above shows that the increased spending by the government has not brought about commensurate increase in the welfare of the people as represented by the percentage increases in the per capita GDP. The figure below is a graphic illustration of table 4.3. As the graph shows, the per capita growth rate consistently falls below the rate of increase in expenditure except in the year 2002.

Figure 4.7: Graphical comparison of percentage growth rates of government expenditures and per capita GPD.



Source: Researcher

Analysis:

The figure above shows that there is no significant relationship between expenditure levels and outputs and outcomes in the Nigerian economy; for whereas one, the expenditure produces a scatter diagram, the other, the per capita GDP, is almost a straight line. However, the 'curve' of the percentage increase in expenditure is consistently above that of per capita GDP at all points. It must also be noted that there is a downward sloping of the per capita GDP curve from 2004 to 2007, contrary to the objectives of the public sector reforms.

4.1.2 Presentation And Analyses Of Questionnaire Data

The sets of questionnaire were distributed to 369 respondents, out of which 350 returned. This represents 94.85% of total number of respondents. The response rate is presented in the table shown below:

Table 4.8: Questionnaire response rate

Respondents / Category	Distributed	Returned	% Returned	% of Total Returned	Unreturned	% Unreturned
Public Administrators	200	188	94.0	53.71	12	6.0
Accounting Academics	20	20	100	5.71	-	-
Practicing Accountants	149	142	95.30	40.58	7	4.70
Total	**369**	**350**	**94.85**	**100**	**19**	**5.15**

Source: Field Survey, April 2010.

Table 4.9: Question 1: what is the nature of the correlation between attainability of public sector reform and financial reporting system reform in the Nigerian public sector?

Option/Response	Respondents	% Respondents
Highly positive	229	65.43
Positive	80	22.86
Zero	21	6.00
Negative	2	0.57
Highly negative	18	5.14
Total	**350**	**100.0**

Source: Field Survey, April 2010.

Analysis :

Of the 350 respondents, representing 100% of those who completed and returned the research instrument , and who responded to this question, 229 (65.43%) said that the correlation between the attainability of public sector reform objectives and financial reporting system reform in the Nigerian public sector is highly positive; 80 respondents (22.86%) said it is positive; 21(6.0%) said there is zero correlation; 18 respondents (5.14%) said highly negative while 2 respondents (0.57%) said negative. Therefore, the conclusion arrived from the analysis is that the correlation between the attainability of public sector reform objectives and financial reporting systems reforms in the Nigerian public sector is highly positive.

Table 4.10: Question 2: The objectives of the Fiscal Responsibility Act 2007 and the reforms in the Nigerian public sector cannot be achieved with cash-based budgeting and accounting systems.

Option/Response	Respondents	% Respondents
Strongly agree	196	56.0
Agree	92	26.29
Disagree	40	11.43
Strongly Disagree	22	6.28
Total	**350**	**100.0**

Source: Field Survey, April 2010.

Analysis:

Out of a total of 350 respondents (100%), 196 (56%) strongly agreed that the objectives of the FRA 2007 and the Public Sector Reforms cannot be achieved with cash-based accounting and budgeting systems; 92 (26.29%) agreed; 40 (11.43%) disagreed while 22 (2.28%) strongly disagreed. So, the conclusion is that the objectives of FRA and PSR cannot be achieved with cash-based accounting and budgeting systems in the public sector.

Table 4.11: Question 3: Accrual-based accounting and budgeting are more compatible with the requirements of public sector reform and the FRA 2007.

Option/Response	Respondents	% Respondents
Strongly agree	200	57.14
Agree	107	30.57
Disagree	36	10.29
Strongly Disagree	7	2.0
Total	**350**	**100.0**

Source: Field Survey, April 2010.

Analysis:

200 respondents (57.14%) out of 350 (100%) strongly agreed that accrual-based accounting and budgeting systems are more compatible with the requirements of public sector reform and the FRA 2007; 107 (30.57%) agreed; 36 (10.29%) disagreed; while 7 (2%) strongly disagreed. Conclusion drawn from the analysis is that accrual-based accounting and budgeting systems are more compatible with the requirements of public sector reform and the FRA 2007.

Table 4.12: Question 4: The Medium-Term Sector Strategy (MTSS) is in sync with Planning Programme Budgeting System (PPBS) and so requires Responsibility Accounting.

Option/Response	Respondents	% Respondents
Strongly agree	285	81.43
Agree	40	11.43
Disagree	18	5.14
Strongly Disagree	7	2.0
Total	**350**	**100.0**

Source: Field Survey, April 2010.

Analysis:

285 respondents (81.43%) out of 350 (100%) strongly agreed that the MTSS is in sync with PPBS and so requires Responsibility Accounting; 40 (11.43%) agreed; 18 (5.14%) disagreed; and 7 (2%) strongly disagreed. The conclusion is that the MTSS, as provided for in the FRA 2007, is in sync with PPBS and so requires Responsibility Accounting to be effectively implemented.

Table 4.13: Question 5: What is the nature of the correlation between achieving the objectives of MTSS in public sector reforms and Responsibility Accounting?

Option/Response	Respondents	% Respondents
Highly positive	240	68.57
Positive	80	22.86
Zero	21	6.0
Negative	7	2.0
Highly negative	2	0.57
Total	**350**	**100.0**

Source: Field Survey, April 2010.

Analysis:

240 respondents representing 68.57% of the total of 350 (100%) responded that the correlation between achieving the objectives of MTSS in PSR and Responsibility Accounting is highly positive; 80 (22.86%) said it positive; 21 (6%) said the correlation is zero; 7 (2%) said it is negative; while 2 (0.57%) said it is highly negative. The conclusion is that there is highly positive correlation between achieving the objectives of MTSS in PSR and Responsibility Accounting.

Table 4.14: Question 6: What is the nature of the relationship between Responsibility Accounting and Accrual Financial Reporting systems?

Option/Response	Respondents	% Respondents
Highly significant	245	70.00
Significant	82	23.43
Averagely significant	21	6.00
Little significant	2	0.57
Not significant	-	-
Total	**350**	**100.0**

Source: Field Survey, April 2010.

Analysis:

Of the 350 respondents (100%), 245 (70%) responded that the relationship between Responsibility Accounting and Accrual Financial Reporting systems is highly significant; 82 (23.43%) said it is significant; 21 (6%) said it is averagely significant; 2 (0.57%); while none said it is not significant. The conclusion is that there is a highly significant relationship between Responsibility Accounting and Accrual Financial Reporting systems.

Table 4.15: Question 7: The Medium-Term Fiscal Strategy (MTFS) is compatible with Programme Performance Budgeting System (PPBS).

Option/Response	Respondents	% Respondents
Strongly agree	280	80.0
Agree	65	18.57
Disagree	5	1.43
Strongly Disagree	-	-
Total	**350**	**100.0**

Source: Field Survey, April 2010.

Analysis:

280 respondents (80%) out of 350 (100%) strongly agreed that the Medium-Term Fiscal Strategy (MTFS) is compatible with Programme Performance Budgeting System (PPBS); 65 (18.57%) agreed; 5 (1.43%) disagreed; none strongly disagreed. The conclusion is that the Medium-Term Fiscal Strategy (MTFS) is compatible with Programme Performance Budgeting System (PPBS).

Table 4.16: Question 8: What is the degree of similarity between the MTSS policy tool and the New Public Management concept.

Option/Response	Respondents	% Respondents
Very high	243	69.43
High	77	22.00
Average	-	-
Not high	25	7.14
None	5	1.43
Total	**350**	**100.0**

Source: Field Survey, April 2010.

Analysis:

Out of 350 respondents (100%), 243 (69.43%) said that there is very high degree of similarity between the Medium-Term Sector Strategy (MTSS) and the New Public Management (NPM) concept; 77 (22%) said that the similarity is high; 25 (7.14%) said it is not high while 5 (1.43%) said that there is no relationship; none said that the relationship is average. The conclusion is that there is very high degree of similarity between the Medium-Term Sector Strategy (MTSS) and the NPM concept.

Table 4.17: Question 9: The reform objectives of matching results with objectives and resources utilized can best be implemented using accrual basis of accounting and budgeting.

Option/Response	Respondents	% Respondents
Strongly agree	210	60.0
Agree	40	11.43
Disagree	58	16.57
Strongly Disagree	42	12.0
Total	**350**	**100.0**

Source: Field Survey, April 2010.

Analysis:

350 respondents (100%) responded to this question on how best to implement the reform objectives. Of this number, 210 (60%) strongly agreed that the reform objectives can best be implemented using accrual basis of accounting and budgeting; 58 (16.57%) disagreed; 42 (12%) strongly disagreed while 40 (11.43%) agreed. Therefore, the conclusion is that the reform objectives of matching results with objectives and resources utilized can best be implemented using accrual basis of accounting and budgeting.

Table 4.18: Question 10: Sections 19(d) and (e) and 44(1) emphasize the input-output dimensions to public sector governance being introduced by the FRA 2007 and so require the application of cost and managerial accounting tools to be implemented.

Option/Response	**Respondents**	**% Respondents**
Strongly agree	230	65.71
Agree	94	26.86
Disagree	23	6.57
Strongly Disagree	3	0.86
Total	**350**	**100.0**

Source: Field Survey, April 2010.

Analysis:

230 respondents (65.71%) out of a total of 350 (100%) strongly agreed that Sections 19(d) and (e) and 44(1) emphasize the input-output dimensions to public sector governance being introduced by the FRA 2007 and so require the application of cost and managerial accounting tools to be implemented; 94 (26.86%) agreed; 23 (6.57%) disagreed while 3 (0.86%) strongly disagreed. The conclusion from the analysis, therefore, is that cost and managerial accounting tools would be required to effectively implement Sections 19(d) and (e) and 44(1) of the FRA 2007.

Table 4.19: Question 11: The level of IT development in Nigeria poses significant challenge to implementation of budgeting and accounting reforms in the public sector.

Option/Response	Respondents	% Respondents
Strongly agree	60	17.14
Agree	52	14.86
Disagree	208	59.43
Strongly Disagree	30	8.57
Total	**350**	**100.0**

Source: Field Survey, April 2010.

Analysis:

Of the 350 respondents (100%) who responded to the above question, 208 (59.43%) disagreed that the level of IT development in Nigeria poses significant challenge to implementation of budgeting and accounting reforms in the public sector; 60 (17.14%) strongly agreed; 52 (14.86%) agreed while 30 (8.57%) strongly disagreed. Although a reasonable number of respondents (112, representing 32%) think otherwise, the conclusion is that the level of IT development in Nigeria does not pose serious challenge to implementation of budgeting and accounting reforms in the public sector.

4.2 HYPOTHESES TESTING

4.2.1 Hypothesis 1

Ho1: The existing cash accounting and budgeting systems in the Nigerian public sector are not appropriate for the realization of desired sectoral targets as a major objective of the FRA.

H_A1: The existing cash accounting and budgeting systems in the Nigerian public sector are appropriate for the realization of desired sectoral targets as a major objective of the FRA.

Hypothesis number 1 was tested using the paired t-test statistical tool of analyses given by the following model as previously stated in chapter 3 and the following tables constructed by the researcher based on figures extracted from Tables 3.1 and 3.2 as presented in chapter 3.

$$\bar{X} = {}^{\mu_0}/_{S\bar{x}}$$

where

$\bar{X}$ = average of the differences between the paired data estimates

μ_0 = the reference value

$S\bar{x}$ = standard error of difference = ${}^{s}/_{\sqrt{n}}$

where

s = standard deviation of the differences between the paired data estimates

n = number of each data paired

Degree of freedom (df) for the paired test = $n - 1$.

Table 4.20: Target Literacy rate against Actual

Year	Target Literacy rate %	Actual Literacy rate %
2004	70	62.0
2005	70	63.1
2006	70	57.2
2007	70	66.9
2008	70	66.9

Source: Constructed by Researcher based on figures extracted from CBN and NBS sources as presented in Table 3.1.

Table 4.21: Target Life Expectancy (in years) against Actual

Year	Target Life Expectancy	Actual Life Expectancy
2004	60 years	54 years
2005	60 years	54 years
2006	60 years	54 years
2007	60 years	54 years
2008	60 years	54 years

Source: Constructed by Researcher based on figures extracted from CBN and NBS sources as presented in Table 3.2.

Based on the above tables, therefore, the differences of means are tested using target literacy rate in percent and target life expectancy in years against the expected for 5 years, that is, from 2004 to 2008. The tests of hypothesis are done with the aid of computer software for statistical analyses (SPSSWIN). From the computer print-out as shown below (also see Appendix B1), the calculated value of t for literacy rate is -3.742 at 95% confidence level at 2-tailed test.

Table 4.22: Actual against Expected Literacy Rate

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Actual - Expected	-6.8000	4.06325	1.817	-11.84519	-1.75481	-3.742	4	.020

Source: Appendix B1

The above results indicate that the mean of actual literacy rate achieved is statistically significantly different from the mean of the expected (t = -3.742, p = 0.020).

Decision Rule: Reject H_0 if and only if t-calculated is greater than t-table and accept H_0 if and only if t-table is greater than t-calculated.

Decision:

Now, since t-calculated value of -3.742 for literacy rate is not greater than t-table = 1.86, $H_0$1 is not rejected. This means therefore, that the existing cash accounting and budgeting systems in the Nigerian public sector are not appropriate for the realization of desired sectoral targets as a major objective of the FRA.

The same test was also carried out using data for life expectancy as shown below.

Table 4.23: Actual against Expected Life Expectancy

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Actual	54.000[a]	5	.0000	.0000
	Expected	60.000[a]	5	.0000	.0000

a. The correlation and t cannot be computed because the standard error of the difference is 0.

Source: Appendix B1

Decision Rule: Reject H_0 if and only if t-calculated is greater than t-table.

As the computer reading above shows, both the correlation and t-calculated values could not be calculated because the standard error of the difference is zero. This situation arose because the period in question did not record any change whatsoever and so there is no slope, that is, the two variables run parallel to each other as illustrated in figure 4.2. This means that there is no relationship between the dependent and independent variables.

The implication of the results from the test of hypothesis number 1 is that the existing cash accounting and budgeting systems in the Nigerian public sector are not appropriate for the realization of desired sectoral targets as a major objective of the FRA. By extension it also shows that there is significant relationship between accounting systems and outcomes of fiscal / economic policies.

4.2.2: Hypothesis 2

H_O2: There is negative relationship between accountability and efficiency and cash-based accounting and budgeting systems in the Nigerian public sector. H_A2: There is positive relationship between accountability and efficiency and cash-based accounting and budgeting systems in the Nigerian public sector.

Hypothesis number 2 was tested using correlation coefficient and simple regression analyses with the following models as previously stated in chapter 3 and the following tables constructed by the researcher based on figures extracted from Tables 4.3 and 4.4 under Data Presentation and Analyses subsection of this chapter:

A,E = f(EXP) and EXP = $b_0 + b_1$ A,E and A,E = f(EXP)

where

EXP = % increases in Annual Capital Budgetary Allocations to relevant Sector

A,E = % increases in Life Expectancy in years, Literacy rate in percent as proxy for accountability and efficiency.

In order to ascertain whether there is any relationship between the dependent and independent variables, the nature of the relationship and whether it is significant or not, correlation statistical analysis is applied using the data in table 4.24 below.

Table 4.24: Percentage changes in selected development indices against changes in sectoral budgetary allocations for 1994 to 2008.

	Education		**Health**	
Year	**% change in Literacy Rate**	**% change in Budgetary Allocation**	**% change in Life Expectancy**	**% change in Budgetary Allocation**
1994	0.00	28.6	0.00	14.7
1995	3.6	23.8	0.00	66.4
1996	0.0	20.6	1.9	-4.4
1997	0.0	9.7	0.00	51.8
1998	0.0	40.5	1.9	53.8
1999	0.0	17.1	0.00	21.7
2000	0.0	104.1	0.00	28.0
2001	0.0	10.6	0.00	101.5
2002	0.0	10.3	0.00	15.0
2003	0.0	15.1	0.00	-2.6
2004	8.8	7.8	0.00	32.1
2005	1.8	22.2	0.00	47.9
2006	-9.3	45.0	0.00	22.0
2007	17.0	30.1	0.00	89.2
2008	0.00	7.7	0.00	9.3

Source: Researcher

Table 4.24 is constructed based on data extracted from Tables 3.1 and 3.2. Based on the above table, correlation analyses was carried out using the percentage increases in sectoral budgetary allocations (EXP) and life expectancy and literacy rates for both pre-PRS (1994-2003) and post-PRS (2004 to 2008) periods, denoted by A,E.

The computer software for statistical analyses (SPSSWIN) was used to run the test for hypothesis. The correlation analyses results are as presented in tables 4.25 to 4.28 below:

Table 4.25: SPSS Life Expectancy Correlation Results for pre-PSR period (1994 to 2003).

Correlations

		% change in Life Expectancy	% change in Budgetary Allocation
% change in Life Expectancy	Pearson Correlation	1	-.156
	Sig. (2-tailed)		.667
	N	10	10
% change in Budgetary Allocation	Pearson Correlation	-.156	1
	Sig. (2-tailed)	.667	
	N	10	10

Source: Appendix B2a

The results above indicates insignificant correlation because significance level from the test result is much too high (test of significance = 0.667 > 0.05); the correlation between budgetary allocation and literacy rate (correlation coefficient = -0.156) has negative direction. Moreover, the absolute value indicates very weak or insignificant as it is very small (0.156) and bears no asterisks. With a correlation coefficient of -0.156, the coefficient of determination (r^2) = 2.43% which is very low and insignificant.

Table 4.26: Table 4.18: SPSS Life Expectancy Correlation Results for post-PSR period (2004 to 2008).

Correlations

		% change in Life Expectancy	% change in Budgetary Allocation
% change in Life Expectancy	Pearson Correlation	.[a]	.[a]
	Sig. (2-tailed)		.
	N	5	5
% change in Budgetary Allocation	Pearson Correlation	.[a]	1
	Sig. (2-tailed)	.	
	N	5	5

a. Cannot be computed because at least one of the variables is constant.

Source: Appendix B2a

Here again, the computer reading above shows that both the correlation coefficient and significance levels could not be calculated because the standard error of the difference is zero. This situation arose because the period in question did not record any change whatsoever and so there is no slope, that is, there no variables. This means that there is no relationship between the dependent and independent variables. In other words, the increases in expenditures do not have any bearing on the development targets, in this case, life expectancy let alone resulting in commensurate changes.

Table 4.27: SPSS Literacy Rate Correlation Results for pre-PSR period (1994 to 2003).

Correlations

		% change in Literacy Rate	% change in Budgetary Allocation
% change in Literacy Rate	Pearson Correlation	1	-.052
	Sig. (2-tailed)		.886
	N	10	10
% change in Budgetary Allocation	Pearson Correlation	-.052	1
	Sig. (2-tailed)	.886	
	N	10	10

Source: Appendix B2b

The results above indicates insignificant correlation because significant level from the test result is much too high (test of significance = 0.886 > 0.05). Also, the correlation between budgetary allocation and literacy rate (correlation coefficient = -0.052) has negative direction. Moreover, the absolute value indicates very weak or insignificant as it is very small (0.052) and bears no asterisks. The coefficient of determination $r^2 = 0.27\%$ is far too low and insignificant.

Table 4.28: SPSS Literacy Rate Correlation Results for post-PSR period (2004 to 2008).

Correlations

		% change in Literacy Rate	% change in Budgetary Allocation
% change in Literacy Rate	Pearson Correlation	1	-.338
	Sig. (2-tailed)		.577
	N	5	5
% change in Budgetary Allocation	Pearson Correlation	-.338	1
	Sig. (2-tailed)	.577	
	N	5	5

Source: Appendix B2b

The results above indicates insignificant correlation because significant level from result is much too high (test of significance = 0.577 > 0.05); the correlation between budgetary allocation and literacy rate (correlation coefficient = -0.338) has negative direction. Moreover, the absolute value indicates very weak or insignificant as it is very small (0.338) and bears no asterisks. With a correlation coefficient of -0.338, the coefficient of determination (r^2) = 11.42%, which is very low and insignificant.

To further buttress the relationship between the dependent and independent variables, regression analysis was also carried out. Based on table 4.17 above, the percentage increases in sectoral budgetary allocations (EXP) are regressed on life expectancy and literacy rates for both pre-PRS (1994-2003) and post-PRS (2004 to 2008) periods, denoted by A,E. The results of the analyses are presented below.

Table 4.29: SPSS Life Expectancy Regression Results for pre-PSR period (1994 to 2003).

Model	R	R^2	R^2 adjusted	β	t	Durbin-Watson
1	.156[a]	.024	0.098	-0.156	-0.447	2.390

Source: Appendix B3a

The results of the tests as can be read from the computer print-out (Appendix B3a) show as follows:

I. Life Expectancy for pre-PSR period, Y = 0.509 – 0.004x.

Therefore, EXP = 0.509 – 0.004A,E…(1)

R = 0.156

R^2 = 0.024

Beta coefficient β = -0.156

where t-calculated = -0.447 and t_t = 2.306

From the result of the tests, there exists relationship between the dependent and independent variables but the relationship is highly insignificant because R = 0.410 < 2. The negative value of the Beta coefficient (β = -0.410) also means that there is a negative relationship between A,E and EXP.

II. Life Expectancy for post-PSR period. (APPENDIX B3b)

From the computer print-out, the statistics could not be computed because the supposed dependent variable remained constant throughout. The obvious implication is that the independent variable has not impacted the dependent variable and so it can be concluded that the relationship between the dependent and independent variables is completely insignificant.

Table 4.30: SPSS Literacy Rate Regression Results for pre-PSR period (1994 to 2003).

Model	R	R^2	R^2 adjusted	β	t	Durbin-Watson
1	.052[a]	.003	-0.122	-0.052	-0.149	2.233

<u>Source</u>: APPENDIX B3c

III. Literacy Rate for pre-PSR period, Y = 0.419 – 0.002x.

Therefore, EXP = 0.419 – 0.002A,E…(3)

R = 0.052;

$R^2 = 0.003$

Beta coefficient β = -0.052

where t-calculated = -0.149 and $t_t = 2.306$

From the result of the tests, there exists relationship between the dependent and independent variables but the relationship is highly insignificant because R = 0.05 < 2. The negative value of the Beta coefficient (β = -0.052) also means that there is a negative relationship between A,E and EXP.

Table 4.31: SPSS Literacy Rate Regression Results for post-PSR period (2004 to 2008).

Model	R	R^2	R^2 adjusted	β	t	Durbin-Watson
1	.34[a]	.115	-0.181	-0.338	-0.623	3.086

<u>Source</u>: APPENDIX B3d

IV. Literacy Rate for post-PSR period, Y = 8.425 – 0.211x.

Therefore, EXP = 8.425 – 0.211A,E…(4)

R = 0.34;

$R^2 = 0.115$

Beta coefficient β = -0.338

where t-calculated = -0.623 and t_t = 2.306

From the result of the tests, there exists relationship between the dependent and independent variables but the relationship is highly insignificant because R = 0.34 < 2. The negative value of the Beta coefficient (β = -0.338) also means that there is a negative relationship between A,E and EXP.

Decision rule:

Do not reject Ho (null hypothesis) if and only if table value is greater than calculated value. Reject otherwise.

Decision:

For each of the tests, the t-table is greater than the t-calculated. Therefore, $H_0$2 which states that there is negative relationship between accountability and efficiency and cash-based accounting and budgeting systems in the Nigerian public sector is not rejected.

The results of the tests of the hypothesis show that the relationship between the increases in budgetary allocations and the outputs as expressed by the social indicators is highly insignificant. In other words, the increases in budgetary allocations have not been efficiently applied and so have not resulted in improved macro-economic indices. Also, the fact that the allocations increase almost every year even though the previous allocations did not make any impact is a pointer to the fact that there does not exist any suitable framework to ensure accountability and efficiency.

Besides the above, it can be seen that for each of the tests, the value of the gradient is negative. This shows the existence of negative relationship between the dependent and independent variables. The implication, therefore, is that there is negative correlation between accountability and efficiency, on the one hand, and cash-based accounting and budgeting systems, on the other hand, in the Nigerian public sector.

4.2.3: Hypothesis 3

H_O3: The current budgeting and accounting systems are not congenial in providing support to fiscal policies meant to grow per capita GDP.

H_A3: The current budgeting and accounting systems are congenial in providing support to fiscal policies meant to grow per capita GDP.

