Nigeria

Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report

Based on PEFA Framework 2016

Baseline Report

December 2019

Federal Government of Nigeria and the Development Partners

Currency and indicative exchange rates

Local currency unit = Naira (NGN)

US$1 = 305.95 (as of November 8, 2019)

Fiscal Year

January 1 – December 31

Fiscal years covered in this report

2015, 2016 and 2017

TABLE OF CONTENTS

Acronyms and Abbreviations

ARC	Accountable, Responsive and Capable government
ASYCUDA	Automated System for Custom Data
BCC	Budget Call Circular
BIR	Budget Implementation Report
BM&E	Budget Monitoring and Evaluation
BOF	Budget Office of the Federation
BPP	Bureau of Public Procurement
BPS	Budget Policy Statement
BVN	Bank Verification Number
CAC	Corporate Affairs Commission
Cap	Chapter
CBN	Central Bank of Nigeria
CIT	Corporate Income Tax
COFOG	Classification of Functions of Government
COMD	Crude Oil Marketing Department of NNPC
CR-DRMS	Commonwealth Secretariat Debt Recording and Management System
CRF	Consolidated Revenue Fund
CSO	Civil Society Organization
DFID	(UK) Department for International Development
DMO	Debt Management Office
DMS	Debt Management Strategy
DPs	Development Partners
DPR	Department of Petroleum Resources
DSA	Debt Sustainability Analysis
DSF-LICs	Debt Sustainability Framework for Low-Income Countries
DTA	Duty Tour Allowances
ECA	Excess Crude Account
ECP	Engaged Citizens Pillar
ERGP	Economic Recovery and Growth Plan

FAAC	Federation Accounts Allocation Committee
FCT	Federal Capital Territory
FDA	French Development Agency
FEC	Federal Executive Council
FCMA	Finance (Control and Management) Act, 1958
FGN	Federal Government of Nigeria
FIRS	Federal Inland Revenue Service
FMBNP	Federal Ministry of Budget and National Planning
FMF	Federal Ministry of Finance
FRA	Fiscal Responsibility Act
FRN	Federal Republic of Nigeria
FSP	Fiscal Strategy Paper
FY	Financial Year
GBE	Government Business Enterprise
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GFSM	Government Finance Statistics Manual
GIFMIS	Government Integrated Financial Management Information System
GOE	Government Owned Enterprise
ICRC	Infrastructure Concession Regulatory Commission
IDA	International Development Association
IERD	International Economic Relation Department of FMF
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPPIS	Integrated Personnel and Payroll Information System
IPSAS	International Public Sector Accounting Standard
ISSAI	International Standards of Supreme Audit Institutions
ITAS	Integrated Tax Administration System
JV	Joint Venture
LFN	Laws of Federation of Nigeria
LIC	Low Income Country

M&E	Monitoring and Evaluation
mb/d	Million Barrel per Day
MBNP	Ministry of Budget and National Planning
MDA	Ministry, Department and Agency
MoF	Minister of Finance
MOFI	Ministry of Finance Incorporated
MTDS	Medium Term Debt Strategy
MTEF	Medium Term Expenditure Framework
MTFF	Medium Term Fiscal Framework
MTSS	Medium Term Sector Strategy
N or NGN	Nigeria Naira
NAPIMS	National Petroleum Investment Management Services
NASS	National Assembly
NBS	National Bureau of Statistics
NCOA	National Chart of Accounts
NCP	National Council on Procurement
NCS	Nigeria Custom Service
NDMF	National Debt Management Framework
NEC	National Economic Council
NEITI	Nigeria Extractive Industries Transparency Initiative
NGO	Non-Government Organization
NJC	National Judicial Council
NNPC	Nigeria National Petroleum Corporation
NOCOPO	Nigeria Open Contracting Portal
NTP	National Tax Policy
OAGF	Office of the Accountant General of the Federation
OAuGF	Office of the Auditor General of the Federation
OGP	Open Government Partnership
OGRA	Oil & Gas Revenue Authority
PAC	Public Accounts Committee of National Assembly
PACT	Project Assessment and Costing Templates

PAYE	Pay as you earn
PERL	Partnership to Engage, Reform and Learn
PFM	Public Financial Management
PHCN	Power Holding Companies of Nigeria
PIMA	Public Investment Management Assessment
PIT	Personal Income Tax
PLC	Public Limited Company
PPA	Public Procurement Act
PPT	Petroleum Profit Tax
RMAFC	Revenue Mobilization, Allocation and Fiscal Commission
SAI	Supreme Audit Institution
SIGTAS	Standard Integrated Government Tax Administration System
SIRS	State Internal Revenue Service
SNG	Subnational Government
SOE	State Owned Enterprise
SRGI	Strategic Revenue Growth Initiative
SWF	Sovereign Wealth Fund
TADAT	Tax Administration Diagnostic
TAT	Tax Appeal Tribunal
TIN	Taxpayer Identification Number
TSA	Treasury Single Account
US$	United States Dollar
UTIN	Unique Taxpayer Identification Number
VAID	Voluntary Asset and Income Declaration Scheme
VAT	Value Added Tax
WAIFEM	West African Institute for Financial and Economic Management
WB	World Bank
WEO	World Economic Outlook
WHT	Withholding Tax
ZBB	**Zero-Based Budgeting**

Executive Summary

1. **The purpose of this 2019 Public Expenditure and Financial Accountability (PEFA) assessment is to provide an objective review of the performance of the PFM system of the Federal Government of Nigeria (FGN)**. It provides an update of progress in PFM since the last PEFA in 2012 and establishes a new PEFA baseline using the 2016 PEFA methodology. As Nigeria has been the recipient of significant technical assistance to support enhancement of many elements of its PFM system, it is now an appropriate time to take stock of overall progress.

2. **The scope of the 2019 FGN PEFA assessment is the central (federal) government fiscal operations, inclusive of extra budgetary units and transfers to Government business enterprises (GBEs) and sub-national governments.** This includes centralized accounting entities, namely, line ministries and other central government agencies for which the budget is approved by the National Assembly and expenditure is processed through the Government Integrated Financial Management Information System (GIFMIS). Government business enterprises and extra-budgetary units are covered to the extent of financial reporting and allocations from the Federal Budget. Nigeria's Fiscal Year (FY) runs from January 1 to December 31. The PEFA assessment reviewed the period of 2015, 2016 and 2017. Data and information for 2018 and 2019 was used for some dimensions requiring the review of the last FY and most recent FY in which the FGN budget was submitted.

3. **The PFM performance review was carried out as a joint government and donor initiative. Key development partners (DPs) that support FGN PFM reforms collaborated in the review.** These are the United Kingdom's Department for International Development (UK-DFID), the World Bank and the French Development Agency (AFD). The DPs and the 2019 FGN PEFA Assessment Team (AT) jointly administered the review, and an Oversight Committee (OT) comprising of the key stakeholders in the FGN provided oversight of the assessment. A comprehensive quality assurance mechanism, including peer reviewers, was set up, comprising staff from the World Bank, the PEFA Secretariat, DFID and AFD. The assessment will inform the relevant stakeholders on the extent to which PFM systems and practices support the achievement of the FGN fiscal and budgetary outcomes; and at the completion of the assessment, the Federal Government will outline the PFM reform actions required to improve PFM performance within the government.

4. **Overall, the 2019 FGN PEFA performance assessment showed mixed outcomes.** On the one hand, evidence suggests that commencing in 2007, fiscal authorities progressed in their core efforts to improve domestic revenue mobilization and exercise better control of available domestic resources to ensure fiscal discipline in an environment troubled with volatile oil resources and a low tax base. On the other, performance indicated that the result of running a plateful of reform initiatives, several of which are undertaken often in isolation from the others, did not succeed in the overall effort to coordinate structural reform of the budget system. This included undertaking meaningful legal and institutional reform and other key steps aimed to improve the allocation of budgetary resources and the quality of service delivery at Federal level.

5. **In a number of dimensions, performance of the PFM systems and processes has progressed suitably at the federal level over the past seven years.** Nigeria is firmly committed to address the challenges of budget transparency and accountability, corruption and tax evasion, and poor service delivery. Major achievements include key legislative reforms in the areas of fiscal responsibility, taxation and public procurement and improvements in the operational framework for PFM and ancillary functions. Along this line, more Budgetary units continue to gain access to GIFMIS, whilst PFM institutions are expanding standardization, innovation and automated systems to address the fragmentation in record keeping and reporting. These improvements have gradually led to the building of a more conducive PFM environment and strengthened confidence in PFM.

6. **Noticeable efforts have been made by the FGN authorities to join forces with Nigerian States (sub-national governments) to sustain PFM reforms and prioritize efforts to address weaknesses in tax administration and transparency, with the adoption of tax auditing and accrual-basis IPSAS accounting and reporting standards and introducing more innovation and technology to combat corruption and financial malpractice.** The PEFA assessment acknowledges the positive direction of change with ongoing reforms, including those supporting Integrated Payroll and Personnel Information System (IPPIS), deployment of Government Integrated Financial Management Information System (GIFMIS), implementation of the Treasury Single Account (TSA), e-Payment, and International Public Sector Accounting Standards (IPSAS). The Federal Government also signed up to the Open Government Partnership (OGP) and, alongside the Nigeria Extractive Industries Transparency Initiative (NEITI), made efforts to enhance fiscal governance and curtail secrecy in government businesses to improve overall transparency and disclosures in the oil and gas sector. Commendable are other flagship reform activities and teams championing reforms in certain key areas of PFM in recent years, though these efforts were severely undermined by weaknesses in other areas which were not simultaneously.

7. **However, despite strides made in PFM reforms thus far, the 2019 assessment revealed that performance in some areas of FGN PFM have not progressed significantly — particularly reforms which aim to improve the allocation of budget resources in a strategic and transparent manner.** Significant issues were identified throughout the PFM cycle, including low budget credibility, insufficient disclosure of public finances, poor asset and liability management, anomalies in budget execution, low standards in financial reporting, and lack of auditor independence. However, there are also noteworthy areas of high performance, such as macroeconomic and fiscal forecasting.

8. **The current PEFA assessment illustrates the persistence of some challenges in PFM, and the long-term timeframe required to achieve certain PFM reforms.** Despite the achievements in PFM reforms made thus far by the Federal Government, a more strategic approach is needed to bring PFM performance up to optimal levels. For instance, the lack of a coordinated approach to PFM reforms continues to impact Nigeria’s rankings in PFM performance. Certain reforms are not compatible with each other, for example, the intention to deepen performance-based budgeting was truncated with the introduction of zero-based budgeting, which is no longer considered a very good practice in most countries. Other reforms that are likely to be achieved over a longer term were pursued as short-term reforms. For instance, the adoption of accrual-based IPSAS, to rapidly increase transparency and build trust in the use of public resources, was initiated without having perfected cash-based IPSAS accounting. The accrual basis IPSAS implementation process was committed to by Federal and State authorities with a deadline to achieve a host of milestones in a period of four years, by 2016, which internationally was considered very ambitious. This process, though having the potential to improve budget transparency and accountability,

does not seem to have sufficiently taken into account the rigor and cost involved in its implementation, for instance the inventory and valuation of fixed assets. In addition, more work, is needed to automate the business processes to replace paper-based processes so that discretionary powers can be eliminated.

Impact of PFM performance on budgetary and fiscal outcomes

9. The results of the current PEFA review are presented to explain how the PFM performance in Nigeria has influenced the three fiscal and budgetary outcomes – aggregate fiscal discipline, strategic allocation of resources and the efficiency in service delivery.

i. Aggregate Fiscal Discipline

10. **Aggregate fiscal discipline** has been adversely affected by the lack of sufficiently available and timely financial reporting, and poor aggregate expenditure and revenue outturn compared to the original approved budget. **The preparation of a credible budget is being severely affected by the lack of accurate - or at least realistic – domestic revenue forecasts.** Achieving fiscal discipline has been affected by weaknesses in the control of the total budget, the lack of information and control of extra-budgetary operations, and by the lack of proper oversight of aggregate fiscal risk of public enterprises and of the States by the National Treasury.

11. The fact that the budget preparation takes place within an environment of reduced and/or highly volatile oil receipts does not help the FGN achieve aggregate fiscal discipline prudently. The challenge ahead lies in trying to spend in a more efficient and economical manner; that is, the FGN seeking to achieve more developmental outcomes with less resources in an environment characterized by a fast-growing population demanding for more and better services.

12. The planning process is hampered by the lack of credible information on available capital and oil resources, thus eroding the reliability of the budget. Also, the inability of the tax and service authorities to collect more domestic resources and past due bills puts the FGN budget under increasing strain.

13. Both expenditure outturns and revenue outturns were far below targets (budget) during the last three completed fiscal years. Thus, aggregate fiscal discipline has been very weak. Likewise, control over contractual commitments is not broadly effective, creating a risk of generating further expenditure arrears.

Strategic Allocation of Resources

14. The PFM objective of enabling strategic allocation of resources is not being fulfilled due to planning and budgeting processes not being adequately aligned to policy objectives, and resource allocation decisions made on the basis of financial reports that lack elements of substance and quality. The process of allocating resources strategically is strongly affected and weakened by a high variance in expenditure composition, low predictability in the release of substantive funds, and the limited role played by the National Assembly in the scrutiny of the draft budget law and audit reports.

15. Weaknesses in revenue administration and the enforcing of salary and non-salary internal controls, constitute a concern to the FGN authorities and the country's pursuit to further increase the revenue base, create more fiscal space for investing in key infrastructure projects and improving the country's economic competitiveness meaningfully.

16. The preparation of the budget on a three-year rolling basis under the medium-term budget framework (MTBF) helps in setting budget priorities through spending ceilings allocated to main budget heads. The strategic policy and sectoral/programmatic objectives set out in the development plan and the medium-term sector strategies (MTSSs), could possibly provide the basis for guiding inter- (and intra-) departmental expenditure allocations. The FGN PEFA assessment, however, reveals a situation whereby central finance and economic planning authorities fail to link policy, planning and budgeting, thus becoming the single most important factor contributing to poor budgetary outcomes at the strategic and operational levels.

17. In the FGN, the personnel and procurement databases, control systems and processes are fragmented and ineffective; therefore integrated policy making, planning and budgeting could support the process of cohesion. Capital investment activities and expenditure largely pass through the planning process, while a large portion of recurrent expenditures (and indeed a large portion of the total budget) are pre-committed to the wage bill. For this reason, annual budgeting is reduced to allocating a significantly lower proportion of the budgeted resources thinly across capital expenditure projects and to the non-salary overhead portion of the recurrent budget.

18. Other weaknesses relating to the strategic allocation of resources are the failure by budget authorities to direct resources to policy priorities, because budgeting is treated mainly as an annual funding exercise. Other underlying causes of resource misallocation lie on the challenges to cost the sector strategies and medium-term investment plans and establish policy linkages between the budget year and subsequent years' allocations. Lack of performance budgeting and other institutional mechanisms have also not facilitated the allocation of resources to achieve strategic objectives.

19. Predictability of resource flows and the criteria by which funding decisions are made were not achieved using the medium-term approach. The resource allocation process has been negatively affected by uncertainty, much of which is self-inflicted. The tendency to make overly optimistic projections of domestic revenues is one example of FGN itself increasing the uncertainty of resource flows.

20. Thus, the willful mismatch between policy decisions and available resources has become a major source of uncertainty, because it could be avoided by implementing a rigorous process that links policy making and planning to the budgeting and budget execution processes. The MTSS not being a priority in GIFMIS developmental plans is a concern.

Efficient Use of Resources for Service Delivery

21. FGN authorities have not been able to use budgeted revenues to achieve the best levels of public services within available resources. Low levels of predictability in the release of funds for capital projects and priority federal programs, weak linkages between in-year budget adjustments and procurement plans and internal control weaknesses in payroll and procurement are among the shortcomings identified which are hampering improvements in the operational efficiency of service delivery.

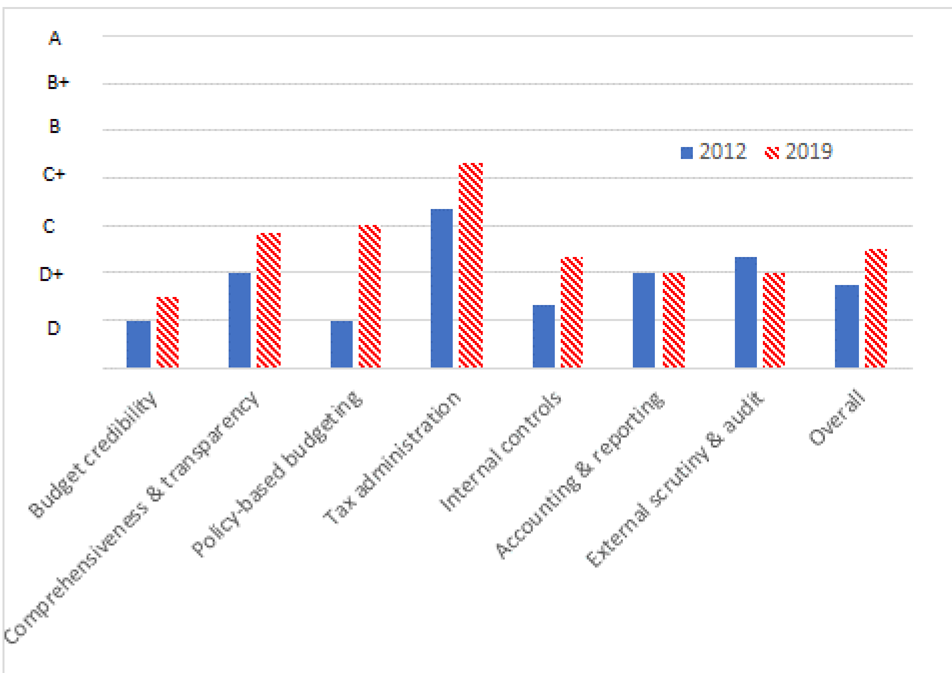
22. Staff appointments, salary increases, and procurement oversight are considered results of deficient processes and systems, which are likely to limit the provision of basic public services and the efficiency of ongoing institutional activities within the FGN.

23. The **efficient delivery of basic public services** is also hampered by the ineffectiveness of the expenditure commitment controls, and further weakened by ineffective cash flow forecasting, human resources and procurement planning and programming processes.

Changes in performance since 2012

24. While this PEFA assessment has been carried out using the updated and expanded 2016 methodology, it has been possible to score against the previous 2011 PEFA methodology that was used in the 2012 PEFA assessment. Overall, PFM performance over the past seven years has improved (Figure 1.1). **While the revision in the PEFA Framework (2016) provides for a deeper analysis, it hinders a direct comparison with the prior reviews.** The current assessment provides results based on the 2016 framework. It also presents performance rating changes since the 2012 PEFA assessment using the prior PEFA framework (2011).

Figure 1.1. Review of PFM performance: 2012 and 2019, using the 2011 PEFA framework



Source: PEFA assessment (2012), and PEFA assessment, draft (2019).

25. The comparison of the PEFA assessments indicates that between 2012 and 2019, the performance of PFM processes and systems progressed, but modestly, with the availability of robust fiscal statistics emerging as a major challenge area.

26. There have been considerable improvements in tax administration and tax compliance, resulting in increased revenue collections in recent years. The capacity to create sound revenue forecasts and cash planning, nonetheless remains a major area of weakness which continues to undermine the credibility of the budget. Similarly, budget transparency has improved in recent years with the National Assembly and

the general public now being provided with more comprehensive budget documentation. Approximately 90% of budgetary units are now integrated into GIFMIS-led payments systems, including the payroll, thus guaranteeing the improvement of commitment controls and financial recording and reporting in the forthcoming years. Other areas of improvement include reporting of cash balances, debt management, and the bank account reconciliation process.

27. The fragmentation in the payroll system and poor oversight of GBEs and States' fiscal risks, however, remain significant weaknesses with unchanged performance ratings. Similarly, the lack of a fixed budget calendar and unified budget guidelines, and weaknesses in policy-based budgeting, procurement controls, and monitoring of expenditure payment arrears remain areas of concern. In summary, the comparison shows that the rating for half of the total 28 indicators remained the same, 10 indicators displayed improvements while 4 showed decline in performance.

28. Table 1.1 summarizes the scores for each of the Performance Indicators and Dimensions of the PEFA assessment (2019) using the 2016 PEFA methodology. Indicators marked M1 base the overall score on the lowest score of any dimension (the Weakest link method); a + indicates that other dimension(s) received higher scores. For indicators marked M2 the scores are averaged according to the PEFA Handbook (the Averaging method). Accordingly, a total of 31 indicators were scored, of which 22 scored D or D+, four received a score of B+ or B (none scored with A). Five indicators scored C or C+.

PFM reform agenda

29. Evidence of progress suggests that PFM reform has not been a priority of the Federal Government except for domestic revenue mobilization, control in the availability of cash resources, debt management, and the bank account reconciliation process. The reform agenda is not informed by the diagnosis of the functionality of the PFM system in developing a coordinated program of reforms to better use the budget as a tool for development. The agenda has not been broad and synchronized within budgeting and planning, budget execution and internal controls, and accounting and reporting. The assessment highlighted key challenges in the current PFM system, including pitfalls of medium-term budgeting, separation of current and capital expenditure budgeting and reporting, weakness of budget and policy links to development priorities, fragmentation in the internal control system, weak procurement practices, and the lack of a fiscal risk registry on the face of abundant oil-related government revenue.

30. **Recent reforms have addressed certain PFM priorities, skewed mainly on tax administration and lopsided on budget formulation and procurement controls.** The recent emphasis on tax administration reforms has reflected the urgent need to raise domestic revenues in the context of global economic slowdown and the fiscal implications to the country, while failing to address anomalies in management of other major revenues and system failures detected by the assessment. Similarly, a focus on strengthening procurement processes is largely missing in the PFM reform agenda, not helping to improve the integrity of the PFM system in a meaningful manner. The current emphasis on tax administration is not balanced by measures to improve budget formulation and budget execution. There is therefore a need for greater consideration of budget execution realities, especially at the level of service-delivery units, where payroll and procurement delays continue to impede adequate service delivery, and budget execution for projects remains generally poor.

Table 1.1. PEFA Assessment Summary of Scores 2019

PFM Performance Indicator		*Scoring method*	*Dimension ratings*				*Score*
			i.	*ii.*	*iii.*	*iv.*	
Pillar I. Budget reliability							
PI-1	Aggregate expenditure outturn		C				C
PI-2	Expenditure composition outturn	M1	D*	D	D*		D
PI-3	Revenue outturn	M2	D	D			D
Pillar II: Transparency of public finances							
PI-4	Budget classification		C				C
PI-5	Budget documentation		B				B
PI-6	Central government operations outside financial reports	M2	D*	D*	D		D
PI-7	Transfers to subnational governments	M2	A	C			B
PI-8	Performance information for service delivery	M2	D	D	D	D	D
PI-9	Public access to fiscal information		D				D
Pillar III: Management of assets and liabilities							
PI-10	Fiscal risk reporting	M2	D	C	D		D+
PI-11	Public investment management	M2	C	D	D	D	D
PI-12	Public asset management	M2	C	D	C		D+
PI-13	Debt management	M2	B	A	B		B+
Pillar IV: Policy-based fiscal strategy and budgeting							
PI-14	Macroeconomic and fiscal forecasting	M2	C	C	D		D+
PI-15	Fiscal strategy	M2	D	B	C		C
PI-16	Medium-term perspective in expenditure budgeting	M2	C	D	D	D	D
PI-17	Budget preparation process	M2	D	B	D		D+
PI-18	Legislative scrutiny of budgets	M1	B	C	D	A	D+
Pillar V: Predictability and control in budget execution							
PI-19	Revenue administration	M2	B	C	C	D*	C
PI-20	Accounting for revenue	M1	A	B	C		C+
PI-21	Predictability of in-year resource allocation	M2	A	C	D	A	B
PI-22	Expenditure arrears	M1	D	D			D
PI-23	Payroll controls	M1	D	D	D	D	D
PI-24	Procurement	M2	D	D	D	D	D
PI-25	Internal controls on non-salary expenditure	M2	B	D	D		D+
PI-26	Internal audit	M1	A	C	C	D	D+
Pillar VI: Accounting and reporting							
PI-27	Financial data integrity	M2	B	N/A	D	D	D+
PI-28	In-year budget reports	M1	D	D	C		D+
PI-29	Annual financial reports	M1	C	D	C		D+
Pillar VII: External scrutiny and audit							
PI-30	External audit	M1	D	D	D	C	D+
PI-31	Legislative scrutiny of audit reports	M2	D	C	D	D	D

Chapter 1. Introduction

1. **Chapter 1 outlines the rationale and purpose of the Public Expenditure and Financial Accountability (PEFA) assessment, the management and quality assurance process, and the methodology used in undertaking the assessment.**

1.1 Assessment Rationale

1. Successive administrations of the FGN have continued to demonstrate commitment to the reforms set out in the Nigeria Strategy to Public Service Reforms (NSPSR)[1]. The NSPSR provides a common vision and a long-term agenda to guide the rebuilding and transformation of the federal public service. The NSPSR has four pillars, namely: (a) an enabling governance and institutional environment; (b) an enabling socio-economic environment; (c) public financial management reforms; and (d) civil service administration reform. The PFM pillar has four main target results: (i) sustained macro-economic stability; (ii) strategic allocation and results-based budgeting of funds; (iv) efficient management of resources, accounting, and reporting; and (v) integrity in the use of public funds.

2. The purpose of this PEFA assessment is to provide the FGN with an objective up-to-date diagnostic of the FGN public financial management performance since the last PEFA assessment performed in 2012. The assessment findings and scores will be used to establish a new baseline for measuring PFM progress going forward. The assessment will also provide requisite evidence that will be used by FGN to update the PFM Pillar of the NSPSR, as well as to dialogue with development partners on their future PFM reform initiatives in Nigeria. Thus, the FGN in their letter, dated June 14, 2018, to the World Bank, requesting support for this PEFA assessment believes that the PEFA assessment results will help strengthen and support future PFM design, implementation and monitoring.

3. **The upgraded PEFA Framework (2016) provides a deeper and wider perspective to PFM practices and, also includes a comparator on the prior methodology.** Therefore, it was considered beneficial to take stock of the reform measures on the PEFA Framework (2016). This assessment has relied on the PEFA Framework (2016) to enable a deeper insight of PFM practices and to provide a baseline for subsequent assessments to create performance trajectories that will facilitate the monitoring of reform efforts.

1.2 Assessment Management and Quality Assurance

4. **The PEFA Assessment was requested by FGN and funded by the DFID, World Bank, and AFD.** The assessment was a joint effort of FGN and development partners, overseen by the Steering Committee led by the Minister of Budget and National Planning (MBNP); other members of the Steering Committee included the Minister of Finance, Permanent Secretary, Federal Ministry of Finance (FMF), Permanent Secretary, MBNP, Accountant General of the Federation, Auditor General of the Federation, Director General Budget Office of the Federation and the representatives of the development partners as described in the box below. The Budget Office of the Federation (BOF) in the MBNP provided high-level coordination of the assessment process, reviewed and approved the concept note, provided substantial inputs to the draft report, and participated in drafting Chapter 5 of this report – the Government PFM Reform Program. The FMF, Office of the Accountant General (OAGF), Office of the Auditor General of

[1] Completed in 2009 and updated in 2013 and 2017 to fully reflect the reform focus of each administration.

the Federation (OauGF), BOF and other central PFM institutions also provided valuable input to other chapters.

5. **The management and quality assurance arrangements and participating individuals are presented below.** A cross-sectoral team from FGN and development partners carried out the assessment. The diverse group of reviewers of both the draft and final versions of the Concept Note and the Assessment Report was composed of PFM experts and professionals from the FGN, DFID, World Bank, and AFD.

1.3 Assessment Methodology

6. **The focus of this report is on the Budgetary Central Government (BCG),** comprising of 27 Federal level government Ministries and Departments and the independent oversight institutions—the legislature and the supreme audit office. Attention is also paid, in accordance with the ToR, to extra-budgetary institutions. Where a Performance Indicator or dimension is scored on the basis of the three completed fiscal years, data for 2015, 2016 and 2017 was used. The review cutoff date was December 31, 2018. All the 31 Performance Indicators in the 2016 Framework are assessed. The report also provides an analysis of changes in PFM performance since the 2012 assessment, using the 2011 assessment framework. The information used in preparing the report is derived from published fiscal reports, information provided by, and discussions with, FGN, representatives of the legislature, Supreme Audit Institution, and Civil Society, and from reports prepared by DFID, World Bank, IMF and other international development organizations.

7. **The management and PEFA Check quality assurance arrangements and participating individuals are presented in Box 1.1.** A cross-sectoral team from the FGN and donor-commissioned international consultants carried out the assessment. The diverse group of reviewers of both draft and final versions of the Concept Note and the Assessment Report comprised of PFM experts and professionals from the FGN, DFID, World Bank, AfDB and AFD.

Box 1. 1. Assessment Management and Quality Assurance Arrangements

Oversight Team:

- Udoma Udo Udoma, Minister of Budget and National Planning (Chair)
- Zainab Ahmed, Minister of Finance (Co-Chair)
- Mahmoud Isa-Dutse, Permanent Secretary, FMF
- Ernest A. Umakhihe, Permanent Secretary, MBNP
- Ahmed Idris, Accountant General of the Federation
- Anthony M. Ayine, Auditor General of the Federation
- Saeeda Sabah Rashid, World Bank
- Chidiebere Ibe, DFID / Partnership to Engage, Reform and Learn (PERL)
- André Hue, French Development Agency
- Ben Akabueze, Director General, Budget Office of the Federation

Assessment Team Leader and Team Members:[2]

- Jorge Shepherd (Team Leader)
- Jacques Perreault (PFM Consultant and Tax Specialist, AFD)
- Emilija Timmis (Senior Economist, World Bank)
- Sunday Osoba (Public Procurement Specialist, World Bank)
- Chinedu Eze (PFM Consultant)
- Timothy Effiong (PFM Consultant)
- Olugbenga Oyewole (PFM Consultant)
- Akinrinmola Akinyele (Public Sector Specialist, World Bank)

Concept Note Review: The Concept Note review started on November 19, 2018; the final Concept Note was issued on January 18, 2019. All reviewers provided valuable comments.

Reviewers:

- Alfred Okoh and Olumide Ayodele, BOF, FGN
- Saeeda Sabah Rashid, Senior Public Sector Specialist, World Bank
- Chris Okeke, Governance Advisor, DFID
- Alice Ribes, Country Officer, AFD
- PEFA Secretariat

Assessment Report Review: Comments to the draft assessment report took place in October 2019 comprising of one round of peer reviews. All invited reviewers provided comments. The reviewers for the PEFA assessment report are as stated below.

Reviewers:

- Alfred Okoh and Olumide Ayodele, BOF, FGN
- Saeeda Sabah Rashid, Senior Public Sector Specialist, World Bank
- Chris Okeke, Governance Advisor, DFID
- Andre Hue, Deputy Country Director, AFD
- Baba Abdulai, Regional Procurement Coordinator, African Development Bank
- Devinder Goyal, Regional Financial Management Coordinator, African Development Bank
- PEFA Secretariat

[2] A team of FGN experts participated actively in the reviewing and validation process, which included consultation workshops in the two field visits made by the external assessors. The FGN officers included: Lucy E. Okpanachi, Deputy Director IERD/FMF; Paul Daloba, Assistant Director, FMF; S. O. Eloho, Director Economic Growth, MBNP; M. K. Usman, Director Fund, OAGF; Anselem Anyanwu, Director Expenditure (Economic), BOF; Gideon S. Mittu, Director Expenditure (Social), BOF; C. S. Nwagboh, Director Treasury Audit, OAuGF, Mohammed

Chapter 2. Country Background Information

8. **To view the PFM performance measurement in a wider context, Chapter 2 provides information about the core characteristics of the government's PFM system.** This includes the country's economic, fiscal, and budgetary trends; legal and regulatory framework governing PFM, and institutional arrangements for PFM.

2.1 Country Economic Situation

9. **The period under PEFA review marks Nigeria's first peaceful democratic transition between two parties and the breakout of economic recession in over two decades.** For the first time in Nigeria's history, the 2015 elections marked a peaceful democratic transfer of power between two political parties; however, the new administration faced a fast-deteriorating macroeconomic environment. The oil price shock of late 2014 and its aftermath pushed the economy into recession and precipitated a major budgetary crisis at all tiers of Nigeria's government. The drop in the price of oil (in 2016, global oil prices reached a 13-year low), coupled with weakened output (oil production was reduced by vandalism and militant attacks in the Niger Delta), and combined with a policy response that did not allow the exchange rate to adjust but instead instituted a set of administrative restrictions on access to foreign exchange, particularly for imports, had major spill-over effects on the non-oil sector. Gross Domestic Product (GDP) growth fell from 6.3% in 2014 to 2.7% in 2015, and to negative 1.6% in 2016 — resulting in Nigeria's first full-year recession in 25 years. Unemployment increased from 8% at the beginning of 2015 to 20% in 2017 and 23% in 2018. Average annual inflation rose from 9% in 2015 to 17% in 2016-2017 then declined to 12% in 2018 owed to a tight monetary policy but still considered high against the Central Bank of Nigeria's annual target of 6-9%.

10. **The Nigerian economy emerged from the recession reaching a rate of GDP growth of 0.8% in 2017 followed by slowdown in economic growth in absence of structural reforms.** Though accelerating to 1.9% in 2018, economic growth remained below the rate of population growth and below government projections and pre-recession levels.

11. **Nigeria's growth potential remains constrained by a weak macroeconomic framework,** with multiple exchange rates and forex restrictions, monetary policy targeting exchange-rate stability over inflation, distortionary quasi-fiscal activities by CBN, and inadequate fiscal consolidation efforts. Low human and physical capital investment further constrain the country's growth outlook. Government's ability to invest in physical and human capital to compensate for the infrastructure deficit and improve human capital outcomes is severely constrained by extremely low fiscal revenues (total 6.7% GDP in 2017) that are still highly dependent on oil. The rising fiscal burden of the fuel and power sector subsidies reduces the fiscal space even further.

Adamu, Team Lead, Securities Issuance, Debt Management Office; Abu Shuaib, Assistant Director, Energy Infrastructure Bureau of Public Procurement; Mohammed Auta, Director Finance and Accounts, FIRS; Stephen Ojo, Director Finance and Accounts (Power), Ministry of Power, Work and Housing, Ame Benard, Assistant Director Accounts (Works and Housing), Ministry of Power, Works and Housing, Samuel Igagu, Deputy Director Budget, Ministry of Transportation; Anthony Hassan, Director Finance and Accounts, Ministry of Health; John Olutayo Adeniran, Deputy Director Budget, Ministry of Education; Mamman Idris, Director Finance and Accounts, Ministry of Agriculture; and Mohammed L. Garba, Director Finance and Accounts, Office of the Secretary to the Government of the Federation.

12. **The Nigerian economy remains dependent on oil, despite its diminishing contribution to growth.** In recent decades, oil and gas accounted for over 90% of Nigeria's exports and over half of general government revenues. This makes Nigeria's balance of payments and government budgets vulnerable to volatilities in oil prices. Growth and investment have been negatively impacted by repeated oil-price driven boom-bust cycles. While Nigeria still has substantial untapped oil reserves, their widespread exploitation would require significant new investments. The oil sector has exhibited slow—and at times, negative—growth in recent decades. Furthermore, current oil output potential in recent years has not been actualized due to the insurgency in the oil-producing region of the country. Combined with the expansion of other sectors in Nigeria, this has steadily reduced the size of the oil sector to under 10% of GDP since 2015.

13. The 2015-2016 drop in oil price and output shocks also had a significant impact on national and sub-national finances resulting in the contraction of already low public expenditures and bringing to light the longer-term trend of weak domestic revenue mobilization (Nigeria's non-oil revenue-to-GDP is only around 4% and total general government revenue reached 8% of GDP in 2018). The fiscal impact was also high due to low fiscal buffers as previous windfalls had not been accumulated[3]).

14. **In 2017-2018, higher oil prices and stable output improved the fiscal situation as well as the external position,** although Nigeria's positive current account balance also reflects some effects of protectionist policies (particularly the forex controls) and slow recovery of intermediary imports. Short-term foreign capital inflows, while volatile in 2018, were higher overall than in 2017, and were also instrumental in maintaining the positive external position and nominal exchange rate stability. Overall, Nigeria's dependence on oil has led to volatile and low average growth, a weak non-oil tax system, and limited economic diversification.

15. **Nigeria's weak revenue mobilization has major implications for its growth and development, including for improving its dire social service delivery outcomes. With population growth exceeding economic growth, poverty continues to rise slowly:** half of the population now lives in extreme poverty. Nearly a quarter of the labor force is unemployed and 20% remain underemployed. The combination of low growth, insufficient employment creation and weak agriculture sector growth impeded improvements in household welfare, especially of low-income households. The social safety net is still weak and does not reach many of the poor. With 9 million children out of school, Nigeria has the highest number of out-of-school children of primary school age in the world; with over 90% located in the North. Vaccination coverage rates in Nigeria have changed little over the last 25 years, in sharp contrast to other West African countries which have made more rapid progress, even though Nigeria started from higher levels. Nigeria will overtake India in 2021 as the country with the most reported under-five deaths in the world. More children die of malaria in Nigeria than in any other country in the world.

16. **As one of its three broad strategic objectives, the Nigeria Economic Recovery and Growth Plan (ERGP) 2017-2020 aims to restore growth by focusing on achieving macroeconomic stability and economic diversification.** It identifies agriculture, energy, manufacturing and services as key sectors to achieve economic diversification as well as job creation. The plan thus signals the government's own view that the country needs a new economic model that moves away from heavy dependence on oil. Very importantly, too, ERGP aims to tackle the obstacles hindering the competitiveness of Nigeria's private

[3] In previous episodes of price fluctuations, Nigeria could weather the shocks through reliance on oil revenue savings accumulated in the Excess Crude Account (ECA); in 2015-2016, this was no longer an option as these savings were depleted.

sector, notably infrastructure facilities and the business environment. A first wave of ERGP focus labs were set up by the Federal Government in March 2018 as closed-door investment platforms to identify and accelerate key strategic and high-impact priority projects with significant potential impact on GDP growth through investments and job creation. The initial labs focused on agriculture and transportation, manufacturing and processing, power and gas. These labs helped identify 164 priority projects with an investment requirement of US$22.5 billion. Concerted effort to unlock the private capital necessary to catalyze public sector action for achieving ERGP's objectives can therefore not be over-emphasized at this time.

Table 2.1. Selected macroeconomic indicators, 2015-2018

	2015	**2016**	**2017**	**2018e**
Annual % change				
Real GDP growth, at constant market prices (%)	2.7	-1.6	0.8	1.9
Private consumption (%)	1.5	-5.7	-1.0	0.6
Government consumption (%)	-11.9	-15.1	-8.0	9.5
Gross fixed capital investment (%)	-1.3	-4.8	-3.0	24.5
Exports, goods, and services (%)	0.1	11.5	8.7	0.5
Imports, goods, and services (%)	-25.7	-10.4	-4.8	-28.8
Real GDP growth, at constant factor prices (%)	2.8	-1.6	0.8	1.9
Agriculture (%)	3.7	4.1	3.4	2.1
Industry-oil (%)	-5.4	-14.4	4.7	1.1
Industry- non-oil (%)	0.1	-5.0	0.6	2.4
Services (%)	4.8	-0.8	-0.9	1.8
Inflation (Consumer Price Index, 12-month average) (percent)	9.0	15.7	16.5	12.1
% of GDP				
Fiscal balance (consolidated government)	-3.2	-3.8	-3.9	-4.3
Government Revenue	7.5	5.9	6.7	7.8
Government Expenditure	10.7	9.7	10.6	12.2
Debt (consolidated government)	14.2	17.3	19.0	21.6
Memo items:				
Poverty rate (US$1.9/day purchasing power parity terms)	48.2	49.4	49.9	50.0
Poverty rate (US$3.1/day purchasing power parity terms)	74.1	74.9	75.2	75.4
Oil Production (mb/d)	2.1	1.8	1.9	1.9
Oil Price (US$/bbl)	54.2	45.2	54.8	72.1
Current Account Balance (% of GDP)	-3.2	0.7	2.8	1.3
Exports of Goods and Services (US$ bn)	49	38	51	68
o/w Oil and gas exports	42	32	42	58
Imports of Goods and Services (US$ bn)	72	47	51	72
Remittances (net, US$ bn)	19	19	22	24
External Reserves (US$ bn, end of period)	29	26	39	43
Equivalent months of imports of goods and services	4.8	6.6	9.1	7

Source: NBS, CBN, OAGF; and World Bank staff estimates.

2.2 Fiscal and Budgetary Trends

17. **Nigeria's government expenditure is very small relative to the size of its economy, unable to meet the needs of its growing population.** General government expenditure (Figure 2.1) contracted to just 10% of GDP in 2016[4]. Nigeria's fiscal space is low due to extremely low revenues that are still highly dependent on oil. Oil price and production shocks decreased Nigeria's already very low level of government revenue (total 6-8% GDP in 2015-2018, among the lowest globally) to a fraction of the level of any comparable country.

18. **Nigeria's low spending (combined with the low efficiency of spending) leads to poor outcomes for its citizens.** Nigeria lags behind most comparable countries in the levels of infrastructure investment[5] (both public and private). It has one of the largest infrastructure efficiency gaps globally[6], attributable to the low level and deteriorating quality of public investment. Its human capital outcomes are amongst the worst globally: based on poor education and health outcomes, Nigeria ranked 152 out of 157 countries in the World Bank Human Capital Index in 2018 (Figure 2.2).

Figure 2.1. Nigeria has among the lowest government revenues globally

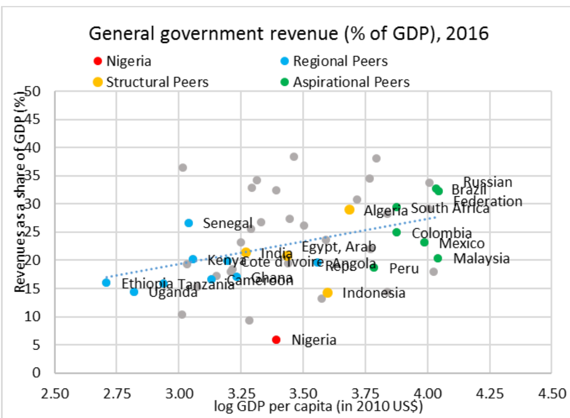
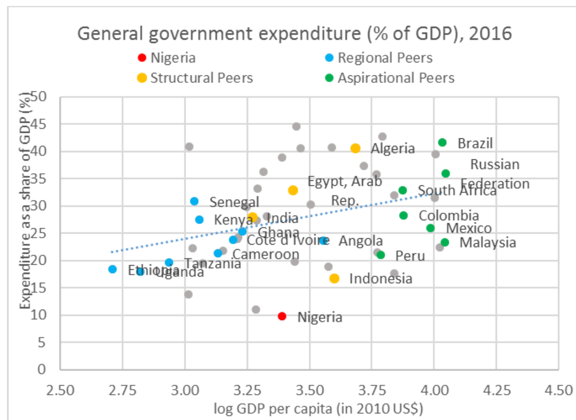


Figure 2.2. Subsequently, Nigeria's government expenditures are very low



Source: World Bank fiscal database data for Nigeria data, IMF Fiscal Monitor (April 2017) for fiscal data, WB COFIS Database for Indonesia expenditure data, and World Development Indicators for GDP per capita data.

Notes: General government consists of central, state and, local governments and federally allocated extra budgetary funds. The central government does not reflect Government-Owned Enterprises (GOEs).

19. **With underperforming revenues, deficit financing has slowly built up the debt stock.** Sustained deficits of about 3-4% of GDP since 2015 increased Nigeria's public debt to 22% of GDP in 2018 (Figure 2.2), a sizeable rise from 12-13% in 2011-2014. Federal Government debt increased from 11% of GDP to 15% of GDP. While Nigeria's debt-to-GDP ratio may appear low by international standards[7], the high interest-payments-to-revenue-ratios create fiscal sustainability risks: in 2016-2018,

[4] General government expenditure reached 11% of GDP in 2015 and 2017, and 12% of GDP in 2018.
[5] IMF Investment and Capital Stock Database (2018).
[6] According to IMF PIMA methodology, Nigeria's public investment efficiency gap relative to the frontier is estimated at 77% for 2015, compared to 27% in emerging economies, and 36% in sub-Saharan Africa.
[7] Please note that Nigeria's low debt stock is grounded in substantial Paris Club debt relief it received in 2006.

federal government[8] interest payments (1.7%of GDP) alone consumed about 60 percent of its retained revenues, and exceeded Federal Government capital spending (1.3% of GDP).

20. **Largely domestically-financed fiscal deficits, combined with CBN liquidity management, continue to crowd out private sector borrowing.** The domestic supply of private sector credit growth is limited by the attractiveness of the high rates of the government (and CBN) securities. Furthermore, it is concentrated in the oil and gas sector. The level of Foreign Direct Investment (FDI) is very low, constrained by a variety of factors, including slowly recovering domestic consumer demand, trade restrictions, and uncertainty of the policies related to exchange rates and profit repatriation. FDI inflows are negligible relative to the Foreign Portfolio Investment (FPI) and heavily concentrated in the oil sector.

21. **Federal government spending (about 50% of the total General Government spending) is skewed towards recurrent expenditures.** Federal Government expenditure rose from 5% of GDP in 2015-2016 to around 6% in 2017-2018. The Federal Government was responsible for 41% of spending prior to the 2015 fiscal crises, when its share went up to nearly a half. The increase in FGN's share of expenditure during the fiscal crisis reflects FGN's relatively better ability to finance (including borrowing as well as other sources) its higher deficits compared to subnational governments. However, sustained deficits and increasing debt is weighing on the Federal Government finances[9]. Since 2016, Federal Government interest payments alone have been consuming about 60% of its (extremely low) retained revenues. FGN interest payments (estimated at 1.7% of GDP in 2018) systemically exceed and crowd out the capital expenditures (1.3% of GDP in 2018). The outcomes are aggravated by very low budget credibility for the capital spending, due to systematic revenue shortfalls, and poor cash management as well as inefficient spending.

22. **The decline in capital expenditure is of serious concern, given the already large gap between Nigeria's and peer countries' capital stock.** In recent years, Nigeria invested significantly less than its peer countries relative to GDP. Average private and government investment stood at 12% of GDP in Nigeria between 2011 and 2015, while it averaged around 20% of GDP in peer countries during the same period. Additionally, at 17%, general government investment accounted for a substantially smaller share of total investment in Nigeria than in peer countries. As a result of the low investment, Nigeria's private and government capital stock (105% of GDP) was markedly lower than the capital stock of peer countries (182%) in 2015.[10] Furthermore, Nigeria has among the largest public investment efficiency gaps. According to IMF PIMA methodology, Nigeria's public investment efficiency gap relative to the frontier is estimated at 77% for 2015, compared to 27% in emerging economies, and 36% in sub-Saharan Africa.

23. **Indicators for service availability and citizens' access to infrastructure[11] illustrate strained public service provision.** The quality of Nigeria's infrastructure and citizens' access to services score poorly overall, across sectors (Figure 2.5). Nigeria underperforms in all categories compared to peers and the Sub-Saharan African average, particularly in: i) electricity production per capita (0.2 kWh per capita in Nigeria compared to 0.7 in sub-Saharan Africa); ii) public health infrastructure (0.5 beds per 1,000 people compared to 1.5); iii) roads per capita (1.5 Km per 1,000 people compared to 3.9); and iv) public education infrastructure (1.8 secondary teachers per 1,000 people compared to 3.3 in sub-Saharan African and 7.9 in

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[8] Nigeria's public debt is primarily contracted by the Federal Government (estimated at 15% of GDP for 2018, and equivalent about ¾ of the total public debt stock), with the remaining quarter (4.8% GDP) contracted by the State Governments (SG).

[9] The share of public external debt in the total public debt has increased substantially, from 20% in 2016 to 29% in 2018; primarily driven by commercial public debt (Eurobond) issuances in absence of concessional budget support as the macroeconomic framework remains assessed as inadequate. While the domestic interest rates declined with the economic recovery and increased external financing, the debt sustainability, however, remains challenged by the low levels of revenues, with the Federal Government interest payments still consuming about half of the Federal Government retained revenues. In the absence of significant tax policy reforms, the public debt levels are expected to grow gradually, to about 26% of GDP in 2020.

[10] IMF Investment and Capital Stock Database (2018).

[11] World Bank World Development Indicators.

EMEs). Electricity and transportation have been identified among the top five obstacles to doing business, likely impacting private investment levels.[12]

Figure 2.5. Measure of Infrastructure Access (Most Recent Year)

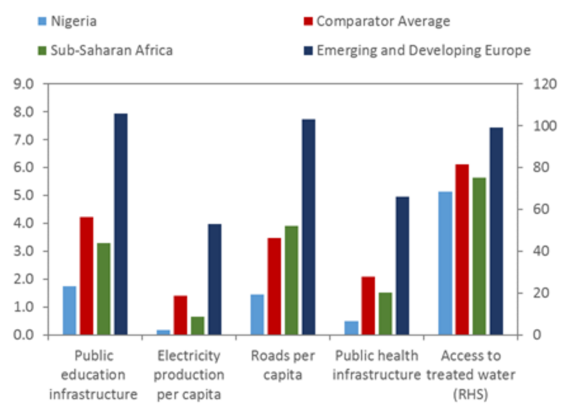
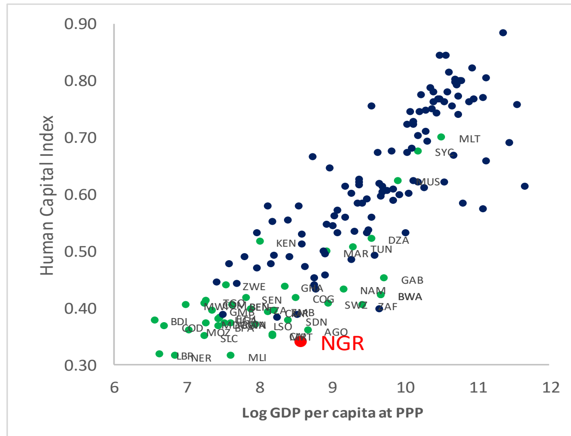


Figure 2.6. Nigeria's Score in Human Capital Index



Source: World Bank World Development Indicators and World Bank Human Capital Project.

Note: Left hand axis: Public education infrastructure is measured as secondary teachers per 1,000 persons; electricity production per capita as thousands of KWh per person; total road network as km per 1,000 persons; and public heath infrastructure as hospital beds per 1,000 persons. Right axis: Access to treated water is measured as the percent of population. Comparison based on latest data available.

24. **Without a significant increase in government spending, government will not be able to provide even the basic services to the growing population.** The Federal Government of Nigeria launched its ERGP in 2017 with several ambitious targets and implementation strategies. Government spending is a key ingredient to the successful implementation of the ERGP. For instance, fiscal stimulus by the government is mentioned as a necessity to stimulate private consumption and investment more generally. More specifically, the plan highlights the importance of government capital expenditure by listing improving transportation infrastructure, expanding power sector infrastructure and accelerating the implementation of the National Industrial Revolution Plan as top execution priorities and targeting a Federal Government capital expenditure spending level of at least 30% of total Federal Government expenditure. Equally, the ERGP states that government investment in health and education is required to improve human capital and achieve the United Nations Sustainable Development Goals.

25. **Without significant fiscal reforms, the outlined targets will not be achieved, as general government expenditure (as a percentage of GDP) is projected to decline from 2019 onwards.** With no meaningful tax policy reforms, and even with sustained large deficits, the fiscal envelope will continue to shrink. Under the status quo, the growing interest bill on the rapidly rising debt will consume even larger shares of revenues, crowding out capital and limiting even recurrent spending. Debt (servicing)

[12] Firm-level data from the 2014 Nigeria World Bank Enterprise Survey shows that 27%of enterprises identified electricity as the main obstacle to doing business, which is more than twice the average of Sub-Saharan Africa. Transportation is identified as the fifth largest obstacle to doing business (5.7%of enterprises). (World Bank Enterprise Surveys 2014).

sustainability concerns may limit the market access, increasing reliance on domestic deficit financing, sustaining the high rates, and continuing to crowd out private sector credit.

26. **Furthermore, the fiscal outlook is subject to significant risks.** Oil price or production shocks would further reduce the already low fiscal envelope; and increase (both public and private) financing costs, given the current monetary and external policy fragility to oil price shocks. In addition, the future trajectory of oil revenues remains uncertain due to lack of transformative oil sector governance and management reforms. A materialization of contingent liabilities (implicit or explicit – a stock of neither is fully known), would further add to already rising debt stock and its servicing costs.

