FISCAL RESPONSIBILITY COMMISSION

OPERATING SURPLUS CALCULATION TEMPLATE

Ensuring a new regime of transparency, fiscal prudence and accountability in the management of public funds

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PREFACE

This template is issued by Fiscal Responsibility Commission vide its statutory mandate Part 1, S.3(1)(b)&(d) and to **"disseminate such standard practices including international good practices that will result in greater efficiency in the allocation and management of public expenditure, revenue collection, debt control and transparency in fiscal matters"** and make rules for carrying its functions under Act; it is intended to be used by all scheduled corporations listed in the Appendix to the Fiscal Responsibility Act (FRA), 2007 or any addition thereto by the Minister of F,B&NP as provided for by the Act.

The Fiscal Responsibility Commission is a statutory Commission established by the Fiscal Responsibility Act 2007.

PART I

INTRODUCTION:

1. The Federal Government has the statutory responsibility of setting up bodies to perform certain specialised functions for smooth running and growth of the economy. It has consequently invested resources and efforts to set up such entities.

2. Akin to a private sector investor, the Federal Government expects to reap some level of reward out of the surplus made by these entities from their operations by way of independent revenue.

3. Over time, the Office of the Accountant General of the Federation has been mopping all balances of liquid funds at the end of each financial year.

4. The above practice is however not based on a scientific assessment of the surplus earned by the entities nor does it encourage them to retain a portion of that surplus.

5. This template addresses the disadvantages mentioned in paragraph 4 and to guide the scheduled corporations on how to determine operating surplus.

PART II

DEFINITIONS :

Scheduled Corporation: Is any corporation, agency, company or organization with controlling Federal Government interest and listed as part of the schedule to the Fiscal Responsibility Act, 2007 or subsequently included by the Minister of F,B&NP through a local notice as provided in the above mentioned Act.

Operating Surplus/Deficit: It is the difference between the entities Income and Expenditure calculated on the basis of acceptable accounting practices.

Allowable Provisions: These are provisions for doubtful and bad assets that are specific and justifiable based on the entities business, industry and relevant legislations

Depreciation/Amortisation: These are amount charged against Income based on a predetermined rate to write off an asset over a predetermined period.

Depreciation are allowed subject to prescribed rates as provided for by Generally Accepted Accounting Principles.

Capital Expenditures :

These relates to expenditures incurred to acquire assets that would be employed in the entity's operations/business and whose useful lives are more than one year or any amount that increases the life span of the asset.

Capital expenditures are allowable subject to explanations given in this template.

Donations:

These are reasonable amounts disbursed/paid to other parties without expectation of an immediate business advantage to the entity but with a view to promoting or assisting a genuine cause. (not more than 10% of the surplus)

Donations allowed are such made to the following:

a) Public funds;
b) Statutory bodies and institutions;
c) The ecclesiastical, charitable, benevolent, educational and scientific institutions established in Nigeria.

Benefits Outside

Payments made to Management

Employment Contract: and employee that fall outside the terms and condition of employment.

Any payment not in nature of operational car benefited by staff as part of condition of service.

Any payment outside the purpose of the financial regulation, operation/business, extant circulars as well as Regulations of the organization and the staff members' contract agreement are disallowed.

Political Expenses: These are expenses deemed to be made directly or indirectly for political activities. Such expenses are disallowed.

Subscriptions: These are expenses incurred to professional bodies, associations and service providers in line with the organisation's operation and objectives.

Unbudgeted Expenditures: All expenditures duly appropriated by the National Assembly in the Corporations budget will be allowed for operating surplus computation. Any expenditure over and above the approved amounts will not be allowed **except** if it has been appropriated by the National Assembly in a subsequent Supplementary Appropriation Act.

Expenses outside and above the approved budget are disallowed.

Undisclosed Income: Any income not disclosed in the audited financial statements but earned in the course of the operations are to be added back for the purposes of computing operating surplus.

Consolidated Revenue Fund (CRF): This refers to the Consolidated Revenue Fund and is the Account of the Federal Government established by the Constitution of the Federal Republic of Nigeria into which all revenue accruing to the Federal Government is paid.