To test hypothesis number 3, a parametric statistical model used to test the difference of means and as stated in chapter 3 is given as:

$$t = \frac{\overline{X_1} - \overline{X_2}}{\sqrt{\frac{S_1{}^2}{n_1} + \frac{S_2{}^2}{n_2}}}$$

Where $\overline{X_1}$ = mean of GDP 1999-2003

$\overline{X_2}$ = mean of GDP 2004-2008

$S_1{}^2$ = variance of GDP 1999-2003

$S_2{}^2$ = variance of GDP 2004-2008

n_1, n_2 = 5-year period;

The above model is most appropriate because the test of hypothesis requires that sets of data for two periods (that is, before and after the introduction of reforms) be compared in order that difference of means be established. The model was applied to data from the following table constructed by the researcher with figures extracted from *National Accounts of Nigeria 1981-2006* (National Bureau of Statistics, 2007):

Table 4.32: Annual GDP figures showing pre-(1999-2003) and post-(2004-2008) PSR periods

	Before Public Sector Reforms		**After Public Sector Reforms**	
S/no.	**Year**	**GDP (=N= million)**	**Year**	**GDP (=N= million)**
1	1999	312183.47	2004	527576.03
2	2000	329178.71	2005	561931.4
3	2001	356994.26	2006	595821.61
4	2002	433203.5	2007	634251.10
5	2003	477532.99	2008	672202.55

Source: Researcher

Table 4.33: Means of GDP for the periods 1999-2003 and 2004-2008

The set of data is divided by 100,000

Year	S_1		Year	S_2	
	X_1	X_1^2		X_2	X_2^2
1999	3.12	9.7344	2004	5.28	27.8784
2000	3.49	12.1801	2005	5.62	31.5844
2001	3.57	12.7449	2006	5.96	35.5216
2002	4.33	187489	2007	6.34	40.1956
2003	4.78	22.8484	2008	6.72	45.1584
	19	**76**		**30**	**180**
	$\bar{X}_1 = \frac{76}{19} = 4$		$\bar{X}_2 = \frac{180}{30} = 6$		

Source: Researcher

$$S_1^{\ 2} = \frac{n_1 \sum X_1^{\ 2} - (\sum X_1)^2}{n_1(n_1^{\ 2} - 1)} = \frac{5(76) - (19)^2}{5(25-1)} = \frac{380 - 361}{120} = \frac{19}{120}$$

$$\text{Therefore, } S_1^{\ 2} = \frac{19}{120} = 0.1583$$

$$S_2^{\ 2} = \frac{n_2 \sum X_2^{\ 2} - (\sum X_2)^2}{n_2(n_2^{\ 2} - 1)} = \frac{5(180) - (30)^2}{5(25-1)} = \frac{900 - 900}{120} = \frac{0}{120}$$

$$\text{Therefore, } S_2^{\ 2} = \frac{0}{120} = 0$$

To calculate the value of the difference of means for the two periods under study, the t-statistic model is then applied thus:

$$t = \frac{\overline{X_1} - \overline{X_2}}{\sqrt{\frac{S_1{}^2}{n_1} + \frac{S_2{}^2}{n_2}}} = \frac{4-6}{\sqrt{\frac{0.1583}{5} + \frac{0}{5}}} = \frac{-2}{\sqrt{0.03167}} = \frac{-2}{0.17795} = -11.24$$

Therefore, t-cal = -11.24.

But t-table = $t_{n_1+n_2-2}^{\propto/2} = t_{5+5-2}^{0.05/2} = t_{10-2}^{0.025} = t_8^{0.025}$

Decision Rule:

Reject H_0 if and only if t-calculated is greater than t-table and accept H_0 if and only if t-table is greater than t-calculated.

Decision:

Now, since t-table = 2.306 is greater than t-calculated value of -11.24, $H_0 3$ is not rejected. This means that that there has not been any significant difference in GDP before and after the introduction of public sector reforms in Nigeria. The implication is that the fiscal reforms have not resulted in the growth of GDP as expected and as one of objectives of the FRA.

CHAPTER FIVE

DISCUSSION OF FINDINGS

5.1 SUMMARY OF MAJOR FINDINGS

The main objective of this research is to examine whether the Public Sector Reforms and the objectives and provisions of the Fiscal Responsibility Act can be achieved without reforms in the Public Sector Accounting and Budgeting Systems in Nigeria. Having subjected the data gathered in the course of this study to scientific analyses and tested the hypotheses using appropriate models, the following are discovered:

1. The existing cash accounting and budgeting systems in the Nigerian public sector are not appropriate for the realization of desired sectoral targets as a major objective of the FRA.
2. That there is negative correlation between accountability and efficiency, on the one hand, and cash-based accounting and budgeting systems, on the other hand, in the Nigerian public sector.
3. The current budgeting and accounting systems are not congenial in providing support to fiscal policies meant to grow per capita GDP.
4. That there is positive correlation between the attainability of public sector reform objectives and financial reporting system reform in the Nigerian public sector.
5. That accrual-based accounting and budgeting systems are more compatible with the requirements of public sector reform and the FRA 2007.
6. That the Medium-Term Fiscal Strategy (MTFS) is more compatible with Programme Performance Budgeting System (PPBS).
7. That proper coordination between fiscal policies and accounting regimes could achieve the economic objectives of fiscal transparency, accountability, efficiency, and economic growth in Nigeria.
8. That the MTSS, as provided for in the FRA 2007, is in sync with PPBS and so requires Responsibility Accounting to be effectively implemented.
9. That there is very high degree of similarity between the Medium-Term Sector Strategy (MTSS) and the NPM concept.

10. That the reform objectives of matching results with objectives and resources utilized can best be implemented using accrual basis of accounting and budgeting.
11. That there is need for a reform of the public sector accounting and budgeting systems to achieve the objectives of the Nigeria Public sector reforms as provided for in the Fiscal Responsibility Act.
12. That there is significant relationship between fiscal policy outcomes and financial reporting systems.
13. That the level of IT development in Nigeria does not pose significant challenge to reform of financial reporting systems in the public sector.

5.2 DISCUSSION OF FINDINGS

This research set out to achieve a number of objectives. To this end, hypotheses were formulated and thereafter scientifically tested by means of appropriate statistical models. This section examines the research findings in detail and also the implications of the results as it relates the research results to the objectives in order to ascertain the achievement, or otherwise, of the objectives.

Objective 1

To determine whether the current public sector accounting and budgeting systems are appropriate for the realization of sectoral targets as a major objective of the Fiscal Responsibility Act (FRA).

The result of the analysis of hypothesis 1 reveals that t-calculated value of -3.742 for literacy rate is not greater than t-table = 1.86; the t-calculated for life expectancy could not be calculated because the standard error of the difference is zero. The hypothesis was formulated and analyzed to determine whether the current public sector accounting and budgeting systems are appropriate for the realization of sectoral targets as a major objective of the Fiscal Responsibility Act (FRA). Given the result of the test, $H_0 1$ is not rejected. Since $H_0 1$ is not rejected, it means that the existing cash accounting and budgeting systems in the Nigerian public sector are not appropriate for the realization of desired sectoral targets as a major objective of the FRA. In other words, it means, in essence, that the current cash accounting and budgeting systems are not adequate to support the provisions of the FRA 2007.

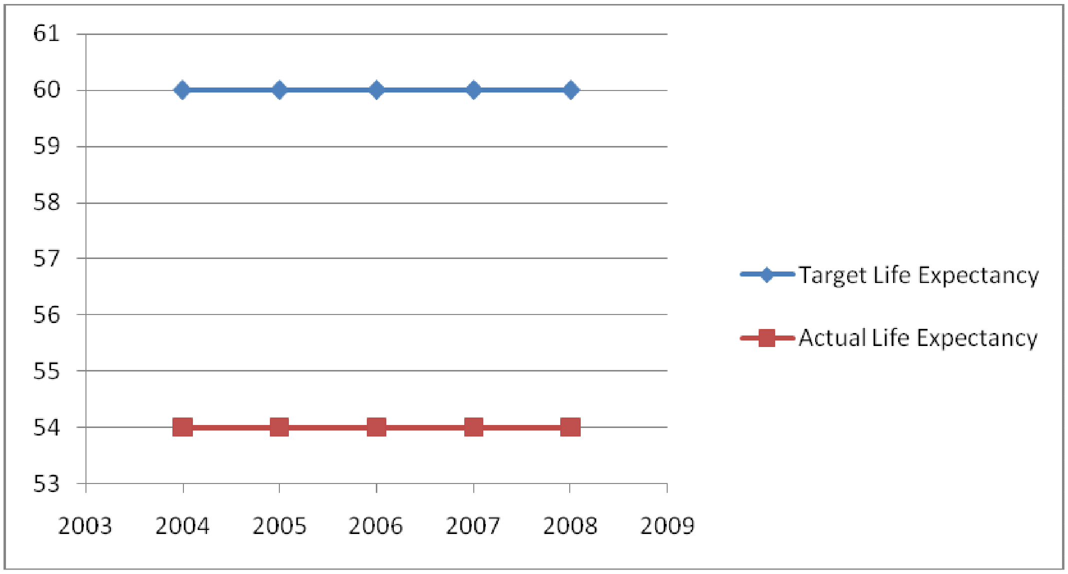
This finding is supported by the analyses of the responses to questions 1, 5 and 9. For question 1, 65.43% responded that the correlation between the attainability of public sector reform objectives and financial reporting system reform in the Nigerian public sector is highly positive 22.86% said it is positive. In response to question 5, 68.57% of responded that the correlation between achieving the objectives of MTSS in PSR and Responsibility Accounting is highly positive. While 71.43% respondents to question 9 agreed, 60% of them strongly agreed that the reform objectives can best be implemented using accrual basis of accounting and budgeting.

Also, an analysis of the raw data for the two sectors used in this study gives further credence to the result of finding of hypothesis 1. The illustrations in figures 4.1 and 4.2 show that in the period under study, the development targets for the health and education sectors were never achieved.

Figure 5.1: Target Literacy rate against Actual (reproduced).

Source: Researcher

Figure 5.2: Target Life Expectancy (in years) against Actual (reproduced)



Source: Researcher

As illustrated in figure 5.1, the curve of the actual literacy rate achieved is consistently below that of the set target. That of actual life expectancy ran parallel with the standard (figure 5.2). This means that there has not been any change in actual life expectancy achieved during the period under study. This is despite the introduction and implementation of the PSR and FRA. This means that the PSR and FRA have not been effective in achieving set macroeconomic objectives.

The implication of the above analyses and results from the test of hypothesis number 1 is that the existing cash accounting and budgeting systems in the Nigerian public sector are not appropriate for the realization of desired sectoral targets as a major objective of the FRA. By extension it also shows that there is significant relationship between accounting systems and outcomes of fiscal / economic policies.

A number of reasons which border on the shortcomings of cash accounting in the public sector can be adduced for the above situation. In the first place, a developing country like Nigeria should invest/embark more in capital projects in order to develop capital infrastructure which forms the foundation for economic and social development. However, public office holders are usually skeptical about embarking on such capital-intensive projects so as not to be seen as spending too much. Their skepticism may be excused because under cash-based accounting and budgeting systems, the amount of money voted for such projects are treated as lump sums spent in the particular fiscal year in which they are released. This is irrespective of the number of years over which the execution of such projects may last and the fact that the benefit may not accrue in the same year that the money is recorded as released. Capital purchases, according to Ouda (2006), are treated in the same manner as recurrent expenses with no recognition that they are productive for years. As a result, capital projects that stimulate economic and social development and which enhance citizen welfare are discriminated against. This point can be buttressed by a comparison of capital and current expenditures of the sectors used in this study for the period under review.

Table 5.1: Capital and Recurrent Expenditures for the Education sector for selected years.

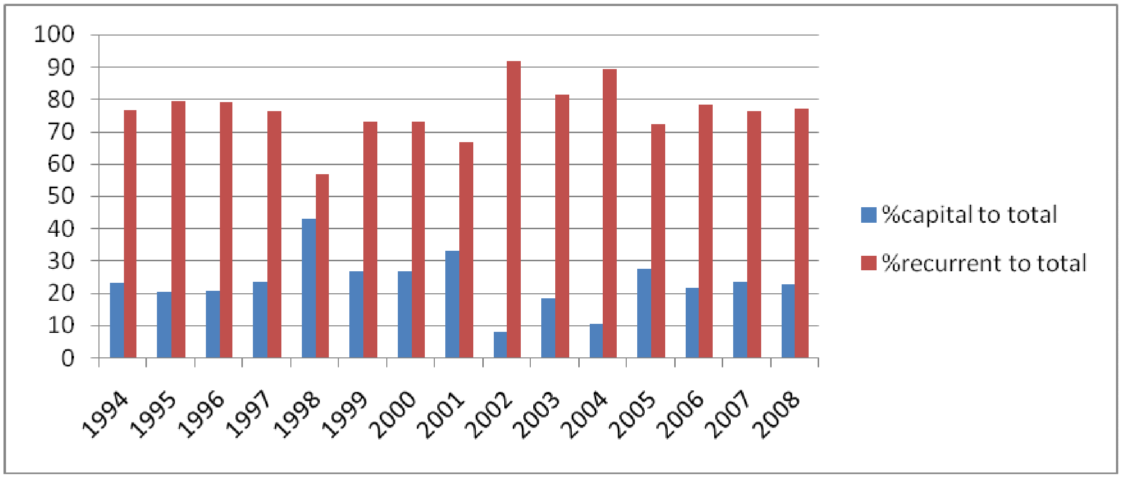
Year	Capital (=N=m)	Recurrent (=N=m)	Total (=N=m)	Capital as % of Total	Recurrent as % of Total
1994	2,405.7	7,878.1	10,283.8	23.4	76.6
1995	2,426.4	9,421.3	11,847.7	20.48	79.52
1996	3,215.7	12,136.0	15,351.7	20.95	79.05
1997	3,808.2	12,136.0	15,944.2	23.88	76.12
1998	10,579.3	13,928.3	24,507.6	43.17	56.83
1999	8,516.6	23,047.2	31,563.8	27.0	73.0
2000	10,529.2	39,034.0	49,563.2	26.97	73.03
2001	19,860.0	39,884.6	59,744.6	33.24	66.76
2002	9,215.0	100,240.2	109,455.2	8.42	91.58
2003	14,680.2	64,755.9	79,436.1	18.48	81.52
2004	9,100.0	76,500.0	85,600.0	10.63	89.37
2005	31,900.0	82,800	114,700.0	27.81	72.19
2006	32,700.0	119,000.0	151,700.0	21.56	78.44
2007	46,800.0	150,800.0	197,600.0	23.68	76.32
2008	48,800.0	164,000.0	212,800.0	22.93	77.07

Source: Constructed by Researcher with data sourced from CBN Reports.

The table above is a presentation of data on Federal Government capital and recurrent expenditures in the Education sector for selected years. These are extracted from Central

Bank of Nigeria Annual Reports and Statement of Accounts and Financial Statements covering the period under study. The capital and recurrent expenditures are also expressed as percentages of their annual totals. These are presented graphically as shown below.

Figure 5.3: Comparison of Capital and Recurrent Expenditures for the Education for selected years.



Source: Researcher

The figure above is a comparison of the data on Federal Government capital and recurrent expenditures as percentages of total in the Education sector from 1994 to 2008 presented in a chart. It clearly illustrates the inherent bias against capital spending. In all the years considered, the recurrent expenditures are much higher than the capital expenditures, contrary to what should be in developing country like Nigeria.

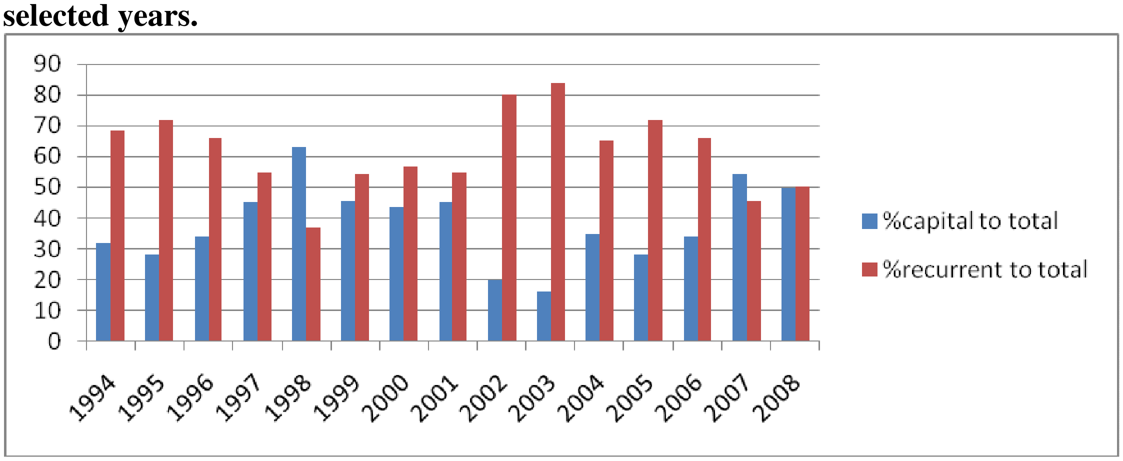
Table 5.2: Capital and Recurrent Expenditures for the Health sector for selected years.

Year	Capital (=N=m)	Recurrent (=N=m)	Total (=N=m)	Capital as % of Total	Recurrent as % of Total
1994	961.0	2,066.8	3,027.8	31.74	68.26
1995	1,312.3	3,335.7	4,648.0	28.23	71.77
1996	1,659.6	3,192.0	4,851.8	34.21	65.79
1997	2,623.8	3,179.2	5,803.0	45.2	54.8
1998	8,307.2	4,860.5	13,167.7	63.1	36.9
1999	7,386.8	8,793.2	16,180.0	45.65	54.35
2000	8,865.6	11,579.6	20,445.2	43.36	56.64
2001	20,128.0	24,523.5	44,651.5	45.08	54.92
2002	12,608.0	50,563.2	63,171.2	19.96	80.04
2003	6,431.0	33,254.5	39,685.5	16.20	83.80
2004	18,207.0	34,200.0	52,407.0	34.74	65.26
2005	21,800.0	55,700.0	77,500.0	28.13	71.87
2006	32,200.0	62,300.0	94,500.0	34.07	65.93
2007	96,900.0	81,900.0	178,800.0	54.2	45.80
2008	97,200.0	98,200.0	195,400.0	49.74	50.26

Source: Constructed by Researcher with data sourced from CBN Reports.

The table above is a presentation of data on Federal Government capital and recurrent expenditures in the Health sector for selected years. These are extracted from Central Bank of Nigeria Annual Reports and Statement of Accounts and Financial Statements covering the period under study. The capital and recurrent expenditures are also expressed as percentages of their annual totals. These are presented graphically as shown below.

Figure 5.4: Comparison of Capital and Recurrent Expenditures for the Health for selected years.



Source: Researcher

The figure above is a comparison of the data on Federal Government capital and recurrent expenditures as percentages of total in the Education sector from 1994 to 2008 presented in a chart. It also illustrates the inherent bias against capital spending. In all the years under consideration, except for 1998, 2007 and 2008, the recurrent expenditures are much higher than the capital expenditures, contrary to what should be in developing country like Nigeria.

In all, the non-achievement of set macro-economic and development targets can be attributed to the bias against capital expenditures that characterize cash-based accounting and budgeting systems. This bias exists because of political considerations and despite the fact that a developing country like need to spend more on capital projects to stimulate economic development.

Another reason for the non-realization of set targets is that cash-based accounting and budgeting systems are only concerned with actual cash flows and ensuring that funds are released as approved. This is good. However, this system does not concern itself with whether or not the objective for which the money is released is achieved. Moreover, the public administration concept under which it operates does not really hold anybody responsible for achieving any particular objective. Neither does it provide any framework that can compel resource managers to take responsibility for the proper use of resources entrusted to them. On the other hand, accrual-based fiscal indicators arguably provide a better measure of the effects of government policies on aggregate demand (Athukorala and Reid, 2003).

Yet another reason that can be adduced for the above result is the treatment of capital expenditures under cash-based regime. There is no distinction between capital and current expenditures under a cash-based regime. Capital expenditures are not spread out over the life of the project for which it was spent. For this reason, Boothe (2007) argues, there is inherent bias against the accumulation of public sector capital in a cash accounting regime. He explains that the interaction of the different accounting regimes with the fiscal rules produces different incentives and government behavior because the variable on which one of the fiscal rules is based, the deficit, is measured differently under different accounting regimes.

The results of the data analyses and tests of hypothesis being discussed here are also supported by opinions of other scholars in this field to the effect that accrual accounting is better suited to achieve the reform objectives of countries undertaking fiscal and public sector reforms. Blöndal (2003) observes that instead of spikes in expenditures when individual capital projects are undertaken, these are incorporated into the annual operating expenditures through an allowance for depreciation. According to Wynne (2007), Accrual accounting can play a key role in New Public Management developments as the means by which measurements are made, achievements are documented and negotiations take place.

Public sector reforms or New Public Management reforms focus on performance in terms of efficiency and effectiveness, that is, the management reforms focus on output instead of input and the managers are expected to become completely responsible for the management of their departments. But Ouda (2006) argues that for managers in the public sector to manage their departments in an efficient and effective way, they need an accounting system that can provide them with meaningful information about the economic resources available and the total costs of the output, where management changes are related to accounting changes. Characteristically, cash based accounting system is unable to provide such information. Therefore, according to Ouda (2006), management reforms cannot be enforced or implemented in the context of cash-based accounting system. Since the public sector in Nigeria uses cash-based accounting and budgeting systems, it means as the research findings show that the Nigerian public sector is not yet equipped with the enabling financial reporting system to implement the provisions of the FRA.

Objective 2

To determine whether the present cash accounting and budgeting systems ensure accountability and efficiency in the public sector.

Hypothesis 2 was formulated and tested to determine whether the present cash financial reporting system in Nigeria ensures fiscal accountability, transparency, probity and efficiency in the public sector. The result (H_02) shows that there is negative correlation between accountability and efficiency on the one hand, and cash-based accounting and budgeting systems on the other hand, in the Nigerian public sector. The result of the tests shows that there exists relationship between the dependent and independent variables but the relationship is highly insignificant because $R = 0.410 < 2$ for Life Expectancy in pre-PSR period; R for Life Expectancy in post-PSR period could not calculated because standard error = 0; $R = 0.05 < 2$ for Literacy Rate in pre-PSR period; and $R = 0.34 < 2$ for Literacy Rate in post-PSR period.

The negative values of the Beta coefficient ($\beta = -0.410$ for pre-PSR Life Expectancy; β = none for post-PSR Life Expectancy; $\beta = -0.052$ for pre-PSR Literacy Rate; and $\beta = -0.338$ for post-PSR Literacy Rate) also means that there is a negative relationship between the development indicators (in this instance, literacy rates and life expectancy) being proxy for accountability and efficiency (A,E) and expenditures (EXP). Moreover, for each of the tests, the t-table is greater than the t-calculated and so the null hypothesis (H_0) which states that there is negative relationship between accountability and efficiency and cash-based accounting and budgeting systems in the Nigerian public sector is accepted.

In both the correlation and regression analyses, t-calculated values for post-PSR health could not be calculated because the standard error of the difference is zero. This shows that the supposed variables remained constant (that is, no change in life expectancy); also the relationship between the dependent and independent variables is completely insignificant. In other words, the increases in expenditures do not result in commensurate changes development targets, in this case, life expectancy.

The implication of the results of the tests of the hypothesis is that the relationship between the increases in budgetary allocations and the outputs as expressed by the social indicators is highly insignificant. In other words, the increases in budgetary allocations have not been efficiently applied and so have not resulted in improved macro-economic indices. Also, the fact that the allocations increase almost every year even though the previous allocations did not make any impact is a pointer to the fact that there does not exist any suitable framework to ensure accountability and efficiency.

The essence of the public sector reforms is to enhance fiscal transparency, improve efficiency and ensure accountability in the public sector. The Fiscal Responsibility Act (2007) is one of the frameworks provided for the implementation and achievement of the public sector reforms objectives undertaken by the government. As earlier stated in the problem statement, it seeks to provide the framework that will ensure prudent management of public resources in order to increase citizen welfare and rapid economic growth **by matching inputs with outputs and outcomes.** However, as pointed out in the same section, the successful implementation of the FRA (2007) depends heavily on the existence of enabling structures and environment to translate the provisions into workable solutions and to monitor its performance.

One definition states that accountability means that "a program is effective and in conformance with its coverage, service, legal, and fiscal requirements." (Beechy, 2007). The elements of accountability exist in any relationship where one party performs some functions on behalf of another party (Vakabua, 1996). Accountability means the capacity to call public officials to task for their actions (Chiavo-Campo, 2007). According to Beechy (2007), the fiscal requirements of accountability can be fulfilled via financial reporting. This assertion, by extension, also means that there is significant relationship between accounting systems and outcomes of fiscal / economic policies. So, if, as Vakabua (1996) has stated, accountability means 'what have you done with the resources entrusted to you?', then the cash-based system cannot assure accountability because it is not an input-output model. This fact is further supported by result of perception poll carried out in the course of this study. As the analysis of the responses to question number two (2) presented in table 4.10 shows, a total of 288 representing 82.29% out of 350 (100%) respondents, agreed that the objectives of the FRA 2007 and the Public Sector Reforms cannot be achieved with cash-based accounting and budgeting systems. Further, 250 (71.43%) out of 350 (100%) respondents who responded to question number nine (9) in the research instrument as presented in table 4.17 agreed that the reform objectives of matching results with objectives and resources utilized can best be implemented using accrual basis of accounting and budgeting. In addition, analysis of table 4.18 shows that 324 (92.57%) out of 350 respondents agree that cost and managerial accounting tools would be required to effectively implement Sections 19(d) and (e) and 44(1) of the FRA 2007. Of course, cost and managerial accounting tools are accrual-based accounting techniques.