Table 2.2. FGN aggregate fiscal data, 2015-2017

	2015	**2016**	**2017**	**2015**	**2016**	**2017**
	Naira billion			*% of total spending*		
Total Revenue	2,603	2,056	2,722	55%	43%	42%
FGN share of federally collected revenues	2,280	1,819	2,389	48%	38%	37%
FGN independent revenues and other	323	238	333	7%	5%	5%
Total Expenditure	4,723	4,788	6,420	100%	100%	100%
Personnel costs and overheads	2,550	2,493	2,830	54%	52%	44%
Statutory transfers	339	344	440	7%	7%	7%
Interest	1,016	1,258	1,555	22%	26%	24%
Other debt service	0	50	335	0%	1%	5%
Capital expenditure (cash basis)	384	596	1,242	8%	12%	19%
Other outflows	434	130	17	9%	3%	0%
Fiscal Deficit	2,120	2,731	3,698	45%	57%	58%
Primary deficit	1,104	1,473	2,143	23%	31%	33%
FGN Public Debt	10,292	13,449	16,926	218%	281%	264%
Ratio of FGN public debt to GDP	11%	13%	15%			

Source: World Bank calculations based on official (OAGF Fiscal Accounts and DMO) data.

2.3 Legal and Regulatory Arrangements

27. The 1999 Constitution of the Federal Republic of Nigeria (FRN) as amended provides for a federal system of government composed of a Federal Government, 36 States, a Federal Capital Territory (FCT) and 774 Local Governments. The Constitution also provides for a Presidential form of government with the powers of government vested in three different independent and co-equal bodies: the Executive, the Legislature, and the Judiciary. No level of government and no organ of government at any level, may exercise any power or perform any function that is not assigned to it by the Constitution whether directly, indirectly, or by necessary implication. However, in practice, the three arms of government would have to co-operate to be able to operate a workable government.

28. The fundamental law governing PFM in Nigeria, particularly for the Federal Government, is the 1999 Constitution as amended. Section 80 (1) of the Constitution provides that ‘All revenues or other moneys raised or received by the Federation (not being revenues or other moneys payable under the Constitution or any Act of the National Assembly into any other public fund of the Federation established for a specific purpose) shall be paid into and form one Consolidated Revenue Fund of the Federation’.

Subsection 2 states that ‘No moneys shall be withdrawn from the Consolidated Revenue Fund of the Federation except to meet expenditure that is charged upon the fund by the Constitution or where the issue of those moneys has been authorized by an Appropriation Act, Supplementary Appropriation Act or an Act passed in pursuance of section 81 of the Constitution’. Sections 80 and 81 of the Constitution does not specifically require the presentation of revenue projections to National Assembly. This was remedied in the Fiscal Responsibility Act (2007). Section 11 FRA requires the Executive to present medium term revenue projections on a rolling basis to the National Assembly for review and approval.

29. The Constitution in Sections 85 – 87 provide for an Auditor-General for the Federation, who shall be appointed by the President on the recommendation of the Federal Civil Service Commission subject to confirmation by the Senate. A person holding the office of the Auditor-General for the Federation shall be removed from office by the President acting on an address supported by a two-thirds majority in the Senate praying that he be so removed for inability to discharge the functions of his-office (whether arising from infirmity of mind or body or any other cause) or for misconduct. The Auditor-General shall not be removed from office before such retiring age as may be prescribed by law.

30. The Auditor General is required to audit all public accounts, offices, and courts of FGN, and submit its report directly to the National Assembly within 90 days of receipt of the financial statement and annual accounts from the Accountant General. However, the Auditor General does not directly audit the accounts of government statutory corporations, commissions, authorities, agencies, etc., established by Law. The role of the Auditor General regarding these accounts is limited to (i) providing them with a list of qualified external auditors from which to choose, (ii) providing them with guidelines on fees to pay, (iii) commenting on their accounts and auditor’s report thereon, and (iv) conducting periodic checks of them.

31. Sections 88-89 mandates the National Assembly to conduct investigations into the public accounts of the Federal Government. These sections empower the Public Accounts Committee (PAC) to preside over the audit reports, hold hearings on them, and direct restitution and recovery of lost public funds.

32. There are other laws, regulations, rules and guidelines that govern PFM issues of the Federal Government. These include (a) the Finance (Control and Management) Act, 1990 that was originally enacted in 1958 with provisions for the control and management of finances of the Federation; (b) Fiscal Responsibility Act, 2007, which includes provisions 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 the medium term fiscal policy framework, and the establishment of the Fiscal Responsibility Commission; (c) Public Procurement Act, 2007 established the National Council on Public Procurement and the Bureau of Public Procurement as the regulatory authorities responsible for the monitoring and oversight of public procurement, harmonizing the existing government policies and practices by regulating, setting standards and developing the legal framework and professional capacity for public procurement in Nigeria; and (d) Financial Regulations (revised to 2009), contain operational rules and guidelines for day-to-day management of financial activities and delineate functions, responsibilities of government officers, organize treasury functions, explain to authorities how to incur expenditure, provide guidance on budget preparation, provide guidance on expenditure control, payments, collection and receipt of monies, remittances, advances and loans, and custody of public funds.

Table 2.3. presents an overview of the laws, regulations, rules and guidelines

PFM Areas	Constitution	Laws	Rules, Regulations and Guidelines
Planning.		• National Planning. Commission Act 2013. • Statistics Act, 2007.	• Economic Recovery and Growth Plan 2017 – 2020. • Medium Term Sector Strategy Preparation Guide. • Medium Term Sector Strategies.

PFM Areas	Constitution	Laws	Rules, Regulations and Guidelines
Budgeting.	Sections 80 and 81.	• Fiscal Responsibility Act 2007 and • Finance (Control and Management) Act 1958.	• Financial Regulation (Revised) 2009. • Budget call circulars and budget guidelines. • Annual budget workshop proceedings. • Annual budget policy.
Intergovernmental fiscal relations.	Sections 160, 162, 163 and 313.	• Allocation of Revenue (Federation Account) Act 1982; • Allocation Revenue (Federation Amendment Act 2002.	• Federation Accounts Allocation Committee Pack/Reports.
Revenue functions.		• Associated Gas Re-Injection Act, 1979. • Capital Gains Tax Act, 1999 • Companies Income Tax Act 2007. • Deep Offshore and Inland Basin Production Sharing Contracts Act, 1993. • Tertiary Education Trust Fund Act, 2003. • Federal Inland Revenue Service (Establishment) Act, 2007. • Income Tax (Authorized Communications) Act, 2004. • Industrial Development (Income Tax Relief) Act. • Industrial Inspectorate Act, 2018. • National Information Technology Development Agency Act, 2007. • Nigerian Export Processing Zones Act, 1992. • Nigeria LNG (Fiscal Incentive Guarantees and Assurances) Act, 1990. • Oil and Gas Export Free Zones Act, 1996. • Personal Income Tax Act 2011. • Petroleum Profits Tax Act, 1990. • Value Added Tax Act 2007. • Stamp Duties Act, 2004 • Taxes and Levies (Approved List for Collection) Act, 1998. • Casino Taxation Act, 1965.	• National Tax Policy. • Joint Tax Board Vision 20:2020. • Joint Tax Board Resolutions. • Federal Inland Revenue Service Medium Term Plan. • Tax Identification Number Policy. • Voluntary Asset and Income Declaration Scheme (VAIDS) Policy. • Integrated Tax Administration System (ITAS).
Budget Execution.		• Finance (Control and Management) Act, 1958.	• Financial Regulations (Revised) 2009.

PFM Areas	Constitution	Laws	Rules, Regulations and Guidelines
Accounting.	Section 85	• Finance (Control and Management) Act, 1958.	• Financial Regulations (Revised) 2009.
Internal Control.			• Financial Regulations (Revised) 2009.
Internal Audit.		Finance (Control and Management) Act, 1958.	• Financial Regulations (Revised) 2009. • Treasury Accounting Manual.
Budget Reporting and Monitoring.		• Fiscal Responsibility Act, 2007.	• Federal Republic of Nigeria Format for General Purpose Financial Statements – Performance Reports.
Procurement.		Procurement Act, 2007	• Procurement manual. • Procurement Regulations. • National Standard Bidding Documents.
Debt Management.	Section 314.	• Debt Management Office (Establishment) Act, 2003	• Debt Management Guidelines. • Debt Management Strategy.
Treasury Functions.			• Financial Regulations (Revised 2009; and • Treasury Accounting Manual.
Performance Monitoring.		• Freedom of Information Act, 2011 • Fiscal Responsibility Act, 2007	Operating Surplus Calculation Template (effective 2007).
External Audit.	Sections 85, 86 and 87.		• Nigeria Public-Sector Auditing Standards that were issued based on the International Organization of Supreme Audit Institutions (INTOSAI) Standards.

2.4 Institutional Arrangements for PFM

33. Nigeria operates a Presidential system of government as explained in the preceding section. The National Assembly is composed of a 109-member Senate and a 360-member House of Representatives. The members of both the Senate and the House of Representative are elected for four years. The elected members of Senate and Federal House of Representatives elect their principal officers. The two committees in the Senate and the House of Representatives dealing with financial management matters are the Appropriation Committee and Public Accounts Committee[13].

34. The President shall cause to be prepared and laid before each House of the National Assembly (NASS) at any time in each financial year estimates of the revenues and expenditure of the Federation for the next following financial year as explained in Section 2.3 above. The Appropriation Committees of each House of the NASS are responsible to oversee and coordinate the the passage of the Appropriation Bill. Other Standing Committees of each House of the NASS are given charge over the estimates of the budgetary units for which they have oversight or functional responsibility. The Standing Committees in their deliberations on Appropriation transform into Sub-Committees of the Appropriation Committee. The Appropriation Committees of the NASS carried out the first public hearing while reviewing the 2017 budget. The 2-day public hearing was carried out in collaboration with the Policy and Legal Advocacy Center (PLAC) and with support from the DFID. The 2-day public hearing was also held for the 2018 and 2019 budgets. The public hearings were intended to encourage active stakeholder participation in the

[13] The functions of Public Accounts Committee the NASS are stipulated in Sections 88 and 89 of 1999 Constitution of Federal Republic of Nigeria (FRN) as amended and discussed in Section 2.3 above.

budget, assessing the basic recommendations and budget policies of the President as contained in the budget speech and fiscal, financial and economic assumptions used in arriving at the estimates and receipts. At the public hearings, presentations were taken from budgetary units, civil society organizations, and members of the general public. The public hearings for the 2017, 2018 and 2019 budgets were jointly chaired by the Chairmen of Senate and House of Representative Appropriation Committees.

35. The Judiciary consists of the Supreme Court headed by the Chief Justice of Nigeria; a Court of Appeal headed by a President; Federal High Courts in all 36 states and the FCT; and State High Courts in all 36 states and the High Court of the FCT. The Constitution created the National Judicial Council (NJC) as an independent executive body to protect the Judiciary from the Executive. The NJC performs several judicial functions such as advising the President and Governors on issues related to the judiciary, including recommending national judicial officers to the President for appointment, and state judicial officers to Governors for appointment.

36. The Executive arm of Government, at the Federal level, consists of the President, the Vice President and other members of the Federal Executive Council (ministers in charge of federal ministries). There are 832 primary budget entities in the Federal Government. These include 24 ministries and 16 other main organizations such as the Presidency, Office of the Secretary to the Federal Government, Office of the Head of Civil Service of the Federation, Auditor General of the Federation, Federal Civil Service Commission, Federal Character Commission, Office of the National Security Adviser, Code of Conduct Tribunal, Infrastructure Concessionary Regulatory Commission, Police Service Commission, National Salaries Income and Wages Commission, Revenue Mobilization Allocation and Fiscal Commission, Fiscal Responsibility Commission, Independent Corrupt Practices and Related Offences Commission, Code of Conduct Bureau, and National Population Commission.

37. The main institutions for public financial management in the FGN are the Federal Ministry of Finance (FMF)[14] and Federal Ministry of Budget and National Planning (FMBNP).[15] The FMF exercises some of its functions through its several semi-autonomous agencies. These agencies include the Office of the Accountant General of the Federation (OAGF), the Debt Management Office (DMO), the Federal Inland Revenue Service (FIRS), and the Nigeria Customs Service (NCS).

38. The OAGF provides treasury and accounting services, including preparation of annual accounts and financial statements. The name of the OAGF before the 1998 Public Service Reforms was "Treasury Department of the Federal Ministry of Finance". The Federal Inland Revenue Service (FIRS) controls and administers the different federal and joint taxes[16]. The FGN established the Debt Management Office (DMO) in, 2000 to "coordinate the management of Nigeria's debt. Eight diffused departments and agencies in the FMF and the Central Bank of Nigeria performed the function of debt management prior to the establishment of the DMO. The Nigeria Customs Service (NCS) has responsibility for border revenue collection and accounting for the same[17].

39. The Ministry of Budget and National Planning (MBNP) is responsible for strategic development planning and coordination of economic policies of the different levels of government of the federation as well as preparation of the budget, and coordinating implementation of the budget and fiscal policies of the FGN (that is executed through the Budget Office of the Federation).

[14] The Finance (Control and Management) Ordinance established the Federal Ministry of Finance in 1958 to control and manage the public finance of the Federation

[15] Recently, the two institutions have just merged to the newly created Federal Ministry of Finance, Budget and National Planning.

[16]See *s. 2* of the Federal Inland Revenue Establishment Act, 2007.

[17]www.customs.gov.ng

40. The Revenue Mobilization, Allocation, and Fiscal Commission[18] (RMAFC) is a constitutional body with responsibility to (amongst other duties): monitor the accruals into, and disbursement of revenue from the Federation Account; review from time to time, the revenue allocation formulae and principles in operation to ensure conformity with changing realities; and determine the remuneration appropriate to political office holders, including the President, Vice-President, Governors, Deputy Governors, Ministers, Commissioners, Special Advisers, Legislators and some named others[19].

41. The Bureau of Public Procurement (BPP) regulates public procurement by (amongst others): formulating the general policies and guidelines relating to public sector procurement; certifying federal procurement prior to the award of contract; supervising the implementation of established procurement policies; monitoring the prices of tendered items and keep a national database of standard prices; publishing the details of major contracts in the procurement journal; and coordinating relevant training programs to build institutional capacity.

42. The Office of the Auditor-General for the Federation (OAuGF) is the Supreme Audit Institution (SAI). The OAudGF audits all accounts, offices, and courts of the Federation.

43. Some non-core PFM bodies play roles that directly affect the PFM system, through either regulation or revenue collection. These include:

- The Nigeria National Petroleum Corporation (NNPC), which administers the oil industry and sells the country's crude oil.
- The National Petroleum Investment Management Services (NAPIMS) plays a very crucial role in the day-to-day activities throughout the oil industry; NAPIMS is the corporate services unit of the NNPC.
- The Department of Petroleum Resources (DPR) of the Federal Ministry of Petroleum Resources that ensures compliance with industry regulations, processes applications for licenses, leases and permits, establishes, and enforces environmental regulations.
- The National Economic Council (NEC) chaired by the Vice President and includes the 36 State Governors and Governor of the CBN; the Ministry of Budget and National Planning is the secretariat of the Council. The Council is a constitutional body with responsibility for advising the President on economic policies. The council is a powerful body in matters relating to macroeconomic coordination, especially issues affecting fiscal policy, setting the budget reference price for crude oil, saving of excess crude oil earnings, and maintenance of a national Sovereign Wealth Fund (SWF).
- The cabinet (Federal Executive Council, (FEC)) approves fiscal policies and awards contracts above the ministerial tenders' boards threshold.
- The Federation Account Allocation Committee (FAAC), comprising political and technical personnel of the Federal Ministry of Finance and states Ministries of Finance, oversees and shares revenues accruing jointly to the three tiers of government of the Federation. The Home Affairs Department of the Federal Ministry of Finance is the secretariat to the committee.

44. Tables 2.4 and 2.5 show the structure of the public sector (number of entities and financial turn-over) and financial structure of FGN budget estimates.

[18] http://www.rmafc.gov.ng/abt.htm

[19] See *ss*. 84 and 124 of the Constitution

Table 2.4. Number of entities in the Public Sector of Nigeria, 2017

	Public Sector				
	Government Sub-sector		Social Security Funds	Public Corporations	
	Budgetary Units	Extrabudgetary Units		Nonfinancial Public Corporations	Financial Public Corporations
Federal budgetary entities	832[20]	532[21]		15	10
State Governments	36 + FCT				
Local Governments	774				

Source: Budget Office of the Federation and Office of the Accountant General of the Federation.

Table 2.5. Federal Government of Nigeria: Financial structure of FGN budget estimates, 2017

Billions of Naira	**Budgetary Units**	**Extrabudgetary Units**	**Social Security Funds**	**Total Aggregate**
Revenue	2,722	NA	NA	NA
Expenditure	6,420			

45. Public participation in the appropriation process is described in the Section above. In addition, the Ministry of Budget and National Planning, through the MTSS process, engages with the public to ensure that issues of gender, children, vulnerability, disability and diversity are mainstreamed in the annual budget. Section 13.2 of Fiscal Responsibility Act, 2007 provides that 'in preparing the draft Medium-term Expenditure Framework, the Minister 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'. The MTSS and the requirements of the Fiscal Responsibility Act, 2007 are means of ensuring that the budget reflects the view of many groups that would otherwise be ignored in budget planning.

Also, the Ministry of Budget and National Planning, Ministry of Finance, Office of the Accountant General, Office of the Auditor General, and other key PFM Institutions maintain a website where information on federation accounts revenue distributed to different tiers of government, federal government MTEF/FSP, MTSSs general information, budgets and financial reports are hosted for the public to review. However, some of the reports are not produced and published on a timely manner.

[20] 306 are funded fully from the Federal Government budget while 526 are partially funded from the Federal Government budget.
[21] 526 are partially funded through the Federal Government Budget but generate additional revenue as well as incur expenditure that are not captured in the annual budget and government financial report. 6 are entities that are not funded through the Federal budget.

2.5 Other Key Features of PFM and Its Operating Environment

46. The 1999 Constitution of Nigeria assigns expenditure and revenue collection responsibilities across three tiers of Nigerian government: federal, states (36 and FCT), and local (774); these are summarized in Table 2.6 (expenditures) and Table 2.7 (revenues).

Table 2.6. Expenditure Assignments in the 1999 Constitution

Tier of Government	Expenditure Category
Federal only	Defense; Shipping; Federal trunk roads; Aviation; Railways; Posts, telegraphs and telephones; Police and other security services; Regulation of labor, interstate commerce, telecommunications; Mines and minerals; Social Security; Insurance; National statistical system; National Parks; Guidelines for minimum education standards at all levels; Water resources affecting more than one state.
Federal-State (shared)	Antiquities and monuments; Electricity; Industrial, commercial and agricultural development; Scientific and technological research; Statistics and surveys; University, technological and post-primary education; Health and social welfare.
State-Local (shared)	Primary, adult and vocational education; Health services; Development of agriculture and non-mineral natural resources.
Local government	Economic planning and development; Cemeteries, burial grounds; Homes for the destitute and infirm; Markets; Sewage and refuse disposal; Roads, streets, street lighting, drains, other public facilities.

Source: 1999 Constitution and various sector policy reports.

Table 2.7. Nigeria Revenue Collection Responsibilities

Revenue	No	Type of Tax/Levy	Legislation	Collection	Retention	%GDP (2016), Net
FAAC - Federation Account	1	Oil, gas, & mining revenues, including Petroleum Profit Tax.	Federal Govt.	Federal Govt.	Pooled for sharing.	**2.0** (1.6 O&G, 0.4 other).
	2	Company Income Tax (CIT) – Non-Petroleum Profit Tax.	Federal Govt.	Federal Govt.	Pooled for sharing.	0.9
	3	Customs and Excise Taxes.	Federal Govt.	Federal Govt.	Pooled for sharing.	0.5
FAAC - VAT	4	Value Added Tax (VAT).	Federal Govt.	Federal & States.	Pooled for sharing.	0.8

Revenue	No	Type of Tax/Levy	Legislation	Collection	Retention	%GDP (2016), Net
Federal Government Independent Revenue	5	Personal Income Tax (PIT) – PAYEE-Armed forces, Nigeria Police Force, Ministry of Foreign Affairs, (Abuja).	Federal Govt.	Federal Govt.	Federal Govt.	0.2
	6	Withholding tax (corporate bodies, Abuja residents, non-resident individuals).	Federal Govt.	Federal Govt.	Federal Govt.	
	7	Capital gains tax (corporate bodies, non-resident individuals).	Federal Govt.	Federal Govt.	Federal Govt.	
	8	Stamp duties (corporate bodies, Abuja residents).	Federal Govt.	Federal Govt.	Federal Govt.	
	9	Pool betting and lotteries, gaming and casino (Abuja).	Federal Govt.	FCT.	FCT.	
	10	Road taxes (Abuja, Federal Highways).	Federal Govt.	Federal Govt and FCT.	Federal Govt and FCT.	
	11	Business premise taxes (Abuja).	FCT.	FCT.	FCT.	
State/Local governments Independently Generated Revenue	12	Personal Income Tax (PIT) – PAYEE-all individuals resident in states, whether Federal or State employees.	Federal Govt.	States.	States.	0.8
	13	Property tax and ratings.	States.	States & Local govts.	States & Local govts.	

Revenue	**No**	**Type of Tax/Levy**	**Legislation**	**Collection**	**Retention**	**%GDP (2016), Net**
	14	Withholding tax (individuals only in states).	Federal Govt.	States.	States.	
	15	Capital gains tax (individuals only in states).	Federal Govt.	States.	States.	
	16	Stamp duties (in states).	States.	States.	States.	
	17	Pool betting and lotteries, gaming and casino (in states).	States.	States.	States.	
	18	Road taxes (state roads).	States.	States.	States.	
	19	Business premises (in states).	States.	States.	States.	
	20	Development levy (in states).	States.	States.	States.	
	21	Naming of Streets.	States.	States and Local govts.	States and Local govts.	
	22	Licenses and fees.	States.	States and Local govts.	States and Local govts.	
	23	Motor park dues.	Local govts.	Local govts.	Local govts.	
	24	Motor vehicle.	State govts.	Local govts.	Local govts.	
	25	Gift Tax.	Federal Govt.	State govts.	State govts.	

Source: World Bank using Official Documents.

Chapter 3. Assessment of PFM Performance

47. **This chapter details the assessment of the set up and outcomes of the key elements of PFM system of the Federal Government of Nigeria (FGN) based on 31 Performance Indicators (PIs) organized under 7 pillars and, where applicable, reports on the progress made in improving the key elements.** The PIs are assigned ratings of ‘A’ to ‘D’ based on the scoring criteria for each indicator defined as follows:

A	Represents performance that meets good international practices.
B	Sound performance above the basic level.
C	Basic level of performance broadly consistent with good international practices.
D	Either less than the basic level of performance or insufficient information to score.

Pillar I: Budget reliability

48. **Assessment in Pillar I will determine whether the government budget is realistic and implemented as intended.** Realism and reliability underpin good fiscal management and are essential for long-term fiscal sustainability. Implementing the budget as approved portrays the government’s ability to deliver public services as expressed in the budget law. This pillar assesses the credibility of the budget by calculating the extent to which actual aggregate expenditure deviates from the original budget for the last three years of available data (including expenditures financed externally by grants reported in the budget, contingency votes, and interest payments).

49. **The scope of the indicators covers the Federal Government of Nigeria (budgetary central government) only:** It excludes subnational governments; extrabudgetary funds; and government-owned enterprises—while the budgets of (federal) government-owned enterprises are submitted to the National Assembly (NASS) together with the FGN budget, they do not form an official part of the FGN budget, nor are they monitored as part of the FGN budget[22]. For the evaluated period, it also excludes donor-funded projects, as these are not reported on the budget (except for the FGN counterpart funding).

50. The Federal Government of Nigeria PEFA assessment uses official data.[23] For budget figures, the PEFA assessors used national budget documentation, namely, Federal Government Appropriation Acts. For actual fiscal outcomes, the assessors used the data from the Office of the Accountant General of the Federation (OAGF), complemented with the Annual Report by the Office of the Auditor General of the Federation (OAuGF). See Annex 6 for further detail.

PI-1 Aggregate expenditure outturn

51. **This indicator measures the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in government budget documentation and fiscal reports.**

[22] 2019 submitted FGN budget included 9 large GOEs; and some donor-funded projects. However, at the time of evaluation (March 2019), the budget has not been approved/assented.
[23] See Annex 6 for full documentation on the methodology used by World Bank and agreed on with BOF, OAGF and OAuGF to the reclassification of fiscal items in line with international standards.

Indicator/Dimensions	Scores	Explanation
PI-1 Aggregate expenditure outturn.	C	Aggregate expenditure outturn was 105.1%, 80.5%, and 87.4% of the original approved budget in the last three completed fiscal years 2015, 2016, and 2017, respectively.

52. **The core of FGN budget consists of: (i) recurrent (debt and non-debt) spending; and (ii) capital expenditures (including zonal/constituency projects).** Externally (commercial lending and multilateral/bilateral budget support, i.e. not project-tied) funded expenditure is included in the data. Externally funded project-tied capital expenditure data is available for projects financed by external grants, which are not major. The data on externally funded components of concessional project-tied loans to finance expenditure is not available in a systematic manner, as these expenditures were not part of the FGN budget during the period of assessment. Moreover, the data excludes the government-owned enterprises as well as unbudgeted fuel subsidy payments effective 2017, which are deducted from gross revenues as 'cost under-recovery' by the Nigeria National Petroleum Corporation.

53. **Delays in budget passing lead to lack of synchronicity between the budget (fiscal) year and the financial year.** While the implementation of the recurrent budget is effective undisturbed (the equivalent of up to 50% of previous year's budget is allowed to be spent), the capital budget cannot be implemented until the budget is passed into law; the capital expenditure budget implementation begins on the day the budget is passed and is allowed to continue for one calendar year. For the purpose of this evaluation, and in compliance with Nigeria's fiscal and financial year, the PEFA evaluates the capital spending incurred during the calendar year.

54. **Based on the considerations above actual and originally budgeted expenditure data are summarized in Table 3.1.** The assessment is based on the budget and actual expenditure for 2015, 2016 and 2017.

Table 3.1 Total Budget and Actual Expenditure

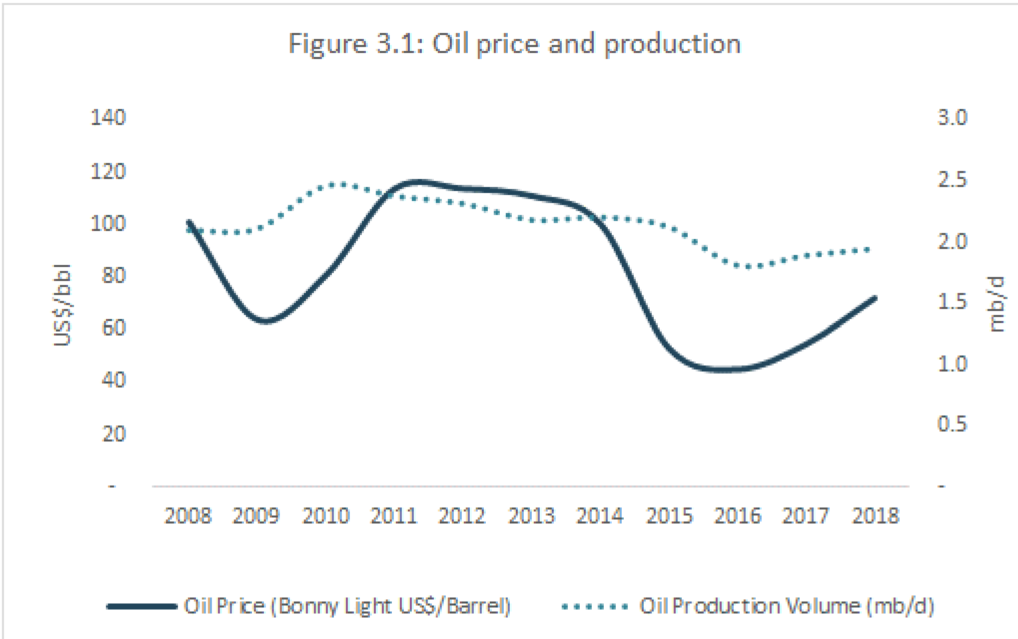
	2015	2016	2017
Budget (Naira billion)	4,493	6,053	7,343
Actual (Naira billion)	4,723	4,871	6,420
Aggregate outturn (%)	105.1%	80.5%	87.4%

Source: World Bank calculations, based on Annual Appropriation Acts for originally budget approved and OAGF for budget execution data.

Note: Aggregate outturn is evaluated according to the calendar/fiscal year (January 1-December 31), using actual spending figures for all items.

55. **Table 3.1 shows aggregate expenditure outturn was 105.1%, 80.5% and 87.4% in the last three completed years, respectively.** The federal government actual spending underperformed relative to the original budget estimates in two of the three completed fiscal years. The budget overspend in 2015 reflects the supplementary budget not taken into account (as PEFA methodology assesses spending outcomes against original budget). The underperformance of expenditures is driven by the revenue

shortfalls, particularly amplified by the oil price (and production) downward shocks. During the evaluated period, international oil prices dipped (see Figure 3.1), and Nigeria's production was negatively affected by militant activities in the Niger Delta.



Source: NNPC and CBN.

56. **The oil price shock of late 2014 and its aftermath pushed the economy into recession and precipitated a major budgetary crisis at the national and state levels.** The drop in the price of oil, combined with weakened output, had major spill-over effects on the non-oil sector, as the authorities did not allow the exchange rate to adjust in line with market pressures. They instead instituted a set of administrative restrictions on access to foreign exchange, particularly for imports, which, as subsequently acknowledged by the government itself, had a negative impact on economic growth, as many firms struggled to access foreign exchange to import necessary inputs for production. Thus, GDP growth decelerated from 6.3% in 2014 to -1.6% in 2016. The oil price and output shock also had a significant impact on national and sub-national finances resulting in the contraction of already-low public expenditures and bringing to light the longer-term trend of weak domestic revenue mobilization (Nigeria's non-oil revenue-to-GDP is only around 5%). Overall, Nigeria's dependence on oil has led to volatile and low average growth, a weak non-oil tax system, and limited economic diversification. In 2017, the budget performance strengthened, with increasing revenues (driven by higher oil prices) and government's improved borrowing outcomes (particularly Eurobond issuances).

Ongoing reforms

57. **The Budget Office of the Federation (BOF), under the Ministry of Budget and National Planning, has taken important steps to improve budget coverage and timeliness.** To improve budget timelines and the efficiency of the federal budget process, the Federal Government has submitted the

proposed Organic Budget Law in its latest revised version and now awaiting final approval by the National Assembly. The process is expected to resume after the inauguration of the new NASS and the new Administration after the 2019 federal elections. Moreover, starting in 2019, the BOF started increasing the FGN budget coverage, to include 9 large Government-Owned Enterprises (their revenues and expenditures) and development-partner funded-projects.

58. Missing in the reform agenda, however, is the sustained effort by a dedicated FGN task force to identify and correct misclassified and ambiguous revenue and expenditure items in the economic classification.

PI-2 Expenditure composition outturn

59. **This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition.**

Indicator/Dimensions	Scores	Explanation
PI-2 Expenditure composition outturn.	**D**	**Overall rating based on M1 methodology.**
2.1 Expenditure composition outturn by functional or administrative classification.	D*	Calculation of variance in expenditure composition by program, administrative or functional classification is problematic; serious discrepancies exist between administrative and economic classifications. Insufficient data to assess.
2.2 Expenditure composition outturn by economic type.	D	Variance in expenditure composition by economic classification was 19%, 28%, and 20.5% in fiscal years 2015, 2016, and 2017, respectively.
2.3 Expenditure from contingency reserves.	D*	There is insufficient evidence to assess.

2.1 Expenditure composition outturn by function (or administrative heading)

60. **This dimension measures the variance between budgeted and actual expenditure at the disaggregated budgetary unit level.** While attempting to use the severely limited data provided by the authorities, it was not possible to match the total expenditure figures by administrative heads with the totals by economic classification. The calculated variance departed from those reported under total expenditure composition and economic classification, as the detailed information for capital expenditure implementation by budgetary unit is only available for the capital expenditure implementation calendar, which is 'unsynced' with the rest of the fiscal year. Consequently, it was not possible to gather data on the disaggregated recurrent spending by administrative heads. Likewise, the data of expenditure composition by function presents discrepancies in the totals for every year with totals by economic type, the latter considered the most reliable according to OAGF and World Bank. This dimension is scored 'D*'.

2.2 Expenditure composition outturn by economic type

61. **Expenditure composition is measured with regards to the composition of actual expenditure against the approved budget by economic category.** The working table on expenditure classification variance for each of the last three completed fiscal years is appended in Annex 5. Variances ranged between 19% and 28% during the period covering fiscal years 2015, 2016 and 2017 (Table 3.2), and the dimension is scored 'D'.

62. **The composition variance is largely influenced by underperformance of FGN capital expenditures**. During the period under review, between 38% and 69% of the budgeted capital resources were released. The recurrent expenditures (salaries, overhead costs, interest payments) and statutory transfers (to the federal level institutions, such as the National Assembly, which in principle can include some capital expenditures) tend to perform rather close to 100% on average.

63. **The capital expenditures are sensitive to revenue shortfalls (see PI-3) and can be aggravated by difficulties in financing of deficits.** In 2016, government's policy response to oil shocks and economic recession rendered the macroeconomic framework inadequate for the multilateral development partner budget support, amplifying the already high cost of domestic financing.

Table 3.2. Results Matrix

Year	% Composition Variance (Economic Classification)
2015	19.0%
2016	28.0%
2017	20.5%

Source: World Bank calculations based on Appropriation Acts and OAGF data.

2.3 Expenditure from contingency reserves

64. **There is insufficient, unsubstantiated evidence to assess.** This dimension is scored as 'D*'.

Ongoing reforms

65. Efforts by BOF in supporting the improvement of expenditure performance, particularly in capital expenditure, continue to be compounded by two key factors: (i) the FGN's commitment to formulate more realistic revenue projections, underpinned by tax policy and tax administration reforms and their costed impact, rather than driven by aspirational targets; and (ii) its ability to finance the budget deficit (which has improved in 2017 given the Debt Management Office strategy to increase the share of external borrowing, and slightly more favorable domestic rates, both resulting from improvement in macroeconomic outcomes following Nigeria's emergence from recession). More realistic budget projections (especially revenue) would also lead to more accurate deficit estimates, which tend to bound in-year debt insurance by the DMO.

PI-3 Revenue outturn

66. **The scope of this indicator covers the budgetary central government, i.e. the retained federal government revenues.** The Federal Government of Nigeria derives revenues to finance its budget implementation from two main sources: (i) the FGN share of the Federation Account revenues, and (ii) the FGN independent revenues (see below). The data on revenue estimates is based on the original approved budget, whereas actual revenue collection is based on the financial statements from the OAGF. FGN revenue data does not include grants from development partners[24]. The period assessed covers the last three completed fiscal years, namely, 2015, 2016 and 2017.

67. **According to official Nigerian sources, the main sources of current Federal income consists of the following:**

(i) <u>Revenues collected by Federal revenue collecting agencies</u>: The Federation Account accrues revenue from oil and gas, corporate income tax, customs and excise taxes. The revenue is shared between the three tiers of the Nigerian Government (Federal, State, and Local), based on formulae periodically determined by the Revenue Mobilization, Allocation and Fiscal Commission (RMAFC) and approved by the National Assembly. The current distribution formula is further elaborated in the assessment of PI-7; and

(ii) FGN independently generated revenues: These include personal income taxes of federal civil servants, road taxes, and share of GOE surpluses – as indicated in Fiscal Trends, Table 2.7.

68. **This indicator measures the revenue collection performance relative to the original approved budget estimates and end-of-year outturn**. It contains two dimensions: aggregate revenue outturn and revenue composition outturn. The data on revenue estimates is based on the original approved budget and actual revenue collection is based on the financial statements from the OAGF. Note that the calculations are based on the revenue classification consistent with international practice, i.e. after netting out financing items, from both budgeted and actual figures.

69.

Indicator/Dimensions	Scores	Explanation
PI-3 Revenue outturn.	**D**	**Overall rating based on M2 methodology.**
3.1 Aggregate revenue outturn.	D	Actual revenue collection was 76.4%, 54.4%, and 61.2% of budgeted revenues in fiscal years 2015, 2016, and 2017, respectively.
3.2 Revenue composition outturn.	D	Variance in revenue composition was 11.9%, 56.5%, and 31.1% in fiscal years 2015, 2016, and 2017, respectively.

[24] Multilateral / Bilateral project-tied loans have been integrated in the budget starting in 2019.

3.1 Aggregate revenue outturn

70. **Revenue outturn measures the total value of all revenues received compared to the original budget plan.** The revenue budget and outturn for the last three completed years is shown in Table 3.3. The actual revenue measured at between 54% and 76% of originally budgeted revenue in the evaluated fiscal years (2015-2017). The dimension is scored ‘D’.

Table 3.3. Revenue Outturn (%)

Fiscal Year	Budget (Naira billion)	Actual (Naira billion)	Total Actual Revenue as % of Budgeted	Composition Variance (%)
2015	3,407	2,603	76.4%	11.9%
2016	3,781	2,056	54.4%	56.5%
2017	4,448	2,722	61.2%	31.1%

Source: World Bank calculations based on Appropriation Acts and OAGF data.

3.2 Revenue composition outturn

71. **Revenue composition is measured with regards to the composition of the approved budget by revenue type as compared to the composition of actual revenues mobilized.** Revenue by type and composition variance for each of the last three completed fiscal years is shown in Annex 5. Federal Government retains for its budget a share (48.5%) of the Federation Account oil and non-oil (including companies income tax and customs revenues), as well as other inflows into the federation account; and 14% of net VAT receipts. In addition, it collects FGN independent revenues (see Table 2.7).

72. **During the period under review, the budgeted revenue targets showed considerable variation; attributed largely to the efforts in the executive not succeeding to champion and ultimately reach conservative fiscal policy positions with the House Committee on Appropriations, particularly in the benchmarking of crude oil prices as being a major trigger for the national annual budgets.** The composition analysis of Federal budgets shows that domestic revenues varied by 11.9%, 56.5%, and 31.1% in 2015, 2016, and 2017, respectively and as result, the dimension is scored ‘D’.

73. **Oil revenue performance has been hampered by a host of other factors**, including:

i) The actual oil production falling below the budgeted targets. Prior to the 2015 oil shock, the budget oil price (known as the benchmark oil price) was often well below actual price. Subsequently, even though actual oil production tended to be lower than budget assumption, most years’ actual gross oil and gas revenues exceeded the budgeted amount. In 2015 and 2016, actual gross revenues fell well below what was budgeted as the budget oil price became less conservative, but production shortfalls persisted; and

ii) Discretionary deductions and underpayments by the Nigeria National Petroleum Corporation, including for the unbudgeted fuel subsidy in 2017 (see the NEITI Oil and Gas Industry Audits Reports for more information).

74. **The non-oil revenue underperformance is attributable to increased revenue target without corresponding tax policy or administration reforms to increase actual collections**: Revenue forecasts

for the Federal Government budget and Medium- Term Expenditure framework lack realism. The revenue targets are calculated largely on the basis of overly optimistic assumptions, using the last year budget targets rather than actual outcomes, and not based on costing of the underlying developments in tax policy and tax administration, or macroeconomic reforms. Thus, each revenue collecting agency submits their own projections, without substantial documented analysis of assumptions underlying the forecasted numbers. Structurally, the situation in tax revenue collection reflects the overall grappling deficiencies in the administration of tax obligations, tax exemptions and the inadequacy of tax policy. Until 2017, the lack of proper audits did not support the efforts to raise collection of corporate tax, and VAT collection efficiency is low due to numerous tax exemptions and high compliance gap. FGN independent revenues also include surpluses of government-owned enterprises, which also face collection difficulties.

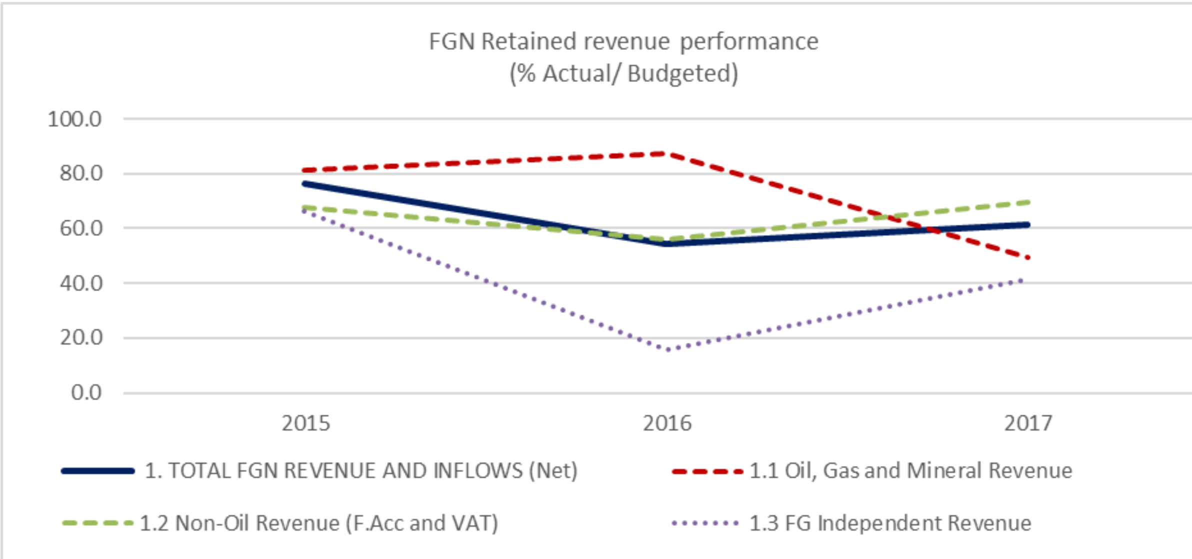
Ongoing reforms

75. **To improve domestic revenue mobilization, the Federal Government has introduced a combination of administrative reforms, including innovative actions and key improvements in tax auditing starting in 2018.** Preliminary data suggest that these measures have resulted in improved revenue collection and while essential and promissory in the medium term, it is widely perceived that tax policy reforms would be also required to place growth in domestic revenue collection on a sustained path.

76. **To support the abovementioned reforms, the Federal Ministry of Finance (FMF) has formulated a Strategic Revenue Growth initiative, which should harvest the low hanging fruits of revenue collection improvements**. It is not clear whether this would yield increased rates of budget accuracy. The Presidential Revenue Reconciliation Committee, chaired by the Director General of the BOF, has just completed the 1990-2018 revenue data reconciliation exercise; its purpose was to arrive at unified estimates of past revenue performance. If used, this should provide a more credible basis for revenue forecasting (if the actual rather than the budgeted revenue figures would be used, as a departure, for forecast formulation).

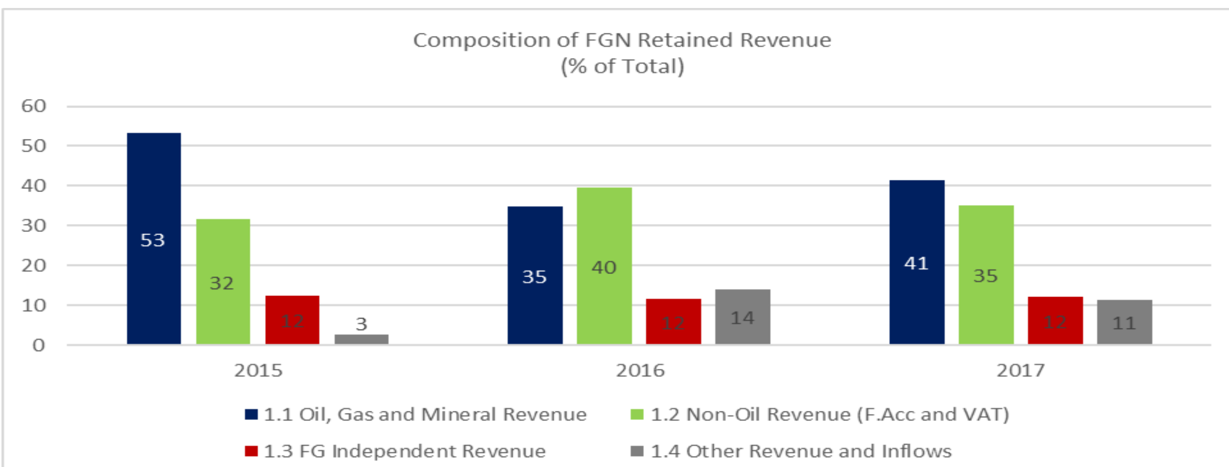
77. **The aspiration of fiscal and national statistics authorities is to embark on a process leading to migration to the IMF Government Finance Statistics Manual (GFSM) 2014 standards**. BOF and OAGF officials are of the view that these efforts will serve to minimize, and ultimately eliminate any discrepancy in revenue and expenditure data and to succeed in the effort to produce fiscal statistics without errors and/or omissions in classification.

Figure 3.2. Aggregate and Component Revenue Performance



Source: Based on Annex 5.

Figure 3.3. Domestic Revenue Composition Trend (as % of total FGN Revenue)



Source: Based on Annex 5.

<u>Pillar II</u>: Transparency of public finances

78. **Pillar II assesses the comprehensiveness, accessibility, and consistency of the PFM-related information.** This is achieved through comprehensive budget classification, the transparency of all government revenue and expenditure, including intergovernmental transfers, published information on service delivery performance, and ready access to fiscal and budget documentation.

79. **Improved transparency supports the achievement of desirable budget outcomes by giving the legislature and citizens the information they need to hold the executive accountable for budget policy**

decisions and for the management of public funds more generally. Greater transparency enables stakeholders to examine whether the resources provide value for money. Comprehensive information is necessary to provide a complete and accurate picture of public finances, enabling decision makers and other stakeholders to make balanced and well-informed judgments. If important information is not made available, it could lead to biased and poorly informed decisions.

PI-4 Budget classification

80. **This indicator assesses the extent to which the government budget and accounts classification system is consistent with international standards.** The assessment is based on the classification system for budget estimates, in-year budget execution reports and audited annual financial statements, used in 2017 as the last completed fiscal year.

Indicator/Dimensions	Score	Explanation
PI-4 Budget classification.	**C**	Budget formulation, execution, and reporting are based on an administrative and economic classification that is generally compatible to GFS standards, with the exception of certain discrepancies, some of which noted in Table 3.6. The functional classification is compatible with COFOG standards, and a major building block in the Chart of Accounts, but not used in most of the budget process.

81. **The Chart of Accounts consists of six segments and a coding system totaling 52 digits.** The National Chart of Accounts (NCOA) is the national accounting basis used for preparing and executing the annual budget and reporting of the budget outturns and financial accounts of the Federal Government of Nigeria (FGN). It consists of a structure of an administrative (12 digits), economic (8 digits), and program classification (14 digits). In addition to these core segments, the NCOA has a functional (5 digits), funds (5 digits), and geographical classification (8 digits) (Table 3.4).

Table 3.4. Chart of Accounts Structure

Segment	Sub segment	Digits
Administrative	Sector	2
	Organization	2
	Sub-organization	3
	Sub-division	3
	Unit	2
Economic	Major (account type)	1
	Sub-major (item)	1
	Minor (sub-item)	2
	Object (sub-sub-item)	2
	Sub-object (sub-sub-item)	2
Functional	Function	3
	Sub-function	1
	Sub-sub-function	1
Program	Policy (reserved)	2

Segment	Sub segment	Digits
	Program	2
	Sub-program	2
	Project	4
	Objective	2
	Activity	2
Funds	Fund account	2
	Sub-fund	1
	Allocation type	2
Geographic	Zone	1
	State	2
	District	5
Total digits		**52**

Source: NCOA, Version 5.

82. **Ministries, departments, and agencies totaling 935 budgetary units formulate and submit their budgets through GIFMIS, following budgetary guidelines and a GIFMIS User's Manual for Budgeting.** The GIFMIS provides integrated electronic forms for the recording of the budget estimates and budget execution transactions using the administrative, economic, functional and program elements of the NCOA. For the reporting of the budget execution, however, the information provides breakdown of budget estimates and expenditure with only the administrative and economic heads (Table 3.5), the latter showing no major concerns on departures from global GFS standards (Table 3.6).

83. **The national budget classification with support from the GIFMIS General Ledger has the capacity to produce consistent budget documentation comparable with GFS and COFOG standards, with certain exceptions.** Moreover, it has the strength of grouping FGN budgetary units, including government corporations and business entities, by sector, program and function of Government. This facilitates the task of coordinating the formulation of the budget proposal and linking up the various activities of Federal line ministries, as well as the strategic allocation of budget resources by public policies and monitoring and accountability of results. The official published documentation such as the approved annual budget, quarterly budget implementation reports, and the annual financial statements for the completed fiscal year do not comply with all these standards, as for this reason the indicator is scored 'C'.

Table 3.5. Classification Used in Key Financial Resources

	Administrative	Economic	Functional	Program
Budget Estimates	✓	✓	✗	✗
Execution Reports	✓	✓	✗	✗
Financial Statements	✓	✓	✗	✗
Chart of Accounts	✓	✓	✓	✓

Source: Budget Office of the Federation.

Table 3.6. Similarities and discrepancies in the economic classification of expenditure

NCOA	GFSM 2001	GFSM 2014
21 Personnel costs	21 Compensation of employees	21 Compensation of employees
2101 Salaries and wages	211 Wages and salaries	211 Wages and salaries
2102 Allowances and social contribution	212 Social contributions	212 Employers' social contribution
22 Other recurrent costs		
2201 Social benefits	27 Social benefits	27 Social benefits
2202 Overhead costs	22 Use of goods and services	22 Use of goods and services
2203 Loans and advances		
2204 Grants and contributions	26 Grants	26 Grants
2205 Subsidies in general	25 Subsidies	25 Subsidies
2206 Public debt charges		
220601 Foreign interest	24 Interest	24 Interest
220602 Domestic interest	24 Interest	24 Interest
2207 Transfer to other funds	2822 Capital transfers	2822 Capital transfers
23 Capital expenditure	22 Use of goods and services	22 Use of goods and services
24 Depreciation	23 Consumption of fixed capital	23 Consumption of fixed capital

Ongoing reforms

84. Presently, the FGN has undertaken the commitment to initiate the process to migrate to GFSM 2014, with the creation of a GFS Committee as a first important step on this direction. Pending, however, is the need for FGN authorities to outline the Terms of Reference and support the division of roles and responsibilities required for supporting the implementation of various activities in the GFS migration process.

PI-5 Budget documentation

85. **This indicator assesses the comprehensiveness of the information provided in the annual budget documentation.** The assessment is based on the documentation for the proposed 2019 budget, (namely, the Appropriation Bill and Breakdown of the FGN Budget Proposal), which was the last budget presented to the National Assembly of Nigeria (NASS) at the time of the assessment.

Indicator/Dimensions	Score	Explanation
PI-5 Budget documentation.	**B**	FGN provides 3 basic elements and 5 additional elements.

86. **Sections 18 and 19 of the Fiscal Responsibility Act (2007) specify the information required to form part of the annual budget documentation.** The information includes a revenue and expenditure profile for the budget year and subsequent two years, 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, as well as a Fiscal Risk Appendix evaluating the fiscal and other related risks to

the annual budget. The comprehensiveness of the information included in the 2019 budget documents is shown in Table 3.7.