FAAC: Federation Account Allocation Committee. It is the body charged with the responsibility of sharing revenue accrued to the Federation amongst the three tiers of Government.

Subsidiaries or Associates: These are organizations/ companies where the Government-owned Corporation holds at least 51% or 20% shares respectively.

Accrual Accounting: Accrual Accounting is the recognition and recording of transactions and other events when they occur (and not only when cash or its equivalent is received or paid).

Capital/Premium Contribution: These are contributions received by Corporations as part of their business from the public, financial institutions or such other agencies or entities as their governing law may specify. Such contributions or levies are meant to provide future benefits to the contributing party such as Deposit Insurance Contribution by financial institution etc. The capital contribution will not be classified as the corporation's income for operating surplus computation. Rather it is the portion of that contribution or the income derivable therefrom and allowed by the governing laws to be used for the day to day operations that will be deemed as the Corporation's income.

Payment on Account:

Instance normally exist where exigencies cause the Government to demand for funds from a corporation or a corporation on its own decides to make interim payments to the treasury on account of operating surplus. E.g Payments of 25% of gross IGR in compliance with the Finance Ministry Circular. In both cases the payments are to be considered as **payments-on-account of that fiscal years operating surplus.** In this respect the amount paid on account shall be deductible from the computed operating surplus payable for that year.

The resultant amount due after offsetting the payment-on-account is payable within the stipulated time as provided in the FRA. **In cases where the payment on account is higher than the computed operation surplus liability, the amount paid on account remains the final Operating Surplus payable for that year and no further obligation will due from the corporation or balance carried over.**

PART III

EXPLANATORY NOTES:

i) Operating Surplus is the excess of income over expenditure of the Government owned corporation from the result of their operation over a period of one fiscal year. The payment to the government is a distribution share of the operating surplus and not a tax or levy.

ii) In the private sector, such outfits aim at remunerating their investors with dividends and bonus/script shares. Having been set up with public funds, it is expected that the 'capital' injected in the setting up/running costs is remunerated appropriately

iii) The basis of computation is the Audited financial statements of the corporation carried out by professional auditing firm approved and duly registered with the Office of the Auditor General of the Federation and in accordance with International Auditing Standards. It is based on accrual system of accounting in line with international best practice.

iv) The Corporations, being Government owned, are exempted from corporate taxation hence the available surplus is for the purpose of payment of the operating surplus and retention of the balance thereof for their use.

v) A number of corporations tend to invest their funds in other areas resulting in low liquidity and consequently inability to pay the surplus due to the Federal Government. The payment of operating surplus being a distribution is not to be relegated to the practice of corporations investing their surplus in the money or capital markets. Such investments should only be made from available funds, after meeting the operating surplus obligation. In line with Regulation 3206 and 3208 of the Financial Regulations, Scheduled Corporations are barred from investing funds without prior approval of the Accountant General of the Federation.

vi) Corporations with limited liability companies as subsidiaries are expected to report the activities of those entities in their annual reports. Where the subsidiary pay dividend, the dividend received is to be included in the Corporation's income. Where however the corporations account is consolidated with that/those of the subsidiaries, such consolidated accounts will not be used for the purpose of determining operating surplus. Therefore, only the Corporation's account and each of its subsidiaries as an entity forms the basis of determining operating surplus.

Corporation taxes and other fees/levies paid by the subsidiaries/associates will not count as payment of operating surplus by the corporation.

vii) Depreciation charge for operating surplus calculation shall be based on the prescribed rate provided by General Accepted Accounting Principles in accordance with industry standard. Where the Corporation's operations justify the use of a rate different from the prescribed rates, then the Commission should be notified in writing before such applicable rate(s) can be used.

viii) Where a corporation's main source of income or other sources are not within the control of that entity in terms of collection and disbursement, the said income to the extent to which is not disbursed or controlled by them will not be part of their income for operating surplus computation except it is used in the preparation of its audited financial statements of the relevant year.