The cash budget shows expected against actual revenues and expenditures; its accounts show cash receipts and payments, that is, cash flows. This means that the cash basis of accounting shows only the volume of disbursements. Such disbursements do not reveal the amount of resources used and the value of actual work done. According to the cash basis, the statement of receipts and expenditures is prepared to disclose information about cash flows during a period and cash balances at the end of that period (IFAC, 1993). Consequently, the financial statements include only three elements: cash receipts, cash disbursements and cash balances. Hence, the information, which can be provided to the different users, is about the sources of cash received during the period, the uses to which those funds were applied and the cash balances at the reporting date (IFAC, 1991). This system cannot do more than the above because it is not an input-output model.

From the point of view of Ouda (2003), government accounting reform is a shift from a cash flow and cash balances concept to a total-economic resources concept. For him, it is an extension of measurement focus to encompass the total economic resources of governmental entities instead of only concentrating on the cash resources. Blöndal (2003) is of the view that accountability is better served by accrual accounting, which recognizes expenses when they are deemed to have been incurred, rather than when they were actually paid, as in cash accounting. So, Accrual Accounting provides more comprehensive information (assets, liabilities, revenues, expenses, net assets and changes therein) about governmental entities and whether these entities are operating economically and efficiently.

Granted, cash accounting has been used in the public sector for quite a long time. This is because, according to some scholars who are skeptical about accounting reforms in the public sector like Ellwood and Wynne (2003) and McClarin (2000), it is easy and simple to understand and operate. But in a global environment that is growing more complex by the day, does it make sense to stick to a system that can no longer adequately perform the function for which it is meant? Now, if accrual accounting can be applied successfully in the private sector, why not in the public sector? Or are these authors suggesting that the operators and stakeholders in the public sector are less intelligent than those in the private sector? If it were so, then the public would not have been intelligent enough to know that the government is not doing enough and thence the outcry for accountability, probity, and transparency in the public sector.

Giving reasons for advocating that Hong Kong public sector should move to the accruals system, Man-To Shun (2003) pointed out the inadequacies of the cash accounting system in meeting the objectives of budgeting, financial and accounting systems in the public sector as follows:

> *The Government should be accountable for the scarce resources entrusted to it by the citizenry. By accountable is meant the Government should provide information on how much is in its custody and what it has done about it—particularly in respect of the changes that may not have been easily discerned from the accounts. Cash accounting may not provide the best way for the Government to discharge its responsibility in this respect.*
>
> *Second, the accounts should report fairly on the Government's financial performance and position. As mentioned earlier, the existing cash-based Government Accounts are clearly deficient in this aspect.*

Responsibility accounting is an accounting system that requires an input-output model by means of which performance can be measured to ascertain the efficiency and effectiveness of resource use by managers. Cash-based financial reporting system cannot provide such framework as needed in responsibility accounting as it is not an input-output model. On the other hand, the accrual-based system is well equipped with such input-output model as well as cost and managerial accounting techniques that measure efficiency and effectiveness.

Some countries have seen an increasing role for the private sector in providing public sector services and the adoption of private sector style management practices. This has also led to the adoption of private-sector-style financial statements including the equivalent of a profit and loss account, a balance sheet and a cash flow statement. In the process, all major capital assets may be valued and the costs of these assets are charged to the government services over their useful lives through the application of some form of depreciation.

In fact, the use of accrual accounting in the public sector will allow for the measurement of the total cost of providing services on an aggregated basis and also allow for more accurate cost measurement of specific programs and activities. The total costs include not only the cost of goods and services produced or purchased and paid for during the accounting period but also the cost of using long-lived assets (e.g. depreciation and cost of capital) and other non-cash costs. Arguing against what he terms 'the backwardness of cash accounting' and in favour of the suitability of accrual basis in the public sector, Ouda (2005) posits that Accrual accounting with its matching principle means that the actual cost will be recognized in the year in which it occurs. He further emphasizes that the matching principle means that both usefulness and the costs incurred in providing this usefulness have to be recognized in the same reporting period in order to prevent the current generations from benefiting on the account of the future generations or vice versa (Ouda, 2007). This position is understandable because cash-based system recognizes only actual cash receipts and payments during the accounting period irrespective of the period of transaction. Therefore, this system is not suitable for performance measurement as provided for in the FRA (2007).

The FRA provides the framework for achieving these objectives specifically through the instrumentality of MTEF and MTSS by means of which expected results are clearly defined and matched against input resources. Also, alternative means of achieving same goals or results are weighed and the most cost effective adopted. Thus, the FRA clearly provides for the adoption of programme performance budgeting and requires the adoption of techniques capable of measuring the performance of the programmes of government. Also, matching results with inputs as provided for in the FRA employs techniques that are clearly beyond those that the cash-based system, currently being used in Nigeria, can accommodate, such as cost and management accounting.

Most performance measures can be classified into four categories: inputs, outputs, efficiency, and effectiveness. Input measures determine volume or amount of resources used to provide a service to citizens. Output measures gauge the amount of services provided to citizens. Efficiency measures determine the correlation between inputs and outputs. The first three measures are typically financial, including amount of expenditures, labour hours, and unit cost. Effectiveness measures, on the other hand, estimate the quality and productivity in providing services to citizens and often use non-financial data (Simonsen and Armitage, 2006; Parry, 2005). Accrual accounting provides the platform for such measurements as it readily provides the framework that strengthens the relationship between financial and non-financial information (FEE, 2005).

Objective 3

To determine whether the current accounting and budgeting systems are congenial to GDP growth as one of the aims of the Public Sector Reforms.

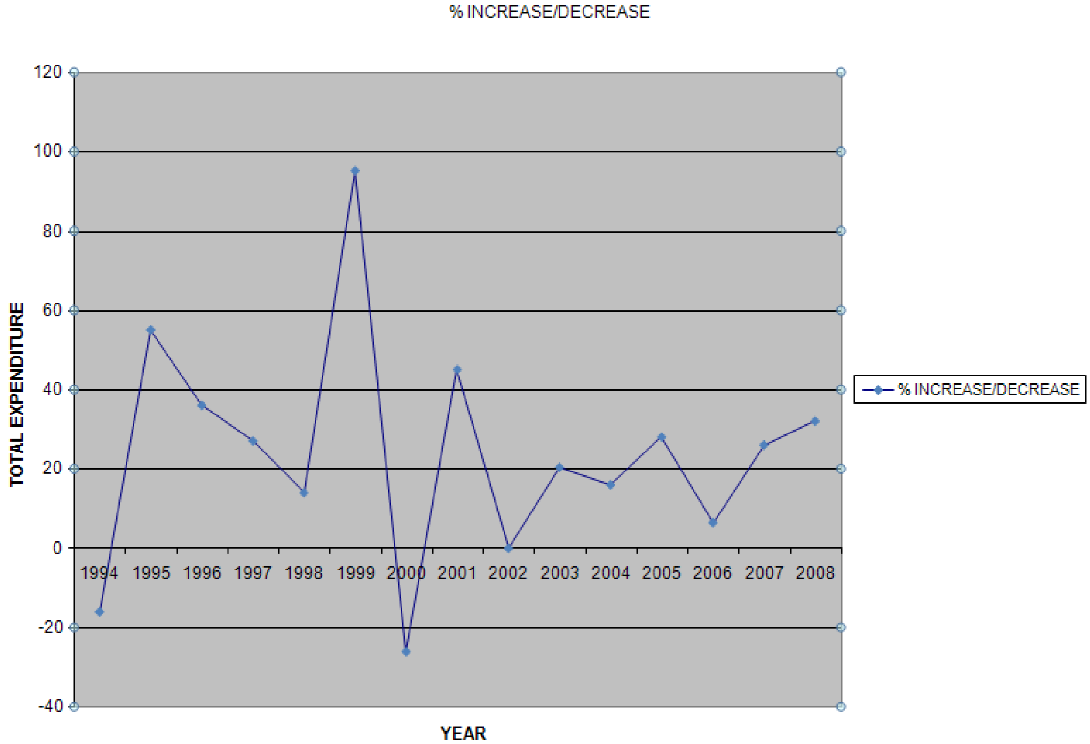
Hypothesis number 3 was formulated and tested to determine whether the current accounting and budgeting systems are congenial to GDP growth as one of the aims of the Public Sector Reforms. The test of hypothesis reveals that t-table = 2.306 is greater than t-calculated value of -11.24. This means that that there has not been any significant difference in GDP before and after the introduction of public sector reforms in Nigeria. Therefore, $H_0$3 which states that the current budgeting and accounting systems are not congenial in providing support to fiscal policies meant to grow per capita GDP is not rejected. The implication is that the fiscal reforms have not resulted in the growth of GDP as expected and as one of objectives of the FRA.

The Public Sector Reform was embarked upon to improve efficiency, fiscal accountability and transparency in the public sector. These, in turn, should translate to improved economic and development indicators such as per capita, fiscal balance, rate of inflation, GDP, citizen welfare in terms of life expectancy, availability of adequate health and other social services, as well as good business climate needed to expand the economy.

The Fiscal Responsibility Act (2007) is one of the frameworks provided for the implementation and achievement of the public sector reform objectives undertaken by the government. Among other provisions, it seeks to provide the framework that will ensure prudent management of public resources in order to increase citizen welfare and rapid economic growth by matching input with output. According to Usman (2006), then Minister of Finance, the Fiscal Responsibility Act is expected to underpin Nigeria's economic growth.

However, as Phillips (2006) has pointed out, the weak and inappropriate public sector in Nigeria has meant that policies are not coordinated within and among government departments. According to him, the result is that national plan and budgets have had little or no relevance, nor influence as a guide to funding developmental programmes (Phillips 2006). The implication is that there does not seem to be any established strategic pattern with respect to spending and financial management in the Nigerian economy. As illustrated in figure 4.5 and represented in figure 5.5, attempt to establish the spending pattern of the economy using the data on the percentage increase / (decrease) in annual expenditure as shown in table 4.5, produces the following diagram.

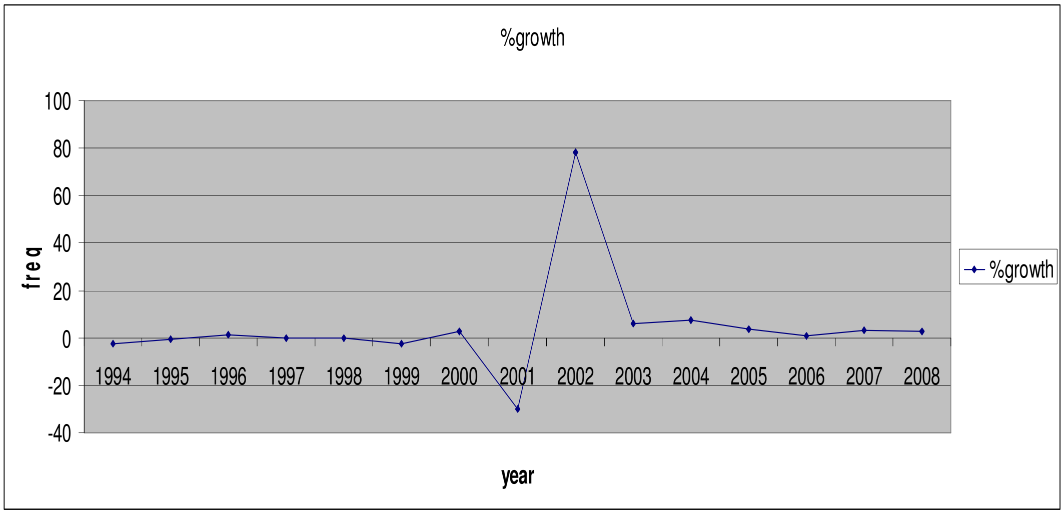
Figure 5.5: Graphic illustration of annual percentage increase/decrease in federal expenditures from 1994 to 2008 (re-presented).



Source: Researcher

The diagram above is a reflection of the spending pattern of the federal government. It is consistent with the view that government spending in Nigeria is largely a function of how much is the till, rather than any predetermined strategic plan. Figure 5.6 lends credence to this view.

Figure 5.6: Graphic illustration of the growth rate of per capita GDP in Nigeria for selected years (re-presented).



Source: Researcher

The diagram above illustrates the growth rate of per capita GDP in Nigeria. The curve is almost a straight line except in years 2001, which recorded an acute negative sloping, and 2002 which recorded an acute positive sloping. Following is a tabulation (5.3) of percentage growth rates of both federal expenditures and per capita GDP for selected years and their comparison as illustrated in figure 5.7.

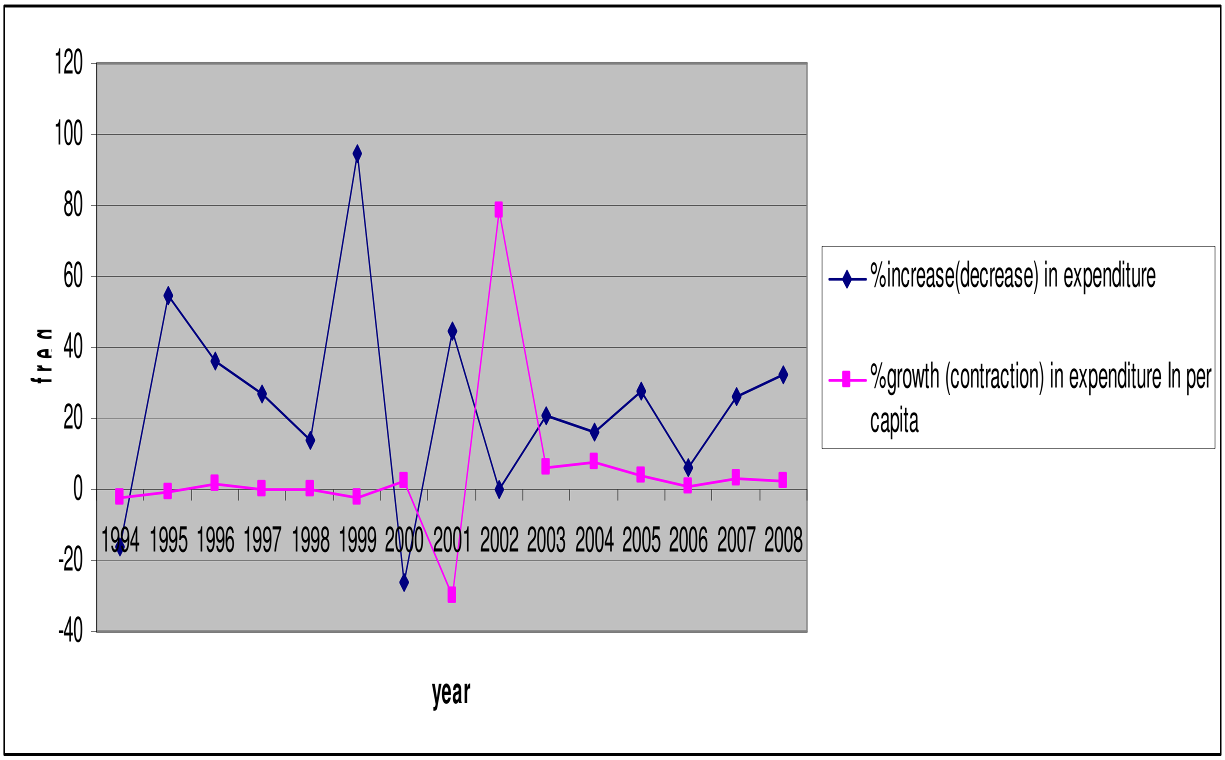
Table 5.3: Percentage increase (decrease) in expenditure and per capita for selected years (re-presented)

Year	% increase (decrease) in expenditure	% growth (contraction) in per capita
1994	(16)	(2.53)
1995	55	(0.67)
1996	36	1.52
1997	27	0.00
1998	14	0.10
1999	95	(2.37)
2000	(26)	2.53
2001	45	(30.14)
2002	0.01	78.16
2003	20.4	6.14
2004	16	7.45
2005	28	3.57
2006	6.5	0.61
2007	26	3.15
2008	32	2.69

Source: Researcher

The table above shows that the increased spending by the government has not brought about commensurate increase in the welfare of the people as represented by the percentage increases in the per capita GDP. The figure below is a graphic illustration of table 5.3. As the graph shows, the per capita growth rate consistently falls below the rate of increase in expenditure except in the year 2002.

Figure 5.7: Graphical comparison of percentage growth rates of government expenditures and per capita GPD (re-presented)



Source: Researcher

The figure above shows that there is no significant relationship between expenditure levels and outputs and outcomes in the Nigerian economy; for whereas one, the expenditure produces a scatter diagram, the other, the per capita GDP, is almost a straight line. However, the 'curve' of the percentage increase in expenditure is consistently above that of per capita GDP at all points. It must also be noted that there is a downward sloping of the per capita GDP curve from 2004 to 2007, contrary to the objectives of the public sector reforms.

The main feature of public management is the greater emphasis on efficiency and effectiveness. If these are to be achieved, it is necessary to develop and adopt an accounting system as the research findings show, namely, accrual system, that can provide the information required for measuring performance in terms of efficiency and effectiveness (Parry, 2005; Blondal, 2004; Ouda, 2004; McClarin, 2000). In particular, Ouda (2004) asserts that only the accrual accounting provides the financial information required for measuring and judging the impact of fiscal policies (Ouda, 2004).

The result of the analysis of the primary data (table 4.10, question 2) which shows that the objectives of FRA and PSR cannot be achieved with cash-based accounting and budgeting systems in the public sector is thus supported and buttressed by the views of the above-named authors.

Objective 4

> To ascertain whether accrual-based accounting and budgeting systems can be viable alternatives for the implementation of the Fiscal Responsibility Act and the Public Sector Reforms in Nigeria.

Objective 4 as stated in chapter 1, does not lend itself to statistical analysis using raw data. Therefore, no hypothesis was formulated for it. However, in order to achieve the objective, the corresponding research question (4) is used as basis to objectively examine the provisions of the FRA and critically evaluate the various accounting and budgeting systems with a view to establishing those which best suit the implementation of performance-based budgeting as provided for in the FRA via the MTEF and MTSS. To this end, questionnaire research instrument was applied to gather primary data that were analyzed to gain insight on the views and perception of respondents on this issue. Questions 1,3,4,5,6,7,8,10 and 11 were used for this purpose and presented in tables 4.9, 4.11-4.16, 4.18 and 4.19. The analyses of the responses show as follows: 65.43% said that the correlation between the attainability of public sector reform objectives and financial reporting system reform is highly positive while 22.86% said it is positive; 87.71% responded that accrual-based accounting and budgeting systems are more compatible with the requirements of public sector reform and the FRA 2007; 92.86% responded that the MTSS is in sync with PPBS and so requires Responsibility Accounting; 91.43% responded that the correlation between achieving the objectives of MTSS in PSR and Responsibility Accounting is positive; 70% responded that the relationship between Responsibility Accounting and Accrual Financial Reporting systems is highly significant; 80% strongly agreed that the Medium-Term Fiscal Strategy (MTFS) is compatible with Programme Performance Budgeting System (PPBS); 22% said that there is high degree of similarity between the Medium-Term Sector Strategy (MTSS) and the New Public Management (NPM) concept with 69.43% saying that the similarity is very high; 65.71% strongly agreed while 26.86% agreed that Sections 19(d) and (e) and 44(1) emphasize the input-output dimensions to public sector governance being introduced by the FRA 2007 and so require the application of cost and managerial accounting tools to be implemented; 68% generally disagreed that the level of IT development in Nigeria poses significant challenge to implementation of accounting and budgeting reforms in the public sector.

Various Nigerian governments had in the past, initiated economic policies and reforms that were supposed to address the economic problems confronting Nigeria; but most, if not all, failed. Some of such reforms include the underlisted:

1. The Economic Stabilization Act of 1982;
2. Austerity Programme of 1984;
3. Emergency Measures of 1985; and
4. Structural Adjustment Programme of 1986.

The Office of the Honourable Minister, Economic Matters (2000) records the following as some of the objectives of the various economic reforms, especially those of the Obasanjo regime:

i. Curtailing excessive and extra-budgetary spending by Government;
ii. Adopting measures to achieve fiscal prudence, transparency, minimal deficits, and efficient resource use;
iii. Establishing prudence and stability in macro-economic management.

The same source, commenting on the performances of the above economic reforms, asserts that "their implementation suffered many weaknesses and consequently had negligible effects on the poverty situation". The consequences of these developments on economic and social activities, the source continues, "were severe…..and it was no surprise that the poverty situation worsened, with the number of Nigerians in the poverty range rising from 39.2 million in 1992 to 67.1 million in 1996".

Part of the reason for this failure includes non-integration of a corresponding accounting system with the fiscal policies. It may be difficult for a fiscal policy to yield intended objective without a commensurate accounting system to ensure, efficiency, transparency, probity and accountability.

According to Ouda (2004), public sector reforms are carried out to address economic crises. The New Zealand embarked on reforms to tackle the economic crises it faced (Wynne, 2003). Richardson (IFAC, 1997) opines that the imperative for change in New Zealand was three fold:

i. Sick economy—one of the worst performance in the Organization for Economic Co-operation and Development (OECD),
ii. Sick public institutions—lack of efficiency and effectiveness in government agencies,
iii. Sick social policy—neither fair nor affordable.

He also identified Financial and Performance deficits as other major imperatives for New Zealand's public sector accounting reforms. It was in continuous deficit for two decades (70s and 80s) pushing net public expenditure levels up from 5% of Gross Domestic Product (GDP) to over 50% of GDP. Also, while public expenditure levels climbed from 30% of GDP to over 42% of GDP over those two decades, the standard and quality of performance in its public institutions and agencies dropped (IFAC, 1997).

Australia's poor economic performance of the 1970s led to a reassessment of the role of the Australian public sector and its management (Ouda, 2004). The Australian public sector was suffering from the lack of a system of performance measurement, the absence of incentives to encourage greater efficiency and the lack of competition as a pressure for improved performance (Mascarenhas, 1990). There was clamour for reform that should focus on improving efficiency, effectiveness, responsiveness and accountability. This led to the launch of The Financial Management Improvement Program (FMIP) in 1984. FMIP was concerned as much with effectiveness as with efficiency. In fact, the major concern was to improve the links between programs outcomes and the resources required for achieving them (2004).

The conditions that necessitated public sector accounting and budgeting systems reforms in New Zealand and Australia are no different from what obtains in Nigeria. Statistics show that when the economic indicators in the Nigerian Public sector for the past ten (10) years up to the year 2003 (before the commencement of the present Public Sector Reform that necessitated the Fiscal Responsibility Act 2007) are compared with those of subsequent years up to 2008, there does not seem to be much difference nor improvement. For example, the percentage increase of per capita income between 1994 and 2003 averages 5.28% against those of annual expenditure which averages 23% for the same period (figures are results of calculations based on figures in table 4.11). The economy has not recorded much improvement thereafter. The average percentage increases in per capita and federal government expenditure from 2004 to 2008 are 3.49% and 21.7% respectively. Indeed, whereas the annual expenditure increased by 26% in 2007 and 32% in 2008 against their respective previous years, the per capita GDP for the same periods increased marginally by 3.15% and 2.69% respectively. These statistics which are results of calculations based on figures in table 4.11 show that despite the marginal increase in welfare being far less than the marginal increase in expenditure, there is actually a decline in welfare in 2008 in spite of the existence of the Fiscal Responsibility Act 2007.

As contained in the statement of the problem in Chapter One, inflation is also on the rise which is an indication that not enough goods are available to meet demand. Also, there has not been much improvement in the quality and availability of healthcare delivery and services to the ordinary citizen. Life expectancy of 54 years has indeed declined to 47 years according to World Bank; and infant mortality rate of 114 per 1,000 live births has not recorded any appreciable improvement over the period in question, as it is still among the highest globally (Central Bank of Nigeria, 2008). These are evidences that the increases in budgetary allocations have not increased the welfare of the citizens nor have they translated to any appreciable improvement in the economic indices. And so it becomes obvious that as this study has established, more needs to be done so that the objectives of the economic and public sector reforms can be achieved.

A critical look at the reasons for the public sector accounting and budgeting reforms in New Zealand and Australia shows that these are the same objectives that the Fiscal Responsibility Act (2007) seeks to achieve. The drivers of the reforms in New Zealand are given by Ouda (2004) as follows:

1. Separating commercial operations from other government production,
2. Strengthening lines of ministerial and executive accountability,
3. Designing budget and financial management systems to improve measurement of the public sector performance.

According to Goldman and Brashares (1991), the last reform driver includes:

a. shifting from an input to an output based system;
b. changing from cash to accrual accounting;
c. and creating different forms of appropriations for different types of government activities.