Table 3.7. Status of Information Provided in the 2019 Budget Documentation

Item		Status	Source and Comments
Basic elements			
1	Forecast of fiscal deficit or surplus or accrual operating result.	Yes	The projected fiscal deficit (of next budget year) is presented in the Budget Appropriation Bill and the supporting MTEF documentation.
2	Previous year's budget outturn, presented in the same format as the budget proposal.	Yes	The 2017 budget outturn is supplemented in one of the budget books (the 4th Quarter Budget Implementation Report) using the same format as the 2019 budget proposal.
3	Current year's budget presented in same format as the budget proposal. This can be either the revised budget or the estimated outturn.	Yes	The 2018 budget (original estimates) is supplemented in one of the budget books (2019-2021 Medium-Term Expenditure Framework and Fiscal Strategy Paper) using the same format (economic classification) as the 2019 budget proposal.
4	Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates.	No	The budget proposal drawn from the MTEF and FSP budget book includes aggregate-data for revenue and segregated by oil and non-oil tax and non-tax, other domestic resources, and grants for the budget year (2019) and two subsequent years (2020 and 2021) and the current year (2018). It also provides aggregate data and a breakdown of expenditures by major economic category, including both recurrent and capital expenditures. Missing in all four years, however, is the detail at the ministry level. Missing in the profile is the aggregated budget data and segregation for the previous year (2017).
Additional elements			
5	Deficit financing, describing its anticipated composition.	Yes	Presented in the MTFF documentation, with a general description of its financing composition (domestic and external). Also presented in the Breakdown of FGN Budget Proposal, Section 7, Financing the Deficit.
6	Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate.	No	Included in Section 5: Underlying Assumptions Driving the Macroeconomic Parameters and Targets, as part of Background to the Budget Proposal—explanation is broad on the key assumptions such as GDP growth rate, inflation, and oil production and price, but it omits interest rates (e.g., monetary policy rate).
7	Debt stock, including details at least for the beginning of the current year, presented in accordance with GFS or other comparable standard.	Yes	Debt stock (in billions of Naira) is presented in the Fiscal Strategy Paper, in accordance with GFS breakdown, as part of the budget documentation.

Item		Status	Source and Comments
8	Financial assets, including details at least for the beginning of the current year, presented in accordance with GFS or other comparable standards.	No	Not presented. Financial assets such as receivables and investments of the extrabudgetary units (e.g., Sovereign Wealth Fund, Pensions Fund) are omitted.
9	Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structured financing instruments such as PPP contracts, and so on.	Yes	Presented in Appendix on Fiscal Risks, Table A - Risks Likelihood, Impact and Mitigation Strategies[25].
10	Explanation of budget implications of new policy initiatives and major new public investments, with estimates of budgetary impact of all major revenue policy changes and/or major changes to expenditure programs.	Yes	The effect of new policies on public finances is discussed and published. The explanation of the policy implications in the new budget is narrow in scope—it is provided in MTEF/FSP Sub-Sections 7.1: Medium-Term Fiscal Policy Objectives and 7.3: Key Sectoral Policy Initiatives.[26]
11	Documentation on the medium-term framework.	Yes	MTFF and MTEF documents presented.
12	Quantification of tax expenditures.	No	Not presented.[27]

Source: BOF.
Note: ERGP=Economic and Recovery Growth Plan; GFS = Government Financial Statistics; MTFF=Medium-term fiscal framework, MTEF = Medium-term expenditure framework; FSP=Fiscal strategy paper; PPP = Public-private partnerships.

PI-6 Central government operations outside financial reports

87. **The indicator measures the extent to which government revenue and expenditure are reported outside central government financial reports.**

Indicator/Dimensions	Scores	Explanation
PI-6 Central government operations outside financial reports.	**D**	**Overall rating based on M2 methodology.**
6.1 Expenditure outside financial reports.	D*	Information on expenditure of extra budgetary entities (a total of 532 entities) is not readily available but a joint exercise with BOF and OAGF reveals that 112 extrabudgetary entities reported expenditures outside the FGN financial reports in an amount more than 10% of Federal Government expenditure.

[25] FRA Section 11 (3) (e) requires a statement describing "the nature and fiscal significance of contingent liabilities and quasi-fiscal activities and measures to offset the crystallization of such liabilities".
[26] FRA Section 13 requires that, "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".
[27] FRA Section 11 (3) (c) (iii) requires the presentation of "the aggregate tax expenditure projection for the Federation for each financial year in the next three financial years".

Indicator/Dimensions	Scores	Explanation
6.2 Revenue outside financial reports.	D*	Likewise, information on revenue of extrabudgetary entities is not available, but only for a sample of 112 entities.
6.3 Financial reports of extra-budgetary units.	D	Only 155 of the 532 extrabudgetary entities submitted their 2017 financial reports to the Office of the Auditor General of the Federation by 30th September 2018.

88. Information on revenue generated and expenditure incurred by extra budgetary units are not widely and readily available. However, there are 6 extrabudgetary units that are not funded through the Federal Government budget. There are also 526 entities that are [not fully] funded through the Federal Government budget and generate additional revenue as well as incur expenditure that are not captured in the central annual budget of the Federal Government. These include tertiary education institutions that collect school fees from students, hospitals and other agencies that collect fees and charges, and health care agencies that receive funding from donors.

6.1 Expenditure outside financial reports

89. Evidence on expenditure of all extra budgetary units was not established by the assessment team. However, available data shows that the 2017 expenditure by 112 entities of the 532 extrabudgetary entities outside the Federal Government was N582 billion. The expenditure of these 112 entities is, therefore, about 10% of the Federal Government budgetary expenditure. Information on expenditure of the other 422 entities that are outside financial report are lacking. The dimension is scored ‘D*’.

6.2 Revenue outside financial reports

90. The revenues for this dimension include revenues received by budgetary and extra budgetary units that are not reported in the Federal Government’s financial reports. The exact revenue of the extra budgetary units was also not established by the assessment team. However, it was established that N612 billion in funds from donors, fees and charges were collected only by 112 of the entities in 2017, which were outside the federal government budgetary revenue. The dimension is scored ‘D’.

6.3 Financial reports of extra-budgetary units

91. Only 155 extrabudgetary entities (almost one third of all extrabudgetary entities) submitted their 2017 financial reports to the Office of the Auditor General of the Federation by 30th September 2018. Some of the extrabudgetary units have major backlog of unaudited financial reports. However, in March 2018, the Public Accounts Committee of Federal House of Representatives ordered extra budgetary entities to submit their financial statements to the Office of the Auditor General of the Federal. There has been a remarkable improvement in the number of entities that submitted a backlog of outstanding financial reports. The dimension is scored ‘D’.

Ongoing reforms

There is no evidence supporting reforms in this group of entities and parastatals executing public investment projects with externally funded grants and loans.

P1-7 Transfers to subnational governments

92. This indicator assesses the transparency and timeliness of transfers from central government to subnational governments with direct financial relationships. It considers the basis for transfers from central government and whether subnational governments receive information on their allocations in time to facilitate budget planning.

Indicator/Dimensions	Scores	Explanation
PI-7 Transfers to subnational governments.	**B**	**Overall scoring based on M2 methodology.**
7.1 Systems for allocating transfers.	A	The allocation of all revenue and transfers from the Federation Account to States and Local Governments are undertaken based on transparent and rules-based systems. Transparent rules apply to all existing transfers.
7.2 Timeliness of information on transfers.	C	The Federal Government publishes a Medium-Term Expenditure Framework (MTEF) and Fiscal Strategy Paper (FSP) annually, which contains sufficient information with which to enable sub-national governments (SNGs) i.e. States and Local Government Councils, to determine their expected allocations in the coming year. In the 2017 financial year, data on the 2017-2019 MTEF/FSP was released and published in July 2016. So, the SNGs, i.e. States and Local Government Councils, had the information well in advance (five months) of the completion of their budget preparation process. However, the Federal Government currently does not have a fixed budget calendar which regulates transfers to SNGs.

7.1 Systems for allocating transfers

93. Section 162(1) of the 1999 Constitution of the Federal Republic of Nigeria (FGN), as amended, states that a special account to be called "the Federation Account" shall be maintained, into which all revenues collected on behalf of the Federation shall be paid. Section 162(3) further states that any amount standing to the credit of the Federation Account, less the sum equivalent to 13% of revenue accruing directly from any natural resources, shall be distributed among the Federal, States and Local Government Councils as prescribed by the National Assembly. The 13% of revenue accruing directly from natural resources shall be a first line charge for distribution to the States that are beneficiaries of the derivation funds.

94. Section 6 of the Allocation of Revenue (Federation Account) Act, (Cap A 15 LFN) established the Federation Account Allocation Committee to ensure allocations to the Federal, States and Local Government from the Federation Account. The Committee is composed of the Minister of Finance as Chairman, Commissioner of Finance of each States of the Federation, the Office of the Accountant General of the Federation (OAGF) and two persons appointed by the President. In section 162 of the Constitution, the Revenue Mobilization, Allocation and Fiscal Commission (RMAFC) is required to recommend the formulae for sharing revenue among the various tiers of government in the Federation.

95. The prevailing formula for the allocation of revenue is presented in Box 3.1. It shows the formula for vertical distribution of revenue to the Federal, States and Local Governments as well as the horizontal formula for distribution of revenue between the States and Local Governments. In addition, a value added tax (VAT) Account is maintained by the Central Bank of Nigeria (CBN) which has VAT revenue on both imported and non-imported goods. The accrued revenue in the VAT Account is distributed in line with vertical and horizontal formula prescribed by RMAFC as contained in Box 3.1.

96. A monthly revenue sharing process is carried out through the Federation Account Allocation Committee (FAAC) in two sessions. First, the Technical sub-committee of FAAC composed of the Accountant General of the Federation, Accountants General of the 36 States of the Federation, the Chairman of RMAFC and representatives of Federation Account revenue generating agencies meets to compute and reconcile the revenue to be shared. Second, the main FAAC meeting takes the decision on the allocation of the accrued revenue to the various tiers of government based on the formulae prescribed by law.

97. The allocation of revenue, from the Federation Account in terms of the vertical sharing formulae, to the States and Local Governments, as well as horizontal formulae for distribution to States, is undertaken based on transparent rules-based systems. The rules apply to all existing transfers and comply with the provisions of the Constitution and the formulae for sharing revenue among the various tiers of government provided by RMAFC. After allocation by FAAC, the Federation Account Department of OAGF immediately prepares and sends mandates to the CBN to transfer the shared revenue to each tier of government. This dimension is scored ‘A’.

Box 3.1. Vertical and Horizontal Revenue Sharing Formulas – Federation Account and Value Added Tax

a. Vertical sharing formulae

Share of revenue	Percentage share of Federation Account revenue	Percentage share of value added tax
Derivation - oil and mineral resources from States.	13.00% taken as first line charge for distribution to beneficiaries.	0.00%
Federal Government	52.68% (of which 48.5% is retained to finance its budget)	15.00%
State Government	26.72%	50.00%
Local Governments	20.60%	35.00%
Total	**100.00%**	**100.00%**

b. Horizontal sharing formulae

Indices	Federation Account revenue	Value added tax revenue
Equity	40.00%	50.00%
Population	30.00%	30.00%
Land mass and terrain	10.00%	0.00%
Social development factor	10.00%	0.00%
Internal revenue effort	10.00%	0.00%
Derivation (State contribution)	0.00%	20.00%
Total	**100.00%**	**100.00%**

Box 3.2. Revenue Inflow into the Federation Account from Revenue Generating Agencies

1. Nigerian National Petroleum Corporation (NNPC):
    - Crude oil export;
    - Domestic crude;
    - Upstream gas sales; and
    - Domestic gas and others.
2. Department of Petroleum Resources (DPR):
    - Royalties;
    - Rent from petroleum operations;
    - Gas flared penalties; and
    - Miscellaneous oil revenue.

3. Nigeria Customs Service (NCS):
    - Import duty;
    - Export duty;
    - Excise duty; and
    - Fees.
4. Federal Inland Revenue Service (FIRS):
    - Petroleum profit tax
    - Value added tax;
    - Company income tax; and
    - Other taxes: with-holding tax, stamp duties, etc.
5. Ministry of Mines and Steel Development:
    - Royalties from solid minerals operations;
    - Fees; and
    - Miscellaneous revenue.

7.2 Timeliness of information on transfers

98. The Federal Government publishes a Medium-Term Expenditure Framework (MTEF) and Fiscal Strategy Paper (FSP) annually and submits it to the National Assembly for consideration before submitting the proposed budget for approval. The MTEF/FSP contains macro-economic assumptions and the forecast revenue framework to the three tiers of governments for three years, beginning with the coming year. This provides sufficient information with which to enable all sub-national governments (SNGs), i.e. States and Local Government Councils, to determine their expected allocations in the medium term, i.e. the coming year and the following two years.

99. With respect to the last completed financial year, i.e. 2017, data on the 2017-2019 MTEF/FSP was released and published in July 2016. So, SNGs had the information well in advance of the completion of their budget preparation processes. However, the Federal Government currently does not have a fixed budget calendar for the use of budgetary units and other stakeholders in the budget process. Therefore, information on transfers to the SNGs, i.e. States and Local Government Councils, are not regulated in the annual budget calendar of the Federal Government. As a result, this dimension is scored ‘C’.

PI-8 Performance achieved for service delivery

100. **This indicator examines the service delivery performance information in the executive’s budget proposal or its supporting documentation, in year-end reports, and in audit reports or performance evaluation reports.** It determines whether performance audits or evaluations are carried out. It also assesses the extent to which information on resources received by service delivery units is collected and recorded.

101. **The Medium-Term Sector Strategy is a major strategic planning initiative by MBNP authorities that, together with the organized budget classification system, provides ample opportunity for budgetary units to formulate and align their budget proposals on the basis of common objectives by sectors or programs.** The MTSS is a dedicated, home-grown effort to seamlessly link the medium-term budget framework to performance measures in the public sector, not featured in detail in the budget and planning systems and processes. It sets the basic and fundamental

parameters in accordance to good practice (such as baselines, target indicators for outputs and outcomes) for M&E and encourages budgetary units to conduct effective performance analysis of expenditure programs and projects.

Indicator/Dimensions	Score	Explanation
PI-8 Performance information for service delivery.	**D**	**Overall rating based on M2 methodology.**
8.1 Performance plans for service delivery.	D	Information on three-year sector strategy plans (Medium Term Sector Strategies) is available for the thirteen largest Federal line ministries but only for internal use, not publicly available. The MTSS features a genuine attempt to adopt program and performance-based budgeting and new structures across the FGN budgetary units for the purpose of allocating available budgetary resources in a strategic manner and monitoring the performance of annual budgets and impact in service delivery.
8.2 Performance achieved for service delivery.	D	The information on performance of budgets and achievements in service delivery is not produced / reported in an effective and systematic manner. The last published report on performance was submitted for 2013 budget.
8.3 Resources received by service delivery units.	D	There is no evidence that information on resources received by frontline service delivery units were recorded and/or reported centrally and/or locally.
8.4 Performance evaluation for service delivery.	D	Independent evaluations and performance audits had not been conducted by the FGN in 2015, 2016 and 2017.

8.1 Performance plans for service delivery

102. **The budget preparation process starts up with the realization of a Strategic Phase for the purpose of reviewing sector strategy plans and evaluating overall policy and project implementation of previous year(s).** Subsequently, this is followed by a process that aims to set out the spending limits for budgetary units to adhere and a process aimed towards the preparation of corporate plans and business activities (inclusive of human resources and other inputs required) with specific annual targets (outputs and outcomes) set out by all budgetary units whose cost cannot exceed the projected revenues available.

Box 3.3. Medium Term Sector Strategies:
Benefits to Strategic Planning and the Budget Process

Following the development of the Medium-Term Expenditure Framework (MTEF) in 2006 and passing the Fiscal Responsibility Act in 2008, the FGN adopted the Medium-Term Sector Strategy (MTSS) as the most reliable and practical mechanism for ensuring effective public expenditure management and improved service delivery.

In 2016, the Federal Government reintroduced the practice of developing an MTSS as a prerequisite for budget preparation. Large spending ministries—Education, Health, Agriculture, Power, Works and Housing, and Transport, all combined accounted for over 70% of the capital budget of the Federal Government prepared their MTSSs for three-year periods 2017 – 2019, 2018 – 2020 and 2019 - 2021 to ensure that projects in the ministries' budgets for 2017, 2018 and 2019 are linked to Federal Government's strategic priority programs and policy thrusts provided in the Economic Recovery and Growth Plan (ERGP).

Specifically, the MTSS supports budgetary unit performances in the following ways:

1. It introduced an activity-costing mechanism where all items on the budget are costed by prevailing market prices. Prior to the MTSS, the budgetary unit budgets were based on vague estimations – in many cases, according to MBNP, such estimations do not give a fair representation of actual market prices of goods and services leading to an over glutted budget that belies implementation.
2. It enables budgetary units to plan and implement their budgets and capital projects on a medium-term basis. Traditionally, the FGN and its departments prepared budgets on an annual basis – a process that allowed for incremental and non-futuristic outlook of the budget. But the MTSS provides a system for preparing budgets on 3 to 4 years basis where expenditure for a particular program or projects are clearly spread over a period of its life circle.
3. Through the MTSS, the budgetary units are bound to prepare and delimit their corporate plans on the basis of available resources. One of the most important processes of MTSS is a forecast of available resources (human and financial) to inform the budget items. This allows budgetary units to base their expenditure on the available resources and the selection of policy goals on the basis of human and infrastructural capabilities. It also helps budgetary units to prioritize and sequence their programs, projects and activities.
4. On this way, the MTSS will serve to link the public policy objectives, budgets and performance analysis. The processes of completing the MTSS enables pro-growth and/or pro-poor budgeting, where priority policy goals and objectives like those embedded in PIPs and SDGs are tagged and tracked.
5. Improved departmental coordination will be required to conduct MTSS in order to be able to reduce duplication and resource wastage.
6. The MTSS process is also intended to improve participation and engagement of mainstreaming issues, such as gender, children, vulnerability and disability, and climate change. Because this process allows the budget to reflect policy realities, many groups (that would otherwise be ignored in budget planning) will be captured.

Source: Ministry of Budget and National Planning.

103. **However, the manner in which the GIFMIS budget module is designed does not enable the integration of strategic planning into the overall budget process.** Presently, some of the largest line budgetary units spend significant amount of time to convene the preparation and submission of human resources and procurement plans in concert with other departments and agencies belonging the sectors, or

programs alike, with the aim of aligning to medium-term sector policies, and facilitating strategic direction; as well as cascading the different budget proposals to an overarching development objective**.** The issuance of the Budget Call Circular triggers the budgeting process, and the budgetary units are required to specify their priorities and provide input in terms of the estimated baseline costs and costs of proposed new activities, which aids in the development of the MTBF. The budgetary units are then required to submit detailed budget estimates, accompanied by definitive program and subprogram narratives for up to three years. These estimates are to be prepared within a budget ceiling, which represents the maximum sum, and once program and subprogram activities have been fully described and costed, they are submitted to the BOF and presented in a proposed budget document.

104. **As part of the MTSS, the line budgetary units provide a narrative solely for capital expenditure projects indicating objectives, outcomes, and outputs accompanied by KPIs for each level.** Activities for each project are determined and then costed to determine the estimate of each project. As notified by BOF, certain budgetary units prepared budgets (see Box 3.3) submitted their budget on the template shown below. It is unclear from the evidence gathered on whether the forward estimates on operating expenses are assessed in the template for the outlier years of projects. The dimension is scored 'D' due to the fact that only three of the largest budgetary units submitted their results indicators to BOF for outcomes and outputs in the 2019 budget preparation process. This documentation is not publicly available, and while it was claimed that the evidence exists in hard copy, it was never availed to the assessors.

Score	Project objectives	Key performance indicators		Planned outputs (quantity)	Planned outcomes (measurable)	Activities	Materiality (No. of ministries)
		Output indicators	Outcome indicators				
C	Y	N	N	Y	Y	Y	Majority > 50%

8.2 Performance achieved for service delivery

105. **There is no clear evidence substantiating the reporting of MTSS performance results**. Quarterly and annual consolidated budget implementation reports issued by BOF[28] are publicly available, but these are mainly financial in nature, focusing heavily on capital expenditure projects. These do not make reference to the MTSS information on target (outputs and outcomes) indicators to explain the source and utilization of financial resources and the extent of developmental results that were achieved, in a systematic manner and through the medium-term period ending in 2017. The latest performance report which was available for key MTSS sectors was submitted as part of the 2013 budget preparation process. For these reasons the dimension is scored 'D'.

[28] See http://budgetoffice.gov.ng/index.php/resources/internal-resources/reports/quarterly-budget-implementation-report

8.3 Resources received by service delivery units

106. **The current Chart of Accounts and the budget codes do identify the service delivery unit–level budget-related information.** However, there is no appropriate means of reporting (e.g., notice boards, online reports, local surveys, media reports) on the resources received by at least the primary education and health service delivery agencies and reporting on the resources received at cost center level / service delivery units in the target geographical locations of the country. The dimension is scored 'D'.

8.4 Performance evaluation for service delivery

107. **This dimension assesses whether there have been independent evaluations of efficiency and effectiveness of service delivery carried out and published for some ministries at least once within the last three years.** The analysis of documents gathered shows no evidence of performance (audit) reports or third-party evaluation reports, describing ultimately the impact of public policies and budgets and the extent of effectiveness in the role of government in priority national development programs. The dimension is scored 'D'.

Ongoing reforms

108. Ongoing reforms in the MTSS process do not include developing a GIFMIS application or other efforts to automate the MTSS process and integrate the data flows into the budget process. Any further development of MTSSs and adoption of performance-based budgeting reforms seems, nonetheless, to remain in continuous conflict with zero-based budgeting still in practice in the FGN context.

PI-9 Public access to fiscal information

109. **This indicator assesses the comprehensiveness of fiscal information available to the public.**

Indicator/Dimensions	Score	Explanation
PI-9 Public access to fiscal information.	**D**	The government makes available to the public two basic elements and two additional elements, in accordance with the specified timeframes.

110. **There is no legislative and regulatory requirement for public access to the different budgetary and fiscal documents.** Despite the existing legislation requiring the freedom of public information (namely, the Freedom of Information Act of 2011) and Nigeria joining the Open Government Partnership in July 2016, there is no specified schedule requiring the publication of key fiscal information by the Federal Government at certain times of the budget year. Table 3.8 sets out the basic and additional elements of fiscal information that are desirable for transparent PFM and the availability and timing of such information.

Table 3.8. Public Access to Fiscal Information

	Item and Criteria	Status of Availability	Source
Basic elements			
1	**Annual Executive Budget Proposal Documentation:** A complete set of executive budget proposal documents (as presented by the executive in PI-5) is available to the public within one week of the executive submitting them to the legislature.	**Yes -** The Executive Budget Proposal of 2017, together with the relevant supporting documentation, was published at the BOF website on December 18, 2016, that is, **four days after its submission to the NASS** (dated December 14, 2016).	http://budgetoffice.gov.ng/index.php/fgn-2017-budget-proposal-appropriation-bill
2	**Enacted budget:** The annual budget law approved by the legislature is publicized within two weeks of the passage of the law.	**No –** The enacted budget was made publicly available on June 29, 2017, that is, **seventeen days after the President's assent of the 2017 Budget Act** (dated June 12, 2017) and **fifty days after the NASS' passage of the 2017 Budget Act** (dated May 10, 2017).	http://budgetoffice.gov.ng/index.php/2017-approved-budget
3	**In-year budget execution reports:** The reports are routinely made available to public within one month of their issuance, as assessed in PI-27.	**Yes –** the budget execution report (referred to as Budget Implementation Report) for the Fourth Quarter of 2017 was published at the BOF website on September 20, 2018, that is, **eight days after its issuance** (dated September 12, 2018). The budget execution report for Third Quarter of 2017 was published at the BOF website on January 10, 2018, that is, **one day after its issuance** (dated January 9, 2018).	http://budgetoffice.gov.ng/index.php/quarterly-budget-implementation-reports/2017-budget-implementation-reports
4	**Annual budget execution report:** The report is made available to the public within six months of year-end.	**No -** Not made available to the public within 6 months of year-end.	Submitted to the OAuGF on 19/12/2018
5	**Audited annual financial report, incorporating or accompanied by the external auditor's report:** The report(s) are made available to the public within 12 months of year-end.	**No –** The audited report of the annual financial statements of 2017 was not made available within 12 months of year-end.	
Additional elements			
6	**Pre-budget Statement:** The broad parameters for the executive budget proposal regarding expenditure, planned revenue,	**No –** An MTEF/fiscal strategy paper was issued in August 2016, that is, with delay—**five months before the start of the**	http://budgetoffice.gov.ng/index.php/resources/internal-resources/policy-documents/mtef?task=do

	and debt are made available to the public at least four months before the start of the fiscal year.	**fiscal year**. Debt information is missing.	cument.viewdoc&id=276
7	**Other external audit reports:** All non-confidential reports on central government consolidated operations are made available to the public within six months of submission.	**No -** Audited financial statements of SOEs, States and compliance audit reports are not made public within 6 months of submission.	
8	**Summary of the budget proposal:** A clear, simple summary of the Executive's Budget Proposal or the Enacted Budget accessible to the non-budget experts—often referred to as a 'citizens' budget' and where appropriate translated into the most commonly spoken local language—is publicly available within two weeks of the Executive Budget Proposal being submitted to the legislature and within one month of the budget's approval, respectively.	**Yes -** Citizens' budget was made publicly available in June 2017, that is, within one month of the budget's approval.	http://www.budgetoffice.gov.ng/index.php/resources/internal-resources/citizens-guide-to-the-budget/2017
9	**Macroeconomic forecasts:** As assessed in PI-14.1, forecast is available within one week of its endorsement.	**Yes -** A Macro-Fiscal Economic Outlook is made available to the public within one week of endorsement by the National Assembly.	

Pillar III: Management of Assets and Liabilities

111. **The pillar assesses the processes and practices to manage fiscal risks, public investments, government assets and public debt.** Effective management of assets and liabilities ensures that risks are adequately identified and monitored, public investments provide value-for-money, financial investments offer appropriate returns, asset maintenance is well planned, and asset disposal follows clear rules. It also ensures that debt service costs are minimized and fiscal risks are adequately monitored so that timely mitigating measures may be taken.

PI-10 Fiscal risk reporting

112. **This indicator measures the extent to which fiscal risks to the central government are reported.** Fiscal risks can arise from adverse macroeconomic situations, financial positions of subnational governments, public corporations, and contingent liabilities from the central government's own programs and activities, including extra budgetary units. They can also arise from other implicit and external risks such as market failure and natural disasters.

Indicator/Dimensions	Scores	Explanation
PI-10 Fiscal risk reporting.	**D+**	**Overall rating is based on M2 methodology.**
10.1 Monitoring of public corporations.	D	Audited annual financial statements of 7 of the 25 public federal government public corporations were submitted for external audit and published within nine months of the end of 2017. It is estimated that the 7 public corporations account for between 65% and 70% of the entire financial transaction of the 25 public corporations by value. Consolidation of economic results is problematic, not allowing proper measuring and monitoring of overall fiscal risks within the sector.
10.2 Monitoring of subnational government.	C	There are 36 states (subnational governments) in Nigeria. In 2017, 20 states published their audited financial statements, as of 30th September 2018, while four other states published their unaudited financial statements by 30th September 2018. The 24 States account for 65% and 70% of the total revenue/ expenditure of the 36 States. Consolidation of economic results is also problematic, not enabling proper measuring and monitoring of overall fiscal risks within the sector.
10.3 Contingent liabilities and other fiscal risks.	D	No report is published by the Federal Government annually that quantifies and consolidates information on all significant contingent liabilities and other fiscal risks of the Federal Government.

10.1 Monitoring of public corporations

113. Nigeria has a broad category of federal-level state-owned enterprises (SOE) that operate in all key sectors, from oil to power, transportation to information technology, agriculture, financial services and industry. These SOEs enjoy full operational and financial autonomy, are often governed by their own act, and generate and account for their own revenues. The Fiscal Responsibility Act (FRA) of 2007 identifies 37 such entities. Pursuant to the FRA, the Federal Minister of Finance has formally designated an additional 92 entities.

114. Public corporations for the purpose of this indicator are defined in accordance with GFS 2014. In line with the definition, 25 SOEs qualified as public corporations (15 non-financial public corporations and 10 financial public corporations). Seven of the public corporations submitted to OAuGF and published their audited 2017 financial report by 30th September 2018. There is no evidence of consolidated reports on the financial performance of public corporations published by the Federal Government annually. The seven public corporations that published their 2017 audited financial statements as of 30 September 2018 were: Nigeria Deposit Insurance Corporation, Nigeria Mortgage Refinance Company, Development Bank of Nigeria, Central Bank of Nigeria (CBN), Nigeria Electricity Regulatory Commission, Nigeria Sovereign

Investment Authority, and Nigeria National Petroleum Corporation (NNPC)[29], CBN and NNPC that published their audited 2017 financial statements by 30th September 2019 is estimated to account for between 55% and 60% of the entire financial transaction of the 25 public corporations by value while the other 5 public corporation that published their account for approximately 10% by value. Therefore, this dimension is rated 'D'.

10.2 Monitoring of subnational governments

115. **This dimension is not applicable, from the sub-national government perspective; however, it is assessed with the consideration of monitoring of the States.** Section 3 (1) of the 1999 Constitution, as amended, provides that there shall be 36 states in Nigeria. These states are: Abia, Adamawa, Akwa Ibom, Anambra, Bauchi, Bayelsa, Benue, Borno, Cross River, Delta, Ebonyi, Edo, Ekiti, Enugu, Gombe, Imo, Jigawa, Kaduna, Kano, Katsina, Kebbi, Kogi, Kwara, Lagos, Nasarawa, Niger, Ogun, Ondo, Osun, Oyo, Plateau, Rivers, Sokoto, Taraba, Yobe and Zamfara. The Constitution provides for Fiscal Federalism, that is, States are independent from the Federal Government in all areas of fiscal policy such as revenue allocation, expenditure choices, and other financial decisions. This is a major challenge hindering fiscal coordination between the Federal and State Governments, and hinders the ability of Federal Government to monitor fiscal risks in the States.

116. **However, the Fiscal Responsibility Act 2007 and Debt Management Office (Establishment) Act 2003 introduced measures[30] for some level of fiscal coordination between Federal and State Government.** The Fiscal Responsibility Act 2007 is applicable only to the Federal Government, but oil based fiscal rules, framework for debt management and public borrowing are applicable to subnational governments. The Debt Management Office (Establishment) Act conferred on Federal Government the powers to coordinate public borrowings for Federal and State Governments. Preparation of budget, budget implementation, preparation of financial statements and auditing of financial reports is the responsibility of each State, and States are not required to refer to the Federal Government in carrying out any of these functions.

117. **Section 125 (2) and (5) of the Constitution provides that** the public accounts of a State and of all offices and courts of the State shall be audited by the Auditor-General for the State who shall submit his reports to the House of Assembly of the State within ninety days of receipt of the Accountant-General's financial statement and annual accounts of the State. The 2017 audited financial statements were published

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[29] Some of the SoEs that did not published as of September 2018 include (latest audited financial reports) the Asset Management Company of Nigeria (December 2015), National Agriculture Insurance Corporation (December 2015), EXIM Bank (December 2010), Nigeria Bank of Industry (December 2016), Universal Service Provision Fund (December 2013), and Infrastructure Bank PLC (none). For the other SoEs there is no clear evidence on the time of their latest annual financial reports published.

[30] The states' fiscal crisis led to two major financial assistance packages from the Federal Government - underscoring the fiscal risks that states pose. The first financial assistance package approved in July 2015 had no conditions attached[30]. As the states' fiscal situation continued to worsen in 2016, a second package was provided, called the *Budget Support Facility* (BSF). The BSF was accompanied by the 22-point Fiscal Sustainability Plan (FSP)[30] – a set of reforms that were agreed to by all states receiving financing from the BSF to strengthen state fiscal transparency and accountability, state revenue mobilization, expenditure management and debt sustainability. This is supported by the World Bank's States' Fiscal Transparency, Accountability, and Sustainability Program for Results.

for 20 states as of 30th September 2018, while another 4 States published their unaudited financial statements by 30th September 2018. The 24 States account for 65% to 70% of the total revenue and expenditure of the 36 States.

118. There is no evidence of annual consolidated reports produced by the Federal Government on the financial position of subnational governments. The dimension is scored ‘C’.

Table 3.9. Status of Published 2017 Audited Financial Statements as at 30/09/18

	State	Status
1	Abia	Published Audited Financial Statements
2	Adamawa	Published Audited Financial Statements
3	Akwa Ibom	Without Published Financial Statements
4	Anambra	Without Published Financial Statements
5	Bauchi	Published Unaudited Financial Statements
6	Bayelsa	Without Published Financial Statements
7	Benue	Without Published Financial Statements
8	Borno	Without Published Financial Statements
9	C/ River	Without Published Financial Statements
10	Delta	Published Audited Financial Statements
11	Ebonyi	Without Published Financial Statements
12	Edo	Published Audited Financial Statements
13	Ekiti	Published Audited Financial Statements
14	Enugu	Published Audited Financial Statements
15	Gombe	Without Published Financial Statements
16	Imo	Without Published Financial Statements
17	Jigawa	Published Audited Financial Statements
18	Kaduna	Published Audited Financial Statements
19	Kano	Published Audited Financial Statements
20	Katsina	Published Audited Financial Statements
21	Kebbi	Published Audited Financial Statements
22	Kogi	Published Audited Financial Statements
23	Kwara	Published Audited Financial Statements
24	Lagos	Published Audited Financial Statements
25	Nasarawa	Published Audited Financial Statements
26	Niger	Published Unaudited Financial Statements
27	Ogun	Published Audited Financial Statements
28	Ondo	Published Audited Financial Statements
29	Osun	Published Audited Financial Statements
30	Oyo	Published Unaudited Financial Statements
31	Plateau	Published Audited Financial Statements
32	Rivers	Without Published Financial Statements
33	Sokoto	Without Published Financial Statements
34	Taraba	Published Audited Financial Statements
35	Yobe	Published Unaudited Financial Statements
36	Zamfara	Without Published Financial Statements

Source: Nigeria Governors’ Forum (NGF)

10.3 Contingent liabilities and other fiscal risks

119. **There is no registry system in place nor specific national accounting rule developed for recording and reporting contingent liabilities and other fiscal risks**. Information on conditional

liabilities and guarantees are not recorded or reflected in the 2017 Federal Government Financial Statements. However, the 2017 Federal Budget included provisions for an aspect of contingent liabilities which was the settlement of judgement debt. The score is 'D'.

Ongoing reforms

None.

PI-11 Public investment management

120. **This indicator assesses the economic appraisal, selection, costing, and monitoring of public investment projects by the government, with emphasis on the largest and most significant projects.** The assessment is based on 2017, the last completed fiscal year.

Indicator/Dimensions	Scores	Explanation
PI-11 Public investment management.	**D**	**Overall rating is based on M2 methodology.**
11.1 Economic analysis of investment proposals.	C	Economic analyses are conducted through guidelines for all major investment projects, but no requirements exist for publishing or reviewing the results.
11.2 Investment project selection.	D	Criteria for project identification, screening, selection, and prioritization are formally in place, but only used for some major investment projects prior to their inclusion in the budget.
11.3 Investment project costing.	D	Projections of the total capital cost of major investment projects are not included in the budget documents.
11.4 Investment project monitoring.	D	Physical progress and costs of the major investment projects are monitored by the implementing government unit. However, monitoring is not structured and there is no formal standard procedure and reporting template for conducting monitoring of project performance.

121. **Project selection, preparation and management is carried out by each MDA.** The National Planning Commission is tasked with setting a long-term national development plan for all infrastructure services by the Federal Government of Nigeria (FGN). Each MDA then determines its sectoral investment plan and whether each specific investment will be financed through the government budget or private financing schemes. There is no common framework or methodologies on how they determine which projects will seek private participation through PPPs or similar schemes. Each MDA can exercise a considerable degree of discretion in this regard. However, line ministries often have limited technical expertise to evaluate and determine which projects are bankable, which financing schemes are more suitable to specific projects, or what government support may be necessary. The Infrastructure Concession Regulatory Commission (ICRC) aims to provide such technical expertise, but the complexity of the institutional framework and the absence of common methodologies make it difficult for ICRC to play this role effectively.

122. **The legal mandate on institutional roles is provided by the following Acts:** The Infrastructure Concession Regulatory Commission Act of 2005, the National Policy on Public and Private Partnership of 2009, and the Public Procurement Act of 2007. While these documents provide a broad framework, there remains ambiguity on several aspects, such as the definition of PPPs, conformity of specific PPPs to other sector laws, applicable processes and methodologies, lender issues such as step-in rights, provision of government support such as guarantees, fiscal risk assessment, and the ICRC's role in dispute resolution. To address these issues, a PPP law has been under discussion at the National Assembly.

123. **Developing a strong pipeline of bankable projects is a key challenge in almost all developing countries.** In the case of Nigeria, scarcity of project structuring skills in line ministries (and subnational) governments is a significant issue. Analytical work by the World Bank highlighted that a considerable degree of ambiguity exists in the roles and responsibilities of numerous government entities which are involved in private finance of public infrastructure and that the complexity of the institutional framework makes effective coordination among them more challenging and weakens the government's overall capacity in facilitating PPPs and other forms of private financing of public infrastructure. Terminations, re-concessioning and court cases in several national flagship PPP projects are demonstrative of weakness in the areas of project preparation, structuring and procurement, contract management, and communication with stakeholders. Similar challenges are observed in energy sector privatization projects.

11.1 Economic analysis of investment proposals

124. **Major federal government projects go through an economic analysis, with central support for the line ministries[31].** The procedures for capital budget project appraisal are set out in the government's *Manual for selecting priority projects (2014)* and cover technical, economic, and financial analysis for priority projects. While major projects are subject to an appraisal process, practices for different types of projects vary. Medium and large projects are required to undertake a full feasibility study, including a cost-benefit analysis. Projects which are funded by development partners are appraised in accordance with their own requirements. All PPP projects undergo a project appraisal. However, there is no specific requirement to publish results of project appraisals, and to undergo independent external reviews[32].

125. **There are separate processes for the projects that are currently outside of the FGN budget.** Projects which are funded by development partners are appraised in accordance with their own requirements – but these are not reported in the Federal Government budget (except for the fraction of counterpart funding, if any). All PPP projects undergo a project appraisal. The procedure for the appraisal of PPP projects is detailed in the ICRC Guidelines and Processes, covering technical, economic, and financial analysis. However, these appraisals are often prepared too late and have quality issues, with impact on the implementation of projects. There are no requirements to publish the results of an appraisal, or for it to undergo an independent external review. The dimension is scored 'C'.

[31]**PIMA 2018 notes that "The current methodology does not differentiate sufficiently between projects of different complexity and size.** An assessment of the FGN project portfolio from 2011 (most recent data available for the mission) showed that the largest 20 active projects covered 36 percent of the budget and the largest 50 projects covered 50 percent of the budget."
[32] This section relies on information collected during the 2018 Federal Government PIMA assessment; please see draft IMF PIMA 2018 report for more details. Please also see d "The Study on the Federal Level Capital Project Expenditure in Nigeria." (Ministry of Budget and National Planning, 2018).

11.2 Investment project selection

126. **The BOF provides a scoring card with a multi-criteria analysis approach for project prioritization, as part of the Budget Call Circular (BCC).** Budgetary units are requested to utilize Project Assessment and Costing Templates (PACT) for prioritizing projects on the basis of their contribution to the ERGP objectives. Criteria for project selection are formally in place, but major projects are first proposed by the budgetary units with limited central prioritization from the BOF. A pipeline of appraised projects from which projects are selected for inclusion in the budget is lacking. In practice, many new projects that were not appraised are included in an ad-hoc manner during the budget approval process in the National Assembly; this is particularly true for the zonal (or constituency) projects. While principles to give priority to ongoing projects are established, continuous inclusion of new projects in the budgets of budgetary units have crowded-out resources for the ongoing ones. Hence, there is no requirement for a uniform process of project identification, selection and prioritization. Furthermore, given the low budget credibility (particularly systemic revenue, and, subsequently, capital expenditure shortfalls), project inclusion in the budget does not necessarily translate into cash releases and actual project implementation; i.e. there is a disconnect between the 'de jure prioritization' of including the project in the budget, and 'de facto selection' of actually funding and implementing the project. The dimension is scored 'D'.

11.3 Investment project costing

127. **Comprehensive financial analysis of major investment projects is not considered when budgeting for the medium term.** Whilst three-year estimates for projects are submitted to the MBNP as part of the budgeting process, there is no standard procedure for how the total multiyear cost estimate for major projects is communicated. The estimates indicated for the next two years are viewed to be unreliable, as one-year ahead forecasts errors of average 0.8 percent of GDP are high compared to the total investment of between one and two percent (calculations conducted by the 2018 IMF-WB PIMA mission). Budget documentation does not include information on the total project cost or multi-year commitments. Hence, decision makers and legislators are debating the budget proposal that they approved for the first year of expenditure on a new project with no formal acknowledgement of its full cost. The under-implementation of the capital budget due to the cash shortfalls further complicates multi-year projects. This restricts the ability to assess the size of the fiscal space available for future public investment. Therefore, this dimension is scored 'D'.

11.4 Investment project monitoring

128. **The total cost and physical progress of major investment projects are monitored during implementation by the implementing government unit.** Central monitoring of physical progress and project costs is done by the BOF according to the FRA. Budgetary units report physical progress and project costs in either electronic format or hard copy and the BOF prepares quarterly budget implementation reports. The Budget Monitoring and Evaluation (BM&E) department use the reports to prepare for site verifications on selected projects. All reports are submitted to the Fiscal Responsibility Commission. A yearly report is issued and submitted to the National Assembly. There is currently no comprehensive database/list of all on-going projects resulting in limited integrity of data. On site monitoring and coverage is still narrow and results have limited impact on the composition of the portfolio of projects. The 2016 Physical Verification Report only covers 70 projects, increasing to 134 monitored in 2017, which cover less than one percent of the portfolio. BOF (and some CSO/NGOs) encourage citizens' monitoring of

capital projects through online platforms which allow uploading photographs of the progress of project implementation, but these are not widely used. The dimension is scored ‘D’.

Ongoing reforms

None.

PI-12 Public asset management

129. **This indicator assesses the management and monitoring of government assets and transparency of asset disposals.** The assessment is based on 2016, the last completed fiscal year.

Minimum Requirements (Scoring Method M2)		
Indicator/Dimensions	**Scores**	**Explanation**
PI-12 Public asset management.	**D+**	**Overall rating is based on M2 methodology.**
12.1 Financial asset monitoring.	C	The Federal Government maintains partial record of its holdings and investments in the corporate sector. Monitoring covers only financial assets of FGN within a group of (so-called Ministry of Finance Incorporated (MOFI)) companies, though not capturing the data on investment yields and other annual earnings. Reporting the financial performance of pension funds and other funds and FGN equity shares in GOEs is not consolidated but carried out individually. Thus, the capacity to monitor the FGN financial assets in the current environment is confronted with serious inefficiencies.
12.2 Non-financial asset monitoring.	D	The government maintains a partial record of fixed assets at the MDA level which are recorded through the GIFMIS registry on fixed assets. There is no evidence of GIFMIS records of non-produced assets, such as land and holdings of minerals and sub-soil resources.
12.3 Transparency of asset disposal.	C	There are written and approved procedures and rules for the disposal of non-financial assets, which form part of the financial regulations. There is, however, no requirement for disclosure of asset disposal information, in annual budget or financial reports.

12.1 Financial asset monitoring

130. **Information on FGN’s financial assets comprise only those reported by the OAGF Bureau of Public Enterprises (BPE), excluding other major categories of financial assets, such as Government earnings from pension funds and other shares earned in the Government owned enterprises (GOEs).** A summary of investments and the shareholding position by FGN in a group of local and foreign companies are reported by OAGF, namely, those companies registered under the mandate of the Ministry of Finance Incorporated (MOFI) Act. These are monitored under the responsibility of BPE and consolidated in the FGN financial statements by the OAGF Revenue and Investment Department. Annual reports cover companies in which MOFI owns a minority or majority stake, in most of which there is no evidence of

audit reports carried out in recent years with a favorable certified financial opinion. Noticeably, Sections 19 to 22 of the FCMA set the requirement for reporting on the interest and investment fluctuations accrued to public funds and debt securities, and provides the basis of financial asset valuation, using the mean market price method.

131. Information of financial assets is significantly incomplete or not available for other local companies with high state ownership, such as the Power Holding Companies of Nigeria (PHCN) successor companies, the Federal Mortgage Bank of Nigeria, the Development Bank of Nigeria, the Defense Industries Corporation of Nigeria and a range of other local and foreign companies. The annual financial statements of a group of MOFI companies in which the FGN retains a minority or majority of ownership in Nigerian companies, such as water corporations, state transport companies, Nigerian Ports PLC, and oil refining and petrochemical companies, inform on the FGN's equity (investment) returns. The consolidated information is incomplete, with various companies not reporting the information with the rigor and method required by the accrual IPSAS guidelines. For other companies and investment funds the information on returns of FGN financial assets is scattered and reported with continuous delay in various other reports which are not consolidated by line (parent) Federal ministries. Such a largely fragmented reporting framework is severely hampering the capacity of OAGF to report a full count of changes in financial assets on a systematic manner, and as a result, this dimension is scored 'C'.

132. **IPSAS has been adopted as the recognized accounting standard for preparing the financial statements.** There are limited disclosures in financial statements with respect to receivables and investments in the state-owned entities. The annual financial statements (DG Funds) provide consolidated information on revenue and investment and partial information on cash and cash equivalents. The major categories of financial assets in FGN comprise cash holdings and investments in sovereign wealth funds and other trust funds. Records of SOEs other than commercial banks are maintained and reported in a disaggregated manner but not reported in the annual financial statements. Therefore, the dimension is rated 'C'.

12.2 Non-financial asset monitoring

133. **The stock of non-financial assets (known as "legacy assets" in the local practice), including fixed assets, stores and inventories, non-produced assets, and valuables, is being maintained for most budgetary units and recorded and monitored through a centralized subsidiary ledger system.** As of 2017, budgetary units were in the process of abandoning the use of various older systems used for maintaining nonfinancial asset records and documenting the usage and age of 'legacy' assets, and are now migrating to the use of GIFMIS fixed assets and stores and inventory modules. As part of this process, OAGF has put in place a regular physical verification process of the assets and reconciliation with the records, and steps are under way to train personnel in the use of the module to capture all non-financial assets, movements and disposals of all budgetary units.[33] On the other hand, values of sub-soil assets (oil and natural gas or non-produced assets) have never been estimated and reflected in any of the fiscal reports of the government. The dimension is scored "D".

[33] Guidelines are provided to asset management, including acquisition, receipt, registration, revaluation, depreciation, transfer, monitoring and disposal of fixed assets, for ease of reference see the Financial Regulations, Section on Fixed Asset Management, and also "A Guide for Asset Management on GIFMIS", 2018, Office of the Accountant General of the Federation.

Table 3.101. Categories of Nonfinancial Assets

Categories	*Sub-categories*	*Where Captured*	*Comments*
Fixed assets.	Buildings and structures.	Ministries, Departments and Agencies.	The budgetary units' records are captured in asset registers at departmental level and kept up to date through GIFMIS module.
	Machinery and equipment.		
	Other fixed assets.		
Inventories.	Stores and warehouse.		Records are maintained at departmental level in a budget unit.
Valuables.			
Non-produced assets.	Land.	Federal Land Registry.	Land registry is a work in progress.
	Minerals and energy resources.	Directorate General of Nigerian Geological Survey, Federal Ministry of Mines, Mining Cadaster Office, and the National Steel Raw Materials Exploration Agency.	The record lacks a comprehensive overview (Nigeria Extractive Industry Transparency Initiative Report, 2018).

Note: The categories in the table are based on the GFSM 2014.

12.3 Transparency of asset disposal

134. **There are basic internal control procedures and accounting rules governing the management and valuation of fixed assets ('legacy assets') owned by the Government, as well as their time of disposal in 2017.** According to stores disposal procedures[34], Board of Surveyor inspectors are required to verify the status of stores, buildings, plants, motor vehicles and equipment at least twice a year and compare against the inspected entity's stores ledger's stock balance. Accordingly, the inspector will inform the respective accounting officer responsible and, where necessary, insist on making the correction required (Forms 8 and 9). As a result, a registry of fixed assets is maintained, albeit partially, across budgetary units and depreciations and disposals are reported annually as required by accruals IPSAS accounting and reporting standards.

135. Information on fixed assets disposals is included but only partially through the annual financial statements not yet audited and tabled to the Public Accounts Committee for 2017. There is no evidence of rebuttal or other comments by the Public Accounts Committee to the fixed asset disposals and the resulting changes in the patrimony of the FGN in the budget and financial reports for 2017. The dimension is scored 'C'.

Ongoing reforms

136. There is increased momentum building on the accrual IPSAS implementation process after the launching of the GIFMIS subsidiary ledger on fixed assets and availing for budgetary units to bring their

[34] Financial regulations, 2509 to 2706.

fixed assets to account. Budgetary units continue to register the value of their 'legacy' assets in accordance to plans. The process is progressing incrementally within budgetary units and other public sector entities under the lead of OAGF. Budgetary units are currently making use of the IPSAS Guidelines[35] and staff responsible in the finance and administrative units across the FGN are benefiting from technical guidance and training provided by OAGF.

137. A unified effort is well underway to register land and sub-soil assets and mineral resources and ensuring greater transparency and confidence in the business sector, all forming part of improving the conditions to 'Ease of Doing Business' in Nigeria. Key initiatives include those by the Ministry of Public Works and Housing, with the creation of a land registry - the National Land Repository System - and the processing of over 1,500 secondary transactions on Federal Government lands nationwide and the titling of over 2,000 lands, thus empowering the holders to raise investible funds to establish new, and grow existing businesses. In addition, the Nigeria Extractive Industries Transparency Initiative (NEITI),[36] under the auspices of the Ministry of Mining, has recently established a regulatory framework to oversee the valuation of mineral resources and collection, custody and reporting of solid minerals and sub-soil assets. The registering of sub-soil and mineral resources is in its early stage of process.

On the contrary, there is no substantive evidence of meaningful actions on the part of OAGF requiring all budgetary units and public corporations and parastatal companies with FGN minority or majority shareholding position to report in a uniform template and timely manner the value of FGN investment returns in conformity with the national (accrual) accounting policies and standards.

PI-13 Debt management

138. **This indicator assesses the management of domestic and foreign debt and explicit guarantees of the Federal Government of Nigeria**. It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective arrangements. For the purpose of this indicator, debt refers to FGN debt - both domestic and external - except for the state government external debt, because by law it is contracted by the Federal Government and on-lent to the states. Monitoring of debt contracted by local authorities and state enterprises is considered under PI-10: Fiscal risk reporting. The period assessed for 13.1 is at the time of assessment (December 31, 2018); for 13.2 the last completed fiscal year (2017) and for 13.3 at the time of assessment with reference to the last three completed fiscal years (2015, 2016 and 2017).

Indicator/Dimensions	Scores	Explanation
PI-13 Debt management.	**B+**	**Overall rating based on M2 methodology.**

[35] IPSAS Guidelines for Recognition, Measurement and Disclosure of Legacy Assets of Government, issued by FAAC Sub-Committee on IPSAS Implementation, Office of the Accountant General of the Federation, Federal Ministry of Finance, November 2018.
[36] See "Improving Transparency and Governance for Value Optimization in Nigeria's Mining Sector", by NEITI-Trust Africa, NEITI Occasional Paper Series, Issue 4, February 2019.

Indicator/Dimensions	Scores	Explanation
13.1 Recording and reporting of debt and guarantees.	B	Federal government debt records are complete, accurate, updated, reconciled, and published quarterly. A debt sustainability analysis (LIC-DSA) is conducted by the Federal Debt Management Office and presented to the National Assembly annually, except for arrears and fiscal risks.
13.2 Approval of debt and guarantees.	A	The Constitution, and the Public Debt Management Act, require approval of, and reporting on all government debt and explicit guarantees through the Minister for Finance.
13.3 Debt management strategy.	B	A debt management strategy for 2016-2019 has been developed, but annual reporting against debt management objectives is not provided to the National Assembly. While annual borrowing limits for external and domestic debt issuance are approved as part of the budget process, details of the annual borrowing plan are not released and approved together with the Federal budget. Due to systemic revenue shortfalls, there are systemic differences between the planned deficit financing requirements (budget issue) and actual debt issuance.

13.1 Recording and reporting of debt and guarantees

139. **The Debt Management Office (DMO) is accountable to maintain a reliable database of all loans taken or explicit guarantees by the Federal Government and external debt of States Governments.** On a quarterly basis, the DMO publishes debt stock, debt servicing, as well as debt issuance details and its associated quarterly calendar. Annual reports provide detailed information on an annual basis on FGN and total public debt, debt service, and operations. CS-DRMS software is used for recording, monitoring, and accounting for external and domestic debt.