ix) Capital Expenditure will not be allowed to be charged to the corporations income unless:

a) The Corporation is fully financially independent; the capital expenditure is on behalf of Government, and does not rely on subvention from Treasury. Furthermore such Capital Expenditure is duly approved by a competent authority in the Government done in furtherance of Government strategic policies and has been appropriated by the National Assembly in the Corporation's Budget.

b) Where the Corporation receives capital subvention from the Treasury, no exemption will be granted to the extent of the contribution received there from. Furthermore, such Capital Expenditure is duly approved by a competent authority in the Government and has been appropriated by the National Assembly in the Corporation's budget.

c) Where the Corporation receives capital subventions from the treasury or Appropriation operating surplus computation for the relevant year it received the capital subvention or appropriation shall be based on operating surplus before depreciation. This is because the underlining principle of depreciation is to provide fund towards replacement of assets which the capital subvention or Appropriation has addressed.

x. **Determination & Payment of Surplus:** Operating Surplus is normally determinable and payable based on the audited results of a complete fiscal/financial year of Scheduled Corporation and its Subsidiaries/Associates.

PART IV

COMPUTATION OF OPERATING SURPLUS:

		N	N
SURPLUS/(DEFICIT) AS PER AUDITED ACCOUNTS			XXX
A.	**ADD BACK DISALLOWABLE EXPENSES:**		
i.	General Provision	XX	
ii.	Excess Depreciation/Amortization	XX	
iii.	Donations	XX	
iv.	Capital Expenditure	XX	
v.	Benefits-in-kind	XX	
vi.	Political Expenses	XX	
vii.	Subscriptions	XX	
viii.	Unbudgeted Expenses	XX	
ix.	Undisclosed Income/Non Core-Income	XX	XXX
			XXX
B.	**DEDUCT ALLOWABLE EXPENSES:**		
I.	Approved Expenses omitted	XX	(XX)
Operating Surplus			XXXX
C.	**APPROPRIATED**		
To:	Consolidated Revenue Fund (CRF) 80%		XX
To:	General Reserve Fund of the Agency 20%		XX
			XXXX

PART V

DISCLOSURE REQUIREMENT

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

a) expenditure incurred on behalf of supervisory ministry and any other organ of government involved in oversight or regulatory functions;

b) salaries and allowances paid to each member of the Board of Directors, Governing Council, Commission which are outside or above the amount approved in the circulars issued by th Revenue Mobilisation, Allocation and Fiscal Commission and the National Salaries, Income and Wages Commission;

c) all expenses incurred on overseas training, overseas medicals, welfare, local travels and training

d) the number of management and other staff on payroll;

e) list of donations, sponsorships, gifts and the beneficiaries during the year;

f) schedule of cost of collection and fees paid, including any contract signed for revenue collection by third party;

g) schedule of staff loans granted, repayments made and the age analysis of outstanding loans; and

h) details of assets sold or transferred to staff or Board members during the year.

NON-ALLOWABLE EXPENDITURE

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

a) salaries in excess of scales approved by National Salaries, Incomes and Wages Commission;

b) monetization of medical and other allowances;

c) business class travel for officers other than Chairman and Chief Executive Officer

d) personal loans to staff in excess of approved limits, including unapproved mortgages, among others;

e) expenditure in excess of approved mandates;

f) donations to individuals, including those to political and charitable organizations as charitable donations; and

g) expenses in respect of conference meeting in excess of approved circular on frequency of meetings.

PART VI

NOTES ON LEGAL REQUIREMENTS:

By the provisions of Part I, S.3(1)(b)&(d) of the Fiscal Responsibility Act 2007, the Commission is empowered to disseminate such standard practices including international best practice that will result in greater efficiency in the allocation and management of public expenditure, revenue collection, debt control and transparency in fiscal matters; and, make rules for carrying its functions under the Act.

This template is in compliance with the above Section and covers the requirements of Section 22 of the FRA, 2007 as regards Operating Surplus Obligation.

Non-compliance with this template including the explanatory provisions is a breach of the provisions of FRA, 2007 and liable to prosecution under Sec. 2(2) of the FRA, 2007

EFFECTIVE DATE:

This template comes into effect from the date of commencement of the Fiscal Responsibility Act, 2007.

FRC

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