This last reform driver is conspicuously missing among the drivers of the reform process in Nigeria and accounts for the non-achievement of the objectives of Public Sector Reform in general and Fiscal Responsibility Act (2007) in particular. This inference agrees with the results of the analyses of the primary data to the effect that:

1. The correlation between the attainability of public sector reform and financial reporting systems reforms is highly positive;
2. The objectives of FRA and PSR cannot be achieved with cash-based accounting and budgeting systems in the public sector;

3. Accrual based accounting and budgeting systems are more compatible with the requirements of public sector reform and the FRA 2007.
4. The reform objectives of matching results with objectives and resources utilized can best be implemented using accrual basis of accounting and budgeting.

England, on the other hand, pursued the use of accrual accounting techniques in its public sector to provide a more accurate measurement of resources consumed; to account for the use of capital and current resources consistently, in terms of resource consumed; a financial reporting structure to match resources used to departmental objectives, and linking these objectives to quantified measures of output and performance.

Thus, in the view of Ouda (2004), the main reason for introducing resource accounting and budgeting in England was improving the efficiency and effectiveness of the public sector. Moreover, resource accounting and budgeting was envisaged in the White Paper as a milestone in modernizing the state by:

- focusing more on resources consumed and not just on cash spent;
- treating capital and current expenditure in a way which better reflects their economic significance;
- encouraging the discipline of a greater emphasis on outputs and the achievement of aims and objectives.
- There was an increasing focus on the objectives and outputs delivered, performance measurement and value for money (rather than cash inputs). This was a natural consequence of the Financial Management Initiative (FMI) that was designed to encourage departments to produce better information on objectives, output and performance.
- The UK government wanted to make the changes that would provide information for better management decisions so that government departments can improve the use of resources to fulfill their objectives;
- Fiscal control: Control of public sector finance has also contributed to the development of public sector accrual accounting in the UK. From its inception, it

was envisaged that the change to an accrual accounting basis in central government would have impact on the presentation of public sector plans (HM Government, 1994). However, the new budgeting framework could only be introduced once the new accounting systems were in place (Ellwood, 1999).

- The continuing interest in reducing avoidable difference between public expenditure survey and the parliamentary processes; (Likierman, 1998)
- The departmental ability to exercise financial control, and to plan and to structure their resources will be enhanced by implementing the resource accounting and budgeting;
- The UK government believes that resource accounting will help promote better management by government departments of the resources and assets made available to them by parliament.

Again, the above objectives drawn from various authors and captured in Ouda's work (Ouda, 2004) are much the same as those meant to be achieved through the Public Sector Reform in general and the Fiscal Responsibility Act (2007) in particular. Yet, the public sector accounting and budgeting systems in Nigerian have not been reformed to be able to support the achievement of the reform objectives.

As earlier stated, the Medium-Term Sector Strategy (MTSS) is a public sector policy tool by means of which Ministries, Departments and Agencies (MDAs) are required to identify and develop key initiatives in the form of projects and programmes that they will embark upon to achieve their goals and objectives. These goals and objectives, as earlier stated in chapter two, must be consistent with the economic and developmental goals of the government. In addition, these key initiatives are required to be costed and linked to expected outcomes. The outcomes as contained in the MTSS are used as policy documents against which budget proposals of the MDAs are evaluated (Budget Office of the Federation, 2009).

This study, having critically examined the features of MTEF and MTSS in Nigeria, has discovered that they are fashioned after the New Public Management (NPM) concept as the study shows that they posses all the features of the NPM. The findings of this research have also established that Nigeria's adoption of MTEF and MTSS has effectively launched her into the league of countries tending towards programme performance budgeting system. This, by implication, means that Nigeria has embraced and adopted the concept of New Public Management in its public sector. However, the public sector accounting and budgeting systems in Nigeria have essentially remained the same.

But this study has established that the reform of public sector accounting and budgeting systems is essential driving force in successfully achieving the public sector reform objectives. This is in line with the views of scholars in budgets and budgeting systems. Ouda (2004), posits that the need to expand focus beyond inputs towards a "performance-based" or "output-based" management, to improve the efficiency, effectiveness and accountability of the public sector, and to increase the managerial discretion which gives managers incentive to manage with greater awareness of resource costs, has led to major changes in the public sector accounting system. According to Rose (2003), the shift from old public administration to New Public Management has fundamental implications for budgeting. Traditional budgeting practices focus on economy of inputs, financial regularity, and adherence to procedure. NPM systems, on the other hand, permit greater flexibility of inputs and processes in return for greater emphasis on outputs and performance (Ouda, 2004). In essence, NPM is premised on activity based, that is, programme-based and performance budgeting.

The introduction of activity-based budgeting at the sector level has formed part of the implementation of MTEFs in a number of countries, as evident in Ghana, Malawi, and Zambia. Although the specifics of systems differ across countries, they follow a similar logical framework approach to planning and budgeting at the level of ministries (Rose, 2003). In Nigeria, the instrumentality for the implementation of MTEF is the MTSS policy document. The Medium-Term Sector Strategy (MTSS) is a policy document by means of which the provisions of the MTEF are carried out. It was introduced into the Nigerian public sector as part of the economic and fiscal reforms, in which key initiatives in the form of projects and programmes that MDAs will embark upon to achieve their goals and objectives are contained. The outputs and outcomes, as contained in the MTSS, are used as policy documents against which budget proposals of the MDAs are evaluated (Budget Office of the Federation, 2009). The annual estimates and appropriations in the Nigerian public sector, based on the MTSS, are prepared in consonance with the provisions of the MTEF.

Modern budgeting practices now include New Public Management (NPM) approaches. NPM approaches involve the targeting of organizational incentives to leverage changes in how individual agencies budget and spend. Most notably, they involve the decentralization of responsibilities to lower organizational levels, including the discretion to decide how funds will be spent and to account for what was achieved with funds received. By bringing the responsibility to budget closer to better information about spending efficiency and effectiveness and by holding managers accountable for results, NPM approaches try to use the alignment of incentives to improve the quality of spending decisions.

Rose (2003) posits that reforms in the public sector have led to a shift from the traditional public administration system to the improved and pragmatic management system known as New Public Management. The New Public Management (NPM) focuses on performance evaluation and result-oriented accountability. This new public sector management system has the following features (Ouda, 2004):

(v) focuses on output instead of input

(vi) increases individual responsibility of managers

(vii) gives the managers discretion in the use of resources

(viii) measures performance in terms of efficiency and effectiveness.

Also Folscher (2007) has stated that different countries have applied different mechanisms within MTEFs to improve the quality of information used to make resource allocations. An important aspect of this trend is the introduction of program classification and a performance orientation, often combined in parallel program performance budgeting systems (Folscher, 2007).

In line with the view of Ouda (2004), NPM systems permit greater flexibility of inputs and processes in return for greater emphasis on outputs and performance. Thus it becomes clear that NPM systems such as MTSS are premised on decentralization and accountability which are features of Responsibility Accounting. Therefore, there is need to adapt the financial reporting systems in the Nigerian public sector to conform with activity-based and programme performance budgeting which is provided for in the FRA via the MTEF.

Moreover, Scott (1996) has argued that if a country has already made a commitment to a results-based management system that explicitly specifies the objectives of a government entity, the adoption of the accrual accounting system and the application of modern cost accounting principles will improve the ability of the government to assess the costs of achieving those objectives. This view agrees with the research findings that Sections 19(d) and (e) and 44(1) (among other sections) emphasize the input-output dimensions to public sector governance being introduced by the FRA 2007 and so require the application of cost and managerial accounting tools to be implemented.

Now, the framework for achieving the objectives of the FRA in the Nigerian public sector is the MTEF. According to Folscher (2007), MTEFs operate best when budgets are developed using a program budgeting methodology. He further opines that if MTEFs are to result in better spending and service delivery, they need to be well integrated with, and complemented by, improvements in other public policy and management processes. A critical reform is that of the budget classification system: it must provide a program view of spending for planning that is linked to an administrative and line-item view for implementation purposes (Folscher, 2007).

The *Budget Speech (*2009) presented in March, 2009, by the Minister of Finance of the Federal Republic of Nigeria, Mansur Muhtar, has “A Focus On Deliverables” as one of its main parts (Part III Section D). Part III Section D 11 emphasized that a special feature of the 2009 Budget is the focus on specific deliverables in terms of public goods and services that Ministries, Departments and Agencies (MDAs) have undertaken to provide to Nigerians. This is in line with the economic and public sector reforms and in keeping with the provisions of the FRA 2007. In the words of the Minister, in Part III Section D 12 of the document,

> *This focus on achieving and tracking the impact of resources utilized on the welfare of Nigerians is part of the ongoing reforms to introduce a comprehensive performance-based budgeting system. A monitoring and evaluation system that uses special electronic templates to systematically track and report on the actual outputs and outcomes achieved by MDAs has been implemented. This system will ensure that the focus will shift from resource commitments to MDAs to what was actually delivered by the various MDAs. It is also envisaged that quarterly budget monitoring and evaluation reports will be published in line with the provisions of the Fiscal Responsibility Act 2007.*

A look at the Appropriation Act for the year 2009 shows that it is cash-based although it attempts to assign expected outputs for some projects. However, the Budget Office has started the publication of quarterly budget implementation reports with effect from the year 2009. This is in fulfillment of the provision of part V, section 30 the FRA 2007. But much as this represents an improvement over previous system, it still needs a lot of fine-tuning and further improvements in information content to facilitate performance measurement. Be that as it may, it is a clear that indication that the budgeting system has been impacted by the provisions of the FRA, though in a limited manner. However, the same cannot be said of the accounting system which has not shown any change in the reporting system.

Granted, developed knowledge and user capacity is relatively low in Nigeria as in other developing countries, but does not rule out the possibility of successful reform of financial reporting systems. Ethiopia's budget and accounts reforms recorded a success story. According to Stephen Peterson (2007), a major reason for the success of the budget and accounts reforms in Ethiopia was that the existing system was evolved through a process of learning by doing—process change. He goes on to state that financial management reform in developing countries should be driven by the design of financial procedures.

Process change evolves existing procedures and workflows using Information Technology (IT) in a supportive role. It is a less risky strategy of reform because it works with existing requirements and with existing developed knowledge and user capacity (Davenport, 1993), which is relatively low in developing countries. Ian Lienert's (2002) conclusion after a review of the financial reporting systems in African countries is that critical actions should be directed towards enhancing budget discipline and improving accountability of all those responsible for budget preparation, execution, reporting and evaluation. Although this conclusion was predicated on his opinion that the existing public expenditure management systems with some exceptions were relatively sound while the execution processes were not, it is a pointer to the fact that there exists good foundation upon which improvement can be made in public sector budgeting and accounting systems in African developing countries, Nigeria inclusive.

Indeed, during the oral interview sessions in the course of this study, it was discovered that the Consolidated Accounts Department (CAD) in the Office of the Accountant-General are ready and willing to take the accounting system in the public sector to the next level. The deputy director (CAD) believes that reforming the accounting system will enable them keep a better track of revenue generation, especially the arrears, which is lumped as miscellaneous revenue in a new fiscal year.

This existing process is a demotivating factor in revenue drive as the cash basis does not permit such revenues to be tied to their proper sources and period of transaction. Therefore, in line with the discoveries of this research there is need for accounting and budgeting systems reform to be carried out in the public sector but with a process change approach.

5.2 CONTRIBUTION TO KNOWLEDGE

Nigeria has undertaken a number of economic reforms before the present one. None of the previous ones was successful as none could achieve the objectives for which it was carried out. The failures are always attributed to lack of proper implementation process. Yet, no work has been carried out to find out why implementation has always failed. This would require a critical and objective examination of the frameworks and fiscal strategies of implementation and the structures that would be needed to carry them out. This is necessary to determine the suitability of such structures and their compatibility with the reform frameworks. There is no evidence that such study has been undertaken, especially in the Nigerian context. This significant knowledge gap is being filled by this work.

One of the major contributions of this work to existing body of knowledge is the development of quantitative models to reflect the relationship between fiscal policy outcomes and accounting and budgeting bases as established in the study. This model can be used or even improved upon by other researchers in the study of fiscal policies and accounting systems; and how proper coordination between fiscal responsibility and accounting could achieve the economic objectives of fiscal transparency, accountability, efficiency, and economic growth in Nigeria.

Recall that the result of hypothesis 1 shows that the existing cash accounting and budgeting systems in the Nigerian public sector are not appropriate for the realization of desired sectoral targets as a major objective of the FRA. Also, the cash-based system is concerned with actual cashflows and adherence to legislative appropriations, therefore, it is not suitable for planning and forecasting. Therefore, when the above is situated against what is obtained in the Nigerian public sector, it becomes obvious that there is need to find solution to bridge this gap.

Ouda (2003) developed a model to measure the efficiency level of government operations based on the matching principle of accrual accounting as follows:

$$\frac{\text{Services and goods provided}}{\text{Resources consumed}} = \text{efficiency of using the available resources}$$

However, the model, though useful in evaluating performance, cannot be used for comparative analyses, monitoring and predictive purposes. This is so because it does not take into consideration other factors such as inflation, population growth rate, and other variables that impact on the value of economic indicators. This evidently creates significant knowledge gap. There is no evidence that another model to smoothen such distortions and shortcomings that are inherent in the above model has been developed. To fill this gap, the following model has been developed by the researcher to reflect the relationship which has been established by the findings of this research.

$$\frac{\delta\omega}{\delta e} = \gamma \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

Where $\delta\omega$ is derived by $(\omega_{n-}\ \omega_0\ )\%$ and δe is derived by $(e_n\ _-\ e_0\ )\%$

And where $\delta\omega\ =$ percentage change in expenditure

$\delta e\ =$ percentage change in economic indicator

$\omega_0\ =$ economic indicator for base year

$\omega_n\ =$ economic indicator for year n

$e_o\ =$ expenditure for base year

$e_n\ =$ expenditure for year n

$\gamma =$ transparency/efficiency index

Deriving from the above, using a perfectly suitable accounting system, and other factors held constant, there should be no leakages and no corruption. Therefore, any change in expenditure will bring about at least equal change in economic indicator for the same period. This relationship can be reduced to the following model formulated by the researcher as:

$$\frac{\delta\omega}{\delta e} = \gamma = \frac{(\omega_{n-}\ \omega_0)\%}{(e_{n\,-}e_0\ )\%}$$

Therefore,

$$\gamma = \frac{\delta\omega_n}{\delta e_n} = \frac{\delta\omega_0}{\delta e_0} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (2)$$

Where the variables are defined as in the equation (1).

Equation (1) is quite useful for the monitoring and evaluation of performance while equation (2) is especially useful for predictive purposes. In both of the equations, the efficiency index must be more than or at least equal to 1 not to be considered a failure.

The models developed in this work are particularly relevant in achieving Sections 12 (1) of the FRA which stipulates that the budget deficit should not exceed three percent (3%) of estimated national GDP for any particular year; and 19(e) of the FRA which stipulates that the Annual Budget shall be accompanied by a '*Fiscal Target Appendix* derived from the underlying MTEF setting out target inflation rate, target fiscal account balances, and any other developmental target deemed appropriate'.

There is no gainsaying that the model developed in this work would be of tremendous use in the fiscal planning of the economy. In developing the basic requirement model for the implementation of accrual accounting in the public sector, Ouda (2004) dwelt on the implementation framework. However, factors used in the model are hardly measurable and therefore would be difficult to replicate. Luder, on the other hand, attempted to explain the reasons for the transition from one accounting system to another, although

Guthrie (1998) has argued that the work was not explicit as to what a more informative system would be. This model captures the two perspectives in a scientific and measurable way and can also be used as an indicator of the consequences of the adoption of a particular accounting regime. Given the paucity of accounting models with which scientific measurements, analyses and predictions can be made in the field of Accountancy, the development of the models above form landmark contribution to the existing body of knowledge in this field.

Another major contribution is the use of quantitative tools in identifying and establishing the significance of public sector accounting and budgeting systems as essential driving force in successfully implementing public sector reforms. Most of the literature on the Public Sector Reform in Nigeria and the Fiscal Responsibility Act (2007) dwell on the outcome of the reform programme and attribute the failure to lack of political will. The successful implementation of the PSR in Nigeria is not necessarily a political matter. It has gone beyond political will by the very enactment of the FRA (2007). An indepth study of the reform frameworks and the determination of implementation strategies that best suit the frameworks are lacking. This obviously has created knowledge gap which this work has filled. There is no evidence that any such work has been done in the Nigerian setting. This work, therefore, is the first to undertake such indepth study of the PSR as well as one of its major frameworks, i.e. the FRA, with a view to determining the accounting and budgeting systems that best suit their successful implementation. The results of findings show that the provisions of the FRA can best and successfully be implemented using accrual-based accounting and budgeting systems. This work has thus contributed to the body of knowledge in public sector reforms by identifying and establishing that the reform of public sector accounting and budgeting systems is essential driving force in successfully achieving the public sector reform objectives in Nigeria.

Many authors and commentators focus on the legal aspect of the FRA such as whether or not the government is adhering to the fiscal deficit rule. None has bothered to examine the provisions and the fiscal strategies as contained in the FRA and relating these to the frameworks for implementing and monitoring them. This is a major and significant knowledge gap this work has filled. This research set out to examine whether the PSR in Nigeria can be successfully implemented without reforms in the public sector accounting and budgeting systems. In particular, the FRA, being a major framework of the PSR, was examined to determine the best ways to implement its provisions. To the best of my knowledge, no study has been done on fiscal responsibility and accounting system, and how proper coordination between fiscal responsibility and accounting and budgeting could achieve the economic objective of fiscal transparency, accountability, efficiency and economic growth in the Nigerian setting. This work has thus contributed to the existing body of knowledge on the implementation of fiscal reforms. It has established that the FRA (2007) needs an accounting and budgeting system that can assign responsibility and provides the incentives for resource managers to be both accountable and efficient in their use of resources. So, the successful implementation of the PSR generally and FRA in particular, is not a legal issue. It is a question of adjusting the structures upon which the implementation and monitoring rest, namely, the public sector accounting and budgeting systems. In this instance, the obvious adjustment would be a reform of the present cash-based public sector accounting and budgeting systems to accrual basis.

5.3 PRACTICAL AND THORETICAL IMPLICATIONS OF STUDY

For all practical purposes, Nigeria's fiscal policy and budget management constitute the hub of macroeconomic policy. Every other macro policy derives from, or responds to, macroeconomic imbalances resulting from the fiscal policy stance. Given the size of the public sector, and the fact that the private sector depends largely on the public sector, the annual budget is therefore a decisive policy instrument that can be employed to achieve the objectives of the FRA. Short-term, as it is, the instruments of annual budgets dictate the thrusts of fiscal policy.

Public budgeting systems are intended to fulfill several important functions. These functions include setting budget priorities that are consistent with the mandate of the government, planning expenditures to pursue a long-term vision for development, exercising financial control over inputs to ensure fiscal discipline, managing operations to ensure efficiency of government operations, and providing tools for making government performance accountable to citizens. The budget also functions as a very significant statement of government policies, one in which policy objectives are reconciled and implemented in concrete terms (Shan and Shen, 2007).

A close look at the provisions of the FRA 2007 would show that it was prepared in the spirit of the above paradigm. And being so, it should be implemented in the same spirit. The FRA is part of the framework of the public sector reform being implemented in Nigeria and which is fashioned after the New Public Management. As with the public sector reform in Nigeria, the New Public Management has the following features outlined by Wynne (2007):

- privatization and outsourcing of public services
- deregulation
- commodification and charging for public services
- creation of purchaser/ provider splits and agencies to deliver specific service.

According to the Chartered Institute of Public Finance and Accountancy (CIPFA), PPBS is a "management system ….. providing regular procedures for reviewing goals and objectives, for selecting and planning programmes over a period of years in terms of outputs related both to objectives and resources necessary to achieve them, for allocating resources between programmes and for controlling their implementation." One of the basic elements of PPBS is the measurement of total programme cost not just for one year, but for several years ahead, and comparing it with expected total benefits. Another basic feature of PPBS is the analyses of alternative means and measures to find the most effective means of attaining programme objective. One other important element of this budgeting system is the establishment of the analytical procedures as a systematic part of budget review involving reporting and reviewing of programme results. The FRA 2007 provides for all the above in Section 19. However, the 2009 Annual Budget does not comply with these provisions.

However, despite the reforms which have seen Nigeria adopting the Planning Programme Budgeting System (PPBS) via the Medium Term Fiscal Strategy (MTFS) framework, Nigeria's public sector budgeting and accounting systems are still cash-based. The 2009 Federal Government of Nigeria Budget Proposal is still essentially cash-based. This is akin to pouring old wine into new wineskin.

The question now is: Can the instrumentality of public administration, that is, cash budgeting and accounting, work in the new dispensation of public management which is what the public sector reform and the FRA represent? It is doubtful because the cash-based accounting and budgeting system is not an input-output model. So, such a system is unsuitable in an environment where the input-output model has been adopted as the framework for carrying out economic and development activities.

The *Budget Speech (*2009) presented in March, 2009, by the Minister of Finance of the Federal Republic of Nigeria, Mansur Muhtar, has "A Focus On Deliverables" as one of its main parts (Part III Section D). Part III Section D 11 emphasized that a special feature of the 2009 Budget is the focus on specific deliverables in terms of public goods and services that Ministries, Departments and Agencies (MDAs) have undertaken to provide to Nigerians. This is in line with the economic and public sector reforms and in keeping with the provisions of the FRA 2007. In the words of the Minister, in Part III Section D 12 of the document,

> *This focus on achieving and tracking the impact of resources utilized on the welfare of Nigerians is part of the ongoing reforms to introduce a comprehensive performance-based budgeting system. A monitoring and evaluation system that uses special electronic templates to systematically track and report on the actual outputs and outcomes achieved by MDAs has been implemented. This system will ensure that the focus will shift from resource commitments to MDAs to what was actually delivered by the various MDAs. It is also envisaged that quarterly budget monitoring and evaluation reports will be published in line with the provisions of the Fiscal Responsibility Act 2007.*

Accounting researchers have highlighted possible implications of the application of accrual accounting in the public sector (for example, Ball, 1994; Parker, 1993; Pallot and

Ball, 1996; Guthrie, 1998; Warren, IFAC 96; Richardson, IFAC 97; Goldman and Brashares, 1991; and Miah, 1991), and the accounting role in organizational and social changes (Hopwood, 1984; and Ryan, 1998). According to Ouda (2004), Guthrie has argued that despite the increasing appeal of accrual accounting and its broad ranging implications for the role and functioning of public sector accounting systems, there has been comparatively little study of **its application and consequences** for the wider community.

Lüder (1992) developed and published the Contingency Model of Government accounting Innovations in an attempt to explain the transition from traditional government accounting to a more informative system. According to him, a more informative system performs two functions:

i. It supplies comprehensive and reliable information on public finance, and
ii. it provides a basis for improved financial control of government activities.

However, Chan (1994) pointed out that the Contingency Model (1992) was not explicit about what constitutes a more informative system. But according to Ouda (2004), it may, be inferred that such a system would call for full disclosure of a government's financial condition and performance, measured under the accrual basis of accounting.

In his own work, Ouda (2004) proposed a model that specifies the basic requirements that should be available if a certain country confirmed its intention to implement accrual accounting in the public sector. In other words, it brings the government's attention, from the outset, to the changes and factors that should be made simultaneously and coordinated if it wants to implement the accrual accounting in the public sector in an efficient, effective and economic way, to attain the target benefits from that implementation and to avoid the problems which can emerge if these factors or one of them have not been taken into consideration. He refers to these factors as the driving forces of government accounting changes and can be one or more of the following stimuli: Financial Problems; Financial Scandal; Corruption and Fraud; Globalization; Economic Crisis; and Change Agent. However, the model does not include the factors that **could bring about the decision to change.** Be that as it may, Ouda (2004), posits that irrespective of what the driving forces (stimuli) for the accounting changes are, the role of the basic requirements model **starts after** the government has taken a decision to make these accounting changes.

The practical and theoretical implications of the model developed in this work is that a desired economic index can be used to derive and prepare budget estimates much the same way that economic variables can be used to predict economic indicators. For example, just as expenditure and population figures can be used to predict per capita GDP, the desired economic index and transparency index can be used as guide to prepare budget estimates.

As earlier stated, the models developed in this work are particularly relevant in achieving Section 12 (1) of the FRA which stipulates that the budget deficit should not exceed three percent (3%) of estimated national GDP for any particular year; and 19(e) of the FRA which stipulates that the Annual Budget shall be accompanied by a '*Fiscal Target Appendix* derived from the underlying MTEF setting out target inflation rate, target fiscal account balances, and any other developmental target deemed appropriate'.

These models are expected to form the foundation for further studies and expansion. If subjected to replication and proved, then no doubt, this work would have made enormous contribution to the field of accountancy on how proper coordination between fiscal responsibility and accounting could achieve the economic objectives of fiscal transparency, accountability, and economic growth, especially in the Nigerian setting.

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CHAPTER SIX

CONCLUSIONS AND RECOMMENDATIONS

6.1 CONCLUSION

A federal Fiscal Responsibility Bill and a Public Procurement Bill were passed into law in 2007 to ensure fiscal and financial discipline in the public sector and the achievement of sustained economic growth and development. Achieving the above objectives depends to a large extent on the successful implementation of the Fiscal Responsibility Act (2007). On the other hand, the successful implementation of the FRA 2007 depends heavily on the existence of enabling structures and environment to translate the provisions into workable solutions and to monitor its performance.