140. **DMO's Annual and Statement of Account Report is delivered to the National Assembly.** Its coverage is comprehensive, comprising of the economic environment, an appraisal of the debt management strategy, disaggregated information of external and domestic debt stock (by instrument, category of holders, maturity) and debt service, with overview of new instruments, a debt sustainability analysis (comprising of baseline, optimistic and pessimistic fiscal policy scenarios), information on sub-national debt management, and risk analysis of FGN total debt (including interest rate risk, refinancing risk, credit risk (of on-lending), and contingent liabilities). The 2018 annual debt report was published by DMO in April 5 2019[37]. Nigeria's Debt Strategy (DMS) and the National Debt Management Framework (NDMF) are elaborated every four and five years and delivered to the general and specialized publics 90 working days after the DMS and

[37] https://www.dmo.gov.ng/debt-profile/total-public-debt

NDMF workshops, respectively. FGN securities and related products are reported monthly and bi-monthly for FGN Bonds and T-Bills. Issuance calendar is regularly available publicly on the DMO website. Hence, **t**he dimension is scored 'B'.

141. **The DMO also assists the States with their debt data recording and reporting.** In this regard, the DMO has provided technical support to all States to set up their own debt management offices. In 2018, in line with its 4th DMO Strategic Plan 2018-2022, subnational debt monitoring has improved by updating the quarterly state reporting template and strengthening subnational debt verification processes; and initiated the fiscal risks monitoring by establishing a contingent liability unit.

13.2 Approval of debt and guarantees

142. **The Constitution of Nigeria (1999) requires the National Assembly to grant legal authority to borrow and issue guarantees.** The Debt Management Office (Establishment, etc.) Act 2003 grants the Federal Minister of Finance authority to borrow, recognizing the Minister as the sole authority for authorizing borrowing. The DMO issues borrowing guidelines ("External and Domestic Borrowing Guidelines for Federal and State Governments and their Agencies with an Appendix on Processes & Control Measures 2012") to federal and state governments (local governments cannot borrow), which cover both external and domestic borrowing. The (currently third) National Debt Management Framework (2018-2022) serves as a reference document, as well as a compendium of Nigeria's key Debt Management Policies, Strategies and Frameworks, to ensure that all government's debt-related transactions (sovereign guarantees) and debt management transactions are conducted in accordance with statutory provisions and regulations and monitored by the DMO.

143. **At the beginning of every financial year, the DMO prepares an annual borrowing plan in coordination with the Federal Government,** covering all domestic and external borrowings. This plan contains indicative amounts and instrument details and should be approved by the National Assembly. However, in the evaluated period that has not been the case. The borrowing plans were not submitted to the NASS together with the budget, instead annual borrowing limits for external and domestic debt issuance are approved as part of the budget process.

144. **The Debt Management Act requires that all external loans contracted are ratified by the National Assembly, in accordance with the Constitution**. All governments (Federal or states) and their agencies can only obtain external loans with the approval of the Federal Minister of Finance and such loans must be supported by Federal Government Guarantee. This includes both commercial and concessional external lending. With no concessional budget support lending available due to inadequate macroeconomic policies, the Federal Government's deficit financing relied on issuance of commercial debt (Eurobonds); their issuance was approved in a piece-meal approach by the NASS. Indicative Eurobond amounts, however, were indicated in the Federal budgets, as 'external deficit financing'.

145. **The issuance of domestic borrowing is more orderly, but the costs increase due to underestimation of budgets.** The issuance of FGN bonds and T-bills calendar is publicly available on a quarterly basis for the forthcoming quarter, at least a month in advance, containing information on instruments and an indicative range of amounts. They require no formal approval by the NASS. The dimension is scored 'A'.

13.3 Debt management strategy

146. **The DMO has a Medium-Term Debt Strategy (MTDS) that covers the 2016-2019 period, guiding the borrowing decisions of the Federal Government of Nigeria.** The scope of the MTDS is the Federal and State Governments' external debts, and Federal Government's domestic debt and financing needs. The MTDS was prepared with the support of the World Bank and IMF and other partners and is structured along the lines of the World Bank/IMF guidance note on MTDS preparation.

147. The debt management strategy articulates targets for the debt portfolio composition (60 percent domestic, 40% external; with a domestic debt mix of 75:25 for long and short-term debts); funding sources (with guidelines to maximize available funding from concessional and semi-concessional external sources); and interest rates and refinancing risks (with targets for share of debt maturing within one year to no more than 20% and average time-to-maturity for the total debt portfolio for a minimum of 10 years). It was approved by the Federal Executive Council and is publicly available on the DMO website, but not reported to the National Assembly. The dimension is scored 'B'.

Ongoing reforms

148. **The cost and risk (refinancing, interest and foreign exchange) profile was analyzed for existing public debt of the Federal Government at the end of 2015 and efforts to update the risk of public indebtedness has been ongoing**. The preferred Debt Strategy 2016-2019 considers combinations of various financing options and instruments relative to the existing financing structure and debt composition. In 2017, the Federal Government started implementing its strategy towards a 40/60 mix of external and domestic borrowing, and towards longer-term domestic debt. The 2018 Federal Government Eurobond issuances totaled US$ 5.4 billion (1.3% of GDP in 2018), driving the share of external debt in total FGN external debt to 30% (27% in 2017).

149. **At present, FGN and DMO remain committed to update the medium-term debt strategy but debt sustainability faces multiple risks,** particularly from very low revenues (as FGN interest payments to revenue ratio remains at around 60%), and exchange rates (as external debt remains evaluated and serviced at the official exchange rate – about 20% percent below the key private sector nominal exchange rate). However, the borrowing plans continue to be approved with delays and significantly after the approval of the Federal budget by the National Assembly. Sustained revenue shortfalls continue to underestimate budget deficits, impeding planning and issuance of the long, and particularly, external financing instruments.

<u>Pillar IV</u>: Policy-based fiscal strategy and budgeting

150. **This pillar assesses whether the fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections**. Policy-based fiscal strategy and budgeting processes enable the government to plan the mobilization and use of resources in line with its fiscal policy and strategy.

PI-14 Macroeconomic and fiscal forecasting

151. **This indicator measures the ability of a country to develop robust macroeconomic and fiscal**

forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It also assesses the government's capacity to estimate the fiscal impact of potential changes in economic circumstances. The first dimension covers the entire economy, while the second and third dimensions cover the central government. The time period assessed covers the last three completed fiscal years i.e. 2015, 2016 and 2017.

Indicator/Dimensions	Scores	Explanation
PI-14 Macroeconomic and fiscal forecasting.	**D+**	**Overall rating based on M2 methodology.**
14.1 Macroeconomic forecasts.	C	Multi-year macro-economic forecasts are updated once a year to inform the Fiscal Strategy and final budget formulation, but the underlying assumptions are not clearly explained / documented and not verifiable.
14.2 Fiscal forecasts.	C	Forecasts of fiscal indicators - revenue (by type), aggregate expenditures and budget balances for the budget year and 2 outer years along with underlying assumptions in a summary form - are included in the budget proposed to the legislature. The comparative budget data, however, is not fully provided; explanation of the main differences from the previous year's forecast is not included. Medium term fiscal projections are not binding.
14.3 Macro-fiscal sensitivity analysis.	D	Fiscal forecasts are not included in the Fiscal Strategy Paper.

152. **The Medium-Term Expenditure Framework (MTEF) and Fiscal Strategy Paper (FSP) is a transparent three-year planning and budget formulation tool prepared by the Budget Office of the Federation** in collaboration with the (broader) MBNP, NNPC and NBS. The MTEF/FSP links policy, planning and budgeting over a medium-term. It consists of the macroeconomic frame that indicates estimates of revenues and expenditures, fiscal targets, risks as well as government financial obligations. In principle, it establishes a basis for allocating public resources to strategic priorities under an overall fiscal discipline framework. The MTEF/FSP is submitted to the National Assembly as part of the annual budget process and is publicly available on the BOF website.

14.1 Macroeconomic forecasts

153. **There is no consistent set of macroeconomic forecasts used across the Federal Government, and its main agencies.** For fiscal purposes, the MNBP macroeconomics department develops key macroeconomic forecasts, however they are not used consistently to formulate individual budget items. For budgeting purposes, the macroeconomic forecasts are updated once a year. For monetary policy, the central bank produces independent forecasts, that are not aligned with those used for fiscal purposes. While the key set of macroeconomic assumptions are published in the MTEF/FSP, they do not systematically underly the fiscal forecasts. The outcome of the forecasts and assumptions is not based on inputs from stakeholder consultations; the final numbers are not reviewed by an entity other than the preparing entity; the

consistency of assumptions across the input providing agencies is not ensured. Hence, the system could be improved by including robust and verifiable macroeconomic projections with clearly explained underlying assumptions to support the development of a predictable and sustainable fiscal strategy. The update of the macro-economic forecasts and assumptions is not published on the BOF website. The dimension is scored 'C'.

14.2 Fiscal forecasts

154. **Forecasts for the main fiscal indicators are prepared under the Medium-Term Fiscal Framework (MTFF) for three years.** A fiscal framework used for preparation of the forecasts covers the current year, the forthcoming budget year and the following two years. The framework includes key macroeconomic assumptions, and comments on global economic developments and implications, medium-term objectives, policies and strategies. Budget documentation includes the macro-economic assumptions for the forthcoming budget year and for the next two subsequent years. This has been the standard in the budget documentation for each of the last three years. Macroeconomic forecasts include the GDP growth (oil and non-oil), inflation, exchange rate, oil price and production and consumption. However, these assumptions tend to lack accuracy; their origins are not explicitly discussed.

155. **The forecasts are presented in the MTEF/FSP (for 2019-2021 on pages 19-22) submitted to the National Assembly and include a breakdown by main economic classification of both revenue, expenditures, fiscal deficit and the budget balance**. However, the underlying fiscal assumptions are not clearly articulated, and their consistency across revenue and expenditure groups is not clear. The revenue forecasts are submitted by individual agencies (NNPC, FIRS, NCS), without a full set of articulated assumptions or forecasting methodology. The previous year's performance, while provided, is not discussed in detail. Differences to the forecasts included in the previous year's budget submission and mid-year reviews for the budget implementation are detailed with a comparison of the completed year's macro-economic assumptions and fiscal targets with the actual outturn. Nevertheless, differences between fiscal forecasts and actual outturn are significant for key variables of the fiscal items i.e. oil revenues; which implies that underlying assumptions should be revised. The forecasts do not take into account the previous year's performance, and thus continue the lack of accuracy in fiscal forecasting (see the discussion of PIs 1-3).

156. **The medium-term fiscal forecasts tend not to be binding.** The 2019-2021 MTEF/FSP, unlike in previous years, provides information on the sectoral ceilings for Ministries, Departments and Agencies (Budgetary units) of government, in order to give impetus to the ongoing drive of the Administration to implement the Economic Recovery and Growth Plan 2017-2020. The dimension is rated 'C'.

14.3 Macro-fiscal sensitivity analysis

157. **Alternative fiscal scenarios are not formulated nor published in the MTEF/FSP; some scenario analyses are included in the DSA.** The MTEF/FSP analyze the risk of different policy assumptions to the medium-term outlook (on chapter 9) but do not assess the sensitivity of fiscal aggregates to macroeconomic conditions affected by alternative scenarios i.e. in global economic trends, international oil market developments, exchange rate risks and non-oil revenue risks.

158. **Some macro-economic forecast scenarios are prepared in the Debt Sustainability Analysis Report (DSA) with quantitative estimates of impact on debt burden, but these are not included annually in budget documentation.** Fiscal forecast scenarios are prepared by the DMO for the DSA. The DSA is prepared annually in conjunction with other government agencies and with technical support from the West African Institute for Financial and Economic Management (WAIFEM). The 2017 (latest available) DSA exercise adopted the updated version of the joint World Bank/IMF Debt Sustainability Framework for Low-Income Countries (DSF-LICs) analytical tool. The revised DSF-LICs was used to assess the country's debt sustainability based on baseline and optimistic scenarios over a 20-year projection period under various assumptions. The macroeconomic assumptions underpinning each scenario are clearly spelt out. Both the upside and downside risks are then included in the DSA, within two scenarios (optimistic and pessimistic) in addition to the baseline scenario. The scenarios are documented in the Annual DSA report which are publicly available on the DMO website. The outcomes of the DSA were used to compare the country's debt sustainability indicators with internationally established debt burden thresholds, which measure the country's solvency and liquidity positions. The scope of data coverage comprised the total public debt of the FGN, total debt of the state governments (external and domestic) and the total debt of the Federal Capital Territory (FCT). The FGN's contingent liabilities and private sector external debts were also included, because of their wider implications for public debt sustainability. The dimension is scored 'D'.

Ongoing reforms

None.

PI-15 Fiscal strategy

159. **This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy**. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the government's fiscal goals. Moreover, it ensures that budget policy decisions align with fiscal targets. The institutional coverage is central government. The time period assessed covers the last three completed fiscal years i.e. 2015, 2016 and 2017 for dimension 15.1 but only the last completed year i.e. 2017 for dimensions 15.2 and 15.3.

Indicator/Dimensions	Scores	Explanation
PI-15 Fiscal strategy.	**C**	**Overall rating based on M2 methodology.**
15.1 Fiscal impact of policy proposals.	D	The fiscal strategy of the Federal Government is described in the MTEF/FSP 2017-2019 (current budget and two following fiscal years) submitted by the BOF/MBNP to the National Assembly and published on the BOF website. However, while potential policy changes are contemplated, the fiscal impact estimates of major revenue and expenditure policy proposals, including any resulting changes in debt and contingent liabilities, are not included in the MTEF/FSP documentation.

Indicator/Dimensions	Scores	Explanation
15.2 Fiscal strategy adoption.	B	Government has prepared elements of a fiscal strategy with qualitative objectives and quantitative [ballpark] ‘targets’ for the forthcoming budget year and the following two years, but: (i) they are not time-based; and (ii) do not explicitly (nor realistically) link fiscal strategy with FRA ceilings (fiscal rules).
15.3 Reporting on fiscal outcomes.	C	FGN publishes Budget Implementation Reports, which summarize the results of fiscal policies on a quarterly basis. The budget reports presented to the legislature contain fiscal outturns for the previous fiscal year but do not provide sufficient analysis for the deviations.

15.1 Fiscal impact of policy proposals

160. **The fiscal strategy of the Federal Government is described in the MTEF/FSP 2017-2019, submitted by the BOF/MBNP to the National Assembly.** The MTEF/FSP is published on rolling/annual basis, based on an established template since the Buhari administration took office. The highlights of the FGN’s fiscal strategy include (a) enhancing economic growth and ensuring inclusiveness; (b) promoting economic diversification; (c) maintaining macroeconomic stability; (d) increasing revenue generation; (e) rebalancing the distribution of Government spending; (f) improving quality of spending; and (g) ensuring sustainable deficit levels. However, the MTEF/FSP only presents the qualitative objectives; of the strategies, but not a specific plan. It does not estimate the fiscal impact of individual or all proposed changes in revenue and expenditure policies for the budget year (nor the following two fiscal years), although it contains high level revenue and expenditure ‘targets’ (which are not documented by a significant analysis and supporting alternative policy scenarios and assumptions).

161. **The overarching macroeconomic policy direction is underlined in the Economic Recovery and Growth Plan (ERGP) 2017-2020 implemented by the MBNP, in coordination within the Federal Government.** ERGP proposes a fiscal policy to increase revenues, optimize public expenditure and manage public debt (ERGP pp. 40-47). The ERGP establishes fiscal targets for revenues, expenditure, overall balance and financing strategies covering the horizon period of the plan, but (as discussed under PI-2, PI-3, and PI-14) they fall short of a conservative approach.

162. **The President’s Budget Speech announces the priorities for the forthcoming year, key budget assumptions, revenues and expenditures estimates, but does not provide a significant analysis on the fiscal impact of proposed changes in revenue and expenditure policy.** Through the breakdown of the 2019 FGN Budget Proposal, the Minister of Budget and National Planning presents the key initiatives to improve revenues and the cost of selected capital projects included in the budget. However, it does not include the recurrent cost associated with new investment projects.

163. **Major new expenditure proposals submitted by budgetary units to MBNP for consideration should be linked to common objectives of the Government in accordance to the Medium Term Sector Strategies (MTSS).** The costing of multi-year projects (of any size) are not explicitly included in the

MTEF.

164. **The 2015-2019 administration improved considerably the articulation of fiscal strategy and its accessibility to public**: the reports, based on standardized templates, are published on the BOF website in timely manner. The targets of some non-oil revenue components were revised downwards to start reflecting the lack of specific revenue reform initiatives. In 2018, the Federal Ministry of Finance (FMF) has prepared (not published) a new Strategic Revenue Growth Initiative (SRGI), articulating detailed revenue administration and minor policy reforms which could be achieved in the short-to-medium term; however, their individual or combined fiscal impact has not (yet) been quantitatively estimated.

165. Overall, as fiscal policy proposals (particularly revenues) during the period evaluated were limited to incremental measures, lacking both costing of the proposed measures and timely implementation, their impact has been limited. As a result, the dimension is scored 'D'.

15.2 Fiscal strategy adoption

166. **The articulated FGN fiscal strategy lacks rigidity during its implementation.** The BOF/MBNP submits the Medium-Term Expenditure Framework/Fiscal Strategy Paper (MTEF/FSP) each year to the National Assembly for the budget year and two following years. Estimates of fiscal aggregates with breakdown of both revenue, expenditure and overall balance and medium-term objectives, policy intentions and strategies are presented in the MTEF/FSP. It is conveyed from the outset that the actual revenue, capex and deficit outturns would deviate from the targets. The medium-term expenditure ceilings are indicative and not binding and can be revised in the following year's MTFF**.**

167. **Fiscal rules exist, but their enforcement is challenging.** Additionally, the Fiscal Responsibility Act (FRA) 2007 sets an overall deficit ceiling of three percent of the GDP for the FGN (however this is applied to budgeted and not actual deficit amounts), creates a sovereign saving fund (Excess Crude Account) with rules for accumulation/disbursement (although there are compliance issues), limits borrowing to capital expenditures [and human development] and proposes to limit federal debt (to amounts specified in the DMO strategy), among other controls. The BOF/MBNP, in the budget implementation reports, assesses the attainment of fiscal targets and qualitative regulations and report on a quarterly basis to the Fiscal Responsibility Council and the Joint Finance Committee of the National Assembly. However, the limited enforcement of the FRA of the Federal Government, leading to limited monitoring of the size of the actual fiscal deficits and therefore creation of borrowing needs at both federal and state governments beyond the budgeted amounts. This dimension is scored 'B'.

15.3 Reporting on fiscal outcomes

168. **FGN fiscal outcomes are reported in two publicly available budget documents: The Budget Implementation Reports (BIR) quarterly, and the Medium-Term Expenditure Framework/Fiscal Strategy Paper (annually).** Despite significant lags in publication (particularly due to delays in budget process/calendar), both sources provide a high-level assessment of budget (expenditure, revenue, deficit/financing) implementation. It compares the actual outturns with the budgeted figures; and provides a high-level explanation of deviations (particularly on revenue, and subsequently capital expenditure and deficit/financing). While the BIR do not explicitly propose corrective actions, there is some (qualitative) link between the assessment of the budget performance and discussion of potential policy actions in the

MTEF/FSP as the latter includes both backward (assessment) and forward (forecasting and policy direction) looking elements. However, (quantitatively) the assessment of actual (particularly revenue) outturns is not analyzed with sufficient rigor when formulating the following year's budget.

169. **Compliance with fiscal rules or revenue saving mechanisms is not adequately monitored.** The level of compliance of the actual outturns with the fiscal rules established in the FRA 2007 are neither reported in official documents nor submitted to the National Assembly on a regular basis. The performance of transfers to and drawdowns from the Excess Crude Account is also not reported nor evaluated accordingly.

170. **The MTEF/FSP submitted by the BOF/MBNP to the National Assembly describes budget performance of the previous year and progress in budget implementation of current year.** It compares, at highly aggregated level, budget revenues and expenditures, as well as macroeconomic assumptions with actual outturns. It also provides high-level reasoning for some deviations from fiscal policy objectives and targets set, however the coverage of the discussion is not sufficiently comprehensive (for instance, not all factors behind revenue shortages are discussed at length, leaving out the political aspects of budget formulation or discretionary deductions from oil revenue by the NNPC). The MTEF/FSP 2019-2021 also reports actual achievements against the debt targets of the Medium-Term Debt Management Strategy 2016-2019.

171. **The Budget Implementation Report (BIR) is published by BOF on a quarterly basis, in collaboration with the National Monitoring and Evaluation Department of MBNP as well as the budgetary units.** While the revenue performance assessment is similarly high-level as in the MTEF/FSP, the BIR gives more detailed information on the distribution of public resources among contending socio-economic needs. BIRs serve as mechanisms through which the FGN budgetary units can be held accountable for the revenue and expenditure that were put in their control, and the realization of objectives of government as contained in the ERGP. In part due to the delayed budget calendar (with capital expenditure implementation spilling over into the following year), the production and publication of BIR are delayed (for instance, in 2019 April only, the latest BIR available on the BOF website is for the Third Quarter of 2018, as the implementation of 2018 FGN capex expenditure is scheduled until June 2019). Its publication is mandated by Section 30 and 50 of the FRA, 2007 to the Joint Finance Committee of the National Assembly and the Fiscal Responsibility Commission.

Ongoing reforms

None.

PI-16 Medium-term perspective in expenditure budgeting

172. **This indicator examines the extent to which expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings.** It also examines the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans. The institutional coverage is budgetary central government. The time period assessed covers the last budget submitted to the National Assembly i.e. the budget for 2019, while including a comparison of this budget submission to the budget submission from

the previous year (2018). The assessment for dimensions 16.1, 16.2, and 16.3 is based on the last budget submitted to the legislature (2019). Dimension 16.4 is based on the last budget submitted to the legislature (2019) and the current budget (2018).

173. **In the Nigerian context, medium term planning is imbedded in the preparation of budgets through the medium-term fiscal framework,** taking into account Medium Term Sector Strategies (MTSSs), with the prioritization guided by the Federal Government Economic Recovery and Growth Plan (ERGP) 2017-2020. It is anchored in the fiscal objectives highlighted in the MTEF/FSP that is published in October, before the Executive Budget Proposal. Noticeably, projects not included in the MTSS can enter the budget.

Indicator/Dimensions	Scores	Explanation
PI-16 Medium-term perspective in expenditure budgeting.	**D**	**Overall rating based on M2 methodology.**
16.1 Medium-term expenditure estimates.	C	The budget for 2019 included estimates of expenditure for the budget year 2019 as well as forward estimates for 2020 and 2021 by economic classification.
16.2 Medium-term expenditure ceilings.	D	The budget call circular for 2019 includes no expenditure ceilings for 2020 and 2021.
16.3 Alignment of strategic plans and medium-term budgets.	D	The majority of sector ministries prepare strategic plans, some of which claim to be costed, but MTEF estimates are not based on expenditure proposals drawn from these strategic plans.
16.4 Consistency of budgets with previous year estimates.	D	The budget documentation provides no comparison of the proposed appropriations with the forward estimates for the same year in the previous year's budget submission.

16.1 Medium-term expenditure estimates

174. **The MTEF/FSP for 2019 provides forward high-level estimates for 2020 and 2021.** This includes Federation and Federal Government revenues and Federal Government expenditure estimates both at aggregate level and main economic categories for the budget year (2019) and 2020-2021. For the first time, Multilateral / Bilateral project-tied loans have been integrated into the 2019-2021 Medium Term Fiscal Framework (MTFF).[38] Forward estimates for Extra-Budgetary Funds and Other Resources are not provided. Medium-term expenditure estimates are not disaggregated either by administrative or by program classification. As a result, this dimension is scored 'C.

[38] The budget coverage has increased to cover the top 9 Government-owned enterprises (excluding NNPC).

16.2 Medium-term expenditure ceilings

175. **The budget call circular for 2019 proposals, issued by BOF/MBNP at the end of October 2018, included ceilings only for capital expenditures for the budget year (2019).** On the recurrent side, budgetary units were required to work within their 2018 expenditure ceilings for the purpose of preparing their 2019 Overhead budget submissions. The budget circular does not require budgetary units to submit estimates for the following two years nor provides ceilings for those years. Consequently, this dimension is scored 'D'.

16.3 Alignment of strategic plans and medium-term budgets

176. **The Federal Government budgeting process includes a series of medium-term sector strategies (MTSS) that intend to link up annual budgets for individual budgetary units to common policy objectives.** The latest MTSS document corresponds to the period 2017-2019, but it is not publicly available and not being adequately integrated to the budget process by the line ministries and the rest of the underlying departments and agencies.

177. **Also, the ERGP 2017-2020 strategies have action plans that break down strategies by activities, sub-activities, and actions.** Multiple strategic plans are linked to ongoing Federal Government programs, all of which are relatively integrated through MDA MTSS plans. These documents have detailed project plans, but these are not costed in the medium-term horizon. As a result, this dimension is scored 'D'.

178. **As described in PI-14.2, the MTEF/FSP is a three-year planning and budget formulation tool used for medium-term fiscal policy, planning and budgeting purposes.** The preparation of the budget estimates for each MDA should take into consideration the policies/strategies contained in the 2019-2021 MTEF/FSP, which outline the development priorities of the Federal Government. The MTEF/FSP estimates aggregated expenditure through a 'top-down' framework to ensure that strategic developmental objectives, as encapsulated in the ERGP 2017-2020, are translated into a budget framework for the medium-term.

179. **The FGN annual budget is prepared using the Zero-Based Budgeting (ZBB) approach and in line with the government's policy thrust as articulated in the ERGP, MTSS, as well as other relevant circulars.**

16.4 Consistency of budgets with previous year estimates

180. **'Budget documents' for this indicator is defined in the same way as for indicator PI-5.** The budget documents provide little or no major explanation of the changes to expenditure estimates between the second year of the last MTEF 2018-2020 and the first year of the current MTEF 2019-2021, neither at the aggregate level nor the ministry level. And as noted previously, the budget documents also did not provide proper explanation for the deviations by economic and/or budgetary units' categories. Hence, the expenditure estimates in the last medium-term budget do not establish a strong basis for the current medium-term budget.

181. As described in PI-14.2, differences for the forecasts included in the previous year's budget submission and mid-year reviews for the budget implementation are shown with a quantitative comparison of the completed year's macro-economic assumptions and fiscal targets with the actual outturn, but there is no evidence showing the implications to the medium term. This dimension is scored 'D'.

Ongoing reforms

None.

PI-17 Budget preparation process

182. **This indicator measures the effectiveness of participation by relevant stakeholders in the budget preparation process, including the political leadership, and whether that participation is orderly and timely.**

Indicator/Dimensions	Scores	Explanation
PI-17 Budget preparation process.	**D+**	**Overall rating based on M2 methodology.**
17.1 Budget calendar.	D	BOF has an internal Budget calendar that changes from year to year and not shared with budgetary units.
17.2 Guidance on budget preparation.	B	Comprehensive and clear budget call circulars (in the form of separate Personnel and Overall budget circulars) are issued to budgetary units with (compulsory) ceilings for one year (none for the subsequent two years) for administrative units. The ceilings for 2018 and 2019 budgets were approved by FEC after the budget circulars have been circulated to budgetary units but prior to completion and submission of budget proposals by budgetary units. The draft budget estimates are also reviewed and approved by FEC.
17.3 Budget submission to the legislature.	D	The executive has submitted the annual budget proposal to the legislature less than one month before the start of the fiscal year in the last completed three fiscal years.

17.1 Budget calendar

183. **The Budget Office of the Federation (BOF) has an internal budget calendar that changes from year to year, but it is for its internal use and not available to budgetary units.** The calendar is not available to guide all stakeholders in the budget process. Even then, the calendar is rather flexible because intervening circumstances do not permit strict adherence to it. The date for issuance of the budget call circular vary from year to year and the date for submission of budget proposals by the budgetary units also vary from year to year. Absence of a fixed binding budget calendar results in late presentation of appropriation Bills before the National Assembly and significant delay in legislative approval.

184. The Executive Order No. 2 of 2017 issued by the Acting President on May 18 2017 provided that 'all agencies shall, on or before the end of July every year, cause to be prepared and submitted to the Minister of Finance and the Minister of Budget and National Planning their annual budget estimates, which shall be derived from the estimates of revenue and expenditure as projected in their three-year schedule'.

The Executive Order was issued to create the framework for a binding budget calendar that will ensure earlier presentation of the appropriation bill to National Assembly. Notwithstanding the July deadline for submission of budget estimates as provided in the Executive Order, the presentation of 2018 budget before the National Assembly was delayed as no agency presented its estimates of revenue and expenditure before the end of July 2017.

185. Based on the lessons of the 2018 budget preparation process, the Budget Office in April 2018 resolved to produce a Budget Process Manual (with a fixed binding budget calendar) as a precursor to the presentation of an Organic Budget Bill to the National Assembly. The Budget Process Manual (which includes the budget calendar) has been drafted but not approved for use and not circulated to all budgetary units to guide the budget process. Therefore, the 2019 budget preparation was not guided by a definite budget manual. The presentation of the 2019 Federal Budget before the National Assembly was delayed as was the case in previous years. The budget calendar in the draft Budget Process Manual is indicated in Table 3.11. This dimension is rated 'D'.

Table 3.11. Unapproved Budget Calendar, 2019

	Activity	Timeline	Responsible Entity
1.0	Strategic Planning and Policy Review.		
1.1	Annual Performance Review/ Public Expenditure Review.	February – April.	MBNP.
1.1.1	Issue concept note for preceding year's Public Expenditure Review by each sector and timetable for completion of process.	February.	MBNP.
1.1.2	Provide technical and quality assurance support to the sectors in preparing PERs; review and consolidate PERs within first half of the month.	February – March.	MBNP/Budgetary units.
1.1.3	Conduct session on outcome of PERs; identify key achievements and challenging / emerging issues, etc. that will inform MTEF/FSP, MTSS/ERGP-IP and budget.	April.	MBNP/Budgetary units.
1.2	Design of the MTEF.	April – June.	MBNP/FMF.
1.2.1	Call for Information and Data on Macro-economic framework, FSP, revenue and expenditure framework, and economic, social and development priorities.	April.	MBNP.
1.2.2	Call for Personnel Details from budgetary units/ Submission of Personnel Details by budgetary units.	April.	MBNP/Budgetary units.
1.2.3	Preparation of draft MTEF.	May.	MBNP/FMF.
1.2.4	Hold Stakeholders Consultation on the draft MTEF.	May.	MBNP/FMF.
1.2.5	FEC Consideration of MTEF.	June.	MBNP/FMF.
1.2.6	Presentation of Macro-Economic Framework setting out the macro-economic projections for the next three financial years, and revenue and expenditure framework to NEC.	June.	MBNP/FMF.
1.2.7	Presentation of MTEF to NASS for Review and Approval.	June.	MBNP/FMF.
1.3	Preparation of ERGP-IP/MTSS.	April – June.	MBNP.
2.0	Budget Preparation		

	Activity	Timeline	Responsible Entity
2.1	Call for Personnel Details from budgetary units/Submission of Personnel Details by budgetary units. Issue Budget call circulars to budgetary units.	April. July 1st	MBNP.
2.2	Preparation and Submission of Budget Proposals by budgetary units.	July to August.	Budgetary units.
2.3	Bilateral budget discussions with budgetary units.	August.	Budget Committee.
2.4	Consolidation of Draft Budget.	September.	MBNP.
2.5	FEC review and approval of Executive Budget.	September.	FEC.
2.6	Laying of Budget before a Joint Meeting of the National Assembly.	Not later than first week of October.	President.
2.7	Budget consideration by Committees of the NASS and budget defense by budgetary units.	October – December.	Senate and Federal House of Representatives and budgetary units.
2.8	Passage of the Appropriation Bill by the National Assembly and transmittal to the President.	Second week of December.	Joint Committee of the Whole National Assembly. Clerk of the National Assembly.
2.9	President assents the approved budget.	Last week of December.	President.
3.0	Budget Implementation.		
3.1	Request for work plan from Budgetary units.	December.	MBNP.
3.2	Budgetary units submit work plans to MBNP/FMF.	First Week January	Budgetary units
3.3	Preparation of Expenditure Projection / Cash Flow Forecast.	Second week January.	MBNP/FMF/OAGF/ BPP.
3.4	Budgetary Releases and Implementation.	January – December.	OAGF/ Budgetary units.
4.0	Budget Performance Monitoring.		
4.1	Receive first, second and third quarter budget performance reports from budgetary units.	April, July and October.	Budgetary units.
4.2	Issue consolidated first, second and third quarter budget performance reports.	April, July and October.	MBNP.
4.3	Receive budget performance report for fourth quarter of preceding year.	January.	Budgetary units.
4.4	Issue consolidated (preceding) year's budget performance report.	Last week of January.	MBNP.

Source: Draft Federal Government Budget Process Manual.

17.2 Guidance on budget preparation

186. Budget call circulars (in the form of separate Personnel and Overall Budget Circulars) are issued to budgetary units. The overall budget circular sets out requirements and instructions on how to prepare the overhead and capital budgets, reviews the current year's budget; the framework for the next year's budget (including next three year net revenue and distribution to expenditure heads drawn from MTEF), guidelines for budget preparation, budgetary units ceilings 'which is current year approved budget',

approved prices, preparation tools and systems, guidelines on overhead, Service Wide Votes and capital expenditure particularly to provide adequate justification for all programs and projects as well as linking programs and projects to ERGP. There is a separate personnel budget call circular issued ahead of the overall budget call circular. The personnel circular provides detailed guidance on how to prepare the personnel budget. The circular enumerates the steps that budgetary units must take in preparing their personnel budget proposal. The personnel budget call circulars for 2018 and 2019 budgets were issued on 5 May 2017 and 21 May 2018 respectively; while the overall budget circulars for 2018 and 2019 budgets were issued on 11 August 2017 and 25 October 2018, respectively.

187. Comprehensive and clear budget call circulars (in the form of separate Personnel and Overall budget circulars) are issued to budgetary units with a (compulsory) ceiling for one year (none for the subsequent two years) for administrative units. The ceilings and the MTEF/FSP documents are approved by the FEC at the same time. For the 2018 and 2019 budgets, the approvals by FEC were done after the budget circulars had been circulated to budgetary units but prior to completion and submission of budget proposals by budgetary units. The draft budget estimates are also reviewed and approved by FEC. The dimension is scored 'B'.

17.3 Budget submission to the legislature

188. **In the last three completed fiscal years, the executive has submitted the annual budget proposal to the National Assembly less than two weeks before the start of the fiscal year as indicated in Table 3.12.** Therefore, this dimension is rated 'D'.

Table 3.12. Dates of the Budget to National Assembly

	Budget Estimates Submitted to the National Assembly	Date of Passage by NASS	Date Transmitted to President	Date of Assent by the President
2105 budget	17th December 2014	23rd April 2015	6th May 2015	6th May 2015
2016 budget	22nd December 2015	23rd March 2016	24th March 2016	6th May 2016
2017 budget	14th December 2016	11th May 2016	19th May 2017	12th June 2017

Ongoing reforms

None.

PI-18 Legislative scrutiny of budgets

189. **This indicator assesses the nature and extent of legislative scrutiny of the annual budget.** It considers the extent to which the legislature scrutinizes, debates, and approves the annual budget, including the extent to which the legislature's procedures for scrutiny are well established and respected and the existence of rules for in-year amendments to the budget without ex-ante approval by the legislature.

Indicator/Dimensions	Scores	Explanation
PI-18 Legislative scrutiny of budgets.	**D+**	**Overall rating based on M1 methodology.**
18.1 Scope of budget scrutiny.	B	Both Chambers of National Assembly Scrutinize the MTEF/FSP, fiscal policies, medium-term fiscal forecasts, as well as expenditure and revenue estimates.

Indicator/Dimensions	Scores	Explanation
18.2 Legislative procedures for budget scrutiny.	C	Both Chambers of the National Assembly follow established legislative rules to approve the budget; the rules include first, second and third readings, use of specialized committees, negotiation, and a conference committee for harmonization of different versions. Lacking, however, is the support from a more capable NASS technical unit.
18.3 Timing of budget approval.	D	The legislature has approved the annual budget more than one month to the start of the budget year in the last three completed fiscal years.
18.4 Rules for budget adjustments by the executive.	A	Clear rules exist for in-year budget adjustments by the executive. The executive is not allowed to adjust or amend a budget approved by the National Assembly, any adjustment either by virement or amendment must be done by the National Assembly. The executive did not adjust or modify the 2017 budget and in other years that the executive amended the budgets, the proposals for amendment were forwarded to NASS for review and approval as provided in the Constitution, and Senate and House of Representative Standing Orders.

18.1 Scope of budget scrutiny

190. **Both chambers of the National Assembly scrutinize the fiscal strategy paper/MTEF documentation, fiscal policies, medium-term fiscal forecasts, and revenue, and expenditure budget estimates.** The President presents the budget to the two chambers in a joint session, with the summaries and detailed expenditure schedules for budgetary units. Prior to presentation of the budget, the President would have sent the Medium Term Expenditure Framework (MTEF) / Fiscal Strategy Paper (FSP) to the Legislature for consideration.[39] The FSP contains details of the government's fiscal policy, projected macroeconomic aggregates (including projected GDP, inflation, exchange rate, and crude oil price), debt service, growth policy and focus, medium term fiscal framework, projected revenue share of the three tiers of government, and projected expenditure ceilings along the main economic classifications.[40] The Legislature scrutinizes both documents, often making adjustments to both the budget reference price for oil and the detailed budget schedules. In recent years there has been habitual prolongation in the scrutinizing of the budget; the legislative does not deliberate the budget with sufficient rigor - attributed mainly to the lack of a technical unit / working group in the House Appropriation Committee, the low engagement of sub-committees on certain chapters of the budget, and the lack of budget evaluation reports and performance audit reports.

191. **The Legislature scrutinizes both the annual budget/MTEF and the FSP, often making adjustments to both the budget benchmark price for crude oil and the detailed budget schedules**. The Legislature, while approving the 2017 Federal Budget, changed the benchmark price for crude oil from US$42.5 to US$44.5. The increase in the benchmark price for crude oil resulted in an increase of the budget size from N7.288 trillion to N7.442 trillion. Adjustments in the benchmark price of crude oil are a major

[39]*Section 11(1)b* of the Fiscal Responsibility Act requires the President to forward the MTEF/FSP document to the National Assembly, not later than four months to the end of the year
[40]Sample of the fiscal strategy paper is available on www.budgetoffice.gov.ng

factor for the high deviation in revenue outturn as indicated in PI-3. The medium-term sector strategies prepared by spending budgetary units and planned outputs and outcomes are not part of the documents forwarded to Legislature for review. The dimension is scored 'B'.

18.2 Legislative procedures for budget scrutiny

192. **The 1999 Constitution** provides that no moneys shall be withdrawn from the Consolidated Revenue Fund of the Federation except to meet expenditure that is charged upon the Fund by the Constitution or where the issue of those moneys has been authorized by an Appropriation Act[41]. The President shall cause to be prepared and laid before each House of the National Assembly at any time in each financial year estimates of the revenues and expenditure of the Federation for the next following financial year[42].

193. **Section 92 of the Senate Standing Orders 2011 as Amended, and Section 19 of Standing Orders of the House of Representative provide procedures for review and approval of Money Bill (i.e. Budget**). Both Standing Orders provide that the presentation of the Appropriation Bill shall be deemed as the first reading in each House of the National Assembly, the Committee on Rules and Business shall determine the number of days to be allotted for the second reading (usually between 3 and 6 legislative days). When the bill has been read the second time, the bill shall be committed to the Appropriation Committee. The Appropriation Committee prepares timelines for activities leading to the passage and refers budget estimates of the various budgetary units to Standing Committees (Sub-committees on Appropriation for the purpose of processing of the budget). The Sub-committees invite the budgetary units under their jurisdiction for budget defense and report back to the Appropriation Committee. The Report is presented to the Committee of the whole House known as Committee of Supply.

194. When the Appropriation Bill has passed the Committee of Supply, the Appropriation Committee shall, within three working days, prepare and submit a summary of all amendments agreed by the House (i.e. Senate or House of Representative). On approval by the Appropriation Committee, the presiding officer will move for the third reading of the Bill, the motion of which shall not require to be seconded and shall be decided without amendment or debate. After third reading the procedures for Bill approval shall be followed for the passage of the Appropriation Bill. In the event of a difference between the Senate and House of Representatives on the Appropriation Bill, the Conference Committee of the Senate and House of Representatives shall meet to resolve the differences. The process as described above is used for review and approval of budget proposals in both Houses of National Assembly. Lacking, however, is a resourced NASS technical support unit providing technical guidance and assistance in the various stages and fiscal policy analysis and PFM aspects of the budget approval process within the NASS. Therefore, the dimension is scored 'C'.

18.3 Timing of budget approval

195. The budget approval has not been made on a timely basis; there have been delays noted in the enactment of the budget bill by the legislature (Table 3.12) therefore the dimension is rated 'D'.

[41] Section 80 (2) of 1999 Constitution as Amended
[42] Section 81 (1) 1999 Constitution as Amended

196. **In the previous three assessed years, the budget has been approved by the legislature more than two months to the start of the fiscal year in the last three completed fiscal years and assented to by the President more than 4 months in the three fiscal years**. Table 3.12 shows the timings of submission to the legislature, approval by National Assembly, date of transmission to the President, and assent by the President. This dimension is scored 'D'.

18.4 Rules for budget adjustments by the executive

197. The 1999 Constitution as amended, prohibits expenditure not first appropriated by the National Assembly in an original or supplementary law. Legislative stipulations prohibit virement even within budget lines in the same budgetary unit without prior recourse to the Legislature. The executive did not adjust or modify the 2017 budget, and in other years, for example the 2015 financial year that the executive amended the budget, the proposal for amendment was forwarded to NASS for review and approval as provided in the Constitution, and Senate and House of Representative Standing Orders. Likewise, Omnibus provisions in service wide votes used as means of adjusting the budget allocation without legislative authorization are no longer allowed in service wide vote budget allocation. This dimension is scored 'A'.

Ongoing reforms

None.

<u>Pillar V</u>: Predictability and control in budget execution

198. **This pillar assesses whether the budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended.** Predictable and controlled budget execution is necessary to ensure that revenue is collected and resources are allocated and used as intended by the government and approved by the legislature. Effective management of policy and program implementation requires predictability in the availability of resources when they are needed, and control ensures that policies, regulations, and laws are complied with during the process of budget execution.

PI-19 Revenue Administration

199. **This indicator relates to the entities that administer the Federal Government revenues, which may include tax administration, customs administration, and social security contribution administration**. It also covers agencies administering revenues from other significant sources such as natural resources extraction. These may include public corporations that operate as regulators and holding companies for government interests. In such cases, the assessment will require information to be collected from entities outside the government sector. The indicator assesses the procedures used to collect and monitor central government revenues. As social security does not exist in Nigeria, the corresponding contributions are not included in the assessment of this indicator.

Indicator/Dimensions	Scores	Explanation
PI-19 Revenue Administration.	**D+**	**Overall rating based on M2 methodology.**

Indicator/Dimensions	Scores	Explanation
19.1 Rights and obligations for revenue measures.	B	Good level of content and quality of information by the Federal tax authority; access provided to comprehensive and up-to-date information on the main revenue obligation areas and on rights, including redress processes and procedures. For Customs, relevant information published on website.
19.2 Revenue risk management.	C	The Federal tax authority applied approaches that are designed to assessing and prioritizing compliance risks for some revenue streams. No solid evidence has been gathered from the two other largest revenue generating agencies (NNPC and the Customs Authority).
19.3 Revenue audit and investigation.	C	The Federal tax authority undertakes audits and fraud investigations using a tax compliance strategy and audit plans which had proven effective to improve tax collection. It was not possible to gather evidence from NNPC and Customs.
19.4 Revenue arrears monitoring.	D*	The stock of revenue arrears at the end of the last completed fiscal year (2017) for the Federal tax authority alone is 39.21%, of the total revenue collection for the year and the revenue arrears older than 12 months are 68% of total revenue arrears. When adding the oil royalties in arrears assessed within the Nigeria petroleum company, the stock of revenue arrears exceeded 40% of total revenue collection for 2017. It was not possible to gather evidence from the Federal customs authority.

19.1. Rights and obligations for revenue measures

200. **This indicator reviews tax and customs revenue authorities.** The amount and quality of information availed through the FIRS (Federal Inland Revenue Service) website is generally high. Rights and procedures are clearly described as well as legal disposals and rules and access to the website, for example to apply for e-registration (TIN registration, e-filing, e-tax payment, etc.). The website (https://www.firs.gov.ng) has been significantly innovated and FIRS received an award for that as a result, with the latest updates made in January 2019. Also, information is posted by customs authorities, such as rules and penalties and clearly defined in the website of the Customs Office (https://www.customs.gov.ng).

Table 3.13. Total Revenue Collection by the FIRS (in billions of Naira) 1/

	2015	2016	2017
Total tax revenue collections	3,737.40	3,307.40	4,017.20
Corporate Income tax (CIT)	1,269.00	933.50	1,215.10
Value-added Tax (VAT) - gross domestic collections	597.40	650.30	770.40
Value-added Tax (VAT) - collected on imports	169.90	177.90	202.00
Value-added Tax (VAT) - refunds approved and paid	- 4.40	- 0.10	- 12.90
Other domestic taxes 2/	1,648.10	1,486.30	1,735.00
Personal Income Tax (PIT)	57.40	59.50	107.70

Source: FIRS. 1/ Add a note includes Federation and FGN revenues collected by FIRS. 2/ Includes PPT.

201. **The FIRS is conducting a vigorous tax education and communication campaign**, as shown in the website and official documents analyzed. This is intended to remind everybody about the importance of collecting more revenue from non-oil taxes and levies, promote the fight against tax fraud, and simplify and raise awareness of the procedures available for small taxpayers, e.g., for VAT. Other evidence and records from seminars and meetings indicate the FIRS is making efforts to raise awareness for companies, professional accountants, and chambers of commerce not only on the tax obligations and rights, but also of the risks incurred by fraudsters. These actions are documented in articles on the website and advertising on radio, TV and newspapers. FIRS has also kept corporate taxpayers abreast of any tax updates and procedural guidelines (for example, PPT, CIT, VAT, education tax) in an effort to improve tax collections, FIRS has facilitated taxpayers with easy payment options. Tax procedures, process and forms for registration and payment are available online at the FIRS website.[43] Moreover, the FIRS also allows big corporate taxpayers to self-assess at the beginning of the tax year and pay their tax liability in 12 monthly instalments.

202. **The data analyzed reveals that the major tax/customs tariffs laws and procedures are comprehensive and clear**. In 2012, the Federal Ministry of Finance in collaboration with FIRS and SIRSs, pioneered the National Tax Policy (NTP). The NTP was developed as part of the efforts of government to entrench a robust and efficient tax system in Nigeria. The NTP defines tax as 'a financial charge or levy imposed upon an individual or legal entity by a state or a legal entity of a state, it is a pecuniary burden laid upon individuals' and entities to support government expenditure'. The NTP serves as a tool for national economic development. The NTP was reviewed and updated in 2016.

203. The above, however, has not yielded high gains of tax efficiency. In 2017, only 63% of the budgeted amount of non-oil revenues was collected and only 54% of the budgeted VAT amount. The lack of accuracy in the forecasts does not explain the whole gap.

204. **Concerning tax administration, Nigeria has a robust body of laws that provides for the system of levying of taxes.** The following are the existing tax laws in Nigeria:

- Associated Gas Re-Injection Act
- Capital Gains Tax Act
- Companies Income Tax Act

[43] https://www.firs.gov.ng

- Deep Offshore and Inland Basin Production Sharing Contracts Act
- Tertiary Education Trust Fund Act
- Federal Inland Revenue Service (Establishment) Act
- Income Tax (Authorised Communications) Act
- Industrial Development (Income Tax Relief) Act
- Industrial Inspectorate Act
- National Information Technology Development Act
- Nigerian Export Processing Zones Act
- Nigeria LNG (Fiscal Incentive Guarantees and Assurances) Act
- Oil and Gas Export Free Zones Act
- Personal Income Tax Act
- Petroleum Profits Tax Act
- Value Added Tax Act
- Stamp Duties Act
- Taxes and Levies (Approved List for Collection) Act
- Casino Act

As for the procedures to be followed in seeking redress, the Federal Inland Revenue Service Act of 2007 established the Tax Appeal Tribunal (TAT). Accordingly, TAT adjudicates on all tax disputes arising from operations of federally collectible tax law. Information about Tax Appeal Courts is given on www.tat.gov.ng or via FIRS website. Taxpayers can also appeal at the judicial level after decisions by the administrative review or TAT.

205. **Concerning Customs, the rights and obligations of importers and other service users are described on Nigeria's Customs Service (NCS) website, though less visibly than those published by FIRS**. These include information on trade tariffs and excise duties, as well as complaints mechanism and reporting of smuggling. Major educational campaigns have taken place through local media, including risks of fraudulent activity and bribery.

206. **In regard to the Nigerian National Petroleum Corporation (NNPC)** there are no concerns about information on rights and obligations as these are published to the business sector and the public in general on its website www.nnpcgroup.com. Likewise, some relevant information on transparency in the oil industry can be found through the website of NEITI (Nigeria Extraction Industries Transparency Initiative), www.neiti.gov.ng.

Table 3.14. Net distribution of major domestic revenues, 2017

	(In billions of ₦)	**%**
FIRS receipts, net	2,325.848	57,51%
NCS receipts, net	584.024	14,44%
NNPC receipts, net	1,134.145	28,05%
Total	4,044,017	100.00%

Source: 2017 execution of Federal Accounts ("net distributable federation account revenue"), OAGF.

207. Considering the amount and quality of information availed by the revenue collection authorities, especially the FIRS, which represents 57.51% of total domestic revenues (Table 3.14) and the ease of access by the public to comprehensive and up-to-date information and existing redress processes and procedures, this dimension is scored 'B'.

19.2. Revenue risk management

208. **Amongst the salient features of tax administration in Nigeria is the requirement of nationals and foreigners domiciled in Nigeria to exercise their rights and obligations to the national tax system under the Unique Taxpayer Identification Number (UTIN) system**. UTIN is a unique number issued to individuals or companies to identify them as officially registered taxpayers in Nigeria, which links corporate taxpayers to business registration by the Corporate Affairs Commission (CAC). Other linkages have been identified and programmed for implementation with the ITAS project. The development of TIN registration is a major improvement factor, although a considerable amount of data is missing or inaccurate and not up to date, according to the TADAT assessment report of May 2018.

209. **According to FIRS, there is certain selected criteria being used for monitoring risks associated with selected large taxpayers**. IMF has recommended that the scope of risks is further broadened: "A stronger focus on large taxpayers would help sustain revenue collection and move beyond reliance on one-off improvements, such as last July's nine-month tax (IMF Article IV review 2018)".

FIRS began to introduce and implement elements of risk management. It drafted a compliance improvement plan, displayed willingness to submit to earn external expertise and adopt tax administration diagnostic tools, such as TADAT, and attempted to target potential defaulters by sector, as reported in its 2019 activity/report action plan.

210. As far as FIRS is concerned, the data analyzed indicates that entities collecting the majority of domestic revenues use a partially structured approach for prioritizing compliance risks for some categories

of revenue only aimed at targeting the large taxpayers. When assessing the stock of revenue arrears of FIRS, the result of the dimension is a score of ‘C’.

19.3. Revenue audit and investigation

211. **The analysis of evidence shows that entities collecting the majority of government revenue undertake audits and fraud investigations using a compliance performance improvement plan and complete the majority of planned audits and investigations**. As for tax audit and investigations, FIRS does perform audits and fraud investigations. According to the FIRS Directorate of Tax Audit, the results for 2017 reveal a turnout of 1,954 audit reports submitted and 1,686 assessments done, with only N46 billion collected. The modest performance in 2017 is explained by a reform process between 2016 and the early part of 2017, and during that period tax audit slowed down a great deal. The collections in 2017 were minimal due to the lull in tax audit. On the contrary, the collections in 2018 are partly attributable to the assessments raised in 2017 and some new preemptive initiatives introduced by Management to ensure compliance by taxpayers, such as placing a lien on defaulting taxpayer bank accounts and posting stickers on business premises of defaulting taxpayers.

212. The table below shows a rapid increase in the number of tax audits and assessments completed in 2018, thus helping the effort to raise the amount of tax collections. In 2018, a total of 2,291 reports were produced (against the 2,323 planned for the year) along with 2,278 assessments; all having a combined impact of raising an additional amount of N213 billion. This amount represents 20% of the N1,119 billion of tax assessments. Hence, by combining the results of the two years (2017 and 2018) and considering the difficulties that the Nigerian economy confronted, the reality is that FIRS has completed the majority of its planned audits and investigations in each period.