The budget plays a very important role in identifying the performance of governments. Traditionally, the importance of the budget related to the allocation of money to each department or program. Now, there is a trend to integrate performance measures into the budget, going so far as to allocate money based on performance (Foltin, 1999). According to Foltin (1999), the budget process should not only concentrate on controlling spending, it should also serve as the link between planning, management, communications, and benchmarking in performance measurement. This is because the budget is the foundation of operational accountability.

In the same vein, accrual based accounting in the public sector is generally part of a reform movement which has come to be known as New Public Management. Accrual accounting provides suitable framework for New Public Management developments as the means by which measurements are made, achievements are documented and negotiations take place (Wynne, 2007).

The main feature of public management is the greater emphasis on efficiency and effectiveness. If these are to be achieved, it is necessary to develop and adopt an accounting system, namely, accrual system, that can provide the information required for measuring performance in terms of efficiency and effectiveness (Parry, 2005; Blondal, 2004; Ouda, 2004; McClarin, 2000).

On the 24th of June 2009, the Federal Executive Council (FEC) meeting held in Abuja formally instituted the practice of performance evaluation. Two ministries—Power and Works---were subjected to scrutiny, and contracts awarded were evaluated based on the performances of the contractors as at that date (24/06/2009) against the expected results. The basis of the evaluation was the Appropriation Act. This action was in the spirit of the economic reforms and effectively portrays Nigeria as adopting measures to implement performance management in the public sector in line with the provisions of the *Fiscal Responsibility Act 2007*. This satisfies one of the basic requirements for the implementation of accruals system of accounting in the public sector--- that of Management Changes--- as postulated by Ouda (2004). However, such evaluations cannot be carried out using cash-based accounting information. Bearing in mind that Nigeria still operates cash accounting system in the public sector, questions as to the bases and instruments for evaluations arise.

One of the main features of program performance management is the programme performance budgeting. Programme performance budgeting requires designing of cost accounting system and adoption of accrual basis in treating the expenses (United Nations, 1984). The need for cost accounting based on accrual accounting system becomes evident in a program- performance budget system as current and future costs of projects or activities have to be appraised (Ouda, 2006).

The program-performance budget indicates the relationship between the inputs and the outputs and whether the resources have been effectively used and the target objectives have been achieved. In short, it focuses on the purposes of expenditures and the outcome of the expenditures and provides data, which can be used to evaluate this outcome (Ouda, 2006; IMF, 2001; UN, 1984). Clearly, the program-performance budget has more advantages than the traditional budget (Ouda, 2006; IMF, 2001).

Each budgeting method needs a relevant accounting system that is consistent with its nature and requirements. In fact, each accounting basis has a special nature and characteristic that makes it appropriate for a specific use, and hence consistent with one of the budgeting methods. Similarly, the use of one budgeting method can also play a fundamental role in choosing one accounting basis instead of another (Ouda, 2006).

According to Ouda (2006), cash-based accounting system is unable to satisfy the requirements of the programme-performance budget. Therefore, an accounting system suitable for such a budget system, as provided for in the FRA 2007, should be developed too in order to provide the required information. In reality, the nature and the requirements of the programme-performance budget are consistent with the concept and the implications of the accrual accounting system (Ouda, 2007). So the development of the budget system without taking into consideration the adequacy of the related accounting system will not achieve the target benefits from that development. Therefore, if a government wants to develop its budgeting system, it should firstly adopt the accounting system that would be able to execute this budget and be consistent with its nature because not doing so will mean that the development of the budgeting system will not have major effects on the performance of the government as intended.

This research clearly has shown that the provisions of the FRA cannot adequately be supported by the present cash system. It has also brought to the fore that the provisions require programme performance budgeting and so requires complementary accounting system to be effective. This complementary accounting system was discovered to be responsibility accounting. Furthermore, it was discovered that there is significant relationship between responsibility accounting and accrual accounting.

So, if Nigeria wants to achieve success in the economic and public sector reform, it should firstly adopt the accounting and budgeting systems, namely, accrual system, that would be able to execute the reform agenda and be consistent with their nature because not doing so will mean that the implementation of the economic and public sector reforms will not have major effects on the performance of the government as intended.

6.2 RECOMMENDATIONS

The findings of this study have demonstrated that the cash accounting and budgeting systems are not adequate to support the provisions of the FRA 2007 which is the framework for the implementation of the economic and public sector reforms in Nigeria. Also, the findings show that there is need to reform these systems to suit the objectives of the FRA and its framework. It was also established that there is correlation between accounting systems and attainability of economic and fiscal policies. Based on the findings of this work, the following are recommended:

1. The Federal Government should continue with implementation of the public sector reform programme. This is necessary for the economic growth and improvement of the country's macro-economic indices. Achieving the various national development goals and MDGs may just dependent on the ability of the government to assiduously pursue the reform programme.

2. The public sector budgeting and accounting systems should be modified and adapted to suit the provisions of the FRA so that the objectives of the reform programme may be achieved. This recommendation is on the strength of the research result that shows that the frameworks for achieving the reform objectives are tailored along the NPM concept. The concept of matching outputs with inputs which the reform objectives demand is one which the current cash-based accounting and budgeting systems in the Nigerian cannot accomplish. One of the main features of program performance management is the programme performance budgeting. Programme performance budgeting requires designing of cost accounting system and adoption of accrual basis in treating the expenses (United Nations, 1984).

3. That the accounting system should be reformed in conformity with the requirements of the PSR in general and FRA in particular. This concept that underlies the NPM assigns greater responsibility and demands accountability. Therefore, the reform

programme requires the use of responsibility accounting. As Ouda (2006) has noted each budgeting method needs a relevant accounting system that is consistent with its nature and requirements. In agreement with the findings of this research, he asserts that the use of one budgeting method can also play a fundamental role in choosing one accounting basis instead of another because each accounting basis has a special nature and characteristic that makes it appropriate for a specific use, and hence consistent with one of the budgeting methods.

4. That there should be proper coordination between fiscal policies and accounting regimes in order to achieve the economic objectives of fiscal transparency, accountability, efficiency, and economic growth in Nigeria. As this research has clearly established, the provisions of the FRA cannot adequately be supported by the present cash system. It has also been brought to the fore that the provisions require programme performance budgeting and so requires complementary accounting system to be effective. This complementary accounting system was discovered to be responsibility accounting. Furthermore, it was discovered that there is significant relationship between responsibility accounting and accrual accounting.

5. The audit institutions should be strengthened to be able to carry out the responsibilities which the reform of accounting and budgeting systems demands. The experiences of countries that have successfully reformed their public sector accounting systems show that a number of other factors contribute to the success story. One of the conditions listed by FEE (2003) that ought to exist before accrual accounting is introduced into the public sector is a robust process. Indeed, the support of the government auditor is also a pre-requisite for successful implementation of accrual accounting in the public sector (FEE, 2003). Besides, strengthening the audit institutions would also imply their independence.

6. The models developed in this work should be employed in economic and fiscal planning. They are particularly relevant in achieving Section 12 (1) of the FRA which stipulates that the budget deficit should not exceed three percent (3%) of estimated

national GDP for any particular year; and 19(e) of the FRA which stipulates that the Annual Budget shall be accompanied by a '*Fiscal Target Appendix* derived from the underlying MTEF setting out target inflation rate, target fiscal account balances, and any other developmental target deemed appropriate'. In the opinion of many authorities, MTEFs have come to be regarded as an essential element of modern budgeting practice adding, however, that in reality, they have often not delivered. Fölscher (2007) advanced a number of reasons for their failure. One of such includes insufficient attention to the preconditions and the complementary reforms necessary for their successful introduction. According to him, their effect is likely to be limited if not backed by a proper process that is based on an assessment of macroeconomic performance and creates buy-in to tradeoffs. This view underlines the importance of the models developed in this work.

7. There should be capacity building in both human resources and IT. The conclusion from the analysis of responses to the question on level of IT development in Nigeria shows that 59.43% believes it does not pose serious challenge to implementation of budgeting and accounting reforms in the public sector. In reality, this may not exactly represent the situation on ground. However, judging from the response to the oral interviews, the result may be interpreted to mean that there exists the potential for development of capacity both in terms of human resources and IT. The result may also be an indication of the desire of the respondents to see a reform of the systems. Whichever angle it is viewed from, there is the need for human resources and IT capacity building because accrual-based systems are more complex and sophisticated than the cash system.

6.3 AREAS FOR FURTHER STUDY

A landmark contribution of this work to knowledge is the development of the models by the researcher to facilitate proper coordination between fiscal responsibility and accounting so as to achieve the economic objectives of fiscal transparency, accountability, and economic growth in the Nigerian setting. Therefore, it is recommended that further studies be carried out with the models so developed using ex-post facto research method to establish its usefulness in the selection of proper accounting systems to achieve desired economic and fiscal objectives.

Also, one of the findings of this work is that accrual accounting is better suited for the implementation of the provisions of the FRA 2007. However, a number of authors, for example, Mellett (1997), Robinson (1998), Van Peursem and Pratt (1998), and Barton (1999) have questioned the adoption of private sector accounting in a public sector context. Some notable authors, such as Andy Wynne and Sheila Ellwood, have cautioned that developing countries should avoid overambitious accounting reforms, which would be ineffective. Also, some proponents of accounting system reforms like Sir Andrew Likierman, have cautioned that that there are no immutable accounting or other financial reporting rules. Therefore, it is also recommended that further work be carried out to determine the best way to implement accrual accounting to achieve fiscal transparency, accountability, and economic growth in Nigeria, given the level of development.

This recommendation is on the strength of the fact that even notable skeptics of accrual accounting in the public sector such as Andy Wynne accept that Reform of public sector financial accounting can bring many benefits in terms of the quantity and the quality of services that are provided to the citizens of many countries across the world (Wynne and Ellwood, 2003). They go on to advise that these reforms should be considered carefully because aspects, such as the basis of accounting which are to be adopted, should be decided in the context of the overall priorities of the reform process and not just on the basis of the perceived superiority of one basis of accounting over another. They agreed that Accrual accounting may facilitate New Public Management reforms but it is not an end in itself and concluded that the transition to the accrual basis of accounting may bring certain advantages in the appropriate context.

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APPENDIX A

TABLE 3.1
SELECTED MACROECONOMIC INDICATORS

	1995	1996	1997	1998[1]	1999[2]
Domestic Output and Prices					
Real GDP Growth (Growth Rate %)	2.2	3.4	3.2	2.4	2.7
Oil Sector	2.5	6.9	1.4	–4.9	–4.2
Non-oil Sector	2.1	2.9	3.4	3.8	3.6
Oil Production (mbd)	2.0	2.0	2.2	2.1	2.0
Manufacturing Capacity Utilisation (%)	29.3	36.8	34.0	34.9	36.0
Gross National Savings (% of GDP)	11.7	12.8	13.9	9.2	10.5
Gross Fixed Capital Formation (% of GDP)	4.9	5.1	5.4	5.3	5.4
Inflation Rate (%)	72.8	29.3	8.5	10.0	6.6
Federal Government Finances (% of GDP)					
Overall Fiscal Balance	01.	1.3	–0.2	–4.7	–8.5
Primary Balance	3.6	3.6	2.0	–2.2	1.5
Retained Revenue	12.6	11.5	11.9	10.9	18.3
Total Expenditure	12.6	10.2	12.1	15.6	26.8
Domestic Debt Stock	12.6	12.2	12.2	18.9	23.5
External Debt Stock[1]	74.7	80.5	70.7	87.2	76.2
Money and Credit (Growth Rate %)					
Net Domestic Credit	7.4	–23.4	–2.8	46.8	35.5
Net Credit to Government	-9.5	–55.6	–53.5	144.9	57.1
Credit to Private Sector	48.0	23.9	23.9	27.4	27.3
Narrow Money (M^1)	16.3	14.5	18.2	20.5	19.9
Broad Money (M^2)	19.4	16.8	16.9	23.3	31.4
External Sector					
Overall Balance (% of GDP)	–9.9	–1.9	0.0	–7.8	–3.1
Current Account Balance (% of GDP)	–9.4	8.5	1.2	–11.6	0.4
Capital Account Balance (% of GDP)	–0.2	–10.2	–1.0	4.1	–3.5
External Reserves (US$ million)	1,441.0	4,074.7	7,581.2	7,100.0	5,450.0
Average Crude Oil Price (US$/barrel)	17.3	21.2	19.4	12.9	18.0
Average Official Exchange Rate (N/US$)	21.9	21.9	21.9	21.9	N/A
Average AFEM Rate (N/US$)[3]	81.2	81.2	82.0	84.4	91.8
Average IFEM Rate (N/US$)[4]	–	–	–	–	96.1
Average Parallel Market Exchange Rate(N/US$)	83.7	83.1	85.0	87.9	99.2
Average Bureau de Change Exchange Rate(N/US$)	78.8	83.1	85.1	88.1	99.3
Social Indicators					
GDP Per Capita (₦)	1,041.5	1,051.8	1,056.1	1,051.0	1,075.9
Population Growth Rate (%)	2.83	2.83	2.83	2.83	2.83
Life Expectancy at Birth (Years)	52	53	53	54	54
Adult Literacy Rate (%)	57	57	57	57	57
Human Development Index	0.402	0.400	0.400	0.400	0.400

[1]Revised
[2]Provisional
[3]Figure is for January to October 24, 1999.
[4]Figure is for October 25 to December 31, 1999.

N/A = Not Available, as AFEM and Official Rates were merged in 1999.

TABLE 3.1
Selected Macroeconomic Indicators

Indicator	1999	2000	2001	2002 1/	2003 2/
Domestic Output and Prices					
Real GDP Growth (Growth Rate %)	0.9	5.4	4.6	3.5	10.2
Oil Sector	-7.5	11.3	5.2	-5.7	23.9
Non-oil Sector	4.4	2.9	4.3	7.9	4.5
Oil Production (mbd)	2.0	2.2	2.2	2.1	2.3
Manufacturing Capacity Utilisation	35.9	36.1	39.6	44.3	46.2
Gross National Savings (% of GDP)	21.6	23.1	19.3	19.5	25.7
Gross Fixed Capital Formation (% of GDP)	11.0	12.2	8.8	10.2	8.8
Inflation Rate (%) (Moving average)	6.6	6.9	18.9	12.9	14.0
Inflation Rate (%) (Year-on-Year)	0.2	14.5	16.5	12.2	23.8
Federal Government Finance (% of GDP)					
Overall Fiscal Balance	-8.9	-2.3	-4.3	-5.5	-2.8
Primary Balance	6.6	3.0	4.2	0.4	0.5
Retained Revenue	20.7	13.1	15.4	13.1	13.9
Total Expenditure	29.7	15.4	19.6	18.6	16.7
Domestic Debt Stock	24.8	19.8	19.6	21.3	18.1
External Debt Stock	80.5	68.1	61.2	72.0	61.1
Money and Credit (Growth Rate %)					
Net Domestic Credit	30.0	-25.3	79.9	64.6	32.7
Net Credit to Government	32.0	-170.1	95.2	6,320.6	47.9
Credit to Private Sector	29.2	30.9	43.5	19.7	27.1
Narrow Money (M1)	18.0	62.2	28.1	15.9	29.5
Broad Money (M2)	31.7	48.1	27.0	21.6	24.1
External Sector					
Overall Balance (% of GDP)	-10.2	6.9	0.5	-10.3	-2.2
Current Account Balance (% of GDP)	1.4	15.7	4.7	0.7	6.9
Capital and Financial Account Balance (% of GDP)	-11.5	-8.6	-4.1	-10.9	-9.0
External Reserves (US $ million)	5,450.0	9,910.4	10,415.6	7,681.1	7,467.8
Average Crude Oil Price (US$/barrel)	18.0	28.6	24.5	25.0	29.2
Average AFEM/DAS Rate (N/$1.00)	92.3	101.7	111.9	121.0	129.3
Average Bureau de Change Exchange Rate (N/$)	99.3	111.1	133.0	136.9	141.4
Social Indicators					
GDP per Capita (N)	1,038.8	1,046.8	1,062.5	1,065.4	1,028.5
Population Growth Rate (%)	2.83	2.83	2.83	2.83	2.83
Life Expectancy at Birth (Years)	54.0	54.0	54.0	54.0	54.0
Adult Literacy Rate (%)	57.0	57.0	57.0	57.0	57.0
Human Development Index 3/	0.4	0.4	0.4	0.4	0.4

1/Revised
2/Provisional
3/Nigeria's position on a scale of 1.0

Indicator	2004	2005	2006	2007 1/	2008 2/
External Sector					
Current Account Balance (% of GDP)	17.7	27.2	18.5	11.8	21.0
Goods Account	22.5	25.7	19.0	18.0	21.0
Services Account (net)		-2.9	-3.3	-6.9	-6.5
Income account (net)		-2.0	-4.7	-9.1	-10.4
Current Transfers	3.1	6.3	7.5	9.8	17.0
Capital and Financial Account Balance (% of GDP)	-7.9	-17.3	-5.3	-1.4	-2.8
Overall Balance (% of GDP)	9.7	10.0	9.8	4.9	0.8
External Reserves (US $ million)	16,955.0	28,279.1	42,298.0	51,333.2	53,000.4
Number of Months of Import Equivalent	13.6	13.1	16.7	19.3	16.6
Average Crude Oil Price (US$/barrel)	38.7	55.4	66.4	74.96	101.15
Average DAS Rate (N/$1.00)	133.50	132.15	128.65	125.83	118.92
End of Period DAS Rate (N/$1.00)	132.90	130.29	128.27	117.97	132.56
Average Bureau de Change Exchange Rate (N/$)	140.80	142.56	137.10	127.41	120.81
End of Period Bureau de Change Exchange Rate (N/$)	138.5	141.5	129.5	121.00	139.00
Capital Market					
All Share Value Index (1984=100)	23,844.5	24,085.8	33,358.3	57,990.2	31,450.8
Value of Stocks Traded (Billion Naira)	225.8	262.9	470.3	1,076.0	2,400.0
Value of Stocks/GDP (%)	1.9	1.8	2.5	9.2	10.0
Market Capitalization (Billion Naira)	1,925.9	2,900.1	5,120.9	13,294.8	9,535.8
***Of which*: Banking Sector (Billion Naira)**	662.7	1,212.1	2,142.7	6,432.2	3,715.5
Market Capitalization/GDP (%)	16.5	19.5	28.1	56.0	39.7
***Of which*: Banking Sector/GDP (%)**	5.7	8.1	11.8	27.1	15.5
Insurance Sector/GDP (%)	0.2	0.2	0.3	2.0	1.3
Banking Sector Cap./Market Capitalization (%)	34.4	41.8	41.8	41.8	39.0
Insurance Sector Cap./Market Capitalization (%)	1.3	1.2	1.0	3.2	3.3
Social Indicators					
Population (million)	129.9	133.5	140.0	144.5	149.1
Population Growth Rate (%)	2.8	2.8	2.9	3.2	3.2
Unemployment Rate (%)	13.4	11.9	14.6	10.9	12.8
Life Expectancy at Birth (Years)	54.0	54.0	54.0	54.0	54.0
Adult Literacy Rate (%)	62.0	63.1	57.2	66.9	66.9
Incidence of Poverty	54.4	54.4	54.0	54.0	54.0

1/ Revised

2/ Provisional

3/ Revised based on national accounts of Nigeria 1981 to 2005 Harmonised series

4/ Includes Building and Construction.

5/ Includes Wholesale and Retail Services

6/ Based on GDP at purchasers' value (GDP at market prices)

7/ Core Inflation is measured as the rate of change of all-item Consumer Price Index (CPI) less farm produce.

8/ Based on GDP at Current Purchasers' Value (Current Market Price).

9/ MPR replaced MRR with effect from December 11, 2006

10/ The 182-day and the 364-day bills were introduced with effect from ....

11/ Financial Datahouse Limited.
12/Includes States Government Debts
13/From CBN Analytical Balance Sheet

M_2 = Broad Money; GDP = Gross Domestic Product; CIC = Currency in Circulation

COB = Currency Outside Bank; QM = Quasi-Money; CP = Credit to Private Sector, CcP = Credit to core Private Sector

**** indicates not available.*

Sources: Central Bank of Nigeria (CBN), Federal Ministry of Finance (FMF), National Bureau of Statistics (NBS), Nigeria National Petroleum Corporation (NNPC), Nigerian Stock Exchange (NSE)

TABLE 5.43
SELECTED SOCIAL INDICATORS OF NIGERIA

Sub-Sectors	1993 (1)	1994 (2)	1995 (3)	1996[1] (4)	1997[2] (5)	Percentage Change Between (1) & (2) (6)	(2) & (3) (7)	(3) & (4) (8)	(4) & (5) (9)
A. Education									
1. Adult literacy Rate	55.0	55.0	57.0	57.0	57.0	0.0	3.6	0.0	0.0
2. No. of Pupils per Primary School	420	443.0	483.0	456.0	492.0	5.5	9.0	-5.6	7.9
3. No. of Pupils per Teacher (Primary)	41	50.0	60.0	48.0	52.0	22.0	20.0	-20.0	8.3
4. No. of Pupils per Secondary School	673	714.0	724.0	882.0	942.0	6.1	1.4	21.8	6.8
5. No. of Pupils per Teacher (Secondary)			40.0	37.0	39.0	-	-	-7.5	5.4
6. No of Students per School (Tertiary Institutions)	3,068	3,200.0	2,343.0	2,396.0	2,451.0	4.3	-26.8	2.3	2.3
7. Percentage of Females in Educational Institutions									
(i) Primary	44.4	44.4	44.0	41.7	43.5	0.0	-0.9	-5.2	4.3
(ii) Secondary	48.6	48.6	43.0	39.2	41.9	0.0	-11.5	-8.8	6.9
(iii) Tertiary	n.a	n.a	-	36.7	38.9	-	-	-	6.0
8. Number of Educational Institutions									
(i) Primary	37,812	38,000.0	39,677.0	41,660.0	43,951.0	0.5	4.4	5.0	5.5
(ii) Secondary	6,162	6,300.0	6,452.0	6,646.0	7,311.0	2.2	2.4	3.0	10.0
(iii) Tertiary	133	133	138.0	138.0	138.0	0.0	3.8	0.0	0.0
9. Number of Enrolments at School									
(i) Primary	15,911,888	16,831,560.0	17,994,620.0	19,794,082.0	20,390,790.0	5.8	6.9	10.0	3.0
(ii) Secondary	4,150,917	4,500,000.0	5,084,546.0	5,389,619.0	5,578,255.0	8.4	13.0	6.0	3.5
(iii) Tertiary	383,488	n.a	391,035.0	689,619.0	862,023.0	-100.0	-	76.4	25.0
10. Federal Government Budget Allocation to Education (₦ million)	7,999.4	10,283.8	12,728.0	15,350.0	16,840.0	28.6	23.8	20.6	9.7
11. Percentage of Annual Federal Budget	7.3	14.9	13.0	10.8	11.5	104.1	-12.8	-16.9	6.5
B. Health and Nutrition									
1. Population per Physician (No.)	3,717	3,701.0	3,707.0	3,744.0	3,781.0	-0.4	0.2	1.0	1.0
2. Population per Nursing Staff (No.)	618	615.0	606.0	617.0	629.0	-0.5	-1.6	2.0	1.9
3. Population per Hospital Bed (No.)	1,277	1,304.0	1,477.0	1,555.0	1,632.0	2.1	13.3	5.3	5.0
4. Life Expectancy at Birth (Years)	52	52.0	52.0	53.0	53.0	0.0	0.0	1.9	0.0
5. Children Immunisation									
(i) Fully Immunised (Overall)	46.0	25.0	17.0	49.1	81.2	-45.7	-32.0	188.8	65.4
(ii) Tuberculosis (%)	50.0	n.a	30.0	49.0	87.2	-100.0	-	63.3	78.0
(iii) DPT (%)	31.0	n.a	29.5	37.6	75.1	-100.0	-	27.5	99.7
(iv) Poliomyelitis (%)	30.0	n.a	28.0	40.0	84.0	-100.0	-	42.9	110.0
(v) Measles (%)	36.0	n.a	32.7	49.9	82.0	-100.0	-	52.6	64.3
6. Health Institutions									
(i) Primary Health Care	n.a	n.a	6,205.0	6,224.0	6,242.0	-	-	0.3	0.3
(ii) Secondary Health Care	n.a	n.a	790.0	793.0	795.0	-	-	0.4	0.3
(iii) Tertiary Health Care	n.a	n.a	47.0	48.0	48.0	-	-	2.1	0.0
7. Federal Government Budget Allocation to Health (₦ million)	2,652.2	3,042.3	5,060.9	4,838.0	7,343.0	14.7	66.4	-4.4	51.8
8. Percentage of Annual Federal Budget	1.5	4.4	5.2	3.4	5.0	193.3	18.2	-34.6	47.6
9. Daily Calories Per Capita	-	n.a	2,000.5	1,910.5	1,915.0	-	-	-4.5	0.2

[1] Revised
[2] Provisional
n.a = Not Available
Sources: Federal Ministries of Education & Health, State Ministries of Education & Health.