Table 3.15. FIRS Compliance Strategy through Tax Audit, end-year

Year	Activity	National Tax Audit (NTA)		Medium-Size Taxpayer Audit (MSTA)		Total	
		Number	Value	Number	Value	Number	Value
2017	Number of Tax Audit report submitted	882		901		1,783	
	Number of Review Completed	602		613		1,215	
	Number of Cases sent to Enforcement	N/A		N/A		N/A	
	Number of Tax Audit Assessments raised	602		613		1,215	
	Value of Assessment Raised (Mn. Naira)		1,962,958.3		45,631.9		1,988,590.2
	Value of Tax Audit Collection (Mn. Naira)		44,973.7		1,065.8		46,039.5
2018	Number of Tax Audit reports submitted	1,072		1,251		2,323	
	Number of Reviews Completed	1,097		1,194		2,291	
	Number of Cases sent to Enforcement	380		-		380	
	Number of Tax Audit Assessments raised	1,084		1,194		2,278	
	Value of Assessment Raised (Mn. Naira)		1,067,828.8		50,851.3		1,118,680.1
	Value of Tax Audit Collection (Mn. Naira)		201,112.2		11,680.4		212,792.5

Source: FIRS/Tax Audit Division.

213. Moreover, there is a major role being played by the Office of the Auditor General of the Federation (OAuGF), as mandated by Section 85 of the 1999 Constitution as amended. Accordingly, OAuGF conducts audits and checks and balances within the main revenue agencies, among other activities. A Revenue Directorate is established in the OAuGF with various units specialized in various main revenue agencies, including FIRS, NCS, and NNPC. For the audit of oil and gas revenues, the Oil & Gas Revenue Authority (OGRA) is responsible for auditing the calculation and assessment of Petroleum Profit tax (PPT), royalties, PAYE, VAT, and all taxes that must be paid by oil and gas companies. There is also a dedicated audit division responsible for customs revenue. Despite the absence of revenue audit information in NCS data and NNPC, this dimension is scored ‘C’ since FIRS represents the majority of planned audits and investigations completed.

19.4. Revenue arrears monitoring

214. **Annual reports indicate that the stock of FIRS revenue arrears at the end of 2017 does not form part of the accrual general accounts, but is domiciled in an auxiliary accounting ledger**. As accrual accounts data have not been completely implemented, the amount of non-paid tax receivables does not appear in the general accounts. In the 2017 receivables accounts (NCOA code 310 601/310 604 note 26), the evidence showed total arrears in the amount of only N149 billion~~,~~ which includes mainly non-tax revenues not collected by universities, hospitals, libraries and many other budgetary entities. As a result, state legislatures and citizens cannot be properly informed since tax arrears due to the Treasury are not accounted for as receivables in the financial statements, and there are no provisions for bad debts.

For revenue collected by FIRS, the stock of tax arrears equals an amount of N1,579,317,622,974 equivalent to 39.2% of the total revenue collection for the year. This is below threshold to score ‘C’, according to the

PEFA Scoring Framework. This percentage reduced to 16.8% in 2018, partly because of the increase in revenue. The revenue arrears older than 12 months in 2017 are 68% of total revenue arrears, a bit below the PEFA threshold of 70%.

215. To collect tax arrears, FIRS set up a tax compliance policy and monitoring tools. During a site visit to the GIFMIS Project Office, the assessors had the opportunity to test the effectiveness of the system of automatic collection of payments made to companies or individuals for debts with the Federal Government, including taxes. Nevertheless, the clearance of files was not based only on spontaneous collection of taxes; thus there was need for an amnesty period that ran from 1 July 2017 to 31 March 2018, to motivate tax payers in arrears from 2011 to 2016 to come forward and pay up and receive waivers of penalties, interest payments and criminal prosecution. This scheme was known as the Voluntary Asset and Income Declaration Scheme (VAIDS) effective July 1, 2017, mandated by Executive Order No.4 of June 29, 2017. The short-term results were obvious with a N5.32 trillion collected by FIRS in 2018 (N2.467 trillion for non-oil tax revenues), which is a significant improvement.

216. As noted in the preliminary findings of the annual audit of financial statements of 2017, NNPC has built a stock of oil royalties in arrears for 2017 for an amount equivalent to more than 10% of total oil-related revenues generated in 2017.

217. As for the transfer of non-tax revenue collections, concerns persist about NNPC remittances being paid to the TSA from domestic crude oil sales, as noted by the OAuGF. The audit report of 2016 states "It was observed from the examination of the NNPC report to Technical Sub-Committee of Federation Account Allocation Committee (FAAC) meeting held in December 2016 that a cumulative total of N4,076,548,336,750 remained unremitted to the Federation Account by NNPC, as at 31 December 2016, page 59". The unremitted FAAC balance increased throughout the year, with an initial (arrears) balance amounting N3,878,955,039,856 as of 1 January 2016. From interviews with OAuGF officials, these affirmed that oil royalties in arrears built in 2017 , when combining with FIRS revenue arrears, amount to having exceeded the 40% of total combined revenues collected by FIRS and NNPC as of end 2017. Assessors, nonetheless, observed data available is not sufficiently reliable to assess. For these reasons the dimension is scored 'D*'.

Ongoing reforms

218. Actual efforts are well underway to promote reform and performance and to improve tax compliance, as shown by the outreach campaigns conducted by FIRS, or by the acceptance of the critical view from external expertise with the May 2018 TADAT assessment. Reportedly, a Steering Committee has been established within FIRS to follow up on the conclusions and recommendations made in the TADAT assessment and further actions are expected to take place.

219. FIRS authorities also continue in their effort to upgrade IT procedures through SIGTAS (Standard Integrated Government Tax Administration System) and web applications to facilitate tax registration and collect up-to-date taxpayer information. FIRS is currently undertaking new measures to improve ease of payment for taxpayers. Tax procedures, process and forms for registration and payment have been made available online at the FIRS website and other work in progress shows that the FIRS is allowing big corporate taxpayers to self-assess at the beginning of the tax year and pay their tax liability in 12 monthly instalments. Other measures are also underway to simplify record keeping arrangements for small taxpayers.

220. Also, the integration of SIGTAS and Automated System for Customs Data (ASYCUDA) applications to GIFMIS is a work in progress, as part of the GIFMIS agenda for the coming years. This will enable the automation of tax arrears registering to accounts receivables, among other benefits.

221. Tax audit also has undergone a reform process that started in 2016, but slowed in the first half of 2017. As a result, the impact in the increase of collections in 2017 was minimal. Only after the introduction of the VAIDS did the reform process gain momentum and reform activities in tax audit picked up, which accounted for the impressive amounts of assessments raised in 2018. The collections in 2018 are consequently attributable to the assessments raised in 2017 and some other initiatives introduced to ensure compliance by taxpayers, mainly improvement in enforcement activities. The objective of tax audit reform has been to ensure a more transparent tax audit process where checks and balances are introduced into the process. According to the FIRS Tax Audit Department, there is now a policy in force in that "no office commences and concludes a tax audit case all by itself".

222. Also, an anti-fraud policy has just been introduced by FIRS management, now at a nascent stage, consisting of a host of risks analysis tools, internal controls, and some crosschecking of data, as well as a more ambitious audit program.

223. Another ongoing reform within FIRS consists of the new measures being developed to improve ease of payment for taxpayers. Tax procedures, process and forms for registration and payment have been made available online at the FIRS website; and other work in progress shows that the FIRS is allowing big corporate taxpayers to self-assess at the beginning of the tax year and pay their tax liability in 12 monthly instalments. Other measures are also underway to simplify record keeping arrangements for small taxpayers.

PI-20 Accounting for revenue

224. This indicator assesses procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling tax revenue accounts. It covers both tax and nontax revenues collected by the Federal Government.

Indicator/Dimensions	Scores	Explanation
PI-20 Accounting for revenue.	**C+**	**Overall rating based on M1 methodology.**
20.1 Information on tax and non-tax revenue.	A	OAGF at the Federal Ministry of Finance (FMF) gathers the majority of revenue data, broken down by revenue type, at least monthly, from entities collecting most Federal government revenue.
20.2 Transfer of revenue collections.	B	Tax and customs authorities transfer their collections directly to TSA/Consolidated Revenue Fund sub-accounts within CBN on a daily basis. Collections equivalent to 72% of total domestic revenues paid through TSA have been made in adherence to the prescribed rules and requirements –NNPC does not apply all the same rules, but from data gathered through OAGF, the analysis reveals that NNPC remittances to Treasury takes place at least every two weeks.
20.3 Revenue accounts reconciliation.	C	A revenue accounts reconciliation is conducted by OAGF jointly with CBN on a monthly basis. The main revenue generating agencies meet with CBN to reconcile revenue collection for the previous month. Tax arrears, however, are not considered in the revenue accounts reconciliation.

20.1. Information on revenue collections

225. The OAGF has the capacity to access revenue data, at least monthly, from all entities collecting Federal Government revenue, which is captured through the CBN-hosted Treasury Single Account system. This normally allows for accurate and timely reporting on revenue collection. Each month, after reconciliation with revenue generating agencies and CBN, a table entitled “Analysis of Revenue Accrued to the Federation Account” is produced by the OAGF Directorate of Funds.

226. There is also a table prepared by the OAGF titled “Summary of Federally Collected Revenue”, updated every month with aggregation until the end of the year. There is only concern about the figures of revenue computed and transferred by NNPC, as explained in the 2016 accounts report of OAuGF, and the failure to present a disclosure of receipts and the various deductions computed - this, however, does not affect the overall completeness of OAGF reporting of domestic revenues collected.[44]

227. As a result, all domestic revenues appear to be included and this dimension is consequently scored ‘A’.

20.2. Transfer of revenue collections

228. The main area of progress on this point lies in the successful implementation of the Treasury Single Account, initiated in 2012. It now covers major federal receipts for oil and minerals, taxes, customs, donor funds, internally generated revenues and levies. A 17/05/2017 Federal Treasury Circular (TRY A2 and

[44] Worth noting that the PEFA framework “states revenue data from entities collecting all central government revenue”.

B2/2017 -OAG/CAD/026/V11Y193) detailed for different taxes (WHT-VAT and all revenues accruing to the Federal Government) strict collection conditions.

229. Data is collected and reported through the computerized GIFMIS general ledger system. All taxpayers pay through commercial banks and cleared into Treasury Single Account (TSA), managed under the custody of the Central Bank of Nigeria. All budgetary units were required to comply with the new payment procedures starting July 1, 2017. Each revenue line normally gets a Revenue Reference Number (RRN) and this procedure is supposed to provide guarantees of completeness and reliability of revenue recognition.

230. A reminder was issued on November 7, 2018 under the references TRYA 12 and B 12/2018 and OAGF/CAD/026/V11/324. Contrary to the terms of the presidential directive on the Single Treasury Account, there were still some retentions by commercial banks. One last deadline set on November 19th, 2018 requires tax payments to process through the TSA account under the Treasury policy "All the funds not transferred to TSA at this time will be considered hidden and forfeited". Revenues from FIRS and NCS, which represent 71.95% of total domestic revenues (Table 3.14), are paid to TSA daily in adherence to prescribed rules. Questions arise for NNPC from the Auditor General in that the 2016 accounts present, among others, poor disclosure of oil receipts, deductions being undertaken by NNPC, and discrepancies between the figures of the Accountant General and the FAAC. As a result, this dimension is scored 'B'.

20.3. Revenue accounts reconciliation

231. Data analyzed show that collections from all the payment channels are reconciled against the CBN statements on a daily basis, with the exception of tax payments from foreign countries. The latter revenue accounts are reconciled on a weekly basis. Such a daily process, according to FIRS, "offers the opportunity to confirm the completeness of transaction details received in the FIRS tax portal for the previous week".

232. Evidence gathered from FIRS and OAGF shows that a joint accounts reconciliation process takes place monthly, in concert with CBN, NCS and NNPC. OAGF has to reconcile promptly all collections due to line numbers. Evidence of reconciliation with main revenue generating agencies was submitted to the assessors, namely, a monthly report from CBN signed by stakeholders, from which data used in the OAGF table "Analysis of Revenue Accrued to Federation Account" (Table 3.16) was obtained. However, FIRS and NCS do not complete the computation of revenue arrears as part of the reconciliation process. Hence, the dimension is scored 'C'.

Table 3.16. Analysis of revenue accrued to the Federation Account, as of end-March 2019

	(In Naira)	January	February	March	Total
1	OIL REVENUE				
2	Crude oil upstream	13,424,105,460	27,429,030,957	1,897,218,306	42,750,354,723
3	Excess crude export	-	-	-	-
4	JVC	-	-	-	-
5	Net export	13,424,105,460	27,429,030,957	1,897,218,306	42,750,354,723
6	Export gas receipts	28,175,019,035	26,506,994,725	19,011,190,765	73,693,204,525
7	Excess gas export	-	-	-	-
8		-	-	-	-
9	Net export	28,175,019,035	26,506,994,725	19,011,190,765	73,693,204,525
10	Domestic oil revenue / Miscellaneous	148,440,464,387	167,287,398,485	169,363,265,730	485,091,128,602
11	JVC	91,113,267,828	123,860,751,688	103,575,887,692	318,549,907,207
12	Pre exporting financing cost	11,767,916,667	11,767,916,667	11,767,916,667	35,303,750,000
13	DPR JV Royalty	26,791,998,766	27,421,539,835	26,972,433,142	81,185,971,744
14	FIRS JV PPT	18,767,281,126	2,668,875,713	19,717,984,685	41,154,141,524

	(In Naira)	January	February	March	Total
	FIRS JV CITA	-	1,066,712,220	1,910,633,112	2,977,345,332
15	Miscellaneous receipts	-	-	-	-
16	Net domestic	-	501,602,363	5,418,410,431	5,920,012,795
17	Domestic gas receipt	4,572,844,962	6,345,473,614	5,561,016,785	16,479,335,361
18	FIRS PPT gas	4,572,844,962	-	-	4,572,844,962
19	Transfer to Federation account	41,599,124,495	60,783,101,660	31,887,836,287	134,270,062,442
20	PPT	133,538,539,554	180,318,028,489	133,636,354,599	447,492,922,642
21	Excess PPT	-	-	-	-
	FIRS GV PPT	18,767,281,126	2,668,875,713	19,717,984,685	41,154,141,524
	FIRS PPT gas	4,572,844,962	-	-	-
22	Net PPT	156,878,665,643	182,986,904,201	153,354,339,285	493,219,909,129
23	Royalty (crude oil)	88,691,050,528	75,117,755,276	91,771,983,789	255,580,789,593
24	Excess Royalty (crude oil)	-	-	-	-
	DPR JV Royalty	26,791,989,766	27,421,539,835	26,972,433,142	81,185,962,744
25	Net Royalty crude oil	25,115,483,049,295	102,539,295,110	118,744,416,931	25,336,766,761,336
26	Royalty (gas)	2,534,525,179	2,351,611,072	2,459,329,842	7,345,466,093
27	Excess royalty (gas)	-	-	-	-
28	Net royalty (Gas)	2,534,525,179	2,351,611,072	2,459,329,842	7,345,466,093
29	Rentals	172,727,760	36,151,880	56,263,798	265,143,438
30	Gas flared	8,755,141,527	967,694,848	1,616,428,639	11,339,265,014
31	Miscellaneous oil revenue	581,891,362	458,911,813	404,034,617	1,444,837,792
	Gas sales royalty	1,079,107,187	781,361,063	514,166,574	2,374,634,824
32	SUB-TOTAL	327,084,232,448	350,905,031,648	309,036,815,972	987,026,080,068
33	NON-OIL REVENUE	-	-	-	-
34	Company income tax	56,176,729,079	54,241,137,927	51,732,414,325	162,150,281,331
35	other taxes	38,421,760,523	18,056,148,747	17,672,446,027	74,150,355,297
36	Customs import duty	59,814,945,214	45,142,930,795	52,263,519,433	157,221,395,442
37	Excise duty	12,456,691,024	1,931,898,623	12,633,667,498	27,022,257,144
38	VAT collection	104,468,644,577	96,389,199,431	92,181,503,664	293,039,347,672
39	Customs fees	176,160,628	137,013,977	214,506,405	527,681,009
40	Customs penalty charges	11,407	13,796	19,594	44,797
41	CET (Special levy)	3,647,701,304	4,825,114,672	3,743,625,120	12,216,441,096
	Auction sales	93,160	36,759,469	2,099,370	38,951,999
42	Excess bank charges	8,122,824,938	4,016,635,994	-	12,139,460,932
43	Sub-total	283,285,561,853	224,776,853,431	230,443,801,435	738,506,216,719
44	Grand total	610,369,794,301	575,681,885,079	539,480,617,408	1,725,532,296,787
45	Federation Account only	505,901,149,724	479,292,685,647	447,299,113,743	1,432,492,949,115

Source: OAGF.

Ongoing reforms

233. The Federal Government continues to build on the strengths and successful trajectory of the reforms in TSA and to ensure that the TSA system is fully used for ease of transfer and accounting of other revenue collections, especially those under the responsibility of FGN entities other than FIRS and Customs.

234. The recent formalization of the Treasury Committee is a relevant reform action aimed to ensure monthly reporting of revenues collected and to serve for purposes of reporting and programming of available cash resources for the remainder of the fiscal year.

PI-21 Predictability of in-year resource allocation

235. This indicator assesses the extent to which the Ministry of Finance of the Federation (FMF) can forecast cash commitments and requirements and provides reliable information on the availability of funds to budgetary units for service delivery. The coverage of this indicator is the Budgetary Central Government.

Indicator/Dimensions	Scores	Explanation
PI- 21 Predictability of in-year resource allocation.	**B**	**Overall rating based on M2 methodology.**
21.1 Consolidation of cash balances.	A	The OAGF at FMF maintains the CRF/TSA cash balances in the CBN. The cash resources available from all revenue sub-accounts are identified for all budgetary units and consolidated in the TSA system on a daily basis.
21.2 Cash forecasting and monitoring.	C	The OAGF at FMF prepares an annual cash plan in advance of the relevant fiscal year. Monthly and quarterly plans of actual cash inflows and outflows are not used to update the annual cash plan. They are used to ration available cash resources for issuance of warrants to respective budgetary units to incur expenditure.
21.3 Information on commitment ceilings.	D	Budgetary units are assured of the funding of personnel cost, but they are not provided with reliable information in advance of at least one month on commitment for overhead cost and capital expenditure.
21.4 Significance of in-year budget adjustments.	A	Available evidence indicates that there were no in-year budget adjustments reported in 2017.

21.1 Consolidation of cash balances

236. The Office of the Accountant General of the Federation (OAGF) at the Federal Ministry of Finance (FMF) uses the Treasury Single Account (TSA) in the Central Bank of Nigeria (CBN) to transact government receipts and payments. The implementation of the TSA commenced in April of 2012 with the e-payment component and the e-collection component commenced in January of 2015.

237. All revenues collected from budgetary units are paid directly into the Consolidated Revenue Fund (CRF)/TSA. Revenue collected from extra budgetary agencies and other budgetary units not fully funded through the budget are paid into sub-accounts at CBN, which are linked to TSA. Expenditure of budgetary units for budget execution are drawn from the CRF/TSA. All budgetary units which are fully funded through the budget use the Government Integrated Financial Management Information System (GIFMIS) to process their expenditure on budget execution. Other budgetary units have platforms configured to allow access to funds in their sub-accounts for budget execution. Partially-funded budgetary units use the GIFMIS platform to access the CBN Payment Gateway for the management of their sub-accounts for budget execution. All other budgetary units are registered to use enrolment forms to access the CBN Payment Gateway and their sub-accounts to make expenditure. Also, budgetary units funded through the budget seek approval from OAGF to open sub-accounts linked to the TSA, for expenditure funded outside the budget, e.g. projects and programs funded with grants, counterpart funds of donor-funded projects, etc. The CBN Payment Gateway provides payment reports to budgetary units and enables them to check their TSA sub-accounts balances on-line and real time. Budgetary units can also download daily bank statements from the payment gateway.

238. Revenues generated by budgetary units funded from the Federation Account such as the Nigerian National Petroleum Corporation (NNPC), Nigerian Customs Service (NCS), and the Federal Inland

Revenue Service (FIRS) are paid into the Federation Account at CBN while the Federal Government's independent revenues collected by them are paid into CRF/TSA. The Federal Government's share of Federation Account is transferred into CRF/TSA. Statutory approved cost of collection of the budgetary units are deducted from the Federation Account and paid into their sub-accounts at CBN, which are linked to TSA. These budgetary units also have platforms configured to allow access to funds in their sub-accounts and are registered to use enrolment forms to access the CBN Payment Gateway as well as their sub-accounts.

The main CRF/TSA system links up all sub-accounts for receipts and payments in the CBN. All account balances can be checked on-line and in real time. The balances of the main CRF/TSA and sub-accounts of all budgetary units are identified and consolidated daily. This dimension is scored as 'A'.

21.2 Cash forecasting and monitoring

239. Section 25 of the Fiscal Responsibility Act (FRA), 2007 requires the OAGF to prepare an annual cash plan for each financial year in advance of the financial year setting out projections of monthly cash flows, which shall be revised periodically to reflect actual cash flows. In Section 26 of the Act, the Minister of Finance is required to publish a disbursement schedule derived from the annual cash plan for the purpose of implementing the Appropriation Act, within 30 days of the enactment of the Budget Appropriation Act.

The evidence presented shows that the OAGF in FMF prepares an annual cash plan for the fiscal year at the beginning of the relevant financial year. The revenue and expenditure projections in the cash plan are based on actual data of the year preceding the fiscal year. The projections are not based on the approved revenue and expenditure estimates of the relevant fiscal year. This is because in the last three years the budget of FGN has not been ready at the beginning of the fiscal year. The annual cash plan is sent to the Minister of Budget and National Planning. For the purpose of implementing the budget, a Federal Cash Management Committee has been constituted and headed by the Minister of Finance while the OAGF is a member. There is also a Technical sub-Committee of the Federal Cash Management Committee which undertakes monthly planning of actual cash resources from all sources for the payment of personnel and overhead costs of government as well as quarterly planning of cash resources for the funding of capital expenditure.

The monthly and quarterly plans of actual cash inflows and outflows are not formally used to update the annual cash plan. They are used to ration available cash resources to form the basis for issuance of warrants by the Minister of Finance directly to respective budgetary units to incur expenditure. This dimension is scored 'C'.

21.3 Information on commitment ceilings

240. Personnel cost is processed in the monthly payroll and funded centrally by the OAGF. Therefore, budgetary units are assured of the funding of expenditure on personnel cost. Cash releases for the funding of overhead expenditure are made in the course of the fiscal year but, budgetary units do not have reliable in-year information to plan and commit expenditure on them.

241. Quarterly warrants for capital expenditure are issued by the Minister of Finance (MoF) to the OAGF indicating approved projects and their allocations. The warrants authorize the OAGF to fund the

approved projects based on availability of cash. These are not cash allocations. In order to fund the projects, the OAGF prioritizes and rations available cash and sends mandates to CBN to fund budgetary units. This provides cash backing to the warrants and enables budgetary units to incur expenditure. Budgetary units are informed about availability of funds to commit capital expenditure when warrants are issued by the MoF and cash backing is provided by the OAGF.

In general, budgetary units are assured of the funding of personnel cost, but they are not provided with reliable information in advance on commitment for overhead cost and capital expenditure. Consequently, this dimension is scored 'D'.

21.4 Significance of in-year budget adjustments

242. Available evidence shows that there were no in-year budget adjustments reported in 2017, the last completed year of this assessment. Information provided by the Appropriation Committees of the Senate and House of Representatives of the National Assembly (NASS) indicates that when there is need for adjustments to budget allocations, they are compiled by the Budget Office of the Federation (BOF) and submitted to NASS to approve and amend the Appropriation Act before the expenditure is incurred. The dimension is scored 'A'.

Ongoing reforms

243. As part of reform under the GIFMIS project, budgetary units are being asked to prepare annual cash plans for implementation of their approved annual budgets and enter the plans into GIFMIS. This activity will become a part of the annual budget process. On a monthly and quarterly basis, budgetary units will revise their cash plan to modify the initial cash plan and submit the revised cash plan to OAGF to serve as an update. As required by Section 25 of the Fiscal Responsibility Act, the OAGF shall prepare an annual cash plan detailing the application of funds budget for budgetary units.

PI-22. Expenditure arrears

244. This indicator measures the extent to which there is a stock of arrears, and the extent to which a systemic problems in this regard are being addressed and brought under control.

Indicator/Dimensions	Scores	Explanation
PI-22 Expenditure arrears.	**D**	**Overall rating based on M1 methodology.**
22.1 Stock of expenditure arrears.	D	There is a backlog of expenditure arrears carried over with contractors and payroll amounting to an equivalent of 2.2% of GDP (or 35% of total FGN expenditure) that the Government has recognized and is now clearing. Despite the above, other new expenditure arrears, mostly with contractors, had continued to build up in 2016 and 2017, although in amounts lower than 4% of the total expenditure—those are referred to in the annual financial statements as 'Payables'. Gathering of other 'Payables' such as outstanding VAT refunds, unpaid wage increases, pension arrears, and fuel subsidies is problematic.

Indicator/Dimensions	Scores	Explanation
22.2 Expenditure arrears monitoring.	D	Monitoring of expenditure arrears is hampered by limited data in the books, not available to the public, on the total count of expenditure arrears carried over the years to date. Tools exist to make random requests on expenditure arrears (GIFMIS) but this does not capture the full information, and there is no evidence suggesting such a monitoring is of any use within OAGF or the budgetary units.

22.1. Stock of expenditure arrears

245. **Expenditure arrears refer to accounts payable being reported as part of current liabilities in the annual financial statements of the Federal Government of Nigeria.** Nigerian regulations require that invoices by suppliers/contractors are paid in a timely manner. Accordingly, arrears of expenditure payment begin when the Government fails to pay invoices within 60 days and all contracts shall include terms, specifying that interest accrued for late payment.

Relevant data in the account "payables" (A/P) have been reported in the consolidated statement of financial position since 2016 (NCOA codes 410401 and 410501), along with an explanatory note (number 34 for year 2017). The amount is calculated automatically from the amount of expenses recorded in GIFMIS and not paid on December 31st. Data available shows that the stock of expenditure arrears increased to almost 4% of total expenditures at the end of December 2017, from 3% at the end of December 2016 (Table 3.17).

246. **Noticeably, the amounts of pending VAT refunds are not included in the payables overdue**. According to the TADAT report of 2018, the total VAT refunds paid in 2017 are N12.9 billion over total refund claims worth N14.8 billion. These amounts are considered to have made a minor impact in total arrears.

Table 3.17. Stock of expenditure arrears, end-December 2016 and 2017
(% of total expenditure)

	At December 31, 2016	**At December 31, 2017**
Accounts payables (in billions of Naira)	200	267.8
Total expenditure (in billions of Naira)	7,066	7,124
Expenditure arrears (% of total expenditure)	2.83%	3.76%

Source: OAGF.

Additionally, the assessors had to check the computer chain between Spending Ministries and payments and, also whether the date of recording the invoice was accurate. That would not be the case if the vouchers and invoices would be recorded in GIFMIS some time after the arrival of the invoice in the spending unit. The conclusion is that the GFMIS is capable of capturing the status of invoices entered into the payment system for all expenditures registered by budgetary units with access to the GIFMIS-TSA module.

247. Assessors have also consulted the on-line system GIFMIS, with numerous requests and screenshots on a large number of transactions, using the so called “ageing” feature, which analyses the age of invoices with their main characteristics by spending MDA and object code.

Procedures on the posting, payment and tracking of invoices include the following:

- All the payments out of the Federal Budget for the fiscal year are processed using GIFMIS.
- Payments are made only against purchase orders and other finalized documents of GIFMIS in line with regulations.
- All payments orders are automatically generated from GIFMIS and sent to the designated first approver, together with all the supporting documents.
- The first approver confirms that all payment orders are duly processed and approved. He approver confirms that each payment order has been correctly entered, including the amount, name payee, purchase order, bank account details, chart of accounts code, date, etc.
- Then each payment order is dispatched to the final approver for final verification and electronic submission to the bank for payment.
- After submission the responsible officers of the MDA track the payment by running the appropriate reports on GIFMIS.

All these steps above are defined in the procedures and guidelines dated June 2018, which are designed for the purposes of GIFMIS implementation. The data analyzed shows that the system outgoing payment date is reliable compared to the entry in the MDA. This makes it possible to determine if penalties for delay are due, although their computing is not automatic. On this aspect, the conclusion is that it is not possible to determine the number of invoices received by vendors, in particular those not yet registered in GIFMIS.

248. As for the payroll payment arrears, the accrual accounting rules require that unpaid wages must also be taken into account from the day they are due and authorized by the Public Service Commission. An amount of N471,053,193 is included in the 2017 accounts (NCOA item 41040101), which is very low for the local standards. Assessors had insufficient evidence to question the reliability of this figure which is consistent with the low error correction percentage displayed by IPPIS. However, there is an issue concerning the deadlines for applying to promotions in the quarterly certifications, and their implications on pensionable wages. In some ministries, such as Education, the delays seem important. Although the civil servants’ rights are legitimate, the sums delayed are obviously not accounted in “payables”. As no element is submitted and no payroll audit is available, the assessors consider that unpaid wage increases do not exceed 2% of total expenditure and so do not lead total arrears to exceed the PEFA threshold of 6%.

249. The above does not include outstanding payments not yet cleared from previous years to date in the amount equivalent to 2.2% of GDP (N2.7 trillion). These include expenditure arrears with contractors and salaries being addressed through various forms of payment – the National Assembly approved the payment of arrears in the amount of N1 trillion through 10-year promissory notes[45]. The foregoing evidence justify a score of ‘D’ for the stock of expenditure arrears.

22.2. Expenditure arrears monitoring

250. **The GIFMIS System allows monitoring of payment arrears at any time, on real time basis**, since there is uniformity of computerized business procedures across spending Ministries to maintain a record of invoices. Sampling of expenditure payments arrears was conducted during a visit to the GIFMIS office. It showed that, at any time, OAGF or Ministries can order real time requests in terms of age, type or

[45] IMF Article IV Reviews of 2017 and 2019.

various other composition analysis of the payables, i.e. purchase invoice but also VAT refunds or any other payable. No circular was given to assessors about systematic restitutions to improve payment times but clearly all the tools are available to track and possibly help to reduce payment delays.

251. No systematic surveys are conducted by OAGF to confirm existence and stock of expenditure arrears; while data on the stock and composition of expenditure is generated annually at the end of each fiscal year. Since 2016, its amount is integrated as part of the accrual accounts in the financial statements as Accounts Payables.

Also, GIFMIS does not capture the information on the large backlog of expenditure arrears from previous years referred to above. This inhibits the monitoring of expenditure arrears significantly. Based on the information above, this dimension is scored 'D'.

Ongoing reforms

None.

PI-23. Payroll controls

252. This indicator is concerned with the payroll for public servants only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. Wages for casual labor and discretionary allowances that do not form part of the payroll system are included in the assessment of non-salary internal controls, PI-25.

Indicator/Dimensions	Scores	Explanation
PI-23 Payroll controls.	D	**Overall rating based on M1 methodology.**
23.1 Integration of payroll and personnel records.	D	The integration of payroll and personnel records is problematic in the current stage of IPPIS development, with about one third of total Federal workers being managed under different personnel databases. Moreover, there is no evidence showing that reconciliations are carried out between payroll and personnel data within IPPIS (at least every six months).
23.2 Management of payroll changes.	D	Evidence shows that certain personnel changes are updated on a monthly basis and generally done in time for the following month's payment cycle. Significant retroactive adjustments to personnel awarded with promotions or personnel entering the civil service, however, had taken place outside the central controls of IPPIS on a quarterly and yearly basis, depending on resources available.
23.3 Internal control of payroll.	D	There are initial steps undertaken to establish a segregation of roles and responsibilities within the IPPIS system. Preparation of standard operating procedures (SOPs) is in an initial stage and the effectiveness of commitment controls is severely questioned with so many human resource databases operating in the FGN.

23.4 Payroll audit.	D	There is no evidence of payroll audits undertaken in the last three completed fiscal years.

23.1. Integration of payroll and personnel records

253. Since 2007, with the initial support of the World Bank's Economic Reform and Governance Project, the Federal Government of Nigeria has moved towards a full modernization of human resources and payroll management, the application of which has accelerated in recent years with the Integrated Personnel and Payroll Information System (IPPIS) project being on the top of the PFM reform agenda.

254. IPPIS' main thrust is to enroll into the platform all Federal Government budgetary units that draw personnel costs which are funded from the Consolidated Revenue Fund. As of January 2019, approximately 1.2 million public workers are paid on the budget of the Federation, of which 751,428 are managed by more than 500 budgetary units under the IPPIS process. The FGN payroll system is responsible for payments to Federal workers that are governed under IPPIS and other human resource management systems and control processes - according to OAGF, approximately 400,000 Federal workers are paid outside the IPPIS - half of this comprise of armed forces and half from Universities, Polytechnic Institutes and other agencies and departments from the Ministry of Education. The intention of OAGF authorities is to bring them all into IPPIS by the end of 2019. Until that milestone is achieved, the integration of payroll and personnel records will continue to operate loosely and without assurance of effective internal controls and credible reconciliation outcomes.

255. Due to the above, assessors consider there are conditions are insufficient for ensuring proper reconciliation of the payroll with personnel records that takes place at least every six months. This is partly due , to the payroll on IPPIS procedure (by lack of evidence of scope and frequency), the personnel of budgetary units still out of IPPIS. According to IPPIS officials, however, both refer to the same number of records, varying monthly with new hires and those exiting the system. This dimension is scored as 'D' as one third of Federal Government is operating outside IPPIS without the appropriate guarantee of compliance.

23.2. Management of payroll changes

256. Some payroll changes take place in accordance to a process cycle governed by IPPIS guidelines, usually those pertaining to changes in marital status, home address, family dependents, transfer to other work unit, and other personal information. A cross-checking between each MDA and the Budget Office of the Federation also take places to monitor and ultimately change automatedly the status of all active staff members and staff due to retirement.

257. Other changes, in turn, pertaining to grade reclassification and processing of salary increases for staff being promoted and/or appointed, do not necessarily take effect within the next payroll cycle but updated on a quarterly basis, and in some cases, retroactively with delays that take years. These are planned ahead of the new budget year and forecasts will be required to adhere to the budgetary resources available.

258. For the processing of personnel changes, specified guidelines or standard operating procedures do not accomopany the IPPIS function. These would help staff of budgetary units to manage the processing of personnel changes properly. Available are only the IPPIS User's Manual and training materials with steps required to process payroll changes. The 2016 audit report, nonetheless, observed that against a budget of N.297 billion approved for payroll for the year, the actual payment was N.706 billion, thus resulting in an

excess payment of N.408 billion. In the original annual budget approved, 12 budgetary units had zero allocations for personnel costs and 6 budgetary units that were on the IPPIS were omitted during the consolidation of the 2016 Financial Statements. This demonstrates a considerable amount of changes in payroll taking place outside the central control of IPPIS. For the above reasons, this dimension is scored 'D'.

23.3. Internal control of payroll

259. There are financial regulations and instructions restricting the finance and administration units of budgetary units to effect payroll changes. There are initial efforts by OAGF and budgetary units agreeing on a segregation of roles and responsibilities, and there is no evidence of an audit trail operating within the IPPIS system or other budgetary units operating with other databases outside IPPIS.

260. The current internal control system governing the FGN payroll is characterized as one operating under a cash-based national accounting system - not one that is governed by an accrual-based accounting system. Operating with one or the other tests the effectiveness of commitment controls in the payroll system - in the IPPIS setting, it is unclear why the liability of a salary increase is not created automatically despite a promotion issued by the Public Service Commission or other authorized agents. This violates the very principle of accruals and such an infringement is resulting in the build-up of salary arrears in a system already afflicted by a long history of expenditure arrears. It is also doubtful whether these liabilities are registered as contingent for payment upon resolution reached by both parties. This dimension is scored 'D'.

23.4. Payroll audit

261. There is no evidence of payroll audits that took place in any of the last three completed fiscal years. The dimension is scored 'D'.

Ongoing reforms

262. IPPIS is an ongoing reform effort now making significant strides aimed to integrate the payroll and improve the effectiveness, efficiency and uniformity of payroll administration for all budgetary units. It is managed by the IPPIS Department under the Office of the Accountant-General of the Federation (OAGF) and is responsible for payment of salaries and wages. Budgetary units using IPPIS procedures continue to migrate their employee master data with bank account details into the accounting and expenditure system (GIFMIS).

263. A key element for good public finance management in Nigeria lies in the generalization and efficiency of main IT applications. In his 2018 report on the 2016 accounts, the Auditor General of the Federation insists particularly on this aspect (Page five), by mentioning the current audit on three strategic IT applications: GIFMIS, TSA and IPPIS. The generalization of the IPPIS is obviously the major challenge to secure payroll procedures and limit the costs. A high degree of priority must be given to the completion of the project.

264. The ongoing IPPIS reform underway has not been developed so as to integrate human resources and payroll modules. The documentation analyzed, nonetheless, indicates that this effort does not provide for both a robust IT internal control framework based on risk analysis and training for payroll auditing in a computerized environment. IPPIS reform is complementary to other important topics of modernization and digitization in Nigeria, e.g., Bank Verification Number (BVN), which is very important for Nigerian finance and economy, but also used to make payroll data reliable. There is also no evidence suggesting IPPIS reforms are addressing issues relating to system security.

PI-24 Procurement

265. A large proportion of government spending takes place through procurement management. This indicator examines the effectiveness of the use of public funds in acquiring inputs for, and achieving value for money in service delivery by the government. It focuses on the transparency of arrangements, emphasizes open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements. The indicator measures the procurement of goods, services and civil works at the federal level and excludes those classified in Part III (3.2) of the Procurement Act as special goods, works and services, such as national defense.

Indicator/Dimension (number and name)	Score	Explanation
PI-24 Procurement.	D	**Overall rating based on M2 methodology.**
24.1: Procurement monitoring.	D	The BPP website is not regularly updated with information on procurement plans and contract awards. The information available did not include complete data for the last completed budget year (2017).
24.2: Procurement methods.	D	The BPP's Annual Report for 2017 showed that 1.52% of contracts for which it issued "No Objection" were processed through Open Competition (including publication of procurement opportunities and notification of contract awards), 40% by Selective Method, 54.57% through Direct Selection and 3.86% by Emergency procedures. The report did not include the value, procurement method and name of contractor/supplier/consultant for each contract. Records of contracts approved by the Federal Executive Council included the contract value and name of service provider but not procurement methods used.
24.3: Public access to procurement information.	D	Out of the six criteria, two fully met the requirements: (i) legal and regulatory framework for procurement and (ii) data on resolution of procurement complaints.
24.4: Procurement complaints management.	D	Dimension One is not met – the review body was not independent of the procurement transactions. There is no independent body responsible for the review of procurement complaints. BPP and procuring entities involved in procurement transactions or in the process leading to contract award decisions conducted administrative reviews of procurement complaints. The Act provides for administrative review of procurement complaints by procuring entities and BPP, and resolution by a High Court if the complainant is unsatisfied with the decision of BPP. Dimensions 2 to 6 were met.

Public Procurement Framework

266. As noted in Chapter 2.3, public procurement is governed by the Public Procurement Act of 2007 (PPA). The Act sets the regulatory framework, scope of application, principles, organization, methods, surveillance and review, disposal of public property, code of conduct, offences and miscellaneous. The Act applies to the Federal Government and its agencies or any procurement by any other entity or government in Nigeria of which at least 35% of the amount for funding the procurement will be sourced from the Federal budget. The Act does not apply to special goods, works and services involving national defense or security, except with the approval of the President. The Act established the BPP to regulate procurement operations. A procurement professional cadre has also been established in accordance with the provisions of the Act to oversee procurement management.

267. The Act provides in Section 4.1(4) for open competition as the default method for procurement. Procurement activities valued at N100 million and above for goods, non-consulting services and consulting services and N500 million for works and above require both BPP No Objection and Federal Executive Council approval. Procurements valued at N5 million and above for goods, non-consulting services and consulting services and N10 million and above for works, fall within Ministerial Tenders Board threshold. The Parastatal Tenders Board has a threshold of between N50 million and NGN250 million for goods, non-consulting services and consulting services and between NGN5 million and N250 million for works. The approval threshold for Accounting Officers/Permanent Secretary is less than N5 million for goods, non-consulting services and consulting services and less than N10 million for works.

268. The Bureau of Public Procurement (BPP) was established as the regulatory body in 2007 by the Public Procurement Act 2007. The policy making organ of the regulatory framework is the National Council on Procurement (NCP), which has not been constituted since the enactment of the law in 2007. The functions of the NCP include to: (a) consider, approve and amend the monetary and prior review thresholds for the application of the provisions of the Act by procuring entities; (b) consider and approve policies on public procurement; (c) approve the appointment of the Directors of the Bureau; (d) receive and consider, for approval, the audited accounts of the Bureau of Public Procurement; (e) approve changes in the procurement process to adapt to improvements in modern technology; and (g) give such other directives and perform such other functions as may be necessary to achieve the objectives of the Act.

269. The institutional objectives of BPP are to achieve the following milestones:

(a) the harmonization of existing government policies and practices on public procurement and ensuring probity, accountability and transparency in the procurement process;
(b) the establishment of pricing standards and benchmarks;
(c) ensuring the application of fair, competitive, transparent, value for money standards and practices for the procurement and disposal of public assets and services; and
(d) the attainment of transparency, competitiveness, cost effectiveness and professionalism in the public sector procurement system.

The Bureau: (a) formulates the general policies and guidelines relating to public sector procurement for the approval of the NCP; (b) publicizes and explains the provisions of the Act; (c) subject to thresholds as may be set by the Council, certifies federal procurement prior to the award of contract; (d) supervises the implementation of established procurement policies; (e) monitors the prices of tendered items and keeps a national database of standard prices; (f) publishes the details of major contracts in the procurement journal; (g) publishes paper and electronic editions of the procurement journal and maintains an archival system for the procurement journal; (h) maintains a national database of the particulars and classification and categorization of federal contractors and service providers; (i) collates and maintains in an archival system, all federal procurement plans and information; (j) undertakes procurement research and surveys; (k) organizes training and development programs for procurement professionals; (l) periodically reviews the socioeconomic effect of the policies on procurement and advises the NCP accordingly; (m) prepares and updates standard bidding and contract documents; (n) prevents fraudulent and unfair procurement, and where necessary, applies administrative sanctions; (o) reviews the procurement and award of contract procedures of every entity to which this Act applies; (p) performs procurement audits and submits these reports to the National Assembly bi-annually; (q) introduces, develops, updates and maintains related database and technology; (r) establishes a single internet portal that shall, subject to Section 16 (21) to this Act serve as a primary and definitive source of all information on government procurement containing and displaying all public sector procurement information at all times; and (s) coordinates relevant training programs to build institutional capacity.

270. There is a BPP website and Nigeria Open Contracting Portal (NOCOPO) dashboard but these were not populated with complete procurement data. Only 1.52% of 984 contracts above threshold for which BPP issued No Objection Certificates in 2017 were processed through competition. Documents on the procurement legal and regulatory frameworks were on BPP's website. The 2017 procurement plans for less than 20 out of over 400 budgetary units were published on BPP's website. Contract award information was not published on BPP's website. There was no independent procurement complaints body; BPP and procuring entities who were involved in procurement transactions or in the processes leading to contract award decisions, conducted administrative reviews.

The BPP has two electronic platforms for hosting procurement data. Procurement information is hosted in the agency's website (http://www.bpp.gov.ng). Procurement plans and data on contracts awarded on the BPP's website were not updated regularly. For example, the procurement plans for 2013 to 2016 were not available on the website while the procurement plans for 2017 and 2018 were incomplete. There was incomplete information on http://www.bpp.gov.ng for contracts approved by the Federal Executive Council from March 2015 to May 2017 and those for which BPP issued No Objection from January 2016 to May 2017.

24.1. Procurement Monitoring

271. The BPP recently established the Nigeria Open Contracting Portal, NOCOPO, (http://nocopo.bpp.gov.ng/noc/frmCitizenDashBoard.aspx) as part of Nigeria's membership in the Open Government Partnership, to host information on procurement, including project title, budget code, budget description, budget year, budget amount, procurement method, procurement category, bid document advert end date, prequalification opening date, expression of interest date, bidding period, bid/proposal opening date, contract award date, contractor/supplier/consultant name and contract amount. Data available on the dashboard showed that 266 procurement plans for 2018 have been uploaded, with contract award information included for three of the activities. The Dashboard does not include information on contract management to help understand the efficiency and effectiveness of contract implementation. BPP is conducting training to improve budgetary units' capacity to use the Dashboard. As a result, this dimension is scored 'D'.

24.2. Procurement Methods

272. Information on BPP's databases did not show the procurement methods used for contracts awarded in 2017. For the purposes of the PEFA assessment, the procurement methods and total value of contracts

awarded through competitive methods were assessed based on BPP's annual report for 2017. The procurement plans for 2017 on BPP's website, http://www.bpp.gov.ng, were incomplete. Only a summary of value of procurement for which 'No Objection' was issued was reported in the 2017 annual report; the value per procurement method was not reported (see Table 3.18). This analysis does not include commonly used low value procurement items which form part of non-debt budget expenditure and procurement activities that fall below BPP review thresholds, for which data was not available.

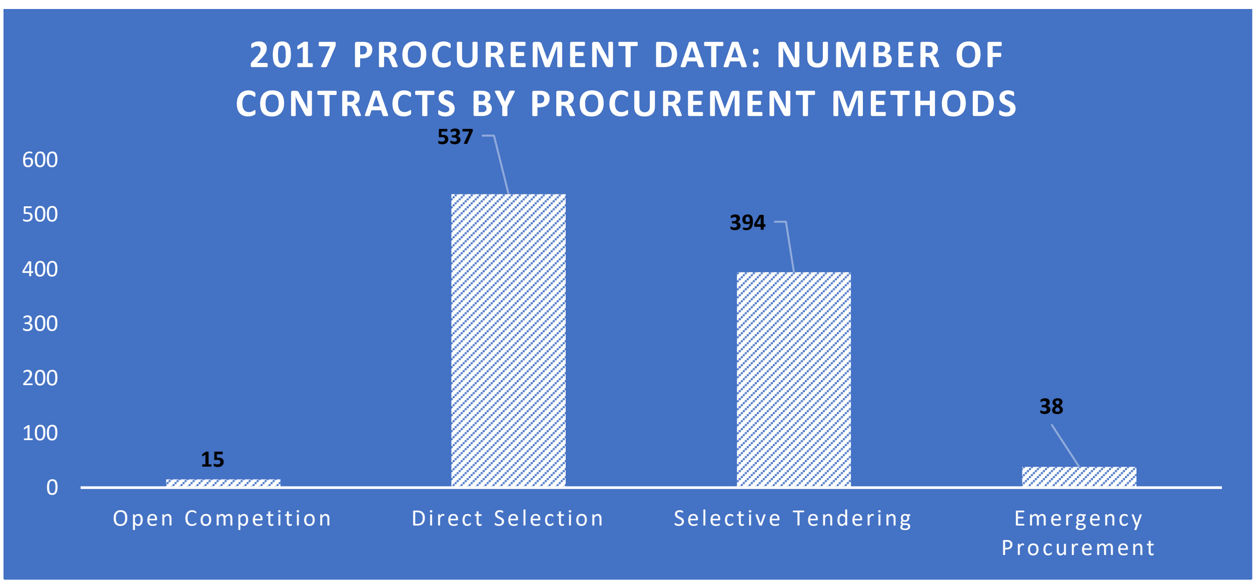
Table 3.18. Value of procurement with no objection, 2017

Procurement Category	Contract Value (NGN' Billion)	Percentage
Works	1,797.8	96.84
Goods	58.4	3.14
Services	0.316	0.02
Total	1,856.52	100

Source: BPP.

The graph below represents the number of contracts awarded by category.

Figure 3.5. Contract awarded, 2017



Score for this dimension PI-24.2 is assessed as a "D".

24.3. Public Access to Procurement Information

267. The following is the status of key procurement information required under Criteria 1-6 to be made available to the public:

(i) Criteria met: Legal and regulatory frameworks for procurement were published (http://www.bpp.gov.ng), including relevant laws, regulations, implementing decrees, procedural guidance and standard procurement documents;

(ii) Criteria not met: Government procurement plans were not published regularly on http://nocopo.bpp.gov.ng/noc/frmCitizenDashBoard.aspx or http://www.bpp.gov.ng;

(iii) Criteria not met: Eligible bidding opportunities were not published at http://www.bpp.gov.ng. However, few publications were made by budgetary units in at least one national newspaper. The last publication by BPP of its own procurement opportunity on its http://www.bpp.gov.ng, an EOI, was in 2012.

(iv) Criteria not met: Contract award information for competitive procurement carried out by budgetary units for goods were not published through http://nocopo.bpp.gov.ng/noc/frmCitizenDashBoard.aspx or http://www.bpp.gov.ng or through national newspapers.

(v) Criteria met: Data on the resolution of procurement complaints was available to the public through http://www.bpp.gov.ng. However, complaints were reviewed through administrative processes by procuring entities and BPP, as provided for by the Act, and not by an independent body, which is the requirement of this assessment; and

(vi) Criteria not met: Annual procurement statistics were not complete or reliable as shown in http://www.bpp.gov.ng. There was no central monitoring and evaluation system to capture all procurement at the federal level. The only data available were for contracts approved by FEC, and those for which BPP issued No Objection.

268. Two of the six criteria for public access to procurement information were met, viz: (i) legal and regulatory framework for procurement and (ii) resolution of procurement complaints. Section 2.1.4(4)(d) of the Public Procurement Act requires that a single internet portal shall be established to serve as a primary and definitive source of all information on government procurement containing and displaying all public-sector procurement information always. Although the BPP had two websites, none were regularly updated with information on public sector procurement. As a result, this dimension is scored ‘D’.

24.4. Procurement Complaints Management

269. Nine steps have been outlined in the Public Procurement Act to resolve procurement complaints. Where any Contractor/Consultant/MDA is not pleased with the outcome of any procurement proceedings either because of a perceived breach or omission of the provisions of the Public Procurement Act 2007, it shall:

Step 1: Make a formal and written complaint to the Accounting Officer of the procuring/disposing entity within fifteen (15) working days from when he became aware of the breach or omission.

Step 2: The Accounting Officer shall review the complaint and communicate the decision on the matter to the complainant within fifteen (15) working days. Reasons shall be given for the decision and the corrective measures to be taken where necessary.

Step 3: If the Accounting Officer fails to decide within the given period or the complainant is not satisfied with the decision, the Act allows the complainant to forward the complaint to the Bureau within ten (10) working days from the date that the decision was communicated.

Step 4: Upon receiving the complaint, the Bureau shall: (a) Notify the procuring entity of the complaint and (b) Suspend any further action by the procuring or disposing entity until the matter is settled.

Step 5: Unless the Bureau dismisses the complaint, it shall further (a) Prohibit the procuring/disposing entity from taking further action, (b) Nullify part or all of the unlawful act or decision of the procuring or disposing entity, (c) Declare or make known the rules and principles governing the subject matter of the complaint, and (d) Reverse any improper decision by the procuring or disposing entity or substitute its own decision for the improper one.

Step 6: The Bureau shall notify all interested bidders of the complaint before taking any decision on the matter and may consider representations from the bidders and the respective procuring or disposing entity.

Step 7: The Bureau shall make its own decision within twenty-one (21) working days after receiving the complaint and shall give the reasons for its decision and the remedies granted if any.