TABLE 6.17
Selected Social Indicators of Nigeria

Sub-Sector	1997	1998	1999	2000 [1]	2001 [2]
A. Education					
1. Adult literacy Rate	57	57	57	57	57
2. No. of Pupils per Primary School	492	506	518	528	543
3. No. of Pupils per Teacher (Primary)	52	54	52	54	56
4. No. of Pupils per Secondary School	942	960	985	985	1005
5. No. of Pupils per Teacher (Secondary)	39	40	38	41	40
6. No of Students per School (Tertiary Institutions)	2451	2476	2847	2932	2932
7. Percentage of Females in Educational Institutions					
(i) Primary	43.5	45.2		49	51
(ii) Secondary	41.9	46.2	45	46	47
(iii) Tertiary	38.9	42	44	45	45
8. Number of Educational Institutions					
(i) Primary	43951	45621	47902	48860	49343
(ii) Secondary	7311	7801	8113	8275	8275
(iii) Tertiary	138	138	144	144	142
9. Number of Enrolments at School					
(i) Primary	21161852	22473886	23709949	24895446	27384991
(ii) Secondary	5578255	5795807	6056618	6359449	6995394
(iii) Tertiary	862023	941329	983689	1032873	1136160
10. Federal Government Budget Allocation to Education (=N='million)	16840	23668.1	27713.5	56568.2	62567.1
11. Percentage of Annual Federal Budget	11.5	9.6	11.1	8.7	7
B. Health and Nutrition					
1. Population per Physician (No.)	4839	4977	4479	4529	4675
2. Population per Nursing Staff (No.)	1014	1044	906	920	1082
3. Population per Hospital Bed (No.)	1632	1738	1564	1611	2124
4. Life Expectancy at Birth (Years)	53	54	54	54	54
5. Children Immunisation					
(i) Fully Immunised (Overall)	81.2	55.1	51.9	72.7	73.275
(ii) Tuberculosis (%)	87.2	54.6	51.7	72.4	72.7
(iii) DPT (%)	75.1	55.3	53.8	75.3	67.1
(iv) Poliomyelitis (%)	84	57.5	51.8	72.5	61
(v) Measles (%)	82	53	50.3	70.4	92.3
6. Health Institutions					
(i) Primary Health Care	6242	8958	8970	10149	10393
(ii) Secondary Health Care	795	882	892	936	982
(iii) Tertiary Health Care	48	51	51	51	51
7. Federal Government Budget Allocation to Health(=N='million)	7343	11291.9	13737.3	17581.9	35422
8. Percentage of Annual Federal Budget	5.02	4.6	4.5	2.7	3.9
C. Population and Demography					
1. Population in Nigeria (Census 1991)	105307332	108446552	111788448	115224312	118800699
2. Female as % of Population	49.9	49.9	49.9	49.9	49.9
3. Male as Percentage of Population	50.1	50.1	50.1	50.1	50.1
4. Crude Birth Rate (per 1000 Persons)	49	49	49	49	49
5. Crude Death Rate (per 1000 Persons)	14	14	14	14	14
6. Maternal Mortality (per 1000 live births)	10	10	10	10	10
7. Infant mortality (per 1000 live births)	114	114	75.1	75.1	75.1
8. Total Fertility Rate	6.1	6.1	5.2	5.2	5.2
D. Water Supply					
1. Total volume of available water (mcm)	5159785	5159785	5675800	5675800	6546581
a. Domestic use: (mcm)					
i. Share of total volume (%)	13.2	13.2	13.2	13.2	14.2
ii. Actual (cu. mtrs.)	681092	681092	799206	749205.6	929614.5
c. Irrigation:					
i. Share of total volume (%)	35	35	35	35	35
ii. Actual (cu. mtrs.) (million)	2290	2290	1986.5	1986.5	1986.5
iii. Total land under irrigation (ha)	229270	229290	229270	229270	229270
iv. Share of total land under irrigation (%)	14.3	14.3	14.3	14.3	14.3
v. Share of total agricultural land (%)	0.7	0.7	0.7	0.7	0.7
2. Federal Government Budget Allocation to Water Supply (=N='m)	2786.2	3843.4	-	14318	64761.7
3. Percentage of Annual Federal Budget	1.5	1.5	-	2.2	7.2
E. Environment					
1. Environment:					
a. Total forest area protected (sq. km.)	9122291	9122291	9122291	9122291	9122291
b. Protected forest area as % of total land area	10	10	10	10	10
c. Deforestation per year (ha/yr)	400000	400000	400000	400000	400000
d. Reforestation per year (ha./yr.)	1043	1043	1043	1043	1043

1 = Revised
2 = Provisional
.. = Not Available

Sources: Federal Ministries of Education & Health. State Ministries of Education & Health and National Population Commission

TABLE 5.3
Federal Government Recurrent Expenditure
(Naira Million)

Check Capital Exp

SOURCE	2000	2001	2002	2003 1/	2004 2/
ADMINISTRATION	**121,299.1**	**180,810.0**	**331,736.0**	**307,848.5**	**322,767.5**
General Administration	59,332.4	75,079.8	146,807.0	166,057.6	117,261.7
National Assembly	4,766.3	19,803.6	20,162.6	22,395.3	31,381.4
Defence	31,046.4	47,071.6	86,053.8	51,043.6	76,324.4
Internal Security	26,154.0	38,855.0	78,712.6	68,352.0	97,800.0
ECONOMIC SERVICES	**29,816.3**	**53,011.1**	**65,910.9**	**96,031.8**	**58,781.6**
Agriculture	4,806.0	7,064.9	12,439.4	7,534.3	11,256.6
Roads & Construction	11,480.3	7,202.4	9,276.0	16,944.5	14,897.6
Transport & Communications	2,427.6	33,935.1	36,579.4	22,669.8	8,072.2
Others	11,102.4	4,808.7	7,616.1	48,883.2	24,555.2
SOCIAL & COMMUNITY SERVICES	**58,802.4**	**79,634.4**	**189,431.6**	**102,565.9**	**134,390.7**
Education	39,034.0	39,884.6	100,240.2	64,755.9	76,527.7
Health	11,579.6	24,523.5	50,563.2	33,254.5	34,198.5
Others	8,188.8	15,226.3	38,628.2	4,555.6	23,664.5
TRANSFERS	**251,690.7**	**265,873.6**	**280,258.0**	**477,821.9**	**546,751.6**
Public Debt Charges (Int)	108,485.0	155,424.0	203,902.9	363,363.0	397,315.2
Domestic	108,485.0	155,424.0	170,635.3	169,724.0	203,612.4
Foreign	-	-	33,267.6	193,639.0	193,702.8
Pensions & Gratuities	42,947.6	30,046.4	71,052.9	34,149.8	72,200.9
Contingencies (Others)	1,367.3	4,808.7	5,302.2		
External Obligations	3,045.8	-	-	367.0	
Extra-Budgetary Expenditure	93,845.0	73,594.5	-		
Deferred Custom Duties	2,000.0	2,000.0	-	0.1	
Unspecified Expenditure	-	-	-		
Others 3/	-	-	-	79,942.0	77,235.5
TOTAL	**461,608.5**	**579,329.1**	**867,336.5**	**984,268.1**	**1,062,691.4**

1/ Revised
2/ Provisional
3/ Includes allocation to FCT and Special Funds

Sources: 1. Federal Ministry of Finance
2. Central Bank of Nigeria

TABLE 5.4
Federal Government Capital Expenditure
(Naira Million)

SOURCE	2000	2001	2002	2003 /1	2004 2/
ADMINISTRATION	**53,279.5**	**49,254.9**	**73,577.4**	**87,958.9**	**101,165.2**
General Administration	36,549.9	28,032.0	36,571.6	66,706.4	72,354.2
National Assembly	1,888.8	9.0	1,472.4	2,000.0	1,875.0
Defence	6,444.0	16,400.0	22,093.8	10,679.7	8,723.0
Internal Security	8,396.8	4,813.9	13,439.6	8,572.8	18,213.0
ECONOMIC SERVICES	**111,508.6**	**259,757.8**	**215,353.4**	**97,982.1**	**167,722.0**
Agriculture & Natural Resources	8,803.2	57,879.0	32,364.4	8,510.9	38,669.8
Manuf., Mining & Quarrying	10,514.0	7,283.5	39,663.1	583.9	5,041.8
Transport & Communications	7,177.2	19,241.0	17,083.2	6,639.6	6,973.8
Housing	-	56,356.0	44,479.2	9,495.5	2,280.0
Roads & Construction	7,006.4	21,440.0	35,849.8	17,459.1	40,671.2
National Priority Projects	40,377.4	18,124.3	-	-	
JVC Calls/NNPC Priority Projects		-	-	-	
PTF	14,559.2	3,910.0	20.0	-	
Counterpart Funding	7,028.4	-	-	410.8	
NDDC	944.4	10,000.0	-	9,044.5	14,000.0
Others	15,098.4	65,524.0	45,893.7	45,837.8	60,085.4
SOCIAL & COMMUNITY SERVICES	**27,965.2**	**53,336.0**	**32,467.3**	**55,736.3**	**30,032.6**
Education	10,529.2	19,860.0	9,215.0	14,680.2	9,053.1
Health	8,865.6	20,128.0	12,608.0	6,431.0	18,207.6
Others	8,570.4	13,348.0	10,644.3	34,625.1	2,771.9
TRANSFERS	**46,697.6**	**76,347.8**	**-**	**11.3**	15,729.8
Financial Obligations	-	56,810.0	-	-	
Capital Repayments	330.0	280.0	-	-	
Domestic	330.0	280.0	-		
Foreign	-	-	-	-	
External Obligations	5,832.4			11.3	
Contingencies	756.0				
Capital Supplementation					15,729.8
Net Lending to States/L.G.s/Parast.					
Grants to States					
Others	39,779.2	19,257.8			
TOTAL	**239,450.9**	**438,696.5**	**321,398.1**	**241,688.6**	**314,649.6**

1/ Revised
2/ Provisional

Sources: 1. Federal Ministry of Finance
2. Central Bank of Nigeria

TABLE 6.19
Selected Social Indicators

Sub-Sector	2000	2001	2002	2003 1/	2004 2/
A. Education					
1. Adult literacy Rate	57.0	57.0	57.0	57.0	57.0
2. No. of Pupils per Primary School	528.0	543.0	545.0	498.0	428.0
3. No. of Pupils per Teacher (Primary)	54.0	56.0	55.0	53.0	52.0
4. No. of Pupils per Secondary School	985.0	789.0	685.0	595.0	505.0
5. No. of Pupils per Teacher (Secondary)	41.0	40.0	50.0	38.0	31.0
6. No of Students per School (Tertiary Institutions)	2,932.0	2,840.0	2,681.0	2,437.0	1,941.0
7. Percentage of Females in Educational Institutions					
(i) Primary	49.0	51.0	51.0	53.0	53.0
(ii) Secondary	46.0	47.0	48.0	43.0	43.0
(iii) Tertiary	45.0	45.0	45.0	43.0	43.0
8. Number of Educational Institutions					
(i) Primary	48,860.0	49,343.0	47,694.0	52,815.0	65,627.0
(ii) Secondary	8,275.0	8,275.0	8,351.0	11,918.0	13,333.0
(iii) Tertiary	144.0	142.0	178.0	202.0	215.0
9. Number of Enrolments at School					
(i) Primary	24,895,446.0	27,384,991.0	29,575,790.0	26,292,370.0	28,144,967.0
(ii) Secondary	6,359,449.0	6,995,394.0	7,485,072.0	7,091,376.0	6,745,186.0
(iii) Tertiary	1,032,873.0	1,136,160.0	1,249,776.0	1,274,772.0	417,281.0
10. Federal Government Budget Allocation to Education (=N='million)	56,568.2	62,567.1	69,033.8	n.a	n.a
11. Percentage of Annual Federal Budget	8.7	7.0	7.9	n.a	n.a
B. Health and Nutrition					
1. Population per Physician (No.)	24,020.0	22,223.0	20,562.0	19,172.0	19,745.0
2. Population per Nursing Staff (No.)	3,048.0	2,959.0	2,873.0	2,789.0	2,872.0
3. Population per Hospital Bed (No.)	3,104.0	3,014.0	2,926.0	2,841.0	2,925.0
4. Life Expectancy at Birth (Years)	54.0	54.0	54.0	54.0	54.0
5. Children Immunisation					
(i) Fully Immunised (Overall)	72.7	73.3	75.0	80.0	80.0
(ii) Tuberculosis (%)	72.4	72.7	73.0	75.0	75.0
(iii) DPT (%)	75.3	67.1	70.0	75.0	75.0
(iv) Poliomyelitis (%)	72.5	61.0	68.0	80.0	80.0
(v) Measles (%)	70.4	92.3	90.0	90.0	90.0
6. Health Institutions					
(i) Primary Health Care	10,149.0	10,393.0	15,266.0	17,012.0	17,752.0
(ii) Secondary Health Care	936.0	982.0	1,976.0	2,418.0	2,509.0
(iii) Tertiary Health Care	51.0	51.0	219.0	221.0	221.0
7. Federal Government Budget Allocation to Health(=N='million)	17,581.9	35,422.0	40,741.1	40,741.1	40,741.1
8. Percentage of Annual Federal Budget	2.7	3.9	4.7	4.7	4.7
C. Population and Demography					
1. Population in Nigeria (Census 1991)	115,224,312.0	118,800,690.0	122,443,748.0	126,152,844.0	129,927,452.0
2. Female as Percentage of Population	49.9	49.9	49.9	49.9	49.9
3. Male as Percentage of Population	50.1	50.1	50.1	50.1	50.1
4. Crude Birth Rate (per 1000 Persons)	49.0	49.0	41.9	42.0	42.0
5. Crude Death Rate (per 1000 Persons)	14.0	14.0	11.1	11.1	11.1
6. Maternal Mortality (per 1000 live births)	10.0	10.0	10.0	10.0	10.0
7. Infant mortality (per 1000 live births)	100.0	100.0	100.0	100.0	100.0
8. Total Fertility Rate	5.2	5.2	5.7	5.7	5.7
D. Water Supply					
1. Total volume of available water (mcm)	5,675,800.0	6,546,581.0	71,613,917.0	71,657,382.0	71,657,382.0
a. Domestic use: (mcm)					
i. Share of total volume (%)	13.2	14.2	74.6	81.7	81.7
ii. Actual (cu. mtrs.)	749,205.6	929,614.5	44,941,603.0	60,410,783.0	60,410,783.0
b. Industrial use:					
i. Share of total volume (%)	25.0	27.0	13.6	13.0	13.0
ii. Actual (cu. mtrs.)	1,418,950.0	1,532,466.0	4,735,088.0	8,392,248.0	8,392,248.0
c. Irrigation:					
i. Share of total volume (%)	35.0	35.0	10.0	4.5	4.5
ii. Actual (cu. mtrs.) (million)	1,986.5	1,986.5	4,154,000.0	3,115,500.0	3,115,500.0
iii. Total land under irrigation (ha)	229,270.0	229,270.0	220,270.0	220,270.0	220,270.0
iv. Share of total land under irrigation (%)	14.3	14.3	14.3	14.3	14.3
v. Share of total agricultural land (%)	0.7	0.7	0.7	0.7	0.7
2. Federal Government Budget Allocation to Water Supply (=N='m)	14,318.0	64,761.7	31,942.2	31,942.2	31,942.2
3. Percentage of Annual Federal Budget	2.2	7.2	4.8	4.8	4.8
E. Environment					
1. Environment:					
a. Total forest area protected (sq. km.)	9,122,291.0	9,122,291.0	9,122,291.0	9,122,291.0	9,122,291.0
b. Protected forest area as % of total land area	10.0	10.0	10.0	10.0	10.0
c. Deforestation per year (ha/yr)	400,000.0	400,000.0	400,000.0	400,000.0	400,000.0
d. Reforestation per year (ha./yr.)	1,043.0	1,043.0	1,043.0	1,043.0	1,043.0

Sources: Federal Ministries of Education, Environment & Health.
State Ministries of Education & Health
and National Population Commission

Table 21
ctional Classification of Federal Government Recurrent Expenditure 1/ (Naira Billion)

Check Capital Exp

Source	2004 (1)	2005 (2)	2006 (3)	2007 1/ (4)	2008 2/ (5)
ADMINISTRATION	**306.8**	**434.7**	**522.3**	**626.3**	**731**
General Administration	101.3	248.7	284.6	310.1	369.6
National Assembly	31.4	32.3	35.5	62.8	68.7
Defence	76.3	71.7	84.2	72.1	95.8
Internal Security	97.8	82	118	181.3	196.9
ECONOMIC SERVICES	**58.9**	**64.2**	**79.7**	**179.1**	**313.8**
Agriculture	11.3	16.3	17.9	32.5	65.4
Roads & Construction	14.9	17.9	20.1	71.3	94.5
Transport & Communications	8.1	8	9.8	32.2	67.4
Others	24.6	22	31.9	43.1	86.5
SOCIAL & COMMUNITY SERVICES	**134.4**	**151.7**	**194.2**	**256.7**	**332.9**
Education	76.5	82.8	119	150.8	164
Health	34.2	55.7	62.3	81.9	98.2
Others	23.7	13.2	12.9	24	70.7
TRANSFERS	**610.7**	**670.7**	**594.0**	**527.2**	**739.7**
Public Debt Charges (Int)	382.5	394	249.3	213.7	381.2
Domestic	188.8	200.3	130.9	110.5	322.2
Foreign	193.7	193.7	118.4	103.2	59
Pensions & Gratuities	72.2	84.1	101.2	106.2	137.9
FCT & Others	78	95.1	143.6	178	198.1
Contingencies (Others)	-	-	-	-	-
External Obligations	-	-	-	-	-
Extra-Budgetary Expenditure	-	-	-	-	-
Deferred Customs Duties	-	-	-	-	-
Unspecified Expenditure	-	-	-	-	-
Others 3/	**78**	**97.5**	**99.9**	**29.3**	**22.5**
TOTAL	**1,110.80**	**1,321.30**	**1,390.20**	**1,589.30**	**2,117.40**

1/ Revised
2/ Provisional
Sources: Federal Ministry of Finance, Central Bank of Nigeria

Table 22

Functional Classification of Federal Government Capital Expenditure (Naira Billion)

Source	2004 (1)	2005 (2)	2006 (3)	2007 1/ (4)	2008 2/ (5)
ADMINISTRATION	**137.8**	**171.5**	**185.2**	**227**	**287.1**
General Administration	109	132.6	152.8	178.3	210.3
National Assembly	1.9	4.3	4.1	9.2	15.6
Defence	8.7	16.8	15.7	24.3	32.3
Internal Security	18.2	17.8	12.6	15.2	28.9
ECONOMIC SERVICES	**167.8**	**265**	**262.2**	**358.4**	**504.4**
Agriculture & Natural Resources	38.7	60.3	89.5	94.1	106
Manuf., Mining & Quarrying	5	8.6	7.3	8.1	12.7
Transport & Communications	7	15.6	8.2	31.4	80.1
Housing	2.3	6.7	2.8	5.8	8.9
Roads & Construction	40.7	89.1	72.5	105.7	126.9
National Priority Projects	-	-	-	-	-
JVC Calls/NNPC Priority Projects	-	-	-	-	-
PTF	-	-	-	-	-
Counterpart Funding	-	-	-	1.6	2
NDDC	14	-	-	-	-
Others	60.1	84.7	81.8	111.7	167.8
SOCIAL & COMMUNITY SERVICES	**30**	**71.3**	**78.7**	**150.9**	**152.1**
Education	9.1	31.9	32.7	46.8	48.8
Health	18.2	21.8	32.2	96.9	97.2
Others	2.8	17.6	13.8	7.2	6.1
TRANSFERS	**15.7**	**11.5**	**26.3**	**23**	**17.3**
Financial Obligations	-	-	-	-	-
Capital Repayments	-	-	-	-	-
Domestic	-	-	-	-	-
Foreign	-	-	-	-	-
External Obligations	-	-	-	-	-
Contingencies	-	-	-	-	-
Capital Supplementation	15.7	11.5	26.3	23	17.3
Net Lending to States/L.G.s/Parast.	-	-	-	-	
Grants to States	-	-	-	-	
Others	-	-	-	-	
TOTAL	**351.3**	**519.4**	**552.4**	**759.3**	**960.9**

1/ Revised
2/ Provisional
Sources: Federal Ministry of Finance, Central Bank of Nigeria

Table 22
Functional Classification of Federal Government Recurrent Expenditure
(Naira billion)

	2006	2007	2008	2009	2010 1/
ADMINISTRATION	**522.3**	**626.3**	**731.0**	**820.8**	**1,201.6**
General Administration	284.6	310.1	369.6	437.9	694.8
National Assembly	35.5	62.8	68.7	106.4	146.5
Defence	84.2	72.1	95.8	54.8	72.9
Internal Security	118.0	181.3	196.9	221.7	287.4
ECONOMIC SERVICES	**79.7**	**179.1**	**313.8**	**317.2**	**585.0**
Agriculture	17.9	32.5	65.4	22.4	29.6
Roads & Construction	20.1	71.3	94.5	80.6	138.1
Transport & Communications	9.8	32.2	67.4	90.0	178.7
Others	31.9	43.1	86.5	124.1	238.7
SOCIAL & COMMUNITY SERVICES	**194.2**	**256.7**	**332.9**	**354.2**	**546.6**
Education	119.0	150.8	164.0	137.1	158.6
Health	62.3	81.9	98.2	90.2	102.6
Others	12.9	24.0	70.7	126.9	285.4
TRANSFERS	**594.0**	**527.2**	**739.7**	**635.8**	**775.8**
Public Debt Charges (Int)	249.3	213.7	381.2	251.8	415.6
Domestic	130.9	110.5	322.2	214.5	375.7
Foreign	118.4	103.2	59.0	37.3	39.9
Pensions & Gratuities	101.2	106.2	137.9	195.7	183.5
FCT & Others	143.6	178.0	198.1	163.7	147.2
Contingencies (Others)	-	-	-	-	-
External Obligations	-	-	-	-	-
Extra-Budgetary Expenditure	-	-	-	-	-
Deferred Customs Duties	-	-	-	-	-
Unspecified Expenditure	-	-	-	-	-
Others	**99.9**	**29.3**	**22.5**	**24.5**	**29.6**
TOTAL	**1,390.2**	**1,589.3**	**2,117.4**	**2,127.9**	**3,109.0**

1/ Provisional
Sources: Federal Ministry of Finance and Central Bank of Nigeria

Table 23
Functional Classification of Federal Government Capital Expenditure
(Naira billion)

	2006	2007	2008	2009	2010 1/
ADMINISTRATION	**185.2**	**227.0**	**287.1**	**315.9**	**326.0**
General Administration	152.8	178.3	210.3	212.2	214.2
National Assembly	4.1	9.2	15.6	24.2	25.0
Defence	15.7	24.3	32.3	47.3	52.4
Internal Security	12.6	15.2	28.9	32.1	34.5
ECONOMIC SERVICES	**262.2**	**358.4**	**504.4**	**506.0**	**434.5**
Agriculture & Natural Resources	89.5	94.1	106.0	138.9	140.7
Manuf., Mining & Quarrying	7.3	8.1	12.7	31.0	33.1
Transport & Communications	8.2	31.4	80.1	106.2	103.7
Housing	2.8	5.8	8.9	-	-
Roads & Construction	72.5	105.7	126.9	138.5	139.2
National Priority Projects	-	-	-	-	-
JVC Calls/NNPC Priority Projects	-	-	-	-	-
PTF	-	-	-	-	-
Counterpart Funding	-	1.6	2.0	3.4	5.0
NDDC	-	-	-	-	-
Others	81.8	111.7	167.8	88.1	12.8
SOCIAL & COMMUNITY SERVICES	**78.7**	**150.9**	**152.1**	**120.7**	**104.9**
Education	32.7	46.8	48.8	43.4	47.6
Health	32.2	96.9	97.2	52.5	53.8
Others	13.8	7.2	6.1	24.8	3.6
TRANSFERS	**26.3**	**23.0**	**17.3**	**210.2**	**18.5**
Financial Obligations	-	-	-	-	-
Capital Repayments	-	-	-	-	-
Domestic	-	-	-	-	-
Foreign	-	-	-	-	-
External Obligations	-	-	-	-	-
Contingencies	-	-	-	-	-
Capital Supplementation	26.3	23.0	17.3	210.2	18.5
Net Lending to States/L.G.s/Parast.	-	-			
Grants to States	-	-			
Others	-	-			
TOTAL	**552.4**	**759.3**	**960.9**	**1,152.8**	**883.9**

1/ Provisional
Sources: Federal Ministry of Finance and Central Bank of Nigeria

APPENDIX B1
PAIRED SAMPLES T-TEST FOR LITERACY RATE AND LIFE EXPECTANCY

1. Actual against Expected Literacy Rate

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Actual	63.2000	5	4.06325	1.81714
	Expected	70.0000	5	.00000	.00000

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	Actual & Expected	5	.	.