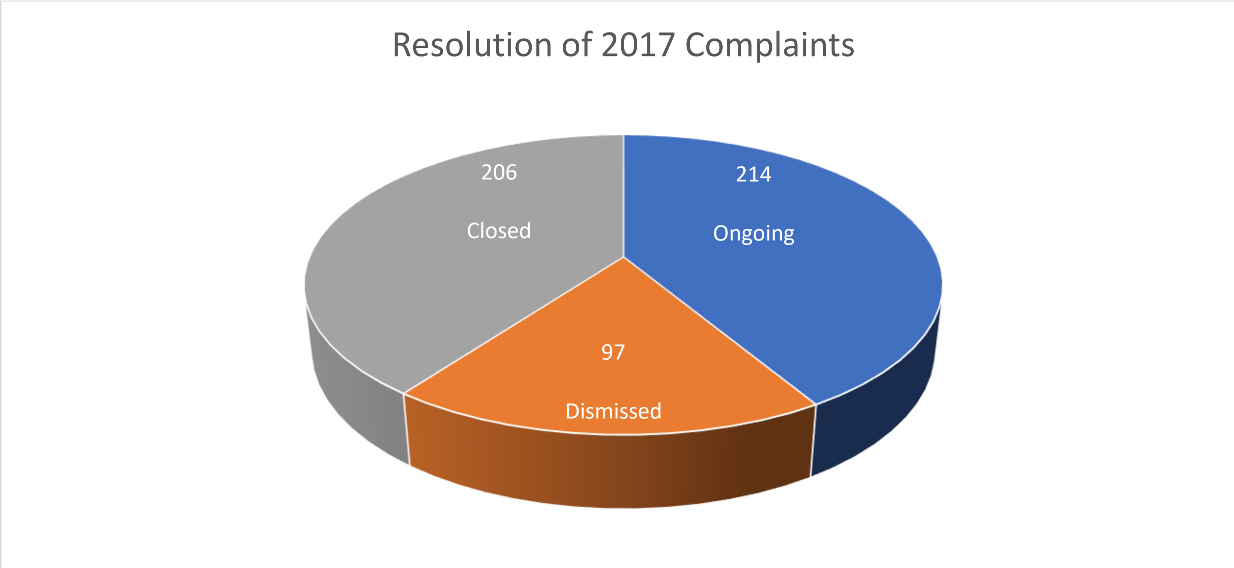
Step 8: If the Bureau fails to make its decision within the given time or if the complainant is not satisfied with the Bureau‘s decision, the complainant may appeal to the Federal High Court within 30 days after receipt of the Bureau s decision or the expiration of the time specified for the Bureau to make a decision.

Step 9: The decision of the Federal High Court shall be final on the matter and no further appeals shall lie.

The above guidance and information on cases handled in 2017 have been published through http://www.bpp.gov.ng. The website had a feedback form that could be completed by any party who felt aggrieved in the procurement process.

The graph below shows the outcome of the resolution of the 517 procurement complaints received in 2017. However, in the absence of the date of receipt and disposal of complaints, respectively, it was not possible to determine the efficiency of the complaints redress mechanism.

Figure 3.6. Outcomes of procurement complaints, 2017



The 206 and 97 cases that were closed and dismissed, respectively, were resolved in favor as follows:

Party	Number of Cases	Percentage
Petitioner	59	19.47
Procuring Entity	178	58.75
Third Party	8	2.64
Rebidding	19	6.27
Debriefing of petitioner	39	12.87
Total	303	100

270. The focus of this assessment is the independence of the procurement complaints review process. Although the reviews followed the provision of the Procurement Act, they did not meet the requirement for this dimension. The administrative reviews were conducted by the procuring entities and BPP, who participated in the contract award decisions; thus, creating conflict of interest situations. The score for this dimension PI-24.4 is assessed at a “D”.

Ongoing reforms

271. The above observed weaknesses are being addressed through several ongoing public procurement reform actions. These include:

(a) Implementation of e-Procurement System: Nigeria is at the preliminary stage of implementing e-Procurement in the seven high-spending federal budgetary units on a pilot basis with support from the World Bank. e-Procurement will minimize human interventions in the procurement process, increase competition and possibly lower unit cost and improve transparency and Efficiency. e-Procurement will institutionalize the provisions of the Procurement Act and procurement regulations and minimize discretionary decisions in procurement implementation. It will minimize rent seeking and reduce corruption in public procurement.

(b) Sustainable procurement capacity building and procurement certification through support from the World Bank and African Development Bank. Improvement in capacity will enhance efficiency in procurement practice and improve sustainable development.

(c) The Federal Government has signed on to the Open Government Partnership and an OGP Action Plan is being implemented. Implementation of the OGP Action Plan, which entails open contracting and beneficial ownership disclosures, will improve transparency and accountability and strengthen social accountability in the use of public resources.

(d) The capacities of BPP and the Supreme Audit Institution are being built to measure public procurement performance and to conduct technical audit.

PI-25 Internal controls on non-salary expenditure

272. **This indicator measures the effectiveness of general internal controls for non-salary expenditures covering expenditure commitments and payments for goods and services and general overhead.** It assesses separation of responsibilities for internal control actions; effectiveness of expenditure commitment controls and level of compliance with expenditure commitment rules and procedures.

273. Given the broad range of internal control processes, the varied nature of non-salary expenditures and the number of people usually involved in the processes, the risks of erroneous and/or inconsistent application and/or misapplication of procedures and controls exist. Compliance with internal control measures is therefore very crucial and must be properly addressed to minimize errors, wastages and potential fraud.

Indicator/Dimensions	Scores	Explanation
PI-25 Internal controls on non-salary expenditure.	**C+**	**Overall rating is based on M2 (AV) methodology.**
25.1 Segregation of duties.	B	Segregation of duties is established in the financial regulations and procedures. Responsibilities are laid down for most key steps while further details may be needed in the operationalization of the segregation of duties.

Indicator/Dimensions	Scores	Explanation
25.2 Effectiveness of expenditure commitment controls.	D	There are documented expenditure commitment control procedures in existence which provide partial coverage for a host of payments items. However, the lack of a GIFMIS payment processing facility within several budgetary units continues to hamper substantially expenditure commitment control effectiveness, and particularly the improvement of financial planning, automation of financial controls, and simplifying, processing and reporting of financial transactions. PI 21.3 confirms that other than personnel costs, MDAs are not provided with reliable information on commitment for overhead costs and capital expenditures.
25.3 Compliance with payment rules and procedures.	D	There are payments that are compliant with regular payment procedures with some of the exceptions properly authorized and justified. However, arrears continue to build up and there is weak monitoring of the buildup of these arrears (see PI 22) and procurement monitoring is weak as only 1.52 % of contracts for which BPP issued "No Objection" were procured through a competitive process (see PI 24).

25.1 Segregation of duties

274. Fundamentally, segregation of duties is an element of the internal control framework aimed at checking excessive power wielding by an employee or group of employees from perpetrating, and or suppressing errors or fraud in the normal course of carrying out their daily duties. Regulations and procedures should therefore ensure that the main incompatible responsibilities in the internal control environment are segregated. Such responsibilities include authorization, recording, custody of assets, and reconciliation or audit.

275. The segregation of duties is prescribed throughout the expenditure process as set out in the Financial Regulations 2009[46] and the Government Integrated Financial Information System (GIFMIS) which prescribes end-user segregation of duties in the expenditure process [47]. Specific responsibilities are clearly identified for the Minister of Finance, Accountant General, Accounting Officer, Sub-Accounting Officer, Officer Controlling Expenditure, Checking Officer and Paying Officer. Officers authorized to sign payment vouchers are not expected to be below the rank of Accountant I or a Senior Executive Officer - (Accounts) whose specimen signatures along with the list of relevant votes chargeable shall be furnished to Internal Checking Section, Internal Audit Unit and the Paying Officer by the Accounting Officer. However, further details and clarification may be needed especially in the area of reconciliation of non-salary expenditure**.** The dimension is therefore scored 'B'.

[46] Chapter 6 (Payment Procedures).
[47] Section 4 (Schedules) of the Guidelines for the implementation of GIFMIS.

25.2 Effectiveness of expenditure commitment controls

276. The Nigerian Constitution (1999, as amended)[48], the Financial Regulations 2009[49], the Public Procurement Act, 2007[50] and Corrupt Practices and Other Related Offences Act, 2003[51] provide the legal framework for commitment controls which interdict expenditure commitments above budgeted amounts. These legal provisions also prohibit virements and award of contracts without cash cover in order to avoid the creation of expenditure arrears.

277. Notwithstanding the documented commitment controls, evidences of infractions exist. For example, the Auditor General's Report (2016) revealed that actual overhead expenditure of 308 budgetary units overshot the appropriated overhead budget to the tune of N149,509,623,789[52]. In addition, other than personnel costs, MDAs are not provided reliable information on commitment for overhead costs and capital expenditures. Hence, this dimension is scored 'D'.

25.3 Compliance with payment rules and procedures

278. The Auditor General's Report (2016) shows a lot of violations of payment rules and procedures by many budgetary units. Examples of these violations are: 59 budgetary units recorded outstanding imprest totaling N413,449,307[53] contrary to Financial Regulation (2009) No. 1011 and 1012; Federal Ministry of Works, Power and Housing (Works Sector) paid amounts totaling N15,609,525[54] for local purchases and services in excess of N200,000 in contravention of Treasury Circular No. TRY/A2/B2/2009/OAGF/026/V dated 24 March, 2009; Federal Ministry of Works, Power and Housing (Power Sector) irregular payment of N9,872,000 as Duty Tour Allowances (DTA) for the 20 (twenty) officers were found to have been paid into one person's account[55]; and 2015 Vote Books were not properly maintained as prescribed by the Financial Regulations[56].

279. The September 2018 Internal Audit report[57] issued by Audit Monitoring Department, Office of the Accountant General also noted that many budgetary units effected payments without audited vouchers in violation of the Financial Regulations (2009). Moreover, the procurement monitoring is very weak. The dimension is scored 'C'.

[48] Section 80 (2), (3)
[49] Part II – Financial Responsibilities of Public Officers.
[50] Section 27 (1)
[51] "Misappropriation" means the unauthorized, improper, or unlawful use of funds or other property for purposes other than that for which it is intended, and it also includes misapplication of funds or property and it does not matter whether or not the person misappropriating derives any personal benefit therefrom.
[52] Appendix VIII. Auditor General's Annual Report on the Accounts of the Federation of Nigeria 2016.
[53] Appendix XII. Auditor General's Annual Report on the Accounts of the Federation of Nigeria 2016.
[54] Part A 5.1 (C). Auditor General's Annual Report on the Accounts of the Federation of Nigeria 2016.
[55] Part A 5.2 (C). Auditor General's Annual Report on the Accounts of the Federation of Nigeria 2016.
[56] Part A 5.4 (C) (ii). Auditor General's Annual Report on the Accounts of the Federation of Nigeria 2016.
[57] 3rd Quarter Report of the reviewed internal audit report from budgetary units covering the period July to September 2018 stated that "Payments are effected without the payment vouchers been audited and scheduled to the cash office as contained in several reports in clear violation of FR.1705."

Ongoing reforms

280. The Modernization of Internal Audit with a medium-term action plan; the Presidential Initiative on Continuous Audit (PICA) which was approved in 2016; and the continuous implementation of GIFMIS to cover all Federal Government financial transactions are ongoing reforms that should impact positively on the effectiveness of expenditure commitment controls and ensure compliance with payment rules and procedures. Such features of GIFMIS that will impact positively on the effectiveness of expenditure commitment controls and ensure compliance with payment rules and procedures, when eventually activated, include:

i. Details of Appropriation Bill;
ii. Total Budget for a year;
iii. Approved Budget by Chart of Accounts;
iv. Cash Planning and Warranting;
v. Vote Books;
vi. Purchase Orders and Payment Requests; and
vii. Cash Backing.

PI-26 Internal audit

281. **This indicator assesses the standards and procedures applied in internal audit.**

Indicator/Dimensions	Scores	Explanation
PI-26 Internal audit.	**D+**	**Overall rating based on M1 methodology.**
26.1 Coverage of internal audit.	A	In accordance with the Financial Regulation and the Finance and Control Management Act, internal audit is operational for all central government entities.
26.2 Nature of audits and standards applied.	C	Internal audit is focused on financial compliance, lacking in documentary evidence of compliance with professional standards.
26.3 Implementation of internal audits and reporting.	C	Annual audit plans exist. Evidence gathered shows that the majority of planned audits are completed.
26.4 Response to internal audit.	D	Most of the internal audit recommendations are not provided with management response.

26.1 Coverage of internal audit

282. **The internal audit arrangement in Nigeria is decentralized.** The Financial Regulations, Section 1701(ii) provides that the Accounting Officer of a Ministry or Extra-Ministerial office or other arms of government shall ensure that an Internal Audit Unit is established to provide complete and continuous audit of accounts and records of revenue and expenditure, assets, allocated and unallocated stores, where applicable. In addition, Section 1602 of the Financial Regulations makes the existence of a fully constituted Internal Audit Unit a condition for the approval of Self-Accounting status. Self-Accounting Units draw budgetary resources from the Consolidated Revenue Fund, currently less than 10% of budgetary units are not self-accounting. As a result, almost all the budgetary units have Internal Audit Units operating today.

The provisions of the FR on Internal Audit are supplemented with the Internal Audit Guidelines (2011), which elaborate actual work instructions and guidance on the internal audit function.

283. **The internal audit function in four budgetary units was reviewed[58]: (a) Ministry of Agriculture and Rural Development; (b) Ministry of Education; (c) Ministry of Defense; and (d) Ministry of Environment.** The Internal Audit Units conduct audits in line with the Internal Audit Guidelines and the Financial Regulations. Internal auditors in budgetary units report to the Accounting Officer of the Organisation, though they are staff of and posted from the OAGF to the budgetary units. The Internal audit teams at the beginning of each year prepare an annual work program which is approved by the Accounting Officer of the budgetary unit. Internal auditors submit their reports to the Accounting Officer with copy to the Internal Audit Monitoring Department in the Office of Accountant General of the Federation. Based on the availability of the internal audit function this dimension is scored 'A'; however, the framework for the internal audit function needs to be restructured to align with international standards issued by the Institute of Internal Auditors.

26.2 Nature of audits and standards applied

284. **The capacity and performance across the four budgetary units reviewed is uneven.** The audits are planned with a compliance approach focusing majorly on individual transactions as against systemic issues and internal controls. The audit teams are not adequately trained in the audit process, audit toolkits are not available and documentary evidence of compliance with professional standards is lacking.

285. **Internal audit is primarily focused on financial compliance.** The implementation of the Internal Audit function is uneven across the Ministries reviewed. Documentation of the plan for each internal audit engagement is unavailable, documents in support of the audit observations are also lacking. Working paper files as required by international standards are not prepared for audits. The Internal Audit Monitoring Department provides limited support in building the capacity of internal auditors in the budgetary units. This dimension is rated scored 'C'.

26.3 Implementation of internal audits and reporting

286. **The Internal Audit Units in the selected budgetary units prepare an annual audit plan and carry out audits of varying frequency and issue reports accordingly.** Internal audit units in the budgetary units prepare annual audit plans, and the frequency of audits varies from monthly to quarterly to semester. The reports are issued with the same frequency, though mostly with delays. Internal Audit Units in the budgetary units operating in accordance to the provisions of the Financial Regulations Section 1706(i) are mandated to share their reports with the SAI. Table 3.19 provides data on planned and completed audits during FY2017 for the internal audit units in four selected Federal Ministries and the analysis shows that 56% of planned audits were completed in 2017. The dimension is scored 'D'.

[58] A sampling of the four ministries representing almost 70% of total expenditure was agreed with the Internal Audit Monitoring Department at the Office of the Accountant General of the Federation.

Table 3.19. Schedule of Planned and Completed Audits in selected Federal Ministries

Internal Audit Units	Number of Audits Planned	Number of Audits Completed	Percentage of Planned Audit Implementation
Ministry of Defense	6	0	0%
Ministry of Education	12	12	100%
Ministry of Agriculture and Rural Development	20	18	90%
Ministry of Environment	19	2	11%
Total	57	32	56%

26.4 Response to internal audit

287. **Internal audit reports upon finalization are issued to the Accounting Officer of the budgetary unit who then informs the audited budgetary units for response to observations and implementation of the recommendations.** In the majority of the cases, the recommendations are not provided with a management response. Compliance with the agreed actions is usually reviewed as part of the subsequent year's audit. The status of implementation of audit recommendations for FY2017 is presented in Table 3.20. The dimension is scored 'D'.

Table 3.20. Status of Implementation of Audit Recommendations in selected Federal Ministries

Internal Audit Unit	Number of Audit Findings and Recommendations	Number of Audit Findings and Recommendations Implemented	Percentage of Audit Recommendations Implemented
Ministry of Defense	NA	NA	**NA**
Ministry of Education	12	0	**0%**
Ministry of Agriculture and Rural Development	20	1	**5%**
Ministry of Environment	8	0	**0%**

Pillar VI. Accounting and reporting

P1-27 Financial data integrity

288. This indicator assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data.

Indicator/Dimensions	Scores	Explanation
PI-27 Financial data integrity.	**D+**	**Overall rating based on M2 methodology.**
27.1 Bank account reconciliation.	B	Bank reconciliation for all except some budgetary units is undertaken through the TSA monthly - usually within two weeks from the end of each month.
27.2 Suspense accounts.	NA	Suspense accounts are not used by the FGN.
27.3 Advances accounts.	D	Reconciliation of advances accounts do not take place as required by financial regulations. There are balances of advances, imprests and personal advances reported in the financial statement, not cleared as of the end of December 2016 and 2017.
27.4 Financial data integrity processes.	D	In general, the processing of financial information under GIFMIS enables access and changes to records in the platform and is restricted; results are recorded in an audit trail. There is access to information, including read-only reports as well as authorized changes to records by creation and modification. However, there is other financial information outside GIFMIS and the data integrity described is not guaranteed. Therefore, access to all budgetary central government transactions is not restricted and recorded.

27.1 Bank account reconciliation

289. Under the TSA facility operated by the Federal Government of Nigeria (FGN), the OAGF maintains the Consolidated Revenue Fund/TSA into which all collections are paid, while some budgetary units maintain a TSA sub-account at the CBN for transactions outside the budget. The budgetary units use the GIFMIS platform to access the CBN Payment Gateway for transactions when executing their budgets. The system enables the balance of the CRF/TSA, as well as the balances of the TSA sub-accounts accessed through the CBN Payment Gateway, to be checked on-line real-time.

290. Bank reconciliation of the main CRF/TSA is undertaken monthly by the OAGF. The bank reconciliation of sub-accounts of most budgetary units are also carried out monthly, but a few budgetary units representing in total an amount of expenditure equivalent to less than 5% of total FGN budget do not undertake monthly bank reconciliation as required. Budgetary units submit reports of their transactions in the month to the OAGF, within one week from the end of each month. The reports consist of transcript of transactions and trial balance, indicating cash balances of the MDA. For the purpose of carrying out bank

reconciliation, budgetary units can download bank statements from the CBN Payment Gateway. This dimension is scored ‘B’.

27.2 Suspense accounts

291. Suspense accounts are not operated by the FGN.

27.3 Advances accounts

292. Advances in the receivables section of the financial statements consist of advance payments to contractors for public procurements, operational imprests, administrative/cash advances, and personal advances. The Financial Regulation, 2009 requires that all imprests and advances must be retired on or before the end of the financial year in which they were issued. However, there are outstanding balances of advances, imprests and personal advances as well as irregular credit balances of administrative and personal advances in the financial statements (Table 3.21), as indicated by the OAuGF. These indicate that clearance of advances does not take place regularly, as required by the financial regulations.

Table 3.21. Balance of advances accounts, end-December 2016 and 2017
(Billions of Naira)

	At December 31, 2016	At December 31, 2017
Personal advances	4.9	10.0
Administrative advances	7.4	8.1
Imprest accounts	0.4	0.5
Total advances	12.6	18.5
Total expenditure	7,066.0	7,124.0
Total advances (% of expenditure)	0.2%	0.3%

Source: OAGF.

293. The report of the Auditor General and internal audit reports also informs on widespread violation of financial regulations with respect to prompt retirement of advances. Consequently, the Accountant-General was required to address the non-retirement of advances as at when due, through the issuance of a strong circular to Accounting Officers on the need to comply with the provisions of Financial Regulations, and the application of strict and appropriate sanctions. The dimension is scored ‘D’.

27.4 Financial data integrity processes

294. The FGN introduced the Government Integrated Financial Management Information System (GIFMIS) in April 2012 to utilized information and communication technology for processing of financial information and ensure data integrity. GIFMIS enhances the ability of FGN to undertake central control and monitoring of receipts and expenditure in the budgetary units. Data security in the GIFMIS platform is provided through four channels. These are the segregation of duties (different work groups such as budget preparation, procurement and contract management, etc.); automatic enforcement; automatic audit trail (by

different role players, i.e. initiator, reviewer, first approval and final approval); and in-built forensic investigation to determine the location and time of transactions.

295. Access and changes to records in the platform is restricted and recorded, and results in an audit trail. There is access to information, including read-only reports for accounting officers in budgetary units as well as authorized changes to records by creation and modification. The GIFMIS Project Management Unit is located in the OAGF and serves as the secretariat of the Project Steering Committee and Project Monitoring Committee. There is also the ICT and security work group which in charge of verifying data integrity. This situation occurs for transactions under GIFMIS.

296. However, there are other financial information systems outside GIFMIS that the data integrity described above does not exist. For example, the expenditure of the National Assembly and the Judiciary arms of the FGN is not captured in GIFMIS. Also, currently the stock of expenditure arrears is not adequately monitored and reported accordingly, since IPSAS is not fully implemented. In addition, the FGN recently set up a committee to ascertain the data integrity of revenue and to reclassify where required. These transactions not covered in the GIFMIS platform are significant in number. Therefore, access to all budgetary central government transactions is not restricted and recorded. This dimension is scored 'D'.

Ongoing reforms

297. Full implementation of the GIFMIS project is an on-going effort led by OAGF. Activities to be implemented to further enhance the scope and effectiveness of the project include: roll out to all budgetary units of the Federal Government, inclusion of Zero Base Budgeting (ZBB) in the platform, interface of GIFMIS with FIRS and IPPS, interface of GIFMIS with the debt management software of the Debt Management Office (DMO), interface with foreign payments of CBN.

P1-28 In-year budget reports

298. This indicator assesses the comprehensiveness, accuracy, and timeliness of information on budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow the monitoring of budget performance and, if necessary, timely use of corrective measures.

Indicator/Dimensions	Scores	Explanation
PI-28 In-year budget reports.	**D+**	**Overall rating based on M1 methodology.**
28.1 Coverage and comparability of reports.	D	Information is not presented in the quarterly budget reports with the same coverage as the original budget. Data in these reports allow direct comparison to the original budget approved, but not by main economic categories and administrative headings. It is only in the fourth quarter report that data on capital expenditure is analyzed according to administrative heading.
28.2 Timing of in-year budget reports.	D	In-year budget reports are prepared quarterly and issued more than eight weeks from the end of each quarter.

Indicator/Dimensions	Scores	Explanation
28.3 Accuracy of in-year budget reports.	C	There are some concerns regarding issues of materiality in the financial data reported. Data on expenditure is not covered at the commitment stage but captured only at the payment stage.

28.1 Coverage and comparability of reports

299. The Budget Office of the Federation (BOF) – Ministry of Budget and National Planning (MBNP) prepares and publishes quarterly in-year budget reports, referred to as Budget Implementation Reports. Information is not presented in the in-year budget reports with the same coverage as the original budget. Data in the in-year budget reports allows for direct comparison with the original budget approved, but not by main economic categories and administrative headings, i.e. budgetary units in the original budget. Data on actual expenditure, when compared with the budget, are aggregated but without details of economic and administrative categories. For example, the reports of the first three quarters of each relevant year compare actual total revenue, recurrent expenditure, capital expenditure and transfers with the budget estimates without details of economic categories and budgetary units.

300. Data on expenditure are not analyzed by administrative headings, i.e. budgetary units, in the reports of the First, Second and Third Quarters. It is only in the Fourth Quarter report that data on capital expenditure are analyzed by administrative heading. Such analysis is not undertaken for personnel costs and overhead costs. This dimension is scored ‘D’.

28.2 Timing of in-year budget reports

301. In-year budget reports are prepared quarterly and issued more than eight weeks from the end of each quarter. The in-year budget report for the Fourth Quarter of 2015 was published on August 2016, while the in-year budget report for Fourth Quarter of 2016 was published on September 2017. The in-year budget report for the Third Quarter of 2017 was published on the BOF website on January 10, 2018, that is, one day after its issuance (dated January 9, 2018). The in-year budget report for the Fourth Quarter of 2017 was published at the BOF website on September 20, 2018, that is, eight days after its issuance (dated September 12, 2018). As a result, this dimension is scored ‘D’.

28.3 Accuracy of in-year budget reports

302. Data used for the preparation of the in-year budget reports are reported by the OAGF. The data presented in the in-year budget reports are useful for analysis of budget execution in terms of aggregate revenue and aggregates of the major categories of expenditure. There are, however, concerns regarding issues of materiality in the financial data reported. Data on expenditure is not covered at the commitment stage. Data on expenditure is captured only at the payment stage. This dimension is scored ‘C’.

Ongoing Reforms

None.

P1-29 Annual financial reports

303. This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the PFM system.

Indicator/Dimensions	Scores	Explanation
PI-29 Annual financial reports.	**D+**	**Overall rating based on M1 methodology,**
29.1 Completeness of annual financial reports.	C	The FGN financial reports are prepared annually and are comparable with the approved budget. They include full information on revenue and expenditure, partially by financial and non-financial assets and loan guarantees, and fully on the long-term debt obligations and cash balances.
29.2 Submission of reports for external audit.	D	The last annual financial report submitted for audit pertained to 2016. It was submitted for OAuGF for external audit on 16 January 2018, i.e. within thirteen months of the end of the year.
29.3 Accounting standards.	C	The accrual based IPSAS accounting standards were introduced in Nigeria in 2016 under a transitional arrangement and are not fully implemented yet. The International Public Sector Accounting Standards (IPSAS) have been incorporated into the national accounting standards, exempt for certain transitional exemptions available to first time adopters of IPSAS. Accounting standards applied to all financial reports are consistent with national reporting guidelines and ensure consistency of reporting over time. The standards used in preparing annual financial reports are disclosed in the financial statements.

29.1 Completeness of annual financial reports

304. The financial reports are prepared annually and are comparable with approved budget. For the last completed 2017 fiscal year, the annual financial report contains full information on revenue and expenditure, by major economic and administrative categories, partially by financial and non-financial assets and loan guarantees, and fully on the long-term debt obligations and cash balances. This dimension is scored ‘C’.

29.2 Submission of reports for external audit

305. The last annual financial report submitted for audit pertained to 2016. The year-end financial report of 2016 was submitted for OAuGF for external audit on January 16, 2018, i.e. within thirteen months of the end of the year. As a result, this dimension is scored ‘D’.

29.3 Accounting standards

306. Nigeria adopted the cash based IPSAS for the preparation of all financial reports. The accrual based IPSAS were introduced in 2016 under a transitional arrangement and various standards are not yet fully implemented.

307. The International Public Sector Accounting Standards (IPSAS) have been incorporated into the national accounting standard, exempt for certain transitional exemptions available to first time adopters of IPSAS. National accounting standards applied to all financial reports are generally consistent with IPSAS on reporting as currently adopted and ensure consistency of reporting over time. Assessors, nonetheless, support the concern expressed in external assessments in that the preparation and presentation of certain budget and financial reports (e.g., statement of cash receipts, payments and balances and the comparison of budget and actuals) do not conform with IPSAS form[59]. The standards and explanatory notes used in preparing annual financial reports are disclosed in the financial statements. Therefore, this dimension is scored 'C'.

Ongoing reforms

None.

Pillar VII: External scrutiny and audit

308. This indicator examines the characteristics of external audit.

PI-30 External audit

309. **This indicator examines the characteristics of external audit and contains four dimensions.**

Indicator/Dimensions	Scores	Explanation
PI-30 External audit.	**D+**	**Overall rating based on M1 Methodology.**
30.1 Audit coverage and standards.	D	The SAI audits some of the government budgetary entities annually. The International Standards of Supreme Audit Institutions (ISSAI) is used by the SAI as its national standards. The 2015 and 2016 financial statements have been audited by the SAI whilst the audit of the 2017 financial statements is on-going. The audit opinion expressed by the SAI in its audit report for 2016 was "Qualified" on the basis of some exemptions taken on first time adoption of IPSAS by the Federal Government.
30.2 Submission of audit reports to the legislature.	D	The SAI submitted the audit reports only for 2015 and 2016 financial years to the legislature within 2 and 5 months respectively of the receipt of the financial statements from the Office of the Accountant General of the Federation. The 2017 Audit report is a work in progress.

[59] IMF/Statistics Department-Government Finance Division (2018), 'Nigeria: Report on Government Financial Statistics Technical Assistance Mission', November 19-30, 2018.

Indicator/Dimensions	Scores	Explanation
30.3 External audit follow-up.	D	The audit follow-up mechanism has not been effective. Formal response on audits for which follow up were required are not provided.
30.4 SAI independence.	C	The Nigeria Constitution provides for the Auditor General (OAuGF) to be appointed by the President on the recommendation of the Federal Civil Service Commission subject to confirmation by the Senate. Removal of the OAuGF follows similar protocols. The budget for the SAI has over the years been cut repeatedly and with the actual releases being less than half of the already cut budget.

30.1 Audit coverage and standards

310. **The financial statements of Government Statutory Corporations, Companies, and Commissions, otherwise called Parastatals are not presently included in the audited financial statements of the Federal Government of Nigeria (or the central government).** However, in accordance with section 85(3)(b) of the 1999 Constitution, the accounts and auditors report thereon of Parastatals shall be submitted to the Auditor General for the Federation for a certified audit opinion. In aggregate, less than 75% (by value) of the government budgetary entities are audited by the SAI.

311. **In 2015, the SAI adopted the ISSAI standards and prepared manuals for Performance and Financial audits consistent with ISSAI 300 and 400.** Under on-going reforms in the SAI, a Quality Control and Assurance manual has also been prepared. Audits are subject to quality assurance reviews to ensure accuracy of the audit findings. The audit of World Bank's IDA-financed projects at the national level is conducted by the SAI, which adequately meets ISSAI requirements for financial audit. This dimension is scored 'D'.

30.2 Submission of audit reports to the legislature

312. **The Constitution of the Federal Republic of Nigeria in Section 85(5) requires the SAI to submit its report on the audit of the Accountant General's financial statements to the National Assembly within 90 days of the receipt of the Statements from the Accountant General of the Federation.** In addition, the Fiscal Responsibility Act 2007 Section 49(1) requires that the Federal Government shall publish their audited accounts not later than 6 months following the end of the financial year. This section of the FRA means that for the Accountant General of the Federation to comply with the Law under reference, he should submit the Financial Statements to the SAI within three months of the following year. However, during the last three fiscal years**,** the financial statements were submitted by the Office of the Accountant General of the Federation to the SAI with a delay of more than a year. In each instance, the SAI however, submitted their 2015 and 2016 audit reports to the legislature within two and five months respectively of the receipt of the financial statements (Table 3.22). The dimension is scored 'B'.

Table 3.22. Submission Dates of SAI Audit Report to NASS

Fiscal Year	Date of Submission of Financial Statements to the SAI	Date of Submission of SAI Audit Report to National Assembly
2015	April 21, 2017	June 15, 2017
2016	January 16, 2018	June 14, 2018
2017	December 19, 2018	TBC

Source: SAI Audit Reports and Auditor General's Letter of Submission to the National Assembly.

30.3 External audit follow-up

313. **The Financial Regulation in Section 3101 stipulates that "any accounting officer or public officer who fails to give satisfactory explanations to the audit queries within the stipulated time as indicated in the provisions of this chapter shall be sanctioned accordingly as provided for in the chapter".** The audit entities are required to provide formal response to audit queries raised against them by the SAI at the end of the audit. Many of the Accounting Officers ignore these queries and do not provide a response. The SAI does not have in place a tracking mechanism for an audit follow-up that involves collecting periodic updates on the implementation of the agreed-upon recommendations and maintaining a database. A follow-up as part of the next audit to ascertain the progress made by the entity in implementing the recommendations is however conducted. This dimension is scored 'D'.

30.4 SAI Independence

314. **The Nigeria Constitution provides for the Auditor General (AG) to be appointed by the President on the recommendation of the Federal Civil Service Commission subject to confirmation by the Senate.** Removal of the AG follows similar protocols.

315. **The SAI annual budget is repeatedly subjected to cut.** The annual budget of the SAI has over the years been cut repeatedly and with the actual releases being less than half of the already cut budget.

316. **The SAI is lacking financial and operational independence.** Nigeria has not had an Audit Law since its independence and the only extant law is the Audit Ordinance of 1956 which is no longer in the statute books of Nigeria. This puts Nigeria far behind in terms of its commitment to accountability and transparency in public finances. The Federal Audit Service Bill has been going through the legislative process for over 14 years. The SAI cannot on its own make fundamental changes to its organizational structure, it also cannot independently decide on HR matters, including the hiring of personnel. All these activities are done through the Federal Civil Service Commission and the Office of the Head of Service of the Federation. Accordingly, all appointments, transfers, and promotions are done according to the Civil Service Regulations. However, the SAI has unrestricted access to public records, documentation and information required as per the Nigeria Constitution which in Section 85(2) provides that "the Auditor-General or any person authorized by the office in that behalf shall have access to all books, records, returns and other documents relating to those accounts". This dimension is scored 'C'.

Ongoing reforms

The Audit Bill was passed within the National Assembly and was awaiting consent by the President. Eventually, the President did not grant assent to the Bill before the lapse of the 8th Assembly in May 2019, so the Bill is to be represented afresh to the 9th Assembly commencing June 2019 for legislative action.

PI-31 Legislative scrutiny of audit reports

317. **This indicator focuses on the legislative scrutiny of the audited financial reports of the central government, including institutional units, to the extent that either they are required by law to submit audit reports to the legislature or their parent or controlling unit must answer questions and act on their behalf.**

Indicator/Dimensions	Scores	Explanation
PI-31 Legislative scrutiny of audit reports.	**D**	**Overall rating based on M2 methodology.**
31.1 Timing of audit report scrutiny.	D	PAC's review of audit reports on annual financial accounts is in arrears, the last report presented to plenary by the PAC was on the 2009 audit report.
31.2 Hearings of audit findings.	C	PAC conducts public hearings covering a few audited entities to review findings in audit reports. Attendance at the PAC sessions includes the SAI, OAGF and representatives of the budgetary units.
31.3 Recommendations on audit by the legislature.	D	PAC reviews of the audit reports have not in recent times translated to a report that is presented at plenary. The PAC report on the 2009 audit report was the last time a PAC report was presented at plenary. The legislature has therefore not issued recommendations to be implemented by the executive in about 10 years.
31.4 Transparency of legislative scrutiny of audit reports.	D	Public hearings are conducted by PAC. The PAC report therefrom is however neither published on an official website nor by any other means easily accessible to the public.

31.1 Timing of audit report scrutiny

318. **The Public Accounts Committee (PAC) is a standing committee established by the standing orders of both chambers of the National Assembly**. It comprises of 28 members in the Senate and 47 members in the House of Representatives. The mandate of the PAC includes to examine the accounts showing the appropriation of the sums granted by the National Assembly to meet the public expenditure, together with the audit report thereon and present its recommendations to the Parliament and the Executive.

319. **Annually, the SAI submits its audit report to the legislature.** Keeping with its mandate, the PAC reviews the SAI audit reports. However, the work being done by the PAC has not in recent times translated to a report that is presented at the plenary. The last time the PAC presented a report at plenary was on the 2009 audit report. Its work is therefore substantially in arrears. Therefore, this dimension is scored 'D'.

Table 3.23. Audit Report Submissions and Review by Legislature

Fiscal Year	Date of receipt of SAI Audit Report	Date of PAC Hearing	Date of Tabling of PAC Report
2015	June 15, 2017	NA	NA
2016	June 14, 2018	NA	NA
2017	NA	NA	NA

31.2 Hearings of audit findings

320. **The SAI audit reports are subject to in-depth review by the legislature**. The Standing Orders of the Senate and the House provide that the mandate of the PAC shall include: (a) to examine the accounts showing the appropriation of the sums granted by the National Assembly to meet the Public expenditure, together with the auditor's reports thereon; and (b) have power to summon persons, summon papers and records, and report its findings and recommendations to the plenary from time to time. The observations and recommendations of the SAI are examined by the PAC and hearings conducted accordingly. Representatives of the SAI, the Office of the Accountant General of the Federation and the budgetary units attend the PAC sessions. The audit hearings cover just a few of the audited entities. This dimension is scored ‘C’.

31.3 Recommendations on audit by the legislature

321. **The work being done by the PAC has not in recent times translated to a report presented at the plenary**. The last time the PAC presented its report at plenary was on the 2009 audit report. The legislature has therefore not issued recommendations to be implemented by the executive in about 10 years. This dimension is scored ‘D’.

31.4 Transparency of legislative scrutiny of audit reports

322. **Public hearings are conducted by PAC**. Attendance at the public hearings includes members of the print and electronic media, the general public, SAI, OAGF and representatives of the budgetary units. However, the PAC report on the review of the SAI audit report is neither published on an official website nor by any other means easily accessible to the public. This dimension is scored ‘D’.

Ongoing reforms

None.

Chapter 4. Conclusions on Analysis of the PFM System

323. **Chapter 4 presents an integrated analysis of the PEFA Assessment and identifies the main weaknesses of the PFM systems.** This assessment was conducted using the PEFA Framework 2016. This is the first time the 2016 framework is being used for the Federal Government of Nigeria. The previous assessment in 2012, though unpublished, was based on the 2011 framework. This assessment covers key elements of the PFM system across the seven pillars of the PEFA assessment framework. The seven pillars of PFM performance are summarized below.

4.1 Integrated Assessment of the PFM Performance

Pillar I: Budget reliability

324. **The aggregate expenditure fell short of the approved budget by 13-20 % in two of the three years of the PEFA review period.** The underperformance of FGN expenditures is attributed mainly by the revenue shortfalls, particularly amplified by the oil price (and production) downward shocks. During the evaluated period, international oil prices dipped, and Nigeria's production was negatively affected by militant activities in the Niger Delta.

325. The high variance in the expenditure by economic classification is evidence of the quality of expenditure planning. Analysis of budget execution shows that outturns of capital expenditure deviated considerably from the original budget in the last two years, far surpassing the under execution of salary payments and other overhead costs.

326. Reliability of the budget was severely hampered by the lack of prudent projections in revenues. Fiscal discipline was not optimal because the federal government did not apply all the right control tools to achieve this effectively (see weak scores in indicators PI-18, PI-22, PI-23, and PI-24).

327. **The aggregate revenue deviated from the approved budget by 24-46 % mainly due to overly optimistic domestic revenue forecasts in each of the three years reviewed, not contemplating sharp declines in the price of crude oil and other primary commodities.** Due to constraints in data, aggregate revenues do not include grants from development partners, thus contravening the PEFA Framework (2016) in that the framework stipulates combining the foreign and domestic revenues for variance analysis.

Pillar II: Transparency of public finances

328. The budget system is based on an administrative and economic classification that is generally compatible with GFS 2014. Recurrent and capital expenditures are itemized in a single budget framework (PI-4). The extended budget documentation comprises a somewhat complete series of economic and financial information, with three of four basic elements of information and five of eight additional requirements fulfilled.

329. The majority of revenues and expenditures outside the budget, including capital projects funded by external grants, are not reported in a consolidated report on an annual basis. The allocation of FGN revenues intended to States and Local Governments are undertaken on the basis of transparent and rule-based systems, nonetheless transfers are communicated to subnational authorities within a short advance notice of the start of the budget year.

330. Performance plans had been developed without informing the general public, solely orientated to capital projects within the largest line ministries, not used as part of the quarterly budget execution reports, and not enabling monitoring and evaluation of the efficiency or effectiveness of FGN expenditure within key sectors.

331. Transparency of the FGN fiscal operations is very low, with key information not availed to the public by appropriate means and in a complete and opportune manner. The public has access to only two of five basic fiscal reports and three of four additional pieces of information required.

Pillar III: Management of assets and liabilities

332. The review observed the FGN public finance management function of monitoring the economic results and financial risks of public corporations in which the FGN has a share of ownership as largely problematic. Also difficult is the consolidation of economic results within States. This is not enabling proper measuring and monitoring of overall fiscal risks and contingent liabilities within these groups of public sector organizations.

333. Public investment management constitutes an area of concern, not operating on a systematic manner and under an integrated PIM approach and standard procedures thus resulting in the absence of economic analysis and proper costing of projects and deficiencies in the process of selecting and monitoring of projects. Other deficiencies relate to the fragmentation in the management of financial and non-financial assets confronted with issues of property, ageing and implementation of accrual accounting standards, not being subject to a process or routine of recording and valuing in the accounting system according to modern practice, and resulting in serious gaps in financial reports. Conversely, the management of FGN debts in the past three years constitutes a major strength in PFM.

Pillar IV: Policy-based fiscal strategy and budgeting

334. The budget is formulated with due regard to financial legislation but adherence to deadlines and other guidelines is problematic, partly attributed to the budget preparation process not being structured and governed by means of a fixed / stable budget calendar. A medium-term budget (MTEF) is prepared which introduces the medium term macro-fiscal forecasts to support the setting of spending ceilings and the formulation of the budget proposal for the budget year and the two subsequent years - noticeably, however, budget decisions and fiscal plans are troubled by limited information on performance plans and evaluation reports, as noted in PI-8.

335. Certain deficiencies are observed in the role by the FGN in performing fiscal policy research and measuring the impact of potential revenue and spending measures thus resulting in the absence of a substantiated fiscal plan or strategy supporting the budget process. Also detrimental in revenue forecasting is the effect in the formulation of expenditure ceilings in the budget preparation, thus eroding the integrity of the MTEF process and financial planning.

336. Aligning of medium-term strategy plans with capital expenditure and forward estimates is a weakness, generally attributed to lack of planning and budgeting guidelines and miscommunication between budgeting officials and project managers. Absence of proper costing of projects has also had negative consequences in the preparation of realistic budgets, as noted in PI-2 and PI-11. The FEC failed to submit the budget proposal to the NASS with sufficient advance for the past three years, at least one month prior to start of the budget year.

337. A legislative process for reviewing and approval of the proposed budget is established within the scope of the House Appropriation Committee. Standing rules exist for the budget scrutiny, providing ample time for legislative debate, which is often prolonged resulting in excessive approval delays. The NASS did not approve the budget before the start of the budget year in the last three years. Clear rules also exist for budget adjustment by the executive with NASS approval.

Pillar V: Predictability and control in budget execution

338. The review concludes that the FGN budget is not implemented in a predictable manner and the compliance of commitment controls and internal efforts to prevent fruitless and wasteful expenditure and fraudulent use of public resources are hindered by the lack of appropriate steps within the financial officers and line managers' areas of responsibility.

339. Predictability in the release of funds is benefitted by adequate taxpayer information and ability of Federal tax and service authorities to prevent and collect revenue arrears. The review found that information on Federal taxes, customs duties and other taxpayer and importers rights and obligations are aimed mainly towards domestic businesses and tax notifications and updates to deter households from becoming delinquent, are generally communicated by Federal authorities on a regular and timely basis. A major obstacle, however, lies particularly within NNPC not issuing clear notifications to the business sector on the license and service users rights and other obligations.

340. The stock of revenue arrears at the end of 2017 amounted to an equivalent of 39% of revenue outturn, of which almost 70% is overdue for over one year. When adding the oil royalties in arrears assessed within the Nigeria petroleum company, the stock of revenue arrears exceeded 40% of total revenue collection for 2017. It was not possible to gather evidence from the Federal customs authority. The Federal tax authority applied approaches that are designed to assessing and prioritizing compliance risks for some revenue streams. Regrettably, no solid evidence has been gathered from the two other largest revenue generating agencies (NNPC and the Customs Authority) despite several attempts to consult their management. Another hurdle in the effort to prompt the release of funds consists of a bulk of NNPC revenue being cleared to the Treasury Single Account on a monthly basis. Revenue accounts are reconciled monthly with the Central Treasury and CBN on all sources of revenue, within two weeks of end of the month. The main revenue generating agencies meet with CBN to reconcile revenue collection for the previous month.

341. The OAGF is monitoring the availability of cash resources on a daily basis, by making use of the single bank account-TSA facility; thus, allowing it to control its balance regularly and evaluate the Government's ability to meet projected cash flows. A cash flow forecast is prepared for the budget year but not updated at least quarterly on the basis of actual cash inflows and outflows. Line managers are provided with reliable in-year information on budget adjustments though with only one-month advance notice.

342. The monthly cash projections are updated on an ongoing basis with GIFMIS-governed commitment controls established by the Treasury payments system. In-year budget adjustments do not appear to be synchronized to a commitment schedule and do not match the quarterly cash disbursement plans or procurement plans within the organization.

343. The definition of expenditure arrears does not hold well under the current accrual accounting standard adopted in Nigeria, covering mainly past due invoices with contractors. Certain liabilities, however, are not created automatically at the time a legal obligation is originated with the FGN, but

recognized and paid as long as cash resources are available – these include official letters of staff appointments or promotions and payment orders to public corporations (e.g., fuel subsidies). Hence, the stock of expenditure arrears (payables accounts) captured through the FGN books and reports is not accurate, showing an amount equivalent to less than 4% of the total budget. Assessors found evidence of outstanding debts to contractors and Federal workers carried over from the last five years are not accounted for in the GIFMIS and in an amount equivalent to 2.2% of GDP (35% of the total budget).

344. Internal controls within personnel management and the process of reconciling personnel account records within the FGN are considered partially effective as IPPIS authorities continue in their effort to register almost 400,000 Federal workers in the official payroll system which are currently operating under other personnel databases. There are initial steps undertaken to establish a segregation of roles and responsibilities within the IPPIS system. The preparation of SOPs has been initiated and the effectiveness of commitment controls in payroll may continue to be severely questioned until the various human resource databases still operating in the FGN are all functioning in on single database. Meanwhile, certain irregularities had been found in instances whereby FGN staff were appointed without matching the job skills and qualifications required; in most instances this requires substantive work from the administrative operatives.

345. The procurement of goods, services and civil works at the federal level is largely ineffectual, with serious weaknesses identified in transparency and oversight. The BPP website is not regularly updated with information on procurement plans and contract awards. The information available did not include complete data for the last completed budget year (2017). The BPP's Annual Report for 2017 showed that 1.52% of contracts for which it issued 'No Objection' were processed through Competition, 40% by Selective Method, 54.57% through Direct Selection and 3.86% by Emergency procedures. Public access to procurement information is low, with only two out of the six criteria fully met - namely, the legal and regulatory framework for procurement and data on resolution of procurement complaints. There is no independent body responsible for the review of procurement complaints. BPP and procuring entities involved in procurement transactions or in the process leading to contract award decisions conducted administrative reviews of procurement complaints. The Act provides for administrative review of procurement complaint by procuring entities and BPP, and resolution by a High Court if complainant is unsatisfied with the decision of BPP.

346. The review concurs with the view that the effectiveness of financial controls is improving as more budgetary units continue to integrate to GIFMIS. Expenditure commitment controls, however, provide partial coverage for a range of payment items. Expenditure commitment control procedures exist which provide partial coverage for a host of payments items. The financial regulations establish the general principles and segregation of duties governing the budget process, the approval mechanisms and general restrictions. Restrictions include those applying to authorization of resources spent within the spending limits. The internal control framework is comprehensive but the lack of a GIFMIS payment processing facility within several budgetary units continues to hamper substantially its effectiveness and particularly the improvement of financial planning, automation of financial controls, and simplifying, processing and reporting of financial transactions. Likewise, the existence of expenditure arrears (reference to PI-22) demonstrates that the system of commitment controls cannot be considered to be comprehensive, nor to effectively limit commitments to projected cash availability and approved budget allocations for non-salary items.

347. The internal audit function covers the central government, though capacity and managerial acceptance are weak in several budgetary units. The internal audit function is in the process of building strength, not being able to cover the majority of line ministries, not applying the risk-based approach to audit planning and programming, eager to apply modern audit methods and techniques. For the time being, it is not possible to assess the effectiveness of the internal audit role and benefits in the improvement of service delivery.

Pillar VI: Accounting and reporting

348. **Bank account reconciliation is conducted on time; however, the key issue remains with the settlement of advance amounts.** Bank reconciliation for all except some budgetary units is undertaken through the TSA monthly - usually within two weeks from the end of each month. Low performance has been recorded in the process of monitoring and controlling of, and prompt action to recover, cash balances owed from advances accounts to the TSA bank account with several unexplained differences not being cleared as of the end of every quarter/year.

349. The processing of financial information under GIFMIS enables access and changes to records in the platform and is restricted and results recorded in an audit trail. There is access to information, including read-only reports as well as authorized changes to records by creation and modification. However, there is other financial information outside GIFMIS and the data integrity described does not generally exist.

350. Quarterly budget execution reports are not consistent with budget coverage and classifications to allow the monitoring of budget performance. Information is not presented in the quarterly budget reports with the same coverage as the original budget. Data in these reports allow direct comparison to the original budget approved, but not by main economic categories and administrative headings. It is only in the fourth quarter report that data on capital expenditure are analyzed by administrative headings.

351. In-year budget reports are prepared quarterly and issued more than eight weeks from the end of each quarter. Also, there are some concerns regarding issues of materiality in the financial data reported. Data on expenditure is not covered at the commitment stage but captured only at the payment stage.

352. The Federal Government produces consolidated financial statements in adherence to national standards, which are consistent with IPSAS reporting standards. Annual financial statements are comparable with approved budget but submitted to the OAuGF with significant delay. They include full information on revenue and expenditure, partially by financial and non-financial assets and loan guarantees, and fully on the long-term debt obligations.

Pillar VII: External scrutiny and audit

353. **The system of financial accountability is undermined with certain weaknesses in the operational framework and the lack of SAI's independence.** The SAI has adopted ISSAI as its national standards, but these are not fully implemented. The SAI audits only some of the government budgetary entities annually. Submission of audit reports to the legislature was carried out on a timely basis in 2015 and 2016, nevertheless, the follow up on audit findings with the Executive is largely ineffective. The SAI's independence is compromised because the selection and removal of the Auditor General rests with the President.

354. **The legislative scrutiny of the audited financial reports of the Federal Government, including budgetary units, is suboptimal.** PAC's review of audit reports on annual financial accounts is in serious arrears, with the last report presented to plenary by the PAC being the 2009 audit report. The legislature has therefore not issued recommendations to be implemented by the executive in approximately 10 years. PAC conducts public hearings covering only a few audited entities to review findings in audit reports. PAC reviews of the audit reports have not, in recent times, translated to report that is presented at plenary.

4.2 Effectiveness of the Internal Control Framework

355. The need to unceasingly improve accountability and transparency should be a concern for federal policymakers and civil service managers. They should therefore be continually seeking ways to better achieve agreed reforms and program results and outcomes. A fundamental factor in helping to achieve such outcomes and minimize operational problems is to implement appropriate internal control measures effectively; this will also help in managing the needed adjustment to cope with ever-changing environments and evolving demands and priorities. In order to be in synch with programs changes, the required improvement in operational processes of government agencies and implementation of new technological developments, government institutions must continually assess and evaluate their internal control framework to ensure and assure that implemented control activities are efficient, effective and updated when necessary.

356. Internal Control, as defined by the Committee of Sponsoring Organizations (COSO), is a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: i) Effectiveness and efficiency of operations; ii) Reliability of financial reporting; and iii) Compliance with laws and regulations[60]. While internal control may exist as a process, its effectiveness (the state or condition of the process at any point in time) may change over a period of time; hence there should be standards that provide an overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement.

357. An effective internal control system should therefore play a vital role that will ensure the achievement of the three main objectives ((i) aggregate fiscal discipline, (ii) strategic allocation of resources, and (iii) efficient service delivery) of an open and orderly PFM system. It should help in addressing risks and providing reasonable assurance that operations meet the four control objectives:

i. operations are executed in an orderly, ethical, economical, efficient, and effective manner;
ii. accountability obligations are fulfilled;
iii. applicable laws and regulations are complied with; and
iv. resources are safeguarded against loss, misuse and damage.

358. This section provides a unified and coherent overview of how effectively the internal control system operates, assesses the extent to which it contributes to the achievement of the above named four control objectives, based on available information across specific control activities as covered by a

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[60] https://en.wikipedia.org/wiki/Committee_of_Sponsoring_Organizations_of_the_Treadway_Commission#Definition_of_internal_control_and_framework_objectives

significant number of performance indicators. Relevant findings related to internal control arrangements will be structured around the five internal control components identified by international standards:

1. Control environment
2. Risk assessment
3. Control activities
4. Information and communication
5. Monitoring

(i) *Control environment*

359. At the Federal level, the internal control and internal audit functions are centralized in the Office of the Accountant General in the Federal Ministry of Finance. Each MDA has an Internal Audit department whose officials are posted from the Office of the Accountant General. The Ministry of Finance has an Audit Monitoring Department that coordinates the activities of Internal Audit Departments in budgetary units. The Internal Audit departments in budgetary units report directly to the accounting officers of the MDA, guided by the Financial Regulations[61] which states:

> "The Accounting Officer of a ministry or extra-ministerial office and other arms of government shall ensure that an Internal Audit Unit is established to provide a complete and continuous audit of the accounts and records of revenue and expenditure, assets, allocated and unallocated stores, where applicable."

360. In a bid to commit to competence, senior officials in the internal audit departments are mainly accounting graduates and are required to have professional certification before being promoted to senior management positions. Written promotion examinations are conducted annually for officers up to level 15, after which promotion is based on oral interviews; however the results of these promotion exercises are often delayed leading to promotion arears. There is an existing policy that a senior internal audit officer should not spend more than four years in an MDA before being transferred; however, this is not the case in practice.

361. In practice, there are evidences of non-adherence of top management to documented processes and procedures and responses to some internal audit observations are not too encouraging. For example, all Accounting Officers of the Federal Government budgetary units are expected to render quarterly certification of records of budgetary units Personnel[62] to the Presidential Initiative on Continuous Audit (PICA). This quarterly certification of records of budgetary units Personnel is critical for continuous monitoring and audit of personnel costs. However, due to noncompliance, the Minister of Finance issued a Federal Finance Circular[63] on 6th June 2017 drawing the attention of all Accounting Officers of budgetary units and requesting them to comply accordingly.

(ii) *Risk* Assessment

362. Risks identification, assessment (likelihood and significance), evaluation, risk appetite assessment and responses to risks are very critical to an effective and efficient audit environment. However, there is no evidence of clear regulatory provisions or clear guidelines for risk assessment architecture. A World Bank Integrated Fiduciary Systems Assessment of Program-For-Results Financing, Better Education Service Delivery for All, jointly conducted by staff of the Finance and Accounts Department and Internal Audit

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[61] Financial Regulations (Revised Edition 2009), 1701 (ii) Page 108.
[62] Ref. No. TRY A6&B6/2016/OAGF/CAD/026/V.III/31
[63] Ref: No. HMF/PICA/OAGF/01/V.II

Unit of Universal Basic Education Commission (UBEC) in 2017, indicated that "leakages remain in the expenditure management system due to dearth of risk-based internal audit and control processes, and lack of focus on systemic issues."[64] This is very much the case across Federal level budgetary units; the World Bank assessment report further noted that "a key challenge will be how to divorce the internal audit function from involvement in the expenditure processing cycle and accord independence to the role the internal auditors play. This is an institutional issue cutting across the Federation but UBEC, through the UBE program, will address the shortcoming, on a pilot basis, by ensuring that an internal auditor is assigned to carry out ex post systemic and risk-based audits, and thus enable the internal audit function to operate independent of the expenditure processing cycle."

363. Generally, the internal audit process is largely focused on pre-payment audits, while lacking in oversight as a support function to internal management. Evidences of leakages remain in the expenditure management system due to dearth of risk-based internal audit and control processes, and lack of focus on systemic issues.

364. Fiscal risks monitoring and reporting is also very weak. As documented in PI-10 above, audited annual financial statements of only 7 of the 25 Federal Government public corporations were published within nine months of the end of 2017; 20 out of 36 states' 2017 audited financial statements were published as of 30th September 2018 while other 4 states published their unaudited financial statements by 30th September 2018; and no report is published by the Federal Government annually that quantifies and consolidates information on all significant contingent liabilities and other fiscal risks of the federal government.

(iii) Control Activities

365. Internal controls system in the Nigerian public service are rooted in some provisions of the Constitution of the Federal Republic of Nigeria (1999 as Amended), Finance (Control and Management) Act of 1958, the Audit Act of 1956, Finance (Control and Management) Act, Cap.144 Laws of the Federation of Nigeria 1990, and Financial Regulations (2009). Financial Regulations (2009)[65] recognizes the Accountant-General of the Federation as the Head of the Federal Government Accounting Services and the Treasury with the responsibility for providing adequate accounting systems and controls in the ministries, extra-ministerial offices and other arms of Government. Other established parties include Accounting Officers, Sub-Accounting Officer, Officer Controlling Expenditure, Checking Officer and Paying Officer[66].

366. Segregation of responsibilities and duties are prescribed throughout the expenditure process as clearly set out in the Financial Regulations 2009.[67] Specific responsibilities are clearly identified for the Minister of Finance, Accountant General, Accounting Officer, Sub-Accounting Officer, Officer Controlling Expenditure, Checking Officer and Paying Officer. In general, officers authorized to sign payment vouchers shall not be below the rank of Accountant I or a Senior Executive Officer - (Accounts) whose specimen signatures, along with the list of relevant votes chargeable, shall be furnished to Internal checking section, internal audit unit and the Paying Officer by the Accounting Officer.

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[64] http://documents.worldbank.org/curated/en/350601498244139497/pdf/116741-INTEGRATED-FIDUCIARY-SYSTEMS-ASSESSMENT-P160430-PUBLIC.pdf
[65] Chapter 1, PART II - FINANCIAL RESPONSIBILITIES OF PUBLIC OFFICERS. Financial Regulations (2009).
[66] FR 613. Financial Regulations (2009).
[67] Chapter 1 Part II (Financial Responsibilities of Public Officers), Chapter 4 (Expenditure-Classification and Control) and Chapter 6 (Payment Procedures).

367. Despite these documented internal control activities and responsibilities, evidences of weaknesses abound in the implementation of the control measures. In practice, such activities as authorization and approval procedures; segregation of duties; controls over access to resources and records; and verifications are generally not carried out as expected. Reconciliations; reviews of operating performance; reviews of operations, processes and activities; and Supervision (assigning, reviewing and approving, guidance and training) are big challenges to the effectiveness of the internal control framework.

368. The integration of payroll and personnel records is problematic in the current stage of IPPIS implementation with approximately one third of total Federal workers being managed under different personnel databases. This must have accounted for the lack of evidence showing that reconciliations are carried out between payroll and personnel data within IPPIS (at least every six months). The effectiveness of payroll commitment controls, including segregation of roles and responsibilities, is therefore ineffective with so many human resource databases operating within the federal system and no evidence of payroll audits undertaken in the last three completed fiscal years.

369. The internal control over expenditures activities is a major challenge. For example, information on expenditure outside financial reports, revenue outside financial reports and financial reports of extra-budgetary units are not widely and readily available. Despite the application of approaches that are designed to assess and prioritize compliance risks for some revenue streams, regrettably there is no tangible evidence gathered from the two other largest revenue generating agencies (NNPC and the Customs Authority) to assess, prioritize and manage inherent compliance risks. Furthermore, evidence from the aforementioned World Bank reports of the quarterly financial monitoring of SUBEBs being jointly conducted by staff of the Finance and Accounts Department and Internal Audit Unit of UBEC indicates weak internal controls. Issues flagged in the financial monitoring reports include unretired advances, ineligible expenditures, borrowings from the UBE Intervention Fund, investing of the UBE Intervention Fund in interest yielding securities, inadequate documentation for incurred expenditures, and non-rendition of financial returns by SUBEBs. Operational expenses are therefore a central concern in this Program. Internal controls over operating expenses will also require strengthening under the Program; the PAP therefore includes the institution of an enhanced accountability framework over operating expenditures.

(iv) Information and Communication

370. The PEFA assessment identified some weaknesses and challenges to information and communication across the PFM cycle, some of which are:

i. information and timeliness of information on transfers from central government to subnational governments with direct financial relationships to it, is not regulated by a fixed budget calendar. This might affect the predictability of the timeliness of such transfers;
ii. information on performance achieved for service delivery is not publicly available. The public is therefore not able to monitor outputs and outcomes indicators and query efficient and effective utilization of financial resources and the extent of development resulting there of;
iii. public access to fiscal information in the annual budget is very limited. For best practice, in annual budget preparation, government is expected to make available four basic elements and eight additional elements. However, in the period ending 2017, the government made available only two basic elements and three additional elements. This does not give a complete picture of central government fiscal forecasts, budget proposals, and outturn of the current and previous fiscal years;
iv. budget reports presented to the legislature contain fiscal outturns for the previous fiscal year but do not provide sufficient analysis for the deviations. Therefore, the expected robust legislative analysis and scrutiny of the budget will be limited;

v. the quality of revenue information gathered by OAGF from entities collecting most Federal government revenue, broken down by revenue type, is being affected by issues of classification;

vi. information on commitment ceilings for overhead cost and capital expenditure are not provided to budgetary units reliably and timely;

vii. information is not presented in the in-year budget reports with the same coverage as the original budget. Therefore, the in-year budget reports cannot be compared with the original budget approved by main economic categories and administrative headings;

viii. in-year budget reports are prepared quarterly and issued more than eight weeks from end of each quarter as against the legal limit of 30 days[68];

ix. public access to information on procurement is limited. Only two out of the six procurement-related types of information, that best practice requires, are made available to the public;

x. issues of materiality in the financial data reported raises some concerns as data on expenditure are not covered at the commitment stage but captured only at the payment stage;

xi. there are other financial information systems outside GIFMIS whose data integrity can be difficult to ascertain and maintain. For example, the expenditure of the National Assembly and the Judiciary arms of the FGN is not captured in GIFMIS; and

xii. currently the stock of expenditure arrears is not adequately monitored and reported.

(v) Monitoring

371. To ensure adequate monitoring and evaluation, the Financial Regulations[69] stipulate that "The Internal Auditor in charge will be directly responsible to the Accounting Officer for a detailed audit of the accounts and records and for the examination of the systems and procedures in force. Initially he will submit to the Accounting Officer a detailed program of audit and thereafter he will report monthly to the Accounting Officer on the progress of the Audit. He will also issue special reports, if necessary, when, in his opinion, the attention of the Accounting Officer and of the Accountant-in-charge must be called to an irregularity in the accounting records, or to an apparent weakness in the accounting procedure, or to any apparent in-attention to the reports of the Auditor-General, or to earlier internal audit report(s) issued by him." The regulation further states, "The Internal Auditor shall produce monthly, quarterly and half yearly reports to the accounting officer on the progress of the audit with copies to the Accountant-General and the Auditor-General."[70] In practice, the Office of the Accountant General of the Federation has an Audit Monitoring Department that monitors and coordinates the activities of audit departments across all budgetary units. There are Internal Audit Guidelines issued in 2011 that contain guidelines on internal audit report, and management audit.[71]

372. At the time of assessment, there is evidence gathered of internal audit departments preparing annual audit programs and monthly audit reports as required by regulations. However, there is no evidence of a systemic framework to query the extent to which the audit programs are successfully carried out; and only a few of the activities in the annual audit programs, across all budgetary units, are carried out. The explanation for this poor delivery of audit programs is paucity of funds to carry out the programs, and in some cases, lack of adequate interest and concern of some accounting officers to effective functioning of internal audit.

[68] Fiscal Responsibility Act, 2007. Section 30 (2).
[69] Financial Regulations (Revised Edition 2009), 1703, Page 108
[70] Financial Regulations (Revised Edition 2009), 1706 (i), Page 109
[71] Federal Ministry of Finance, Office of the Accountant General of the Federation, (Audit Monitoring Department) Internal Audit Guidelines. 2011. Pages 21-30

373. While periodic internal audit reporting and management consideration have been institutionalized, the management response in terms of corrective actions is still generally weak across the internal control environment. Some of the reasons adduced result from paucity of funds and in some cases institutional capacity to take necessary corrective actions. Evidences of these are in samples of audit reports of seven[72] high spending ministries reviewed.

374. Public resources are deployed to deliver services to the citizens; the efficient and effective deployment of such resources should therefore be audited to ensure service delivery performance. The analysis of documents gathered, during the assessment period, shows no evidence of performance (audit) reports or third-party evaluation reports, describing ultimately the impact of public policies and budgets and the extent of effectiveness in the role of governments in priority national development programs.

375. There are concerns in monitoring the financial and nonfinancial assets of government. For example, while the government maintains partial record of fixed assets at the MDA level with written and approved procedures and rules for the disposal of nonfinancial assets, there is, however, no legal requirement for disclosure of asset disposal information in annual budget or financial reports. This makes monitoring of nonfinancial assets through the internal audit system very difficult and inefficient. Moreover, information on financial assets is significantly incomplete or not available for some local companies with high state ownership, such as the Power Holding Companies of Nigeria (NHCN) successor companies, the Federal Mortgage Bank of Nigeria, the Development Bank of Nigeria, the Defense Industries Corporation of Nigeria and a range of other local and foreign companies. In addition, there is limited disclosure in financial statements with respect to receivables and investments in the state-owned entities. Without adequate information, monitoring in the internal control framework cannot be effective.

376. Although tools exist to make random requests for monitoring expenditure arrears through GIFMIS, full information is not captured and there is no evidence suggesting such a monitoring request was made more than once in 2018 and other previous years in a systematic manner. The effectiveness of monitoring expenditure arrears is seriously hampered by limited data in the books and availability of information to the public.

377. Procurement monitoring is also ineffective as the BPP website is not regularly updated with information on procurement plans and contract awards. As at the time of the assessment, the information available did not include complete data for the last completed budget year (2017).

4.3 PFM Strengths and Weaknesses

Aggregate Fiscal Discipline

378. The objective of enabling fiscal discipline is not being achieved within the FGN due to weaknesses in the macro-fiscal forecasting as well as in the control of the total budget and management of fiscal risks. The fact that the budget preparation takes place within an environment of reduced and highly volatile oil receipts does not help the FGN to achieve aggregate fiscal discipline in a prudent manner. The challenge ahead lies on trying to spend in a more efficient and economical manner, that is, the FGN seeking to achieve more developmental outcomes with less resources in a prospective environment led by a fast-growing population in a country demanding for more and better services.

[72] Federal Ministry of Environment, Federal Ministry of Defense, Federal Ministry of Education, Federal Ministry of Agriculture, Federal Ministry of Works and Housing, Federal Ministry of Transport and Federal Ministry of Water Resources.

379. The planning process is seriously hampered by the lack of credible information on available capital and oil resources, thus eroding the credibility of the budget. Also, the ability of the tax and service authorities not being able to collect more domestic resources and past due bills puts the FGN budget under increasing strain.

380. Both expenditure outturns and revenue outturns were far below targets (budget) during the last three completed fiscal years. Thus, aggregate fiscal discipline has been very weak. Likewise, control over contractual commitments is not sufficiently effective, creating a risk of generating further expenditure arrears.

Strategic Allocation of Resources

381. The objective of enabling strategic allocation of resources is not being fulfilled due to the inefficacy and poor coordination between planning and executing of the budget, not in line with Federal priorities and therefore not achieving policy objectives.

382. Weaknesses in revenue administration and the enforcing of salary and non-salary internal controls, constitute a concern to the FGN authorities and their pursuit to further increase the revenue base and create more fiscal space for investing in key infrastructure projects and heightening the country's economic competitiveness meaningfully.

383. Failure to prepare a complete budget on a three-year rolling basis does not help setting a framework for relative budget priorities, which should be reflected by means of spending ceilings by main budget heads. The strategic policy and sectoral/programmatic objectives are not intertwined in the MTSS development plans and medium-term sector strategies which could possibly provide the basis for guiding inter- (and intra-) departmental allocations. The PEFA assessment found a state of affairs whereby Federal finance and economic planning authorities are making efforts to link policy, planning and budgeting thus becoming the single most critical factor to address that is contributing to poor budgetary outcomes at the strategic and operational levels.

384. In the FGN, the personnel and procurement databases and control systems and processes are fragmented and ineffectual with policy making, planning and budgeting taking place independently of each other. Reportedly, planning is often confined to investment activities. Capital expenditures are already largely accounted for through the planning process, and a large portion of recurrent expenditures are pre-committed to the wage bill. For this reason, annual budgeting is reduced to allocating resources thinly across domestically funded capital expenditure projects and to the non-salary overhead portion of the recurrent budget.

385. As noted above, weaknesses relating to the strategic allocation of resources are the failure by budget authorities to direct resources to policy priorities because budgeting is treated mainly as an annual funding exercise, not measured on the basis of policy and physical outcomes and impact in service delivery. Other underlying causes of resource misallocation lie on the failure to cost the sector strategies and medium-term investment plans and establish policy linkages between the budget year and subsequent years' allocations. Lack of performance budgeting and other institutional mechanisms had not facilitated the allocation of resources to achieve strategic objectives either.

386. Predictability of resource flows and the criteria by which funding decisions are made do not seem to have been the objective of the medium-term approach. The resource allocation process has been

negatively affected by uncertainty, much of which is self-inflicted. The common tendency to make overly optimistic projections of domestic revenues is one example of FGN itself increasing the uncertainty of resource flows.

387. Thus, the mismatch between policy decisions and available resources has become a major source of uncertainty, again self-inflicted because it could be avoided by implementing a rigorous process that links policy making and planning to the budgeting and budget execution processes. The MTSS not being a priority in GIFMIS developmental plans is a concern.

Efficient Use of Resources for Service Delivery

388. FGN authorities have not been able to use budgeted revenues to achieve the best levels of public services within available resources. Low levels of predictability in the release of funds for capital projects and priority Federal programs, weak linkages between in-year budget adjustments and procurement plans and internal control weaknesses within personnel and procurement management are among the shortcomings identified, hampering improvements in the operational efficiency of service delivery.

389. The current weaknesses in performance management and monitoring undermine service delivery. Weaknesses in the accountability mechanisms - including frequency of in-year budget execution reports and issue of annual financial statements - make external audits difficult as counterchecks on inefficient use of resources. Publishing of performance targets and outcomes also assists the efficient use of resources though the lack of systematic program evaluation and data on resources available at service delivery units can undermine accountability. This is weak within the Federal Government of Nigeria. Such information would help management decision making to support improved service delivery.

390. Staff appointments, salary increases, and procurement oversight are also considered a result of deficient processes and systems, which are likely to limit the provision of basic public services and the efficiency of ongoing institutional activities within the FGN.

4.4 Performance Changes since the 2012 Assessment

391. **The 2019 PEFA Assessment was carried out using the 2016 methodology and a direct comparison with previous assessment is not advised.** To provide performance trajectories, the data were scored using the 2011 PEFA methodology and compared to the 2012 assessment, which used the same framework.

392. **The comparator offers results between the prior (2012) and the current PEFA (2019), however, the results have to be viewed with perspective**. The results show that the rating for 14 of the 28 indicators remained the same (including one rated NR now rated D), 10 indicators displayed improvements while 4 showed decline. However, in order to put things into perspective it is vital to take into account the failure in the prior PEFA review to acknowledge the existence of certain key data.

393. The data supporting the rating of the indicator on the existence of MTSS plans and the timeliness of changes in personnel records was not available in the report. The payroll processing remains particularly deficient in Nigeria, largely owing to the disintegrated personnel and payroll record and the exercising of internal controls being problematic under these conditions as weaknesses in the payroll processing. Public procurement control and oversight continue to be problematic despite the use of e-procurement tools.

Chapter 5. Government PFM Reform Program

394. **This Chapter discusses the Federal Government of Nigeria's overall approach to improve PFM performance and the prospects for future reform planning, implementation modalities and monitoring framework.** It also describes approach to PFM reforms, recent and ongoing reform actions and institutional considerations.

5.1 Approach to PFM reforms

395. From the return to democratic rule in 1999, every successive government in Nigeria has embarked on one type of reform or another aimed at supporting institutional capacity building, growing the economy, and accelerating economic and social development. These reforms have been driven through public sector institutions in collaboration with private sector, other non-state actors and development partners.

396. The Federal Government of Nigeria established the Bureau of Public Service Reforms (BPSR) in 2004 as a body "to initiate, coordinate and ensure full implementation of public service reforms in Nigeria."[73] As part of the institutional arrangement for the coordination and focus of reform implementation in Nigeria, PFM reforms are being driven and implemented through:

- Ministry of Finance;
- Ministry Budget and National Planning;
- Budget Office of the Federation;
- Office of the Accountant General of the Federation;
- Office of the Auditor General of the Federation;
- Federal Inland Revenue Service (FIRS);
- Debt Management Office;
- Bureau of Public Procurement; and
- Fiscal Responsibility Commission (FRC).

397. Following years of unstructured reforms after the return to democratic governance in 1999, the Federal Government in 2004 launched the National Economic Empowerment and Development Strategy (NEEDS) which focused on Nigeria's commitment to sustainable growth, and poverty reduction. NEEDS[74] was based on three pillars: (1) empowering people and improving social service delivery; (2) fostering economic growth, in particular in the non-oil private sector; and, (3) enhancing the effectiveness and efficiency of government, while improving governance. It was a medium-term strategy (2003-2007) that derives from Nigeria's long-term goals of poverty reduction, wealth creation, employment generation and value re-orientation and was upgraded to NEEDS II in 2007.

398. Late in 2005, Goldman Sachs[75] introduced the concept of the Next Eleven (N-11) to identify those countries (Bangladesh, Egypt, Indonesia, Iran, Korea, Mexico, Nigeria, Pakistan, Philippines, Turkey and Vietnam) that could potentially have a BRIC[76]-like impact in rivalling the G7 because, among other reasons, they were the next set of large-population countries beyond the BRIC. The report suggested that if current

[73] http://www.bpsr.gov.ng/index.php/aboutus/who-we-are
[74] http://documents.worldbank.org/curated/en/234301468290438608/Nigeria-National-Economic-Empowerment-and-Development-Strategy-and-joint-IDA-IMF-staff-advisory-note
[75] https://www.goldmansachs.com/insights/archive/archive-pdfs/brics-book/brics-chap-11.pdf
[76] Brazil, Russia, India and China.

reforms are sustained, Nigeria would emerge the strongest economy in Africa, superseding South Africa and Egypt; by 2020 it would become one of the 25 biggest world economies and by 2025 the 20th largest economy in the world. The report appears to have emboldened the Federal Government to embark on Nigeria Vision (NV) 20:2020 which was aimed at growing and developing Nigeria and bringing her to the league of the world's 20 leading economies by year 2020. The NV 20:2020 vision statement was - "By 2020, Nigeria will have a large, strong, diversified, sustainable and competitive economy that effectively harnesses the talents and energies of its people and responsibly exploits its natural endowments to guarantee a high standard of living and quality of life to its citizens".

399. In 2017 the Federal Government initiated a Medium Term (2017-2020) Plan, the Economic Recovery and Growth Plan (ERGP), for the purpose of restoring economic growth with the message and understanding that the role of government in the 21st century must evolve from that of being an omnibus provider of citizens' needs, into a force for eliminating the bottlenecks that impede innovation and market-based solutions. While recognizing the need to leverage Science, Technology and Innovation (STI) and build a knowledge-based economy, ERGP is also consistent with the aspirations of the Sustainable Development Goals (SDGs), particularly in that its initiatives address the three dimensions of economic, social and environmental sustainability issues in the SDGs.

400. ERGP is driven by the following principles: Focus on tackling constraints to growth; Leverage the power of the private sector; Promote national cohesion and social inclusion; Allow markets to function; Uphold core values. It has three broad strategic objectives that will help achieve its vision of inclusive growth: (1) restoring growth, (2) investing in our people, and (3) building a globally competitive economy.

401. The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Nigeria on March 5, 2018[77] noting that "the Nigerian authorities have made progress in implementing the Economic Recovery and Growth Plan (ERGP)". It was further noted that, in line with past IMF advice, the Nigerian government also recorded some improvements in tax policy and administration, introduced new excises, and realized significant gains in improving the business environment, including through efforts to strengthen anti-corruption initiatives. However, it was observed that comprehensive and coherent policy actions to address existing challenges remain urgent. These actions require urgent initiation of fiscal consolidation that frontloads non-oil revenue mobilization measures, a tight monetary policy, full exchange rate unification allowing the accumulation of additional buffers, a stronger banking sector, strengthening public financial management and faster implementation of the structural reform agenda underpinning the authorities' ERGP.

5.2 Recent and on-going reform actions

402. As documented[78], the Federal Government has, since 1999 to date, introduced several reforms in response to fiscal and macroeconomic challenges. Notable evidence of recent reform actions are in the following key areas: (1) Legal and regulatory framework; (2) Accounting and Reporting; (3) Revenue Administration and Taxation; (4) Fiscal Management, Accountability and Transparency; and (5) Integrated Payroll and Personnel Information System (IPPIS).

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[77] 2018 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR NIGERIA. IMF Country Report No. 18/63. March 2018.

[78] Public Service Reforms in Nigeria 1999-2014. A Comprehensive Review. Office of The Secretary to the Government of the Federation. The Presidency. April 2015.

Compendium of Public Service Reforms in Nigeria (2015-2017). Bureau of Public Service Reforms, The Presidency, under the EU-SUFEGOR Support Program. August 2017

Legal and regulatory framework[79]

403. One of the first steps taken by the government in recent years was to restore rule-bound financial management by re-issuing the Financial Regulation. Major PFM related laws enacted include: (i) Allocation of Revenue (Abolition of Dichotomy in the Application of Principle of Derivation) Act, 2004 (ii) Public Procurement Act (2007), (iii) Fiscal Responsibility Act (2007), (iv) Statistics Act (2007), (v) Federal Inland Revenue Service (Establishment) Act (2007), (vi) Value Added Tax (Amendment) Act, 2007, (vii) Companies Income Tax (Amendment) Act, 2007, (viii) Nigeria Extractive Industries Transparency Initiative (NEITI) Act, 2007, (ix) Nigeria Sovereign Investment Authority (Establishment, etc.) Act (2011), (x) Freedom of Information Act (2011), (xi) Debt Management Bureau (Establishment) Act, 2011 and (xii) Fiscal Responsibility Commission (Amendment), Act 2011.

404. Other relevant legislations include the Independent Corrupt Practices and Other Related Offences Act, 2000; Economic and Financial Crimes Commission Act, 2004; Advance Fee Fraud and other related Offences Act, 2006; the 2011 amendment of Evidence Act CAP E14 LFN 2004 that allows admissibility of electronic evidence in a court of law which is very important for the implementation of GIFMIS; Money Laundering (Prohibition) (Amendment) Act, 2012; and Pension Reform Act (2014). Weak institutional capacity and lack of political will continue to hamper effective implementation and compliance with these legislations. Two very important legislations that are in the process are the organic finance/budget and audit laws.

Accounting and Reporting

405. *Government Integrated Financial Information System (GIFMIS)* – GIFMIS is a very important accounting and reporting reform which acts as a veritable platform for implementing other reforms. It is used to support the government in all aspects of budget preparation, execution, and management of government financial resources. The system is designed to cover all spending units financed from the federal government's budget and to process and manage all expenditure transactions (including interfaces) pertaining to these units.

406. All steps in the expenditure cycle, including budget appropriations, financing limits, commitments, verification, and payment transactions are recorded by and managed through the GIFMIS facility. The introduction of GIFMIS has improved the efficiency of government expenditure. On 18th October 2015, full GIFMIS functionalities were deployed to eight pilot budgetary units and by 31st December 2016, 105 budgetary units have been covered, this number has not increased to date due to data center enhancement requirements. The deployment status as at 31st December 2018 is as shown below:

[79] http://lawnigeria.com/FEDERATIONLAWS-2015-1999-ALL.html

Functionalities	Target (MDAs)	December 2016 (MDAs)	December 2017 (MDAs)	December 2018	
				No. (MDAs)	%
Budget Preparation	849	1	-	832	93.30
Revenue and Receivables Management.	849	766	1	766	93.30
Payables and Payment Management	849	766	766	766	93.30
Accounting and Reporting	849	766	766	766	93.30
Cash Planning	849	1	1	1	0.12
Procurement and Contract Management.	849	105	105	105	12.79
Stores Management	849	105	105	105	12.79
Assets Management	849	105	105	105	12.79
Number of Active Users	45,051	9,765	16,064	16,857	37.42

Source: Office of Accountant General; Presentation to African Development Bank Technical Mission to conduct a review of Country Strategy Paper (CSP) 2013-2017, 5th April 2019.

407. *Comprehensive and standardized National Chart of Accounts (NCOA)* – Implementation of the new NCOA commenced with the 2011 Budget with a Treasury Circular issued in 2010 directing budgetary units of government to adopt it in execution of the 2011 Budget. The NCOA is multi-dimensional in the sense that budget and accounting data can be analyzed in different ways depending on need. It is consistent with the IMF Government Finance Manual 2001 (GFS), International Public Sector Accounting Standards (IPSAS) of International Federation of Accountants (IFAC) reporting requirements, and other known modern public sector budgeting and accounting coding models.

408. Following the commitment of the Federal Government to migrate from IPSAS cash basis of accounting to IPSAS accrual basis of accounting on January 1, 2016, the Economic segment of the NCOA codes was revised and updated to accommodate all elements of the financial statements in line with the IPSAS Accrual Basis of Accounting. In the process some codes were reclassified, some were deleted, and some were added. The adoption[80] and commencement[81] was widely (across the three tiers of government) circulated through circulars, and trainings were held for Officers involved in Public Financial Management in all the Ministries, Departments & Agencies of Federal Government of Nigeria. Guidelines[82] were also issued accordingly. However, as at the time of this assessment, due to constraints in data, it was not possible to match the total expenditure by administrative heads with the total by economic classification. Moreover, the federal government officially-published documentation, such as the annual approved budget, quarterly budget implementation reports, and the annual financial statements for the completed fiscal year, do not confer with all the NCOA.

409. *International Public Sector Accounting Standards (IPSAS)* – In July 2010, the Federal Government approved the adoption of the International Public Sector Accounting Standards (IPSAS). The Federal Government IPSAS Technical Sub Committee produced a harmonized format for both the cash and accrual IPSAS basis of accounting. The objective of IPSAS is to prescribe the manner in which general purpose financial statements should be presented in order to ensure comparability both with the entity's own

[80] TRY/AS &BS/2015OAGF/CAD/026/YOL.III240 - COMMENCEMENT OF IMPLEMENTATION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS ACCRUAL BASIS BY ALL PUBLIC SECTOR ENTITIES IN NIGERIA, 1 JANUARY, 2016

[81] TRY/A-B-/2013OAGF/CAD/026N.I/I02 - ADOPTION OF UNIFORM FINANCIAL YEAR END BY ALL PUBLIC SECTOR ENTITIES IN THE THREE TIERS OF GOVERNMENT

[82] TRY A5&B5/2016 OAGF/CAD/026/V.III/7 – Guidelines and Procedures for the Preparation of IPSAS Accrual Basis of Accounting Compliant Statements by Federal Government Public Entities (PSEs).
TRY A4& B4 1201 OAGF/CAD/026/V.l111 .... - Guidelines for the Recognition, Measurement and Disclosure of Outstanding Liabilities as at 1stJanuary, 2016 in the Books of Accounts of Public Sector Entities

financial statements of previous periods and with the financial statements of other entities. The IPSAS Cash was planned to take effect from 2014, while IPSAS Accrual was to take effect from 2016. The planned deadlines were not achieved; however, the Federal Government has started putting in place the building blocks for full implementation of IPSAS Accrual Reporting.

410. *Government Finance Statistics* – The Federal Government is in the process of adopting and implementing the IMF Government Finance Statistics (GFS) reporting system; as part of the process, a GFS Committee, including representatives from all key agencies, has been established. To further support the initiative, a technical assistance mission of the IMF in Government Finance Statistics (GFS) was conducted during November 19-30, 2018, to support the government to identify appropriate steps towards improved GFS.

Revenue Administration and Taxation

411. Revenue Administration and Taxation reform started in 2004 with a reorganization of Federal Inland Revenue Service (FIRS), which led to the professionalization of the FIRS through the enactment of the Federal Inland Revenue Service (Establishment) Act, 2007. The Act grants FIRS autonomy over staffing, conditions of service, and management. Other reforms include:

a. The National Tax Policy (NTP), 2012, which defines tax as 'a financial charge or levy imposed upon an individual or legal entity by a State or a legal entity of the State; it is a pecuniary burden laid upon individuals or property to support government expenditure'. In 2007, the NTP[83] was reviewed with a workable implementation strategy;
b. Establishment of a modern IT-based unique Taxpayer Identification Number (TIN) system and an automated Integrated Tax Administration System (ITAS);
c. E-Tap pay, Direct/Auto VAT Collection, E-Filling Platform and Online Tax Payment;
d. Waiver of Tax Penalty and Interest Program - Between October 5th to November 24th, 2016, FIRS gave a 45-day window for taxpayers owing tax liabilities, inclusive of interest and penalty for three years (2013 to 2015), to come forward and pay a minimum of 25 % of their actual tax liability and spread the balance while the penalty and interest are waived;
e. Federal Engagement and Enlightenment Tax Teams (FEETT) were set up in 2016. The FEETT ran campaigns on television and radio in five languages on engagement, education, enlightenment and tax audit;
f. Voluntary Asset and Income Declaration Scheme (VAIDS)[84] mandated by Executive Order 4 of June 29, 2017. This program ran from July 1st 2017 to March 31st 2018, granting tax defaulters waivers on penalty, interest payment and criminal prosecution if they voluntarily stepped forward to pay their outstanding tax liabilities from 2011-2016.
g. Acceptance of the critical view of the May 2018 TADAT assessment conducted by external expertise with the subsequent establishment of a Steering Committee within FIRS to follow up on the conclusions and recommendations made in the TADAT assessment;
h. Introduction of a combination of administrative reforms, including innovating actions and key improvements in tax auditing starting in 2018, to improve domestic revenue mobilization which the Federal Government has introduced. Preliminary data suggest that these measures have resulted in improved revenue collection;
i. Tax audit reform in FIRS with a policy that "no office commences and concludes a tax audit case all by itself";
j. Continuous upgrade of FIRS and NCS IT procedures through SIGTAS and ASYCUDA respectively, and web applications to facilitate tax registration and collect up to date

[83] https://www.firs.gov.ng/sites/Authoring/contentLibrary/178d5eb9-4bb4-4845-ee02-13ac6b10c2afNational%20Tax%20Policy%20(Revised)%202017.pdf
[84] https://vaids.gov.ng/website-about.html

taxpayer information. The integration of the SIGTAS and ASYCUDA applications to GIFMIS is a work in progress in the GIFMIS agenda for the coming years;

k. Introduction of anti-fraud policy consisting of risks analysis tools, internal controls, and some crosschecking of data, as well as a more ambitious audit program by FIRS management;
l. Upgrade of FIRS website to include procedures, process and forms for registration and payment of taxes including allowing big corporate taxpayers to self-assess at the beginning of the tax year and pay their tax liability in 12 monthly instalments;
m. Establishment of Presidential Treasury Committee to ensure monthly reporting of revenues collected and to serve for purposes of reporting and programming of available cash resources for the remainder of the fiscal year; and
n. Inauguration of Presidential Revenue Reconciliation Committee to arrive at unified estimates of past revenue performance.

Fiscal Management, Accountability and Transparency

412. *Open Government Partnership (OGP)* – The OGP is an international multi-stakeholder initiative focused on improving transparency, accountability, citizen participation and responsiveness to citizens through technology and innovation. In a bid to deepen institutional and policy reforms in fighting corruption, the Federal Government of Nigeria joined the Open Government Partnership (OGP) in July 2016 as the 70th member country. A National Steering Committee (NSC), with the Federal Ministry of Justice as the Coordinating Ministry and co-chair, was constituted. A co-chair was nominated by the civil society in line with the OGP process that requires 50% civil society participation. A National Action Plan which consolidates existing and new reforms within four thematic area was developed. The four thematic areas were[85]: (a) promoting fiscal transparency; (b) access to information; (c) anticorruption and asset disclosure; and (d) citizen engagement and empowerment.

413. Furthermore, the Office of the Accountant General of the Federation (OAGF) has created the 'Open Treasury Portal' in GIFMIS where all stakeholders can access and query government financial transactions; arrangements are being made to formally launch the portal before May 29, 2019. Despite the existing legislation requiring the freedom of public information (namely, the Freedom of Information Act of 2011) and Nigeria's commitment to OGP, there is no specified schedule requiring the publishing of key fiscal information by the Federal Government in certain times of the budget year.

414. *Adoption of Treasury Single Account (TSA)* – TSA is a unified structure of government bank accounts enabling consolidation and optimal utilization of government cash resources. The Federal Government commenced the implementation of TSA in 2012 to, among others:

a. Ensure complete, real-time information on government cash resources;
b. Help prepare accurate and reliable cash flow forecasts;
c. Optimize the cost of government operations;
d. Facilitate efficient payment mechanisms;
e. Improve operational and appropriation control during budget execution;
f. Enhance efficiency and timeliness of bank reconciliation; and
g. Facilitate timely and more complete accounting statements/reports.

415. In 2015 there was a Presidential order directing all budget agencies of government to be on the TSA platform. As of the time of this assessment, all budgetary units of the Federal Government (including

[85] Nigeria OGP National Action Plan (January 2017 – June 2019)

those not on the GIFMIS platform) are on TSA. Budgetary units that are not on GIFMIS operate TSA sub-accounts through the Central Bank of Nigeria payment gateway.

416. *Budget Reform* – The major instrument of Budget Reform is the Fiscal Responsibility Act (FRA), which came into force on 30 July 2007. The FRA[86], as stated in its preamble, is an Act to provide for prudent management of the nation's resources, ensure long-term macroeconomic stability of the national economy, secure greater accountability and transparency in fiscal operations within a medium-term fiscal policy framework, and establish the Fiscal Responsibility Commission. The Act is meant to strengthen fiscal policy formulation and implementation from the tradition of short-term fiscal perspective to medium to long-term sustainability. Other specific budget reform actions include:

a. Introduction of an oil price-based fiscal rule that has helped stabilize the economy and insulate it from the fluctuations and uncertainties of international oil price pricing mechanism;
b. Creation of a Sovereign Wealth Fund (SWF) from the excess earnings accruing out of the excess crude account[87];
c. Introduction of multiyear fiscal forecasting, including the Fiscal Strategy Paper (FSP) and Medium-Term Fiscal Framework (MTFF) in line with some provisions of the Fiscal Responsibility Act (FRA);
d. Introduction of Zero-Based budgeting in preparing the 2017 annual budget;
e. Formulation of Medium-Term Sector Strategies (MTSS) which has recently been updated to include prioritization, scoring, selection and costing of government programs and projects; and
f. Increase in Federal Government budget coverage to include 9 large Government-Owned Enterprises (excluding NNPC) and development-partner funded-projects starting in 2019.
g. Proposed Organic Budget Law is in its latest revised version and now awaiting final approval by the National Assembly before end of 2019 to improve budget timelines and the efficiency of the federal budget process;
h. The FGN has undertaken the commitment to initiate the process to migrate to GFSM 2014, with the creation of a GFS Committee as a first important step on this direction. Awaiting, however, is the need for FGN authorities to outline the Terms of Reference and support the division of roles and responsibilities required for supporting the implementation of various activities in the GFS migration process; and
i. MDAs are being mandated, as part of reform under the GIFMIS project, to prepare annual cash plans for implementation of their approved annual budgets and enter the plan into GIFMIS. On a monthly and quarterly basis, MDAs will revise their cash plan to modify the initial cash plan and submit the revised cash plan to OAGF for update. As required by Section 25 of the Fiscal Responsibility Act, the OAGF shall prepare an annual cash plan detailing the application of funds budget for MDAs.

417. *Public Investment Management* – The following reforms have been initiated to improve public investment management system and procedures:

a. The launching of the GIFMIS subsidiary ledger on fixed assets which avails MDAs to bring their fixed assets to account has built and increased momentum on the accrual IPSAS implementation process. MDAs continue the effort to register the value of their 'legacy' assets in accordance to plans. MDAs are currently making use of the IPSAS Guidelines, and staff responsible in the finance and administrative units across the FGN are benefiting from technical guidance and training provided by OAGF; and

[86] Fiscal Responsibility Act (2007)
[87] Nigeria Sovereign Investment Authority (Establishment) Act, 2011

b. Unified effort at registering land and sub-soil assets and mineral resources to ensure greater transparency and confidence in the business sector; forming part of improving the conditions to 'Ease of Doing Business' in Nigeria. For example, the Ministry of Public Works and Housing has created a land registry (the National Land Repository System) processing over 1,500 secondary transactions on Federal Government lands nationwide and the titling of over 2,000 lands, thus empowering the holders to raise investible funds to establish new and grow existing businesses. In addition, the Nigeria Extractive Industries Transparency Initiative (NEITI) has established a regulatory framework to oversee the valuation of mineral resources and collection, custody and reporting of solid minerals and sub-soil assets.

418. *Debt Management* – The Debt Management Strategy 2016 – 2019 was approved by the Federal Executive Council in June 2016. The Debt Sustainability Analysis (DSA) is undertaken annually to access Nigeria's capacity to finance its projects/programs and service its obligations, without unduly large adjustments that may compromise its macroeconomic stability, overall growth and development. Other reforms initiatives include:

a. Quarterly publication of debt stock, debt servicing, as well as debt issuance details and its associated quarterly calendar by the DMO;
b. Elaboration, delivery to general and specialized public, of Nigeria's Debt Strategy (DMS) and National Debt Management Framework (NDMF) every 4 and 5 years;
c. The Debt Strategy 2016-2019 considers combinations of various financing options and instruments relative to the existing financing structure and debt composition. The results obtained (debt cost and risks) are compared to select a preferred strategy that is in line with the key debt management objectives. Key elements include: (a) debt portfolio composition, (b) funding sources and (c) interest rate and refinancing risks. In 2017, the Federal Government started implementing its strategy towards a 40/60 mix of external and domestic borrowing, and towards longer-term domestic debt. The 2018 Federal Government Eurobond issuances totaled US$ 5.4 billion (1.3% of GDP in 2018), driving the share of external debt in total FGN external debt to 30% (27% in 2017); and
d. In 2018, subnational debt monitoring was improved by updating the quarterly state reporting template and strengthening subnational debt verification processes; and the establishment of a Contingent Liability Unit in DMO to initiate fiscal risks monitoring by establishing a contingent liability. These are in line with the 4th DMO Strategic Plan 2018-2022.

419. *Internal Audit*. Ongoing actions to strengthen the internal audit function include the following:

a. Modernization of Internal Audit – The main objective of the modernization plan is to suggest measures to bring up the level of public sector internal audit with a view to ensuring that the government internal audit function adds value to government's operations, thereby contributing to the success of the Economic Reform and Governance Project (ERGP)[88]. An internal audit modernization strategy with medium-term action plan has been adopted and training conducted on risk-based auditing and Computer-Assisted Auditing Techniques (CAATs) for Internal Auditors. Using the International Professional Practices Framework (IPPF) of internal auditing developed by the Institute of Internal Auditors (IIA), Internal Audit Manuals have been prepared setting out the principles, policies and procedures that govern government internal audit practices and processes in Nigeria. Training has been conducted and pilot audit undertaken.

b. Presidential Initiative on Continuous Audit (PICA) – The Federal Executive Council granted the approval for the establishment of PICA in March 2016 with main objectives of: (a) ensuring

[88] http://gifmis.gov.ng/gifmis/index.php/pfm-reforms

that all federal government receipts and payments are subjected to financial rules and regulations; and (b) identifying areas of wastages and leakages in personnel cost, overhead cost, capital expenditure, statutory transfers, debt services among others.

420. *Oversight of State-Owned Enterprises (SOEs)* – The Public Accounts Committee of Federal House of Representatives, in March 2018, ordered Federal Government public corporations to submit their financial statements to the Office of the Auditor General of the Federal. This might have spurred many public corporations to submit backlog of financial statements. In addition, starting in 2019, the BOF started increasing the FGN budget coverage, to include 9 large Government-Owned Enterprises (their revenues and expenditures) and development-partner funded-projects.

421. *Introduction of the Efficiency Unit* – The Efficiency Unit was set up in Federal Ministry of Finance in November 2015 to address the disproportionate share of recurrent expenditure to capital expenditure which has constrained the development of infrastructure as well as wastage and inefficiency in utilization of capital expenditure funds. Broadly, the Mandate of the Unit is to review the expenditure profile and pattern of the Federal Government and work with budgetary units to introduce more efficient processes and procedures that will ensure that the Government's revenues are deployed in an efficient manner that translates to value for money and savings to government.

422. *Public Procurement* – The Country Procurement Assessment Report (CPAR) 2000 formed the basis for the enactment of the Public Procurement Act, 2007[89], following which the Bureau of Public Procurement (BPP) was established. BPP has introduced the following reforms:

a. Development of National Standard Bidding Documents, procurement manuals, regulations and other instruments which are in use in all budgetary units;
b. Establishment of procurement cadre in the civil service;
c. Short courses have been conducted for procurement officers;
d. Implementation of the e-procurement system;
e. Price-Checker in collaboration with the Efficiency Unit of the Federal Ministry of Finance;
f. Membership to the Open Government Partnership (OGP) while leading the implementation of Commitments in the National Action Plan (2017-2019) of the OGP[90],
g. National Open Contracting Portal (NOCOPO) developed in co-creation with the Civil Society Organizations (CSOs) and private sector with support from OCDS;
h. Development of the Framework Agreement between the government and suppliers of goods and services aimed at harmonizing disparate procurement activities in different budgetary units and leverage on benefits of economy of scale through aggregation of procurement needs across all federal budgetary units. The Framework Agreement has, however, not been adopted as initial discussion by BPP to adopt it did not gain political support;
i. Continued procurement capacity building and procurement certification through support from the World Bank and African Development Bank; and
j. Capacity building of BPP and the Office of the Auditor General of the Federation to measure public procurement performance and to conduct technical audit.

423. *Ease of Doing Business* – In July 2016, the Presidential Enabling Business Environment Council (PEBEC), Chaired by the Vice President, was inaugurated as a major initiative to reform the business environment. PEBEC was also to attract investment and diversify the economy to reduce the nation's reliance on oil. The big picture was to make it easier for micro, small and medium enterprises to do business, grow and contribute to sustainable economic activity, and provide the jobs essential to improving social inclusion. The implementation of some of these reforms and others across various sectors helped

[89] Public Service Reforms in Nigeria 1999-2014. A Comprehensive Review. Office of The Secretary to the Government of the Federation. The Presidency. April 2015.
[90] https://www.opengovpartnership.org/documents/nigeria-national-action-plan-2017-2019

Nigeria to move up 24 places in the World Bank's Ease of Doing Business Index 2018. Nigeria actually moved up from the 168th position in 2017 ranking to 145th in the 2018 report scoring 52.03 out of 100[91].

Integrated Personnel and Payroll Information System (IPPIS)

424. Building on the success of the 2007 pilot phase, the government embarked on a service-wide deployment of IPPIS in 2011. The government's intention was that by the end of 2014, all 585 government budgetary units, (made up of the mainstream Civil Service and other Agencies in the Public Service drawing personnel costs from the national budget) would have been enrolled onto the IPPIS platform. However, this hope was not realized. In 2018, the fourth step of verification and enrollment, including part of military forces started; as of January 2019, approximately 1.2 million public workers are paid on the budget of the Federation, of which 751,428 are managed by more than 500 budgetary units on the IPPIS platform, while approximately 400,000 (half of this comprise of armed forces and the remaining half from Universities, Polytechnic Institutes and other agencies and departments from the Ministry of Education) Federal workers are paid outside the IPPIS platform.

5.3 Institutional considerations

425. Continuity and sustainability of reforms, which usually involve continuously changing existing governance systems, can be challenging, especially if needed institutional capacity, communication of the expected changes, the reasons behind the expected changes, and the planned or anticipated results to be achieved are lacking. Therefore, increased attention to some key issues can help support government in effective reform planning, implementation, and sustainability. Some of the institutional issues that need to be considered are: (i) Government leadership and ownership, (ii) Main outcomes of the budgetary system, (iii) Sustainable reform process, (iv) Transparency of the PFM program, (v) Reforms coordination across government, (vi) Sequencing of reforms, and (vii) Institutional and administrative capacity building, including appropriate staffing and value orientation. These issues are further explained below.

426. *Government leadership and ownership* – High level political support and ownership is very crucial to chart a clear policy direction which is necessary to guide the public service in making reform implementation decisions. This will ensure entrenched and strong institutional practices that will help the public service to give needed support to new administrations in charting policy direction that can sustain tested and proven, fully-implemented and ongoing reforms. Such entrenched and strong institutional practices will reduce the risk of policy dysfunction arising from policy inconsistency and reversal. In the recent past, government has shown some leadership in introducing reform initiatives through sponsored executive bills[92], however there are slow responses to the implementation of reforms. For example, there is slow response to the amendment to the Public Procurement Act as it affects the National Council on Public Procurement (NCPP) by the National Assembly[93].

427. *Main outcomes of the budgetary system* – PFM reforms are designed to enable the government to deliver on three main outcomes (aggregate fiscal discipline, strategic allocation of resources and efficient use of resources for service delivery) of the budgetary system. The achievement or otherwise of these outcomes has significant implications for economic growth and human development. While there are no measures in place to assess the achievement of these budgetary outcomes, weaknesses in the PFM system have the potential of hindering the achievement of the outcomes.

[91] https://punchng.com/on-the-ease-of-doing-business-in-nigeria/

[92] https://www.vanguardngr.com/2018/07/buhari-govt-sent-12-bills-to-national-assembly-in-3-years/

[93] Compendium of Public Service Reforms in Nigeria (2015-2017). Bureau of Public Service Reforms, The Presidency, under the EU-SUFEGOR Support Program. August 2017.

428. *Sustainable reform process* – Reform implementation and sustainability need institutionalized tradition of policy continuity through discernible roles for administrators that put them firmly in charge of policy implementation, monitoring and evaluation. PFM reforms are institutionalized in the Federal Ministry of Finance and Federal Ministry of Budget and National Planning with strong technical support and funding from development partners, which should ordinarily ensure sustainability of reforms. To encourage sustainability of PFM reforms, development partners and donor agencies have funded initiatives to ensure professionalization of the federal civil service and continuous staff capacity development support in the form of funding, technical advice and capacity building[94]. In addition, one of the key objectives of the Nigeria's Economic Governance, Diversification and Competitiveness Support Program (EGDCSP) of the African Development Bank is strengthening public finance management through enhanced fiscal performance and sustainability (expanded and efficient tax base and improved revenue collection, improved efficiency of public expenditure, and enhanced fiscal transparency and accountability)[95].

429. *Transparency of the PFM program* – According to the 2018 Corruption Perceptions Index (CPI) reported by Transparency International[96], Nigeria is the 144 least corrupt nation out of 175 countries. Corruption Rankings for Nigeria averaged 121.48 from 1996 until 2018, reaching an all-time high of 152 in 2005 and a record low of 52 in 1997[97]. This ranking is confirmed by the high citizens perception of official corruption. Such perception stifles reform interest and enthusiasm, commitment, and efforts that undermine effective implementation of PFM reforms. Moreover, weaknesses in existing PFM systems and institutions have contributed in no small measure to reinforce this citizens perception. Therefore, strengthening of PFM systems and institutions is very crucial to curtailing perceived and real corruption and to promote conducive environment for reform implementation and sustainability.

430. *Reforms coordination across government* – Effective implementation and sustainability of PFM reforms is predicated on effective policy coordination between and among the various arms of government. There should be mechanisms to ensure timely decision-making, especially for cross-cutting reforms and the clarity of roles and responsibilities in the implementation of reforms. GIFMIS is a very robust platform for effective coordination and implementation of PFM reforms; it has modules for Accounting and Reporting, Revenue Administration and Taxation, Fiscal Management, Accountability and Transparency, and Integrated Payroll and Personnel Information System (IPPIS). However, the non-activation of all the modules in GIFMIS has impacted negatively on effective coordination and implementation of PFM reforms. There is also the need for better coordination between the executive and the legislature. The advantages of this synergy include: (i) reduction and, eventually, elimination of delays in passing the budget, (ii) increased potential for greater budget implementation, (iii) allowing budgetary units more time to plan budget implementation, (iv) potential for greater savings, (v) creation of an atmosphere of stability and harmony needed for reform.

431. *Sequencing of reforms* – Sequencing of reforms at the technical level is very crucial for effective implementation of PFM reforms. The achievement of the objectives of some reforms are dependent on the level of performance and effectiveness of other PFM functions. For example, there cannot be aggregate fiscal discipline without the effective implementation of TSA. It is therefore very important to consider the dependency of reform initiatives on each other before embarking on them for better coordination and to prevent wastages.

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[94] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3139340

[95] https://www.afdb.org/en/news-and-events/afdb-supports-nigerias-economic-governance-programme-16306

[96] https://www.transparency.org/cpi2018

[97] https://tradingeconomics.com/nigeria/corruption-index

432. *Institutional and administrative capacity building* – Capacity constraints can pose a serious challenge to PFM reform initiatives. Therefore, the need for strong institutional and administrative capacity cannot be overemphasized. In addition, there is the need for professional staffing and proper value orientation to drive and administer the institutions. Well qualified and experienced professional staff, that are merit driven, are vital elements necessary for enhancing reform implementation and sustainability. The constitutional 'Federal Character' should be implemented in a way that enhances the role and visibility of merit-based appointments to help the cause of effective implementation of PFM reforms. Necessary attention must be paid to human capacity building and attitudinal change for PFM reforms to succeed in delivering desired results. Capacity building must ensure acquisition and application of knowledge and skills, and paradigm shift from long running habits. Furthermore, integrating and enforcing value re-engineering and re-orientation into the reform process is key to the success of any PFM reform initiative.