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Actual - Expected	-6.8000	4.06325	1.817	-11.84519	-1.75481	-3.742	4	.020

2. Actual against Expected Life Expectancy

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Actual	54.000[a]	5	.0000	.0000
	Expected	60.000[a]	5	.0000	.0000

a. The correlation and t cannot be computed because the standard error of the difference is 0.

APPENDIX B2b

```
CORRELATIONS
  /VARIABLES=BA LR
  /PRINT=TWOTAIL NOSIG
  /MISSING=PAIRWISE.
```

PRE-PSR PERIOD LITERACY RATE CORRELATION ANALYSIS

Correlations

		% change in Literacy Rate	% change in Budgetary Allocation
% change in Literacy Rate	Pearson Correlation	1	-.052
	Sig. (2-tailed)		.886
	N	10	10
% change in Budgetary Allocation	Pearson Correlation	-.052	1
	Sig. (2-tailed)	.886	
	N	10	10

POST-PSR PERIOD LITERACY RATE CORRELATION ANALYSIS

Correlations

		% change in Literacy Rate	% change in Budgetary Allocation
% change in Literacy Rate	Pearson Correlation	1	-.338
	Sig. (2-tailed)		.577
	N	5	5
% change in Budgetary Allocation	Pearson Correlation	-.338	1
	Sig. (2-tailed)	.577	
	N	5	5

APPENDIX B2a

PRE-PSR PERIOD LIFE EXPECTANCY CORRELATION ANALYSIS

Correlations

		% change in Life Expectancy	% change in Budgetary Allocation
% change in Life Expectancy	Pearson Correlation	1	-.156
	Sig. (2-tailed)		.667
	N	10	10
% change in Budgetary Allocation	Pearson Correlation	-.156	1
	Sig. (2-tailed)	.667	
	N	10	10

PRE-PSR PERIOD LIFE EXPECTANCY CORRELATION ANALYSIS

Correlations

		% change in Life Expectancy	% change in Budgetary Allocation
% change in Life Expectancy	Pearson Correlation	.[a]	.[a]
	Sig. (2-tailed)		.
	N	5	5
% change in Budgetary Allocation	Pearson Correlation	.[a]	1
	Sig. (2-tailed)	.	
	N	5	5

a. Cannot be computed because at least one of the variables is constant.

APPENDIX B3a
PRE-PSR PERIOD LIFE EXPECTANCY REGRESSION ANALYSIS

```
REGRESSION
  /DESCRIPTIVES MEAN STDDEV CORR SIG N
  /MISSING LISTWISE
  /STATISTICS COEFF OUTS CI BCOV R ANOVA CHANGE ZPP
  /CRITERIA=PIN(.05) POUT(.10)
  /NOORIGIN
  /DEPENDENT %CHANGE IN LIFE EXPECTANCY (CLE)
  /METHOD=ENTER %CHANGE IN BUDGET ALLOCATION (CBA)
  /RESIDUALS DURBIN.
```

Descriptive Statistics

	Mean	Std. Deviation	N
CLE	.380	.8011	10
CBA	34.590	33.4104	10

Correlations

		CLE	CBA
Pearson Correlation	CLE	1.000	-.156
	CBA	-.156	1.000
Sig. (1-tailed)	CLE	.	.333
	CBA	.333	.
N	CLE	10	10
	CBA	10	10

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	CBA[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: CLE = %Change in Life Expectancy

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics: R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
1	.156[a]	.024	-.098	.8393	.024	.200	1	8	.667	2.390

a. Predictors: (Constant), %Change in Budget Allocation

b. Dependent Variable: %Change in Life Expectancy

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.141	1	.141	.200	.667[a]
	Residual	5.635	8	.704		
	Total	5.77	9			

a. Predictors: (Constant), CBA = %Change in Budget Allocation

b. Dependent Variable: CLE = % Change in Life Expectancy

Coefficients[a]

Model		Unstandardize Coefficients		Standardiz Coefficient	t	Sig.	95% Confidence Inter		Correlations		
		B	Std. Err	Beta			Lower Bou	Upper Bou	Zero-ord	Partial	Part
1	(Constant)	.509	.393		1.297	.231	-.397	1.415			
	CBA	-.004	.008	-.156	-.447	.667	-.023	.016	-.156	-.156	-.156

a.Dependent Variable: CLE = Change in Life Expectancy

Coefficient Correlations[a]

Model			CBA
1	Correlations	CBA	1.000
	Covariances	CBA	7.01E-005

a. Dependent Variable: CBA=Change in Life Expecctancy

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	.130	.526	.380	.1250	10
Residual	-.5191	1.5919	.0000	.7913	10
Std. Predicted Value	-2.003	1.167	.000	1.000	10
Std. Residual	-.619	1.897	.000	.943	10

a. Dependent Variable: Change in Life Expectancy

APPENDIX B3b
POST-PSR PERIOD LIFE EXPECTANCY CORRELATION ANALYSIS

```
REGRESSION
  /DESCRIPTIVES MEAN STDDEV CORR SIG N
  /MISSING LISTWISE
  /STATISTICS COEFF OUTS CI BCOV R ANOVA CHANGE ZPP
  /CRITERIA=PIN(.05) POUT(.10)
  /NOORIGIN
  /DEPENDENT CLE (% CHANGE IN LIFE EXPECTANCY)
  /METHOD=ENTER CBA (% CHANGE IN BUDGET ALLOCATION)
  /RESIDUALS DURBIN.
```

Regression

Warnings

The dependent variable (CLE) %Change in Life Expectancy has been deleted. Statistics cannot be computed.

Descriptive Statistics

	Mean	Std. Deviation	N
CLE	.000	.0000	5
CBA	40.100	30.8703	5

Correlations

		CLE	CBA
Pearson Correlation	CLE	1.000	.
	CBA	.	1.000
Sig. (1-tailed)	CLE	.	.000
	CBA	.000	.
N	CLE	5	5
	CBA	5	5

APPENDIX B3c
PRE-PSR PERIOD LIFE EXPECTANCY REGRESSION ANALYSIS

```
REGRESSION
  /DESCRIPTIVES MEAN STDDEV CORR SIG N
  /MISSING LISTWISE
  /STATISTICS COEFF OUTS CI BCOV R ANOVA CHANGE ZPP
  /CRITERIA=PIN(.05) POUT(.10)
  /NOORIGIN
  /DEPENDENT CLR (%CHANGE IN LITERACY RATE)
  /METHOD=ENTER CBA (%CHANGE IN BUDGET ALLOCATION)
  /RESIDUALS DURBIN.
```

Regression

Descriptive Statistics

	Mean	Std. Deviation	N
CLR	.360	1.1384	10
CBA	28.040	28.3948	10

Correlations

		CLR	CBA
Pearson Correlation	CLR	1.000	-.052
	CBA	-.052	1.000
Sig. (1-tailed)	CLR	.	.443
	CBA	.443	.
N	CLR	10	10
	CBA	10	10

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	CBA[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: CLR= %Change in Life E pectancy

Model Summary[b]

					Change Statistics					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
1	.052[a]	.003	-.122	1.2058	.003	.022	1	8	.886	2.233

a. Predictors: (Constant), CBA= %Change in Budget Allocation

b. Dependent Variable: CLR= %Change in Life Expectancy

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.032	1	.032	.022	.886[a]
	Residual	11.632	8	1.454		
	Total	11.664	9			

a. Predictors: (Constant), CBA= %Change in Budget Allocation

b. Dependent Variable: CLR= %Change in Literacy Rate

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	95% Confidence Interval for B Lower Bound	95% Confidence Interval for B Upper Bound	Correlations Zero-order	Correlations Partial	Correlations Part
1	(Constant)	.419	.550		.761	.468	-.850	1.688			
	CBA	-.002	.014	-.052	-.149	.886	-.035	.031	-.052	-.052	-.052

a. Dependent Variable: CLR= %Change in Literacy Rate

Coefficient Correlations[a]

Model			CBA
1	Correlations	CBA	1.000
	Covariances	CBA	.000

a. Dependent Variable: CLR= %Change in Literacy Rate

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	.200	.399	.360	.0597	10
Residual	-.3986	3.2311	.0000	1.1369	10
Std. Predicted Value	-2.679	.646	.000	1.000	10
Std. Residual	-.331	2.680	.000	.943	10

a. Dependent Variable: CLR= %Change in Literacy Rate

APPENDIX B3d
POST-PSR PERIOD LIFE EXPECTANCY REGRESSION ANALYSIS

```
REGRESSION
  /DESCRIPTIVES MEAN STDDEV CORR SIG N
  /MISSING LISTWISE
  /STATISTICS COEFF OUTS CI BCOV R ANOVA CHANGE ZPP
  /CRITERIA=PIN(.05) POUT(.10)
  /NOORIGIN
  /DEPENDENT CLR(%CHANGE IN LITERACY RATE)
  /METHOD=ENTER CBA (%CHANGE IN BUDGET ALLOCATION)
  /RESIDUALS DURBIN.
```

Regression

Descriptive Statistics

	Mean	Std. Deviation	N
CLR	3.660	9.8640	5
CBA	22.560	15.8052	5

Correlations

		CLR	CBA
Pearson Correlation	CLR	1.000	-.338
	CBA	-.338	1.000
Sig. (1-tailed)	CLR	.	.289
	CBA	.289	.
N	CLR	5	5
	CBA	5	5

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	CBA[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: CLR = %Change in Budge Allocation

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics: R Square Change	F Change	df1	df2	Sig. F Chang	Durbin-Watson
1	.338[a]	.115	-.181	10.7178	.115	.388	1	3	.577	3.086

a. Predictors: (Constant), CBA = %Change in Budget Allocation

b. Dependent Variable: CLR = %Change in Life Expectancy Rate

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	44.576	1	44.576	.388	.577[a]
	Residual	344.616	3	114.872		
	Total	389.192	4			

a. Predictors: (Constant), CBA = %Change in Budget Allocation

b. Dependent Variable: CLR = %Change in Life Expectancy Rate

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval		Correlations		
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part
1	(Constant)	8.425	9.027		.933	.420	-20.303	37.153			
	CBA	-.211	.339	-.338	-.623	.577	-1.290	.868	-.338	-.338	-.338

a. Dependent Variable: CLR= %Change in Life Expectancy Rate

Coefficient Correlations[a]

Model			CBA
1	Correlations	CBA	1.000
	Covariances	CBA	.115

a. Dependent Variable: CLR= %Change in Life Expectancy Rate

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-1.080	6.799	3.660	3.3383	5
Residual	-8.2203	14.9326	.0000	9.2819	5
Std. Predicted Value	-1.420	.940	.000	1.000	5
Std. Residual	-.767	1.393	.000	.866	5

a. Dependent Variable: CLR= %Change in Life Expectancy Rate

APPENDIX C

Department of Accountancy
Faculty of Business Administration
University of Nigeria

Dear Respondent,

QUESTIONNAIRE FOR ACADEMIC RESEARCH

The questions in this questionnaire are intended for use in a Ph.D. research. The study seeks to find out the viability of the present budgeting and accounting systems in the Nigerian public sector in providing adequate support and enabling environment towards achieving the objectives of the on-going public sector reforms and the Fiscal Responsibility Act 2007.

You are please required to answer the following questions. You are assured that this exercise is purely academic and your responses will be treated in the strictest confidence.

Thank you.

Okoroafor, Eunice Ngozi Akpala
PG/Ph.D/05/45092

QUESTIONNAIRE

Note: Please tick (✓) to fill the boxes provided or give answers to the questions as appropriate.

Sector: (a) Public [ ] (b) Private [ ]

Organization:

Post:

Educational qualifications:

Professional qualifications:

1) What is the nature of the correlation between the attainability of public sector reforms and financial reporting system reforms in the Nigerian public sector?

   a) Highly positive [ ] b)Positive [] c) Zero [ ] d)Negative [ ] Highly negative [ ]

2) The objectives of the Fiscal Responsibility Act 2007 and the reforms in the Nigerian public sector cannot be achieved with cash-based budgeting and accounting systems.

a) Strongly agree [ ] b) Agree [ ] c) Disagree [ ] d) Strongly disagree [ ]

3) Accrual-based accounting and budgeting are more compatible with the requirements of public sector reform and the FRA 2007.

a) Strongly agree [ ] b) Agree [ ] c) Disagree [ ] d) Strongly disagree [ ]

4) The Medium-Term Sector Strategy (MTSS) is in sync with Planning Programme Budgeting System (PPBS) and requires responsibility accounting.

a) Strongly agree [ ] b) Agree [ ] c) Disagree [ ] d) Strongly disagree [ ]

5) What is the nature of the correlation between achieving the objectives of MTSS in public sector reforms and Responsibility Accounting?

a) Highly positive [ ] b) Positive [ ] c) Zero [ ] d) Negative [ ] e) Highly negative [ ]

6) What is the nature of the relationship between Responsibility Accounting and Accrual financial reporting system?

a) Highly significant [ ] b) Significant [ ] c) Averagely significant [ ] d) Little significant [ ] Not significant [ ]

7) The Medium-Term Fiscal Strategy (MTFS) is compatible with Programme Performance Budgeting System (PPBS).

a) Strongly agree [ ] b) Agree [ ] c) Disagree [ ] d) Strongly disagree [ ]

8) What is the degree of similarity between the MTSS policy tool and the New Public Management concept.

a) Very high [ ] b) High [ ] c) Average [ ] d) Not high [ ] e) None [ ]

9) The reform objectives of matching results with objectives and resources utilized can best be implemented using accrual basis of accounting and budgeting.

a) Strongly agree [ ] b) Agree [ ] c) Disagree [ ] d) Strongly disagree [ ]

10) Sections 19(d) and (e) and 44(1) emphasize the input-output dimensions to public sector governance being introduced by the FRA 2007 and so require the application of cost and managerial accounting tools to be implemented.

a) Strongly agree [ ] b) Agree [ ] c) Disagree [ ] d) Strongly disagree [ ]

11) The level of IT development in Nigeria poses significant challenge to implementation of budgeting and accounting reforms in the public sector.

a) Strongly agree [ ] b) Agree [ ] c) Disagree [ ] d) Strongly disagree [ ]

APPENDIX D

Extraordinary

Federal Republic of Nigeria
Official Gazette

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Government Notice No. 80

The following is published as Supplement to this *Gazette* :

Act No.	*Short Title*	*Page*
31	Fiscal Responsibility Act 2007	A 1041 - 1065

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FISCAL RESPONSIBILITY ACT, 2007

ARRANGEMENT OF SECTIONS

Section :

FISCAL RESPONSIBILITY ACT 2007

2007 ACT No. 31

AN ACT TO PROVIDE FOR PRUDENT MANAGEMENT OF THE NATION'S RESOURCES, ENSURE LONG-TERM MACRO-ECONOMIC STABILITY OF THE NATIONAL ECONOMY, SECURE GREATER ACCOUNTABILITY AND TRANSPARENCY IN FISCAL OPERATIONS WITHIN A MEDIUM TERM FISCAL POLICY FRAMEWORK, AND THE ESTABLISHMENT OF THE FISCAL RESPONSIBILITY COMMISSION TO ENSURE THE PROMOTION AND ENFORCEMENT OF THE NATION'S ECONOMIC OBJECTIVES ; AND FOR RELATED MATTERS

[30th Day of July, 2007] Commencement.

ENACTED by the National Assembly of the Federal Republic of Nigeria :

PART I—ESTABLISHMENT, FUNCTIONS AND POWERS OF THE FISCAL RESPONSILIBILITY COMMISSION

Establishment of the Fiscal Responsibility Commission.

1.—(1) There shall be established, a body to be known as the Fiscal Responsibility Commission (in this Act referred to as "the Commission").

(2) The Commission shall be a body corporate with perpetual succession and a common seal and may sue and be sued in its corporate name.

Responsibility, powers and functions of the Commission.

2.—(1) For the purpose of performing its functions under this Act, the Commission shall have power to :

(*a*) compel any person or government institution to disclose information relating to public revenues and expenditure ; and

(*b*) cause an investigation into whether any person has violated any provisions of this Act.

(2) If the Commission is satisfied that such a person has committed any punishable offence under this Act violated any provisions of this Act, the Commission shall forward a report of the investigation to the Attorney-General of the Federation for possible prosecution.

Functions of the Commission.

3.—(1) The Commission shall :

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

(*b*) disseminate such standard practices including international good practice that will result in greater efficiency in the allocation and management of public expenditure, revenue collection, debt control and transparency in fiscal matters ;

(*c*) undertake fiscal and financial studies, analysis and diagnosis and disseminate the result to the general public ;

(*d*) make rules for carrying out its functions under this Act ; and (*e*) perform any other function consistent with the promotion of the objectives of this Act.

(2) The Commission shall be independent in performance of its functions.

(3) The provision of Public Officers Protection Act shall apply to the members of the Commission in discharge of their functions under this Act.

Establishment of a fund for the Commission.

4.—(1) The Commission shall establish and maintain a Fund from which shall be defrayed all expenditure incurred by the Commission.

(2) There shall be credited to the Fund established pursuant to subsection (1) of this section, the budgetary allocation from the Federal Government and grants from any other source.

Composition of the Commission.

5.—(1) The Commission shall consist of:

(*a*) a chairman, who shall be the Chief Executive and accounting officer of the Commission ;

(*b*) one member representing :

(*i*) the organized private sector ;

(*ii*) Civil Society engaged in causes relating to probity, transparency and good governance,

(*iii*) organized labour ;

(*c*) a representative of the Federal Ministry of Finance of a level not below the rank of a Director ; and

(*d*) one member to represent each of the following six geopolitical zones of the country, that is: North-Central, North-East, North-West, South-East, South-West and South-South.

(2) All members of the Commission shall be persons of proven integrity and must possess appropriate qualifications with not less than 10 years cognate post qualification experience.

(3) The Chairman and other members of the Commission other than ex-officio members shall be appointed by the President subject to confirmation by the Senate.

(4) The Chairman and members representing the six geo-political zones shall be full time members.

Tenure of office.

6. The Chairman and members of the Commission shall hold office for a single term of 5 years.

Powers of the Commission.

7. The Commission shall have power to :

(*a*) formulate and provide general policy guidelines for the discharge of the functions of the Commission ;

(*b*) superintend the implementation of the policies of the Commission ;

(c) appoint for the Commission, such numbers of employees as may in the opinion of the Commission be expedient and necessary for the proper and efficient performance of the functions of the Commission ;

(*d*) determine the terms and conditions of service in the Commission, including disciplinary measures for the employees of the Commission ;

(*e*) fix the remuneration, allowances and benefits of the employees of the Commission as approved by the Salaries and Wages Commission ;

(*f*) do other things, which in its opinion are necessary to ensure the efficient performance of the functions of the Commission ; and

(*g*) regulate its proceedings and make standing orders with respect to the holding of its meetings, notices to be given, the keeping of minutes of its proceedings and such other matters as the Commission may, from time to time, determine.

Cessation of membership.

8.—(1) Notwithstanding the provisions of section 5 (2) of this Act, a member of the Commission shall cease to hold office if :

(*a*) he becomes bankrupt or makes a compromise with his creditors ;

(*b*) he is convicted of a felony or any offence involving dishonesty, corruption or fraud ;

(*c*) he becomes incapable of carrying out the functions of his office either by reason of an infirmity of mind or body ;

(*d*) the President is satisfied that It is not in the interest of the Council or the interest of the public that the member should continue in office and the President removes him from office ;

(*e*) he has been found guilty of violation of the code of conduct or serious misconduct in relation to his duties ;

(*f*) he resigns his appointment by a notice under his hand, addressed to the President ; or

(*g*) in the case of a person who becomes a member by virtue of the office he occupies, he ceases to hold such office for whatever reason.

(2) Where a vacancy occurs in the membership of the Commission, it shall be filled by the appointment of a successor to hold office for the remainder of the term of office of his predecessor, provided that the successor shall represent the same interest as his predecessor.

Emoluments, etc of members.

9.—(1) There shall be paid to the Chairman of the Commission such salaries, allowances and benefits as the Revenue Mobilisation Allocation and Fiscal Commission may, from time to time, approve.

(2) There shall be paid to other members of the Commission such sitting allowances and benefits as may be determined by the Revenue Mobilisation Allocation and Fiscal Commission may, from time to time, approve.

Submission of annual report of the Commission.

10. The Commission shall prepare and submit to the National Assembly not later than 30th June in each financial year; a report of its activities including all cases of contravention investigated during the preceding financial year, and shall include in the report a copy of its audited accounts for the preceding financial year.

PART II—THE MEDIUM—TERM EXPENDITURE FRAMEWORK

Medium-Term Expenditure.

11.—(1) The Federal Government after consultation with the States shall :

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

(*b*) thereafter, not later than four months before the commencement of the next financial year, cause to be prepared a Medium-Term Expenditure Framework for the next three financial years.

(2) The frame-work so laid shall be considered for approval with such modifications if any, as the National Assembly finds appropriate by a resolution of each House of the National Assembly.

(3) The Medium-Term Expenditure Framework shall contain :

(*a*) a Macro-economic Framework setting out the macro-economic projections, for the next three financial years, the underlying assumptions for those projections and an evaluation and analysis of the macroeconomic projections for the preceding three financial years ;

(*b*) a Fiscal Strategy Paper setting out :

(*i*) the Federal Government's medium-term financial objectives,

(*ii*) the policies of the Federal Government for the medium-term relating to taxation, recurrent (non-debt) expenditure, debt expenditure, capital expenditure, expenditure, borrowings and other liabilities, lending and investment,

(*iii*) the strategic, economic, social and developmental priorities of the Federal Government for the next three financial years,

(*iv*) an explanation of how the financial objectives, strategic, economic, social and developmental priorities and fiscal measures set out pursuant to sub-paragraphs (*i*), (*ii*) and (*iii*) of this paragraph relating to the economic objectives set out in section 16 of the Constitution ;

(*c*) an expenditure and revenue framework setting out :

(*i*) estimates of aggregate revenues for the Federation for each financial year in the next three financial years, based on the predetermined Commodity Reference Price adopted and tax revenue projections,

(*ii*) aggregate expenditure projection for the Federation for each financial year in the next three financial years,

(*iii*) aggregate tax expenditure projection for the Federation for each financial year in the next three financial years, and (*iv*) minimum capital expenditure floor for the Federation for each financial year in the next three financial years:

Provided that, the estimates and expenditures provided under paragragh (*d*) of this subsection shall be :

(*i*) based on reliable and consistent data certified in accordance with section 13(2) (*b*) of this Act,

(*ii*) targeted at achieving the macro-economic projection set out in subsection (2) (*a*) of this section,

(*iii*) consistent with and derive from the underlying assumptions contained in the Macro-economic framework, the objectives, policies, strategic priorities and explanations in the Fiscal Strategy paper ;

(*d*) a Consolidated Debt Statement setting out and describing the fiscal significance of the debt liability of the Federal Government and measures to reduce any such liability ; and

(*e*) a statement describing the nature and fiscal significance of contingent liabilities and quasi-fiscal activities and measures to offset the crystallization of such liabilities.

Aggregate expenditure ceiling.

12. The estimates of :

(1) aggregate expenditure and the aggregate amount appropriated by the National Assembly for each financial year shall not be more than the estimated aggregate revenue plus a deficit, not exceeding three per cent of the Estimated Gross Domestic Product or any sustainable percentage as may be determined by the National Assembly for each financial year.

(2) aggregate expenditure for a financial year may exceed the ceiling imposed by the provisions of subsection (1) of this section, if in the opinion of the President there is a clear and present threat to national security or sovereignty of the Federal Republic of Nigeria.

Preparation of the Medium-Term Expenditure Framework.

13.—(1) The Minister shall be responsible for the preparation of the Medium-Term Expenditure Framework.

(2) In preparing the draft Medium-Term Expenditure Framework, the Minister :

(*a*) may hold public consultation, on the Macro-economic Framework, the Fiscal Strategy Paper, the Revenue and Expenditure Framework, the strategic, economic, social and developmental priorities of government, and such other matters as the Minister deems necessary :

Provided that, such consultations shall be open to the public, the press and any citizen or authorized representatives of any organization, group of citizens, who may attend and be heard on any subject matter properly in view ;

(*b*) shall seek inputs from the—

(*i*) National Planning Commission,

(*ii*) Joint Planning Board,

(*iii*) National Commission on Development Planning,

(*iv*) National Economic Commission,

(v) National Assembly,

(*vi*) Central Bank of Nigeria,

(*vii*) National Bureau of Statistics,

(*viii*) Revenue Mobilisation Allocation and Fiscal Commission,

(*ix*) any other relevant statutory body as the Minister may determine ; and

(*c*) shall consider and reflect as may be deemed appropriate the input of the bodies and persons referred to in subsection (*a*) and (*b*) of this section.

Time limit for presentation of Medium-Term Expenditure Framework to Federal Executive Council.

14.—(1) The Minister shall before the end of the second quarter of each financial year, present the Medium-Term Expenditure Framework to the Federal Executive Council for consideration and endorsement.

(2) The Medium-Term Expenditure Framework as endorsed by the Federal Executive Council shall take effect upon approval by a resolution of each house of the National Assembly.

Publication of Medium-term Expenditure Framework in the Gazette.

15. The Medium-Term Expenditure Framework as approved by the National Assembly shall be published in the Gazette.

Adjustments to the Medium-Term Expenditure Framework.

16.—(1) Subject to subsection (2) of this section, the President may cause adjustments to be made to a Medium-Term Expenditure Framework.

(2) Any adjustment to a Medium-Term Expenditure Framework shall be limited to :

(*a*) the correction of manifest error ; and

(*b*) changes in the fiscal indicators, which in the opinion of the President are significant.

Assistance to States and Local Governments

17. States and Local Governments which so desire shall be assisted by the Federal Government to manage their fiscal affairs within the medium-term framework.

PART III—THE ANNUAL BUDGET

Annual budget to be derived from Medium-Term Expenditure Framework.

18. Notwithstanding anything to the contrary contained in this Act or any other law, the Medium-Term Expenditure Framework shall :

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

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

Annual budget to be accompanied by certain documents.

19. The estimates of revenue and expenditure (in this Act referred to as the "*Annual Budget*") shall be accompanied by :

(*a*) a copy of the underlying revenue and expenditure profile for the next two years ;

(*b*) a report setting out actual and budgeted revenue and expenditure and detailed analysis of the performance of the budget for the 18 months up to June of the preceding financial year ;

(*c*) a revenue framework broken down into monthly collection targets prepared on the basis of the predetermined Reference Commodity Price as contained in Medium-Term Expenditure Framework ;

(*d*) measures on cost, cost control and evaluation of results of programmes financed with budgetary resources ;

(*e*) a Fiscal Target Appendix derived from the underlying Medium-Term Expenditure Framework setting out the following targets for that financial year—

(*i*) target inflation rate,

(*ii*) target fiscal account balances,

(*iii*) any other development target deemed appropriate ; and

(*f*) a Fiscal Risk Appendix evaluating the fiscal and other related risks to the annual budget and specifying measures to be taken to offset the occurrence of such risks.

Application of Part III to States and Local Governments.

20. In preparing their annual budget, States and Local Governments may adopt the provisions of this Part with such modification as may be appropriate and necessary.

PART IV—BUDGETARY PLANNING OF CORPORATIONS AND OTHER RELATED AGENCIES

Preparation of estimates of revenue and expenditure by corporations etc.

21.—(1) The Government corporations and agencies and government owned companies listed in the Schedule to this Act (in this Act referred to as "*the Corporations*") shall, not later than 6 months from the commencement of this Act and for every three financial years thereafter and not later than the end of the second quarter of every year, cause to be prepared and submitted to the Minister their Schedule estimates of revenue and expenditure for the next three financial years.

Schedule.

(2) Each of the bodies referred to in subsection (1) of this section shall submit to the Minister not later than the end of August in each financial year :

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

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

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

Operating surplus and general reserve fund.

22.—(1) Notwithstanding the provisions of any written law governing the corporation, each corporation shall establish a general reserve fund and shall allocate thereto at the end of each financial year, one-fifth of its operating surplus for the year.

(2) The balance of the operating surplus shall be paid to the Consolidated Revenue Fund of the Federal Government, not later than one month following the statutory dead line for publishing each corporation's accounts.

Classification of corporation operating surplus.

23.—(1) The Corporation's surpluses shall be classified as a Federal Treasury Revenue.

(2) Where a corporation's result is a deficit, the deficit shall be classified as the corporation's loss for the fiscal year.

(3) Each corporation shall, not later than three months after the end of its financial year, cause to be prepared and published its audited financial reports in accordance with such rules as may be prescribed from time to time.

Cessation of application of Part IV.

24. The provisions of sections 20, 21 and 22 shall cease to apply to any of the corporations from the date of its privatization.

PART V—BUDGETARY EXECUTION AND ACHIEVEMENT OF TARGETS

Annual Cash Plan.

25.—(1) The Federal Government shall cause to be drawn up in each financial year, an Annual Cash Plan which shall be prepared by the office of the Accountant-General of the Federation.

(2) The Annual Cash Plan shall be prepared in advance of the financial year setting out projected monthly cash flows and shall be revised periodically to reflect actual cash flows.

Disbursement Schedule.

26. The Minister, shall within 30 days of the enactment of the Appropriation Act, prepare and publish a disbursement Schedule derived from the Annual Cash Plan for the purposes of implementing the Appropriation Act.

Power of Minister to approve virement.

27.—(1) The sums appropriated for a specific purpose shall be used solely for the purpose specified in the Appropriation Act.

(2) Without prejudice to subsection (1) of this section, the Minister may in exceptional circumstances and in the overall public interest, recommend for the approval of the National Assembly virements from sub-heads under heads of account, without exceeding the amount appropriated to such head of account.

Power to restrict further commitments.

28.—(1) Where, by the end of three months, after the enactment of the Appropriation Act, the Minister determines that the targeted revenues may be insufficient to fund the heads of expenditure in the Appropriation Act, the Minister shall, within the next 30 days of such determination, take appropriate measures to restrict further commitments and financial operations according to the criteria set in the Fiscal Risk Appendix.

(2) Where the targeted revenues are re-established, either in part or in full, the appropriations for which further commitments were restricted shall be restored proportionately.

(3) The provisions of subsections (1) and (2) of this section shall not apply to statutory or constitutional expenditure.

Restriction on the grant of tax relief.

29.—(1) Any proposed tax expenditure shall be accompanied by an evaluation of its budgetary and financial implications in the year it becomes effective and in the three subsequent years, and shall only be approved by the Minister, if it does not adversely impair the revenue estimates in the annual budget or if it is accompanied by countervailing measures during the period mentioned in this subsection through revenue increasing measures such as tax rate raises and expansion of the tax base.

(2) The provisions of this section shall not apply to :

(*a*) changes in the rates of the taxes mentioned in section 163 of the Constitution ; and

(*b*) debt cancellation in an amount lower than the cost of collection.

Responsibility of the budget office to monitor and report on implementation.

30.—(1) The Minister of Finance, through the Budget Office of the Federation, shall monitor and evaluate the implementation of the Annual Budget, assess the attainment of fiscal targets and report thereon on a quarterly basis to the Fiscal Responsibility Council and the Joint Finance Committee of the National Assembly.

(2)The Minister of Finance shall, cause the report prepared pursuant to subsection (1) of this section to be published in the mass and electronic media and on Ministry of Finance website, not later than 30 days after the end of each quarter.

Application of Part V to States and Local Governments.

31. In implementing their annual budgets, States and Local Governments may adopt the provisions of this Part with such modifications as may be appropriate and necessary.

PART VI—PUBLIC REVENUES

Forecast and collection of public revenues.

32. Any fund due to the Federation from any tier of government may be set off by the Federation in or towards payment or remittance of any sum due to that tier of government from the Federation.

Revenue forecast.

33. The Executive Arm of the Federal Government shall, at least 30 days before the deadline for the submission of its budget proposals, place, at the disposal of the National Assembly, the revenue estimates for the following year, including the net current revenue and the respective memorandum items.

Executive to break down estimated revenue.

34. Estimated revenue shall be broken down by the Executive Arm of Government into monthly collection targets, including, where applicable, a separate description of measures to combat tax fraud and evasion.

PART VII—SAVINGS AND ASSET MANAGEMENT

Penalty for non-compliance with Part VI.

35.—(1) Where the reference commodity price rises above the predetermined level, the resulting excess proceeds shall be saved in accordance with the provisions of subsection (2) of this section.

(2) The savings of each Government in the Federation in pursuance to subsection (1) of this section shall be deposited in a separate account which shall form part of the respective Governments Consolidated Revenue Fund to be maintained at the Central Bank of Nigeria by each Government.

(3) The Central Bank of Nigeria shall, in consultation with the Minister of Finance, the State Commissioners of Finance, and Local Government Treasurers, invest, for and on behalf of the Governments in the Federation, the savings of each Government and such investment can be undertaken in a consolidated manner, provided that, the shares of each Government and income due to them from the investment are clearly identified.

(4) The Central Bank of Nigeria in the discharge of its obligation under subsection (3) of this section shall, observe the limits and conditions imposed by safety and prudential considerations and the need to maintain macro-economic stability and such safety and prudential conditions are to be agreed upon with Minister of Finance, State Commissioners of Finance, and Local Government Treasurers.

(5) No Government in the Federation shall have access to the savings made in pursuance to subsection (2) of this section, unless the reference commodity price falls below the predetermined level for a period of three consecutive months.

(6) The augmentation referred to in subsection (5) of this section shall be limited to such sums that will bring the revenue of government to the level contained in its budget estimates.

(7) Notwithstanding the provisions of subsections (5) and (6) of this section and subject to agreement by Federal and State Governments in the Federation, a proportion of the savings may be appropriated in the following year for the capital projects and programmes.

PART VIII—PUBLIC EXPENDITURE

36.—(1) The creation, expansion or improvement in government action which result in an expenditure increase shall be accompanied by— **Conditions for increasing government expenditure.**

(*a*) an estimate of the budgetary or financial impact in the year it becomes effective and in the two subsequent years ; and

(*b*) a statement by the person requesting for the expenditure, stating that the increase is consistent with the Appropriation Act and the Medium-Term Expenditure Framework.

(2) The provisions of this section shall not apply to expenditures deemed inconsequential and shall apply to States and Local Government only to the extent to which they have adopted these provisions.

37. The granting of any advantage or increase of remuneration, the creation of posts or alteration of career structures and admission of personnel on any account by bodies and entities including foundations established and maintained by the Federal Government shall only be effected if, there is a prior budgetary allocation sufficient to cover the estimated expenditure. **Conditions for increasing personnel expenditure.**

38. All contracts with regards to the execution of annual budget; shall comply with the rules and guidelines on : **All contracts to comply with rules and guidelines.**

(*a*) procurement and award of contracts ; and

(*b*) due process and certification of contract.

39. Any violation of the requirements in sections 36, 37 and 38 shall be an offence. **Effect of violation of public expenditure rules.**

40. In incurring public expenditures, States and Local Governments may adopt the provisions of this Part with such modifications as may be appropriate and necessary. **Application of Part VIII to States and Local Governments.**

PART IX—DEBT AND INDEBTEDNESS

Framework for debt management.

41.—(1) The framework for debt management during the financial year shall be based on the following rules :

(*a*) Government at all tiers shall only borrow for capital expenditure and human development, provided that, such borrowing shall be on concessional terms with low interest rate and with a reasonably long amortization period subject to the approval of the appropriate legislative body where necessary ; and

(*c*) Government shall ensure that the level of public debt as a proportion of national income is held at a sustainable level as prescribed by the National Assembly from time to time on the advice of the Minister.

(2) Notwithstanding the provisions of subsection 1(*a*) of this section and subject to the approval of the National Assembly, the Federal Government may borrow from the capital market.

(3) Non-compliance with the provisions of this section shall make the action taken an offence.

Limits on consolidated debt of Federal, State and Local Governments.

42.—(1) The President shall, within 90 days from the commencement of this Act and with advice from Minister of Finance subject to approval of National Assembly, set overall limits for the amounts of consolidated debt of the Federal, State and Local Governments pursuant to the provisions of items 7 and 50 of Part I of the Second Schedule to the Constitution and the limits and conditions approved by the National Assembly, shall be consistent with the rules set in this Act and with the fiscal policy objectives in the Medium Term-Fiscal Framework.

(2) Outstanding judgment debts not paid shall be considered part of the consolidated debts for the purpose of application of the respective limits set in pursuance of this section.

(3) For the purpose of verifying compliance with the limits specified pursuant to this section, the Commission shall, at the end of each quarter, determine the amount of the consolidated debt of each tier of government.

(4) The Commission shall publish, on a quarterly basis, a list of the Governments in the Federation that have exceeded the limits of consolidated debt, indicating the amount by which the limit was exceeded.

(5) Where at the end of any quarter, the consolidated debt of the Federal, State or Local Governments exceeds the respective limits, it shall be brought within the limit not later than the end of the three subsequent quarters with a minimum of 25 per cent reduction in the first quarter.

(6) Violators of the limits specified pursuant to this section shall :

(*a*) be prohibited from borrowing from internal or external sources, except for the refinancing of existing debts ; and

(*b*) bring the debt within the established limit by restricting funding commitments accordingly.

Prohibition against CBN in its relation with Government agencies and parastatals

46.—(1) The Central Bank of Nigeria in its relations with Government agencies and parastatals shall be subject to the following prohibitions :

(*a*) purchasing fresh issues of government securities on the date of its primary issue in the market, except in the circumstances under subsection (2) of this section;

(*b*)exchanging on a temporary basis, the debt securities of any Government in the Federation for federal public debt securities and forward purchase or sale of such securities when the final result is similar to an exchange ; or

(*c*) granting guarantees on behalf of any Government in the Federation.

(2) The Central Bank of Nigeria may only underwrite securities issued by the Federal Government, which are rolled-over to refinance maturing securities.

(3) The underwriting permitted under subsection (2) of this section shall be offset through a public auction at market-determined rate.

Power of the Minister to grant guarantees.

47.—(1) Subject to the provisions of this Part, the Minister may with the approval of the Federal Executive Council, grant guarantees on behalf of any Government in the Federation.

(2) Any guarantee granted by the Minister shall be conditional upon the provision of a counter-guarantee in an amount equal to or higher than the guarantee obligation, provided that, there are no overdue obligations from the requesting Government in the Federation to the guarantor and its controlled corporations and such guarantee shall also be in compliance with the following :

(*a*) counter-guarantee shall only be accepted from State or Local Governments ; and

(*b*) the counter-guarantee required by the Federal Government from State or Local Government or by State from Local Government, may consist in the appropriation of tax revenue directly collected and resulting from statutory transfers and the guarantor shall be authorised to retain such revenue and use the respective amount to repay overdue debts.

(3) In the case of foreign currency borrowing, Federal Government guarantee shall be a requirement and no State, Local Government or Federal Agency shall, on its own borrow externally.

(4) Any guarantee provided in excess of the debts limits set pursuant to section 44(1) of this Act shall be an offence.

PART XI—TRANSPARENCY AND ACCOUNTABILITY

Fiscal transparency.

48.—(1) The Federal Government shall ensure that its fiscal and financial affairs are conducted in a transparent manner and accordingly ensure full and timely disclosure and wide publication of all transactions and decisions involving public revenues and expenditures and their implications for its finances.

(2) The National Assembly shall ensure transparency during the preparation and discussion of the Medium-Term Expenditure Framework, Annual Budget and the Appropriation Bill.

Publication of audited accounts.

49.—(1) The Federal Government shall publish their audited accounts not later than six months following the end of the financial year.

(2) Federal Government shall, not later than two years following the commencement of this Act and thereafter, not later than 7 months following the end of each financial year, consolidate and publish in the mass media, its audited accounts for the previous year.

(3) The publication of general standards for the consolidation of public accounts shall be the responsibility of the office of the Accountant-General of the Federation.

Publication of a summarized report on budget execution.

50. The Federal Government through its budget office shall within 30 days after the end of each quarter, publish a summarized report on budget execution in such form as may be prescribed by the Fiscal Responsibility Commission and not later than 6 months after the end of the financial year, a consolidated budget execution report showing implementation against physical and financial performance targets shall be published by the Minister of Finance for submission to the National Assembly and dissemination to the public.

PART XII—ENFORCEMENT

Enforcement.

51. A person shall have legal capacity to enforce the provisions of this Act by obtaining prerogative orders or other remedies at the Federal High Court, without having to show any special or particular interest.

PART XIII—MISCELLANEOUS PROVISIONS

Government securities as collateral to guarantee loans.

52. Government securities, provided that, they are duly listed on the stock exchange, may be offered as collateral to guarantee loans or other financial transactions under the law for their economic value as defined by the Ministry.

Restriction on utilisation of proceeds of sale of public assets, etc.

53. The proceeds derived from the sale or transfer of public properties and rights over public assets shall not be used to finance recurrent and debt expenditure, provided that, such proceeds may be used to liquidate existing liabilities directly charged against such properties or assets.

Technical and financial assistance to State and Local Governments.

54. The Federal Government may provide technical and financial assistance to States and Local Governments that adopt similar fiscal responsibility legislation along the same lines as this Act for the modernization of their respective tax, financial and asset administration.

Power of the President to make regulations.

55. The President shall, in addition to any other power, conferred on him under this Act, make regulations generally for the purposes of carrying into effect the provisions of this Act.

PART XIV—INTERPRETATION

Interpretation.

56. In this Act :

"*Appropriation Act*" means an Act or Law passed by the National or State Assembly or Local Government authorizing spending from the Consolidated Revenue Fund and includes a Supplementary Appropriation Act or Law ;

"*Appropriation Bill*" means the Bill referred to in sections 59 of the Constitution of the Federal Republic of Nigeria, 1999 ;

"*Arms of Government*" means the Executive, Legislature and Judiciary ;

"*Borrowing*" means any financial obligation arising from :

(*i*) any loan including principal, interest, fees of such loan,

(*ii*) the deferred payment for property, goods or services,

(*iii*) bonds, debentures, notes or similar instruments,

(*iv*) letters of credit and reimbursement obligations respect thereto,

(*v*) trade or hankers' acceptances,

(*vi*) capitalized amount of obligations under leases entered into primarily as a method of raising financing or of financing the acquisition of the asset leased,

(*vii*) agreements providing for swaps. ceiling rates, ceiling and floor rates, contingent participation or other hedging mechanisms with respect to the payment of interest or the convertibility of currency and

(*viii*) a conditional sale agreement, capital lease or other title retention agreement ;

"*Budget Call Circular*" means a circular :

(*i*) requesting the submissions in a prescribed form, of the revenue and expenditure estimates of ministries, extra-ministerial departments, and other executing agencies of Government for the next financial year ; and

(*ii*) giving detailed guidelines and instructions on the preparation of the estimates and expenditure in a manner consistent with the medium-term developmental priorities set out in the Medium-Term Expenditure Framework ;

"*Capital Expenditure*" means spending on an asset that lasts for more than one financial year and expenses associated with the acquisition of such assets ;

"*concessional terms*" means the terms of the loan must be at an interest rate not exceeding 3 percent ;

"*consolidated debt*" means the aggregate of the outstanding financial obligations of Government including those of its Parastatals and agencies at any point in time arising from :

(*i*) borrowed money including principal, interest, fees of such borrowed money,

(*ii*) the deferred payment for property, goods or services.

(*iii*) bonds, debentures, notes or similar instruments,

(*iv*) letters of credit and reimbursement obligations with respect thereto,

(*v*) Guarantees,

(*vi*) trade or bankers' acceptances,

(*vii*) capitalized amounts of obligations under leases entered into primarily as a method of raising financing or of financing the acquisition of the asset leased,

(*viii*) agreements providing for swaps, ceiling rates, ceiling and floor rates, contingent participation or other hedging mechanisms with respect to the payment of interest or the convertibility of currency, and

(*ix*) a conditional sale agreement, capital lease or other title retention agreement ;

"*Cost-benefit-analysis*" means an analysis that compares the cost of undertaking a service, project or programme with the benefits that citizens are likely to derive from it ;

"*Fiscal Risk Appendix*" An explanatory attachment that provide a set of indicator that can be used to measure local fiscal risks ;

"*Fiscal Risk Target*" provides numerical target for each risk indicator with which a fiscal entity will be considered fiscally healthy.

"*Financial Year*" has the meaning ascribed in the Constitution ;

"*Fiscal Policy Objectives*" means the goals set by Government for attainment of set targets for a given period ;

"*Government Owned Company*" means a statutory corporation, Government agency and a company in which Government has controlling interest ;

"*Medium-Term Expenditure Framework*" means the document referred to and the content of which is prescribed in section 1 of this Act ;

"*Minister*" means the Minister charged with the responsibility for finance ;

"*Net debt*" means the Consolidated Debt less what is owed to Government, its Parastatals and agencies at any point in time ;

"*President*" means the President of the Federal Republic of Nigeria ;

"*Public Debt Securities*" means public debt represented by securities issued by the Federal Government (including those of the Central Bank of Nigeria), the State and Local Governments ;

"*Public Expenditure*" means outlays other than those resulting into debt reduction ;

"*Public revenue*" all moneys received by a Government in the Federation ;

"*Quarter*" means one quarter of a financial year and quarterly shall be construed accordingly ;

"*Recurrent Expenditure*" means normal overhead and administrative expenses and personnel cost including salaries, emoluments and other benefits of employees ;

"*Reference Commodity Price*" means such price as may be determined by the President subject to the approval of the National Assembly ;

"*Refinancing of debt securities*" means issuance of securities to repay the existing debt ;

"*State financial institution*" means any financial institution in which one or more state governments has controlling shares ;

"*State*" shall be construed to include the Federal Capital Territory ;

"*Tax expenditure projections*" means the projected amount expected to be utilised in the granting tax relief or tax holiday ;

"*Tax revenue projections*" means the projected collectible tax or revenue within a particular planning period ; and

"*Tiers of Government*" means the Federal, State and Local Governments ;

Citation.

57. This Act may be cited as the Fiscal Responsibility Act, 2007.

SCHEDULE

Section 21

LIST OF CORPORATIONS, AGENCIES AND GOVERNMENT-OWNED COMPANIES

1. Nigerian National Petroleum Corporation.
2. Nigeria Deposit Insurance Corporation.
3. Bureau of Public Enterprises.
4. National Agency for Science and Engineering Infrastructure.
5. Nigerian Social Insurance Trust Fund.
6. Corporate Affairs Commission.
7. National Clearing and Forwarding Agency.
8. Nigeria Unity Line.
9. Nigerian Airspace Management Agency.
10. Nigerian Shippers Council.
11. National Maritime Authority.
12. Raw Material Research and Development Council.
13. Nigerian Civil Aviation Authority.
14. National Sugar Development Council.
15. Nigerian Postal Service.
16. Nigerian Ports Authority.
17. Federal Airport Authority of Nigeria.
18. Nigeria Mining Corporation.
19. Nigeria Re-insurance.
20. Nigerdock Nigeria Plc.
21. Securities and Exchange Commission.
22. National Insurance Corporation of Nigeria.
23. Nigeria Re-insurance Corporation.
24. Nigerian Telecommunication.
25. National Automotive Council.
26. Nigerian Tourism Development Corporation.
27. National Communication Commission.
28. National Agency for Food & Drug Administration & Control.
29. Nigerian Customs Service.
30. Federal Inland Revenue Service.
31. Central Bank of Nigeria.

Any other corporation, agency or government-owned company that may be included by the Minister through a local notice.

EXPLANATORY MEMORANDUM

This Act, among other things, establishes the Fiscal Responsibility Commission charged with the responsibility of monitoring and enforcing the provisions of this Act to ensure greater accountability, transparency and prudence in the management of the Nation's resources by the Federal Government, Government-owned corporations or companies and agencies as provided for under sections 13,16(1) and (2) and item 60 of the Exclusive Legislative List as set out in Part 1 of the Second Schedule to the 1999 Constitution of the Federal Republic of Nigeria and provides incentives to encourage States and Local Government pass similar fiscal responsibility legislation.

I certify, in accordance with Section 2(1) of the Acts Authentication Act, CAP. A2, Laws of the Federation of Nigeria 2004, that this is a true copy of the Bill passed by the both Houses of the National Assembly.

NASIRU IBRAHIM ARAB,
Clerk to the National Assembly
19th day of July, 2007

SCHEDULE TO FISCAL RESPONSIBILTY BILL, 2007

(1) SHORT TITLE OF THE BILL	(2) LONG TITLE OF THE BILL	(3) SUMMARY OF THE CONTENTS OF THE BILL	(4) DATE PASSED BY THE SENATE	(5) DATE PASSED BY THE HOUSE OF REPRESENTA-TIVES
Fiscal Responsibility Bill, 2007.	An Act to provide for prudent management of the Nation's resources, ensure long-term macro-economic stability of the national economy, secure greater accountability and transparency in fiscal operations within a mediium term fiscal policy framework, and the establishment of the Fiscal Responsibility commission to ensure the promotion and enforcement of the Nation's economic objectives ; and for related matters.	This Bill provides for prudent management of the Nation's resources, ensure long-term macro-economic stability of the national economy, secure greater accountability and transparency in fiscal operations within a medium term fiscal policy framework, and the establishment of the Fiscal Responsibility Commission to ensure the promotion and enforcement of the Nation's economic objectives.	21st February, 2007.	30th Day of May, 2007.

I certify that the Bill has been carefully compared by me with the decision reached by the National Assembly and found by me to be true and correct decision of the Houses and is in accordance with the provisions of the Acts Authentication Act Cap. A2, Laws of the Federation of Nigeria, 2004.

LS

NASIRU IBRAHIMN ARAB,
Clerk to the National Assembly
19th Day of July, 2007.

I Assent

UMARU MUSA YARADUA, GCFR
PRESIDENT OF THE FEDERAL REPUBLIC OF NIGERIA
30th Day of July, 2007.