Annex 1: Performance Indicator Summary

Indicator/Dimension	Score	Explanation
Pillar 1: Budget Reliability		
PI-1 Aggregate expenditure outturn	C	Aggregate expenditure outturn was 105.1%, 80.5%, and 87.4% of the original approved budget in the fiscal years 2015, 2016, and 2017, respectively.
PI-2 Expenditure composition outturn	**D**	**Overall rating based on M1 methodology**
2.1 Expenditure composition outturn by function	D*	Calculation of variance in expenditure composition by program, administrative or functional classification is problematic, serious discrepancies exist between administrative and economic classifications.
2.2 Expenditure composition outturn by economic type	D	Variance in expenditure composition by economic classification was 19%, 28%, and 20.5% in fiscal years 2015, 2016, and 2017, respectively.
2.3 Expenditure from contingency reserves	D*	There is insufficient evidence to assess.
PI-3 Revenue outturn	**D**	**Overall rating based on M2 methodology**
3.1 Aggregate revenue outturn	D	Actual revenue collection was 76.4%, 54.4%, and 61.2% of budgeted revenues in the fiscal years 2015, 2016, and 2017, respectively.
3.2 Revenue composition outturn	D	Variance in revenue composition was 11.9%, 56.5%, and 31.1% in fiscal years 2015, 2016, and 2017, respectively.
Pillar 2: Transparency of Public Finances		
PI-4 Budget classification	**C**	Budget formulation, execution, and reporting are based on an administrative and economic classification that is generally compatible to GFS standards, with the exception of certain elements. The functional classification is compatible to COFOG standards, and a major building block in the chart of accounts, but not used in most of the budget process.
PI-5 Budget documentation	**B**	FGN provides 3 basic elements and 5 additional elements.
PI-6 Central government operations outside financial reports	**D**	**Overall rating based on M2 methodology**
6.1 Expenditure outside financial reports	D*	Evidence is not available for a significant number of extrabudgetary entities.
6.2 Revenue outside financial reports	D*	Evidence is not available for a significant number of extrabudgetary entities.
6.3 Financial reports of extra-budgetary units	D	Only 155 of the 532 extrabudgetary entities submitted their 2017 financial reports to the Office of the Auditor General of the Federation by 30th September 2018.
PI-7 Transfers to subnational governments	**B**	**Overall scoring based on M2 methodology**

Indicator/Dimension	Score	Explanation
7.1 Systems for allocating transfers	A	The allocation of all revenue and transfers to Federal, States and Local Governments are undertaken based on transparent and rule-based systems.
7.2 Timeliness of information on transfers	C	The Federal Government publishes a Medium-Term Expenditure Framework (MTEF) and Fiscal Strategy Paper (FSP) annually, which contains sufficient information with which to enable sub-national governments (SNGs) to determine their expected allocations in the coming year. In 2017, data on 2017-2019 MTEF/FSP was released and published in July 2016. So SNGs had the information well in advance of the completion of their budget preparation processes. However, the Federal Government currently does not have a fixed budget calendar which regulates transfers to SNGs.
PI-8 Performance information for service delivery	**D**	**Overall rating based on M2 methodology**
8.1 Performance plans for service delivery	D	Information on three-year sector strategies (Medium Term Sector Strategies) is available for the three largest Federal line ministries but for internal use, not publicly available.
8.2 Performance achieved for service delivery	D	The information on performance of budgets and achievements in service delivery is not produced / reported in an effective and systematic manner. The last published report on performance was submitted for 2013 budget.
8.3 Resources received by service delivery units	D	There is no evidence that information on resources received by frontline service delivery units were recorded and/or reported centrally and/or locally.
8.4 Performance evaluation for service delivery	D	Independent evaluations and performance audits had not been conducted by the FGN in 2015, 2016 and 2017.
PI-9 Public access to fiscal information	**D**	The government makes available to the public two basic elements and two additional elements, in accordance with the specified timeframes.
Pillar 3: Management of assets and liabilities		
PI-10 Fiscal risk management	**D+**	**Overall rating is based on M2 methodology**
10.1 Monitoring of public corporations	D	Audited annual financial statements of only 7 of the 25 Federal Government public corporations were published within nine months of the end of 2017.
10.2 Monitoring of subnational government	C	There are 36 states (subnational governments) in Nigeria; 20 states' 2017 audited financial statements were published as at 30th September 2018 while another 4 states published their unaudited financial statements by 30th September 2018.
10.3 Contingent liabilities and other fiscal risks	D	No report is published by the Federal Government annually that quantifies and consolidates information on all significant contingent liabilities and other fiscal risks of the federal government.
PI-11 Public investment management	**D**	**Overall rating is based on M2 methodology**
11.1 Economic analysis of investment proposals	C	Economic analyses are conducted through guidelines for all major investment projects, but no requirements exist for publishing or reviewing the results.

Indicator/Dimension	Score	Explanation
11.2 Investment project selection	D	Criteria for project identification, screening, selection, and prioritization are formally in place, but only used for some major investment projects prior to their inclusion in the budget.
11.3 Investment project costing	D	Projections of the total capital cost of major investment projects are not included in the budget documents.
11.4 Investment project monitoring	D	Physical progress and costs of the major investment projects are monitored by the implementing government unit. However, monitoring is not structured and there is no formal standard procedure and reporting template for conducting monitoring of project performance.
PI-12 Public asset management	**D+**	**Overall rating is based on M2 methodology**
12.1 Financial asset monitoring	C	The Federal Government maintains a partial record of its holdings and investments in the corporate sector. Such capacity is confined only within a group of (so-called MOFI) companies, though not capturing the data on investment yields and other annual earnings. Reporting the financial performance of pension funds and other funds and FGN equity shares in GBEs is not consolidated but carried out individually. Thus, the capacity to monitor the FGN financial assets in the current environment is confronted with serious inefficiencies. As part of the accrual basis IPSAS adopted by the FGN in 2016, the accounting standard is not fully compliant; thus, publication of FGN financial assets is incomplete.
12.2 Non-financial asset monitoring	D	The government maintains partial record of fixed assets at the MDA level and recorded by means of the GIFMIS registry on fixed assets. There is no evidence of GIFMIS recording of non-producing assets such as land and holdings of minerals and sub-soil resources.
12.3 Transparency of asset disposal	C	There are written and approved procedures and rules for the disposal of nonfinancial assets, which form part of the financial regulations. There is, however, no requirement for disclosure of asset disposal information, in annual budget or financial reports.
PI-13 Debt management	**B+**	**Overall rating based on M2 methodology**
13.1 Recording and reporting of debt and guarantees	B	Federal government debt records are complete, accurate, updated, reconciled, and published quarterly. Annual debt sustainability analysis (LIC-DSA) is conducted by the federal debt management office and report produced annually and presented to the National Assembly, except for arrears and fiscal risks.
13.2 Approval of debt and guarantees	A	The Constitution and the Public Debt Management Act require approval of, and reporting on all government debt and explicit guarantees through the Minister for Finance.
13.3 Debt management strategy	B	A debt management strategy for 2016-2019 had been developed, but annual reporting against debt management objectives is not provided to the National Assembly. Furthermore, the annual borrowing plan is not submitted and approved together with the federal budget. Due to systemic revenue shortfalls, there are systemic differences between the planned deficit financing requirements (budget issue) and actual debt issuance.

Indicator/Dimension	Score	Explanation
Pillar 4: Policy based fiscal strategy and budgeting		
PI-14 Macroeconomic and fiscal forecasting	**D+**	**Overall rating based on M2 methodology**
14.1 Macroeconomic forecasts	C	Multi-year macro-economic forecasts are updated once a year to inform the Fiscal Strategy and final budget formulation, but the underlying assumptions are not clearly explained / documented and not verifiable.
14.2 Fiscal forecasts	C	Forecasts of fiscal indicators – revenue (by type), aggregate expenditures and budget balances for the budget year and 2 outer years along with underlying assumptions in a summary form are included in the budget proposed to the legislature. The comparative budget data, however, is not fully provided; explanation of the main differences from the previous year's forecast is not included. Medium term fiscal projections are not binding.
14.3 Macro-fiscal sensitivity analysis	D	Fiscal forecasts are not included in the Fiscal Strategy Paper.
PI-15 Fiscal strategy	**C**	**Overall rating based on M2 methodology**
15.1 Fiscal impact of policy proposals	D	The fiscal strategy of the Federal Government is described in the MTEF/FSP 2017-2019 (current budget and two following fiscal years) submitted by the BOF/MBNP to the National Assembly and published on the BOF website. However, while potential policy changes are contemplated, the fiscal impact estimates of major revenue and expenditure policy proposals, including any resulting changes in debt and contingent liabilities, are not included in the MTEF/FSP documentation.
15.2 Fiscal strategy adoption	B	Government has prepared elements of a fiscal strategy with qualitative objectives and quantitative [ballpark] 'targets' for the forthcoming budget year and the following two years, but: (i) they are not time-based; and (ii) does not explicitly (nor realistically) link fiscal strategy with FRA ceilings (fiscal rules).
15.3 Reporting on fiscal outcomes	C	FGN publishes Budget Implementation Reports, which summarize the results of fiscal policies on a quarterly basis. The budget reports presented to the legislature contains fiscal outturns for the previous fiscal year but does not provide sufficient analysis for the deviations.
PI-16 Medium-term perspective in expenditure budgeting	**D**	**Overall rating based on M2 methodology**
16.1 Medium-term expenditure estimates	C	The budget for 2019 included estimates of expenditure for the budget year 2019 as well as forward estimates for 2020 and 2021 by economic classification.
16.2 Medium-term expenditure ceilings	D	The budget call circular for 2019 includes no expenditure ceilings for 2020 and 2021.
16.3 Alignment of strategic plans and medium-term budgets	D	The majority of sector ministries prepare strategic plans, some of which claim to be costed, but MTEF estimates are not based on expenditure proposals drawn from these strategic plans.

Indicator/Dimension	Score	Explanation
16.4 Consistency of budgets with previous year estimates	D	The budget documentation provides no comparison of the proposed appropriations with the forward estimates for the same year in the previous year's budget submission.
PI-17 Budget preparation process	**D+**	**Overall rating based on M2 methodology**
17.1 Budget calendar	D	BOF has an internal Budget calendar that changes from year to year and not shared with budgetary units.
17.2 Guidance on budget preparation	B	Comprehensive and clear budget call circulars (in the form of separate Personnel and Overall budget circulars) are issued to budgetary units with (compulsory) ceiling for one year (none for the subsequent two years) for administrative units, budget estimates are reviewed and approved by FEC.
17.3 Budget submission to the legislature	D	The executive has submitted the annual budget proposal to the legislature less than one month before the start of the fiscal year in the last completed three fiscal years.
PI-18 Legislative scrutiny of budgets	**D+**	**Overall rating based on M1 methodology**
18.1 Scope of budget scrutiny	B	Both chambers of National Assembly Scrutinize the MTEF/FSP, fiscal policies, medium-term fiscal forecasts, as well as expenditure and revenue estimates.
18.2 Legislative procedures for budget scrutiny	C	Both Houses of the National Assembly follow established legislative rules to approve the budget; the rules include first, second and third readings, use of specialized committees, negotiation, and conference committee for harmonization of different versions. Lacking, however, is the support from a more capable NASS technical unit.
18.3 Timing of budget approval	D	The legislature has approved the annual budget more than one month of the start of the year in the last three completed fiscal years.
18.4 Rules for budget adjustments by the executive	A	Clear rules exist for in-year budget adjustments by the executive. The executive is not allowed to adjust or amend a budget approved by the National Assembly, any adjustment either by virement or amendment must be done by the National Assembly.
Pillar 5. Predictability and Control in Budget Execution		
PI-19 Revenue Administration	**D+**	**Overall rating based on M2 methodology**
19.1 Rights and obligations for revenue measures	B	Good level of content and quality of information by the Federal tax authority; access provided to comprehensive and up-to-date information on the main revenue obligation areas and on rights, including redress processes and procedures. For Customs relevant information published on website.

Indicator/Dimension	Score	Explanation
19.2 Revenue risk management	C	The Federal tax authority applied approaches that are designed for assessing and prioritizing compliance risks for some revenue streams. But, regrettably, no relevant evidence has been gathered from the two other largest revenue generating agencies (NNPC and the Customs Authority) despite the several attempts to consult their management.
19.3 Revenue audit and investigation	C	The Federal tax authority undertakes audits and fraud investigations using a tax compliance strategy and audit plans with had proven effective to improve tax collection. It was not possible to gather evidence from NNPC and Customs despite the unsuccessful attempts to reach out their management with sufficient advance notice.
19.4 Revenue arrears monitoring	D*	The stock of revenue arrears at the end of the last completed fiscal year (2017) for the Federal tax authority alone is 39.21%, of the total revenue collection for the year and the revenue arrears older than 12 months are 68% of total revenue arrears. When adding the oil royalties in arrears assessed within the Nigeria petroleum company the stock of revenue arrears exceeded 40% of total revenue collection for 2017. It was not possible to gather evidence from the Federal customs authority.
PI-20 Accounting for Revenue	**C+**	**Overall rating based on M1 methodology**
20.1 Information on tax (and non-tax revenue)	A	OAGF gathers the majority of revenue data, broken down by revenue type, at least monthly from entities collecting most Federal government revenue.
20.2 Transfer of revenue collections	B	Tax and customs authorities transfer their collections directly to TSA/Consolidated Revenue Fund subaccounts within CBN on a daily basis. Collections almost 72% of domestic revenues paid through TSA have been made in adherence to the prescribed rules and requirements—NNPC does not apply all the same rules but from data gathered through OAGF the analysis reveals that NNPC remittances to Treasury takes place at least every two weeks.
20.3 Revenue accounts reconciliation	C	A revenue accounts reconciliation is conducted by OAGF jointly with CBN on a monthly basis. The main revenue generating agencies meet with CBN to reconcile revenue collection for the previous month. Tax arrears, however, are not considered in the revenue accounts reconciliation.
PI- 21 Predictability of In-Year resource allocation	**B**	**Overall rating based on M2 methodology**
21.1 Consolidation of cash balances	A	The OAGF in FMF maintains the CRF/TSA cash balances in the CBN. The cash resources available of all revenue sub-accounts are identified for all budgetary units and consolidated in the TSA system on a daily basis.
21.2 Cash forecasting and monitoring	C	The OAGF at FMF prepares an annual cash plan in advance of the relevant fiscal year. Monthly and quarterly plans of actual cash inflows and outflows are not used to update the annual cash plan. They are used to ration available cash resources for issuance of warrants to respective budgetary units to incur expenditure.

Indicator/Dimension	Score	Explanation
21.3 Information on commitment ceilings	D	Budgetary units are assured of the funding of personnel cost, but they are not provided with reliable information in advance on commitment for overhead cost and capital expenditure.
21.4 Significance of in-year budget adjustments	A	Available evidence indicates that there were no in-year budget adjustments reported in 2017.
PI-22 Expenditure arrears	**D**	**Overall rating based on M1 methodology**
22.1 Stock of expenditure arrears	D	There is a backlog of expenditure arrears carried over with contractors and payroll amounting to an equivalent of 2.2% of GDP (or 35% of total FGN expenditure) that the Government has recognized and is now being cleared. Despite the above, other new expenditure arrears mostly with contractors had continued to build in 2016 and 2017 though in amounts lower than 4% of total expenditure—those are referred to in the annual financial statements as ‘Payables’. Gathering of other ‘Payables’ such as outstanding VAT refunds, unpaid wage increases, pension arrears, and fuel subsidies is problematic.
22.2 Expenditure arrears monitoring	D	Monitoring of expenditure arrears is hampered by limited data in the books, not available to the public, on the total count of expenditure arrears carried over the years to date. Tools exist to make random requests on expenditure arrears (GIFMIS) but this does not capture the full information, and there is no evidence suggesting such a monitoring is of any use within OAGF or the budgetary units.
PI-23 Payroll controls	**D**	**Overall rating based on M1 methodology**
23.1 Integration of payroll and personnel records	D	The integration of payroll and personnel records is problematic in the current stage of IPPIS development with about one third of total Federal workers being managed under different personnel databases. Moreover, there is no evidence showing that reconciliations are carried out between payroll and personnel data within IPPIS (at least every six months).
23.2 Management of payroll changes	D	Evidence shows that certain personnel changes are updated on a monthly basis and generally in time for the following month’s payment cycle. Significant retroactive adjustments to personnel awarded with promotions take place on a quarterly and annual basis depending on resources available.
23.3 Internal control of payroll	D	There are initial steps undertaken to reach a segregation of roles and responsibilities within the IPPIS system. Preparation of SOPs is also in an initial stage and the effectiveness of commitment controls is severely questioned with so many human resource databases operating in the FGN.
23.4 Payroll audit	D	There is no evidence of payroll audits undertaken in the last three completed fiscal years.
PI-24 Procurement Management	**D**	**Overall rating based on M2 methodology**
24.1 Procurement monitoring	D	The BPP website is not regularly updated with information on procurement plans and contract awards. The information available did not include complete data for the last completed budget year (2017).

Indicator/Dimension	Score	Explanation
24.2 Procurement methods	D	The BPP's Annual Report for 2017 showed that 1.52% of contracts for which it issued No Objection were processed through Competition, 40% by Selective Method, 54.57% through Direct Selection and 3.86% by Emergency procedures. The report did not include the value, procurement method and name of contractor/supplier/consultant for each contract. Records of contracts approved by the Federal Executive Council included the contract value and name of service provider but not procurement methods used.
24.3 Public access to procurement information	D	Out of the six criteria, two fully met the requirements: (i) legal and regulatory framework for procurement and (ii) data on resolution of procurement complaints.
24.4 Procurement complaints management	D	There is no independent body responsible for the review of procurement complaints. BPP and procuring entities involved in procurement transactions or in the process leading to contract award decisions conducted administrative reviews of procurement complaints. The Act provides for administrative review of procurement complaint by procuring entities and BPP, and resolution by a High Court if complainant is unsatisfied with the decision of BPP.
PI-25 Internal controls on non-salary expenditure	**D+**	**Overall rating based on M2 methodology**
25.1 Segregation of duties	B	Segregation of duties is established in financial regulations and procedures. Responsibilities are laid down for most key steps while further details may be needed in the operationalization of the segregation of duties.
25.2 Effectiveness of expenditure commitment controls	D	There are documented expenditure commitment control procedures which provide partial coverage for a host of payments items. However, the lack of a GIFMIS payment processing facility within several MDAs continues to hamper substantially expenditure commitment control effectiveness; particularly the improvement of financial planning, automation of financial controls, and simplifying, processing and reporting of financial transactions. PI 21.3 confirms that other than personnel costs MDAs are not provided reliable information on commitment for overhead costs and capital expenditures.
25.3 Compliance with payment rules and procedures	D	There are payments that are compliant with regular payment procedures with some of the exceptions properly authorized and justified. However, arrears continue to build up and there is weak monitoring of the buildup of these arrears (see PI 22) and procurement monitoring is weak as only 1.52 % of contracts for which BPP issued "No Objection" were procured through a competitive process (see PI 24).
PI-26 Internal audit	**D+**	**Overall rating based on M1 methodology**
26.1 Coverage of internal audit	A	In accordance with the Financial Regulation and the Finance and Control Management Act, internal audit is operational for all central government entities.
26.2 Nature of audits and standards applied	C	Internal audit is focused on financial compliance, lacking in documentary evidence of compliance with professional standards.

Indicator/Dimension	Score	Explanation
26.3 Implementation of internal audits and reporting	C	Annual audit plans exist and the majority of which are completed.
26.4 Response to internal audit	D	Most of the internal audit recommendations are not provided with management response.
Pillar 6: Accounting and Reporting		
PI-27 Financial data integrity	**D+**	**Overall rating based on M2 methodology**
27.1 Bank account reconciliation	B	Bank reconciliation of CRF/TSA and sub-accounts of budgetary units are undertaken monthly—usually within two weeks from the end of each month, but a few budgetary units representing less than 5% of total expenditures do not undertake bank reconciliation as required.
27.2 Suspense accounts	NA	Suspense accounts are not used by the FGN.
27.3 Advance accounts	D	Reconciliation of advance accounts do not take place as required by financial regulations. There are balances of advances, imprests and personal advances reported in the financial statement, not cleared as of end December 2016 and 2017.
27.4 Financial data integrity processes	D	The processing of financial information under GIFMIS enables access and changes to records in the platform and is restricted and results recorded in an audit trail. There is access to information, including read-only reports as well as authorized changes to records by creation and modification. However, there are other financial information outside GIFMIS and the data integrity described does not generally exist.
PI-28 In-year budget reports	**D+**	**Overall rating based on M1 methodology**
28.1 Coverage and comparability of reports	D	Information is not presented in the in-year budget reports with the same coverage as the original budget. Data in the in-year budget reports allow direct comparison to the original budget approved, but not by main economic categories and administrative headings. It is only in the fourth quarter report that data on capital expenditure are analyzed by administrative heading.
28.2 Timing of in-year budget reports	D	In-year budget reports are prepared quarterly and issued more than eight weeks from end of each quarter.
28.3 Accuracy of in-year budget reports	C	There are some concerns regarding issues of materiality in the financial data reported. Data on expenditure is not covered at the commitment stage but captured only at the payment stage.
PI-29 Annual financial reports	**D+**	**Overall rating based on M1 methodology**
29.1 Completeness of annual financial reports	C	The financial reports are prepared annually and are comparable with the approved budget. They include full information on revenue and expenditure, partially by financial and non-financial assets and loan guarantees, and fully on the long-term debt obligations and cash balances.

Indicator/Dimension	Score	Explanation
29.2 Submission of reports for external audit	D	The last annual financial report submitted for audit pertained to 2016. It was submitted to OAuGF for external audit on 16 January 2018, i.e. within thirteen months of the end of the year.
29.3 Accounting standards	C	The accrual-based IPSAS accounting standards were introduced in Nigeria in 2016 under a transitional arrangement and are not fully implemented as yet. Accounting standards applied to all financial reports are consistent with national reporting guidelines and ensure consistency of reporting over time. The standards used in preparing annual financial reports are disclosed in the financial statements.
Pillar 7: External Scrutiny and Audit		
PI-30 External Audit	**D+**	**Overall rating based on M1 Methodology**
30.1 Audit coverage and standards	D	The SAI audits some of the government budgetary entities annually. The International Standards of Supreme Audit Institutions (ISSAI) is used by the SAI as its national standards. The 2015 & 2016 financial statements have been audited by the SAI whilst the audit of the 2017 financial statements is on-going at the time of the assessment.
30.2 Submission of audit reports to the legislature	D	The SAI submitted the audit reports only for 2015 and 2016 financial years to the legislature within 2 and 5 months respectively of the receipt of the financial statements from the Office of the Accountant General of the Federation. The 2017 Audit report is a work in progress.
30.3 External audit follow up	D	The audit follow-up mechanism has not been effective. Formal response on audits for which follow up were required are not provided.
30.4 SAI independence	C	The Nigeria Constitution provides for the Auditor General (AuG) to be appointed by the President on the recommendation of the Federal Civil Service Commission, subject to confirmation by the Senate. Removal of the AuG follows similar protocols. The budget for the SAI has over the years been cut repeatedly and with the actual releases been less than half of the already cut budget.
PI-31 Legislative scrutiny of audit reports	**D**	**Overall rating based on M2 methodology**
31.1 Timing of audit report scrutiny	D	PAC's review of audit reports on annual financial accounts is in arrears, the last report presented to plenary by the PAC was on the 2009 audit report.
31.2 Hearings of audit findings	C	PAC conducts public hearings covering a few audited entities to review findings in audit reports. Attendance at the PAC sessions includes the SAI, OAGF and representatives of the budgetary units.
31.3 Recommendations on audit by the legislature	D	PAC reviews of the audit reports have not in recent times translated to report that is presented at plenary. The PAC report on the 2009 audit report was the last time a PAC report was presented at plenary. The legislature has therefore not issued recommendations to be implemented by the executive in about 10 years.

Indicator/Dimension	Score	Explanation
31.4 Transparency of legislative scrutiny of audit reports	D	Public hearings are conducted by PAC. The PAC report, however, is neither published on an official website nor by any other means easily accessible to the public.

Annex 2: Summary of Observations on the Internal Control Framework

S/N	Internal control components and elements	Summary of observations
1. Control environment		
1.1	The personal and professional integrity and ethical values of management and staff, including a supportive attitude towards internal control constantly throughout the organization.	There are some level of personal and professional integrity and ethical values in management and staff, however the supportive attitude towards sustainable internal control activities and measures throughout the federal government system needs to be improved.
1.2.	Commitment to competence.	There is reasonable level of commitment to competence in recruitment and promotion exercises, however there are delays in implementing promotion recommendations leading to huge promotion arrears.
1.3.	The "tone at the top" (i.e. management's philosophy and operating style).	The "tone at the top" is not too committal to effective implementation of internal audit framework.
1.4.	Organizational structure.	The internal audit system is well structures in the OAGF and across budgetary units.
1.5.	Human resource policies and practices.	There are sound human resource policies in place, however there are some hitches in the implementation of some of the policies.
2. Risk assessment		
2.1	Risk identification.	There is no documented systemic framework for risk identification within the internal control framework.
2.2	Risk assessment (significance and likelihood).	There is no documented systemic framework for risk assessment within the internal control framework.
2.3	Risk evaluation.	There is no documented systemic framework for risk evaluation within the internal control framework.
2.4	Risk appetite assessment.	There is no documented systemic framework for risk appetite within the internal control framework.
2.5	Responses to risk (transfer, tolerance, treatment or termination).	There is no documented systemic framework for responses to risk within the internal control framework.
3. Control activities		
3.1	Authorization and approval procedures.	Authorization and approval procedures are well documented and generally followed.
3.2	Segregation of duties (authorizing, processing, recording, reviewing).	Segregation of duties (authorizing, processing, recording, reviewing) are well documented and generally followed.
3.3	Controls over access to resources and records.	Controls over access to resources and records are well documented and generally followed.
3.4	Verifications.	Verification procedures are well documented and generally followed.
3.5	Reconciliations.	There are reconciliations challenges across the internal control system.

S/N	Internal control components and elements	Summary of observations
3.6	Reviews of operating performance.	The assessment observed the ineffectiveness of reviews of operational performance.
3.7	Reviews of operations, processes and activities.	Existing regulatory provisions for reviews of operations, processes and activities are generally followed.
3.8	Supervision (assigning, reviewing and approving, guidance and training).	There are existing and functioning supervisory functions, however there is a need for more training and capacity building programs for government officials.
4.	**Information and communication**	The PEFA assessment observed some weaknesses and challenges to information and communication across the PFM cycle as detailed in some of the dimensions and summarized in Section 4 of the report.
5. Monitoring		
5.1	Ongoing monitoring.	There are regulatory provisions and guidelines for ongoing monitoring of government financial and nonfinancial activities. While some of these regulatory provisions, such as periodic audit reports, are routinely carried out as required, there are cases of glitches in carrying out some of them, for example implementation of audit programs.
5.2	Evaluations.	Problems of data and information, political will and capacity issues hinder effective evaluations of government financial and nonfinancial activities.
5.3	Management responses.	In practice, there is evidence of non-adherence of top management to documented processes and procedures; and responses to some internal audit observations are not too encouraging.

Annex 3: Source of Information

Officers consulted:

No.	Name	Designation	Organisation
1.	Ben Akabueze	Director General	Budget Office of the Federation
2.	Prof. Olumide Ayodele	Technical Adviser to D.G.	Budget Office of the Federation
3.	Andrew Anayo Ike	Special Adviser to D.G.	Budget Office of the Federation
4.	Barth Feese	Director, Budget M&E	Budget Office of the Federation
5.	Gideon Mitu	Director, Expenditure (Social)	Budget Office of the Federation
6.	Alfred Okoh	Technical Assistant to D.G.	Budget Office of the Federation
7.	Nuhu Mahmud Sani	Asst. Chief Plan. Officer/Budget Mgr	Budget Office of the Federation
8.	Anselem Anyanwu	Director of Expenditure	Budget Office of the Federation
9.	Elobo SO	Director of Economic Growth	Budget Office of the Federation
10.	Lucy Okanachi	Deputy Director, IERD	Federal Ministry of Finance
11.	Paul Daloba	Assistant Director	Federal Ministry of Finance
12.	Mike Ibiam	Technical Assistant to Efficiency Unit	Federal Ministry of Finance
13.	Emmanuel Akor	Deputy Director, IPPIS Unit	Federal Ministry of Finance
14.	Cornelius Adeoye	Senior Officer, IPPIS Unit	Federal Ministry of Finance
15.	Richard Arowo	Human Resource Officer, IPPIS Unit	Federal Ministry of Finance
16.	S. J. Ibrahim (Mrs.)	Ag. Director, Finance & Accounts	Office of the Accountant General of the Federation
17.	M. K. Usman	Director, Funds	Office of the Accountant General of the Federation
18.	James Y. Nongo	Director, Consolidated Accounts	Office of the Accountant General of the Federation
19.	Sabo Mohammed	Director, Federation Account	Office of the Accountant General of the Federation
20.	Nnedi Odedo	Dep. Director, Funds	Office of the Accountant General of the Federation
21.	E.J. Deekor	Dep. Director, FPFMD	Office of the Accountant General of the Federation
22.	J. E. Susarumso	Dep. Director, R & I	Office of the Accountant General of the Federation
23.	Abubakar S. Velkuk	Dep. Director	Office of the Accountant General of the Federation
24.	M. A. Kolo	Dep. Director/Prog. Officer GIFMIS	Office of the Accountant General of the Federation
25.	M. A. Ibrahim	Dep. Director, Inspection	Office of the Accountant General of the Federation
26.	M.S. Bello	Dep. Director, Expenditure	Office of the Accountant General of the Federation
27.	F. O. Ogundairo	Dep. Director	Office of the Accountant General of the Federation

No.	Name	Designation	Organisation
28.	Dr. James N. Abalaka	Asst. Director, Funds	Office of the Accountant General of the Federation
29.	Sarjius Kadiri	Asst. Director, IPPS	Office of the Accountant General of the Federation
30.	Umar Ahmed Bajoga	Asst. Director / GIFMIS Mon. & Recon	Office of the Accountant General of the Federation
31.	A. Amanyi	Asst. Director, R & I	Office of the Accountant General of the Federation
32.	D. B. Ajayi	Asst. Director, Finance & Accounts	Office of the Accountant General of the Federation
33.	Shaibu Badmos Sikiru	Asst. Director, Finance & Accounts	Office of the Accountant General of the Federation
34.	Blessing Enomate	Chief Accountant, Funds	Office of the Accountant General of the Federation
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Annex 4: Summary of Changes in Performance Based on 2011 PEFA Methodology

This annex presents a comparison of the current assessment with the previous PEFA assessment (2012) completed in August 2013, using the 2011 version of the framework. It was prepared in compliance with the guidance on reporting performance changes in PEFA 2016 from previous assessments that applied PEFA 2005 or PEFA 2011 available at www.pefa.org.

Table A4.1. Summary of Changes in PFM Performance Using 2011 Methodology

Indicator/Dimension	Score 2012	Score 2019	Description of Requirements Met in Current Assessment	Explanation of Change (Including Comparability Issues)
A. PFM-OUTTURNS: Credibility of the Budget				
PI-1 Aggregate expenditure outturn compared to original approved budget	**C**	**C**	Aggregate expenditure outturn was 105.1%, 80.5%, and 87.4% of the original approved budget in the fiscal years 2015, 2016, and 2017, respectively.	No change in performance.
PI-2 Composition of expenditure outturn compared to original approved budget	**D**	**D**	Scoring method M1 (weakest link).	No change in performance.
(i)Extent of the variance in expenditure composition during the last three years, excluding contingency items	D	D	Variance in expenditure composition by economic classification was 19%, 28%, and 20.5% in fiscal years 2015, 2016, and 2017, respectively.	No change in performance.
(ii)The average amount of expenditure charged to the contingency vote over the last three years.	D	D*	Data on the contingency vote unreliable, uncertain.	Budgeting and accounting of expenditure charged to the contingency vote have become difficult to reconcile.
PI-3 Aggregate revenue outturn compared to original approved budget	**D**	**D**	Actual revenue collection was 76.4%, 54.4%, and 61.2% of budgeted revenues in the fiscal years 2015, 2016, and 2017, respectively.	No change in performance.
PI-4 Stock and monitoring of expenditure payment arrears	**NR**	**D**	Scoring method M1 (weakest link)	FGN has progressed in its effort to produce data on expenditure payment arrears on a regular basis.
(i)Stock of expenditure payment arrears and a recent change in the stock.	NR	D	Large stock of expenditure arrears carried over from the past five years equivalent to 2.2% of GDP.	Data on expenditure payment arrears available now.
(ii)Availability of data for monitoring the stock of expenditure payment arrears.	D	D	Monitoring of expenditure arrears is hampered by limited data in the books, not available to the public.	No change in performance.
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency				
PI-5 Classification of the budget	**D**	**C**	Economic and administrative classification generally compatible to GFS now.	Recognition of full migration to GFS a salient feature now, a work still in progress.
PI-6 Comprehensiveness of information included in budget documentation	**C**	**B**	Various elements of budget document publicly available now.	Previous year's budget outturn presented in the same format as the budget proposal now. Also, debt

Indicator/Dimension	Score 2012	Score 2019	Description of Requirements Met in Current Assessment	Explanation of Change (Including Comparability Issues)
				stock at the beginning and end of current year presented now.
PI-7 Extent of unreported government operations.	**D**	**D**	Scoring method M1 (weakest link).	No change in performance.
(i)Level of unreported government operations.	D	D*	Prevailing weakness, not addressed as yet.	No change in performance.
(ii)Income/expenditure information on donor-funded projects.	D	D	Prevailing weaknesses, not addressed as yet.	No change in performance.
PI-8 Transparency of inter-governmental fiscal relations.	**B**	**B**	Scoring method M2.	No change in performance.
(i) Transparency and objectivity in the horizontal allocation amongst Subnational Governments.	A	A	The allocation of all revenue and transfers to States and Local Governments are undertaken based on transparent and rules-based systems.	No change in performance.
(ii) Timeliness and reliable information to subnational governments on their allocations.	B	C	Information on annual transfers to subnational governments was issued in July 2017, that is, more than four months before the end of the budget preparation. This is, nonetheless, weakened by the fact that the FGN is lacking a fixed budget calendar with which to regulate the timetable of transfers to States and Local Governments.	Decrease in performance.
(iii) Extent of consolidation of fiscal data for general government per sectoral categories.	D			Not comparable – this dimension is not assessed anymore
PI-9 Oversight of aggregate fiscal risk from other public sector entities.	**D**	**D+**	Scoring method M1 (weakest link).	Improved performance.
(i)Extent of central government monitoring of autonomous entities and public enterprises.	D	D	Audited annual financial statements of only 7 of the 25 federal government public corporations were published within nine months of the end of 2017.	No change in performance.
(ii)Extent of central government monitoring of subnational government's fiscal position.	D	C	20 out of 36 States published their 2017 audited financial statements as at 30th September 2018.	Improved performance.
PI-10 Public access to key fiscal information	D	D	Several key elements of fiscal information are still not availed to the public in a timely manner.	No change in performance.
C. BUDGET CYCLE				
C(i) Policy-Based Budgeting				
PI-11 Orderliness and participation in the annual budget process	**D**	**D+**	Scoring method M2.	Improved performance.

Indicator/Dimension	Score 2012	Score 2019	Description of Requirements Met in Current Assessment	Explanation of Change (Including Comparability Issues)
(i) Existence of, and adherence to, a fixed budget calendar.	D	D	BOF has an internal Budget calendar that changes from year to year and not shared with budgetary units.	No change in performance.
(ii) Guidance on the preparation of budget submissions.	D	B	Comprehensive and clear budget call circulars (in the form of separate Personnel and Overall budget circulars) are issued to budgetary units with (compulsory) ceiling for one year (none for the subsequent two years) for administrative units, budget estimates are reviewed and approved by FEC.	A budget circular is now a regular practice in the budget preparation process.
(iii) Timely budget approval by the legislature.	D	D	The legislature has approved the annual budget more than one month of the start of the year in the last three completed fiscal years.	No change in performance.
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	**NR**	**C+**	Scoring method M2.	
(i)Multiyear fiscal forecasts and functional allocations.	C	C	The budget for 2019 included estimates of expenditure for the budget year 2019 as well as forward estimates for 2020 and 2021 by economic classification.	No change in performance.
(ii)Scope and frequency of debt sustainability analysis.	A	A	Annual debt sustainability analysis (LIC-DSA) is conducted by the federal debt management office and report produced annually and presented to the National Assembly.	No change in performance.
(iii) Existence of costed sector strategies.	NR	D	No evidence of sector strategies being costed, except for certain capital projects.	A method of costing has been introduced for the first time as part of the aim of budgeting to capture the overall financing requirements and link the operating expenses of projects in a medium-term framework.
(iv) Linkages between investment budgets and forward expenditure estimates.	D	D	There is still no reliable data on operating costs being assessed as part of major projects forming part of the MTEF in the largest Budgetary units.	No change in performance
C(ii) Predictability and Control in Budget Execution				
PI-13 Transparency of taxpayer obligations and liabilities	**A**	**B**	Scoring method M2.	Overall initial score of A weakened by the lacking of documented evidence of Customs performance (score lowered to B).

Indicator/Dimension	Score 2012	Score 2019	Description of Requirements Met in Current Assessment	Explanation of Change (Including Comparability Issues)
(i) Clarity and comprehensiveness of tax liabilities.	B	B	Good level of content and quality of information by the Federal tax authority; access provided to comprehensive and up-to-date information on the main revenue obligation areas and on rights, including redress processes and procedures. For Customs relevant information are published on website.	No change in performance.
(ii) Taxpayer access to information on tax liabilities and administrative procedures.	A	A		No change in performance
(iii) Existence and functioning of a tax appeal mechanism.	A	A	A tax tribunal is operational.	No change in performance.
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	**C+**	**C+**	Scoring method M1.	
(i) Controls in the taxpayer registration system.	C	N/A	Dimension on taxpayer identification not comparable	Not comparable
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations.	C	B	Proven effective starting 2017.	Improved performance.
(iii)Planning and monitoring of tax audit and fraud investigation programs.	B	C	The Federal tax authority undertakes audits and fraud investigations using a tax compliance strategy and audit plans which had proven effective to improve tax collection.	Decrease in performance due to lack of information in NCS and NNPC.
PI-15 Effectiveness in collection of tax payments	**NR**	**C+**	Scoring method M1 (weakest link).	Overall initial score of A weakened by the lacking of documented evidence of Customs performance (score lowered to B).
(i) Collection ratio for gross tax arrears.	NR	NR		
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.	B	B	Tax and customs authorities transfer their collections directly to TSA/Consolidated Revenue Fund on a daily basis. Collections equivalent to almost 72% of domestic revenues paid through TSA have been made in adherence to the prescribed rules and requirements.	Improvement of performance by FIRS (Score=A). Improvement of Customs uncertain (score lowered to B).
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury.	A	C	A revenue accounts reconciliation is conducted by OAGF jointly with CBN on a monthly basis. The main revenue generating agencies meet with CBN to reconcile revenue collection for the previous month.	No change in performance.
PI-16 Predictability in the availability of funds for	**D**	**D+**	Scoring method M1 (weakest link).	Improved performance.

Indicator/Dimension	Score 2012	Score 2019	Description of Requirements Met in Current Assessment	Explanation of Change (Including Comparability Issues)
commitment of expenditures				
(i) Extent to which cash flows are forecasted and monitored.	D	C	The OAGF at FMF prepares an annual cash plan in advance of the relevant fiscal year. Monthly and quarterly plans of actual cash inflows and outflows are not used to update the annual cash plan.	Improved performance.
(ii) Reliability and horizon of periodic in-year information to ministry/department/ agency's on ceilings for expenditure.	D	D	Budgetary units are assured of the funding of personnel cost but they are not provided with reliable information in advance on commitment for overhead cost and capital expenditure.	No change in performance.
(iii) Frequency and transparency of adjustments to budget allocations above the level of management of budgetary units.	D	A	Available evidence indicates that there were no in-year budget adjustments reported in 2017.	Improved performance.
PI-17 Recording and management of cash balances, debt and guarantees	**D+**	**B+**	Scoring method M2.	A major strength in FGN public financial management systems.
(i) Quality of debt data recording and reporting.	B	B	Federal government debt records are complete, accurate, updated, reconciled, and published quarterly. Annual debt sustainability analysis (LIC-DSA) is conducted by the federal debt management office and report produced annually and presented to the National Assembly, except for arrears and fiscal risks.	No change in performance.
(ii) Extent of consolidation of the government's cash balances.	D	A	The OAGF in FMF maintains the CRF/TSA cash balances in the CBN. The cash resources available of all revenue sub-accounts are identified for all budgetary units and consolidated in the TSA system on a daily basis.	Significant improvement attributed to almost all budgetary units integrated to TSA facility.
(iii) Systems for contracting loans and issuance of guarantees.	D	A	The Constitution and the Public Debt Management Act require approval of and reporting on all government debt and explicit guarantees through the Minister for Finance.	Strong performance.
PI-18 Effectiveness of payroll controls	NR	D	Scoring method M1 (weakest link).	
(i)Degree of integration and reconciliation between personnel records and payroll data.	C	D	The integration of payroll and personnel records is problematic in the current stage of IPPIS development with about one third of total Federal workers being	Decrease in performance.

Indicator/Dimension	Score 2012	Score 2019	Description of Requirements Met in Current Assessment	Explanation of Change (Including Comparability Issues)
			managed under different personnel databases. Moreover, there is no evidence showing that reconciliations are carried out between payroll and personnel data within IPPIS (at least every six months).	
(ii) Timeliness of changes to personnel records and the payroll.	NR	D	Evidence shows that certain personnel changes are updated on a monthly basis and generally in time for the following month's payment cycle. Retroactive adjustments to personnel awarded with promotions take place on a quarterly basis depending on resources available.	No change in improvement
(iii) Internal controls of changes to personnel records and the payroll.	C	D	There are initial steps undertaken to reach a segregation of roles and responsibilities within the IPPIS system. Preparation of SOPs is also in an initial stage and the effectiveness of commitment controls is severely questioned with so many human resource databases operating in the FGN.	Decrease in performance.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	C	D	There is no evidence of payroll audits undertaken in the last three completed fiscal years.	Decrease in performance.
PI-19 Competition, value for money and controls in procurement	**D+**	**D**	Scoring method M2.	Decrease in performance.
(i)Transparency, comprehensiveness, and competition in the legal and regulatory framework.	B	D	The BPP website is not regularly updated with information on procurement plans and contract awards. The information available did not include complete data for the last completed budget year (2017).	Decrease in performance.
(ii)Use of competitive procurement methods.	D	D	The BPP's Annual Report for 2017 showed that 1.52% of contracts for which it issued No Objection were processed through Competition, 40% by Selective Method, 54.57% through Direct Selection and 3.86% by Emergency procedures.	No change in performance.
(iii)Public access to complete, reliable and timely procurement information.	D	D	Key elements of procurement information still not made publicly available.	No change in performance.
(iv)Existence of an independent administrative procurement complaints system.	D	D	There is still no independent body responsible for the review of procurement complaints.	No change in performance.

Indicator/Dimension	Score 2012	Score 2019	Description of Requirements Met in Current Assessment	Explanation of Change (Including Comparability Issues)
PI-20 Effectiveness of internal controls for non-salary expenditure	**D+**	**D+**	Scoring method M1 (weakest link).	No change in improvement
(i)Effectiveness of expenditure commitment controls.	D	D	There are documented expenditure commitment control procedures which provide partial coverage for a host of payments items. However, the lack of a GIFMIS payment processing facility within several MDAs continues to hamper substantially expenditure commitment control effectiveness; particularly the improvement of financial planning, automation of financial controls, and simplifying, processing and reporting of financial transactions. PI 21.3 confirms that other than personnel costs, MDAs are not provided reliable information on commitment for overhead costs and capital expenditures.	No change in improvement.
(ii)Comprehensiveness, relevance and understanding of other internal control rules/procedure.	B	B	Clarity in other internal control procedures.	No change in performance.
(iii)Degree of compliance with rules for processing and recording transactions.	D	D	There are payments that are compliant with regular payment procedures with some of the exceptions properly authorized and justified. However, arrears continue to build up and there is weak monitoring of the buildup of these arrears (see PI 22) and procurement monitoring is weak as only 1.52 % of contracts for which BPP issued "No Objection" were procured through a competitive process (see PI 24).	No change in performance.
PI-21 Effectiveness of internal audit	**D+**	**D+**	Scoring method M1 (weakest link).	No change in performance.
(i)Coverage and quality of the internal audit function.	D	C	Internal audit focused on financial compliance, lacking in documentary evidence of compliance with professional standards.	Improved performance.
(ii)Frequency and distribution of reports.	B	D		Decrease in performance.
(iii)Extent of management response to internal audit function.	D	D	Most of the internal audit recommendations are not provided with management response.	No change in performance.
C(iii) Accounting, Recording and Reporting				

Indicator/Dimension	Score 2012	Score 2019	Description of Requirements Met in Current Assessment	Explanation of Change (Including Comparability Issues)
PI-22 Timeliness and regularity of accounts reconciliation	D	C	Scoring method M2.	
(i) Regularity of bank reconciliation.	D	B	Bank reconciliation of CRF/TSA and sub-accounts of budgetary units are undertaken monthly—usually within two weeks from the end of each month, but a few budgetary units representing less than 5% of total expenditures do not undertake bank reconciliation as required.	Improved performance.
(ii) Regularity and clearance of suspense accounts and advances.	D	D	Reconciliation of advance accounts do not take place as required by financial regulations. There are balances of advances, imprests and personal advances reported in the financial statement, not cleared as of end December 2016 and 2017.	No change in performance.
PI-23 Availability of information on resources received by service delivery units	**D**	**D**	There is no evidence that information on resources received by frontline service delivery units were recorded and/or reported centrally and/or locally.	No change in performance.
PI-24 Quality and timeliness of in-year budget reports	**D+**	**D+**	Scoring method M1 (weakest link).	No change in performance.
(i) Scope of reports in terms of coverage and compatibility with budget estimates.	D	D	Information is not presented in the in-year budget reports with the same coverage as the original budget. Data in the in-year budget reports allow direct comparison to the original budget approved, but not by main economic categories and administrative headings. It is only in the fourth quarter report that data on capital expenditure are analyzed by administrative heading.	No change in performance.
(ii) Timeliness of the issue of reports.	D	D	In-year budget reports are prepared quarterly and issued more than eight weeks from end of each quarter.	No change in performance.
(iii) Quality of information.	C	C	There are still some concerns regarding issues of materiality in the financial data reported. Data on expenditure is not covered at the commitment stage but captured only at the payment stage.	No change in performance.

Indicator/Dimension	Score 2012	Score 2019	Description of Requirements Met in Current Assessment	Explanation of Change (Including Comparability Issues)
PI-25 Quality and timeliness of annual financial statements	C	D+	Scoring method M1 (weakest link).	Decrease in performance.
(i) Completeness of the financial statements.	C	C	The financial reports are prepared annually and are comparable with approved budget. They include full information on revenue and expenditure, partially by financial and non-financial assets and loan guarantees, and fully on the long-term debt obligations and cash balances.	No change in performance.
(ii)Timeliness of submissions of the financial statements.	C	D	The last annual financial report submitted for audit pertained to 2016. It was submitted for OAuGF for external audit on 16 January 2018, i.e. within thirteen months of the end of the year.	Decrease in performance. The delay in the submission of annual financial statements to OAuGF is longer now.
(iii)Accounting standards used.	C	C	The accrual based IPSAS accounting standards were introduced in Nigeria in 2016 under a transitional arrangement and are not fully implemented as yet. Accounting standards applied to all financial reports are consistent with national reporting guidelines and ensure consistency of reporting over time. The standards used in preparing annual financial reports are disclosed in the financial statements.	No change in performance.
C(iv) External Scrutiny and Audit				
PI-26 Scope, nature, and follow-up of external audit	D+	D+	Scoring method M1 (weakest link)	No change in performance.
(i) Scope/nature of audit performed (including adherence to auditing standards).	C	C	The SAI audits some of the government budgetary entities annually. The International Standards of Supreme Audit Institutions (ISSAI) is used by the SAI as its national standards. The 2015 and 2016 financial statements have been audited by the SAI whilst the audit of the 2017 financial statements is on-going.	No change in performance.
(ii) Timeliness of submission of audit reports to the Legislature.	A	A	The SAI submitted the audit reports for 2015 and 2016 financial years to the legislature within 2 and 5 months respectively of the receipt of the financial statements from the Office of the Accountant General of the Federation. The 2017 Audit report is a work in progress.	No change in performance.

Indicator/Dimension	Score 2012	Score 2019	Description of Requirements Met in Current Assessment	Explanation of Change (Including Comparability Issues)
(iii) Evidence of follow up on audit recommendations.	D	D	The audit follow-up mechanism has still not been effective. Formal response on audits for which follow up were required are not provided.	No change in performance.
PI-27 Legislative scrutiny of the annual budget law	C+	D+	Scoring method M1 (weakest link).	Decrease in performance.
(i) Scope of the legislature scrutiny.	A	B	Both chambers of National Assembly scrutinize the MTEF/FSP, fiscal policies, medium-term fiscal forecasts, as well as expenditure and revenue estimates.	Decrease in performance PEFA 2013 notes that the review mainly covers expenditure and revenue yet was rated B.
(ii) Extent to which the legislature's procedures are well established and respected.	A	C	Both Chambers of the National Assembly follow established legislative rules to approve the budget; the rules include first, second and third readings, use of specialized committees, negotiation, and conference committee for harmonization of different versions. Lacking, however, is the support from technical capacity on public finance in NASS.	Decrease in performance. Uncertain whether a technical wing to NASS supported the budget scrutiny and approval process
(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined).	A	D	For the last three completed fiscal years the legislative had less than one month before the start of the new fiscal year to scrutinize the whole budget proposal and the underlying macro-fiscal assumptions.	Decrease in performance. In the period assessed by the previous PEFA mission the legislative had at least two months to review the budget proposals in each of the three years.
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	C	A	Clear rules exist for in-year budget adjustments by the executive. The executive is not allowed to adjust or amend a budget approved by the National Assembly, any adjustment either by virement or amendment must be done by the National Assembly.	Improved performance.
PI-28 Legislative scrutiny of external audit reports	**D**	**D+**	Scoring method M1 (weakest link).	Improved performance.
(i) Timeliness of examination of audit reports by the legislature.	D	B	The SAI submitted the audit reports only for 2015 and 2016 financial years to the legislature within 2 and 5 months respectively of the receipt of the financial statements from the Office of the Accountant General of the	Improved performance.

Indicator/Dimension	Score 2012	Score 2019	Description of Requirements Met in Current Assessment	Explanation of Change (Including Comparability Issues)
			Federation. The 2017 Audit report is a work in progress.	
(ii) Extent of hearing on key findings undertaken by the legislature.	D	D	The SAI audits only some of the government budgetary entities annually. The International Standards of Supreme Audit Institutions (ISSAI) is used by the SAI as its national standards. The 2015 & 2016 financial statements have been audited by the SAI whilst the audit of the 2017 financial statements is on-going.	No change in performance.
(iii) Issuance of recommended actions by the legislature and implementation by the executive.	D	D	The audit follow-up mechanism has still not been effective. Formal response on audits for which follow up were required are not provided.	No change in performance.

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Annex 5: Calculation sheets for PI-1, PI-2, and PI-3

Data for PI-2.2 - Expenditure by Economic Classification Variance

Data for year =	**2015**					
Billion Naira	**budget**	**actual**	adjusted budget	deviation	absolute deviation	percent
Recurrent debt (interest) payments	954	1,016	1,003	13	13	1.3%
Recurrent non-debt payments	2,607	2,550	2,740	(190)	190	6.9%
Capital expenditure	557	384	586	(202)	202	34.4%
Statutory transfers	376	339	395	(56)	56	14.2%
Other outflows	(1)	434	(1)	435	435	-41386.5%
allocated expenditure	4,493	4,723	4,723	-	896	
Contingency	-	-				
total expenditure	4,493	4,723				
overall (PI-1) variance		5.1%	105.1%			5.1%
composition (PI-2) variance						19.0%
contingency share of budget						0.0%

Data for year =	**2016**					
Billion Naira	**Budget**	**Actual**	adjusted budget	deviation	absolute deviation	percent
Recurrent debt (interest) payments	1,428	1,308	1,149	159	159	13.8%
Recurrent non-debt payments	2,686	2,493	2,161	332	332	15.3%
Capital expenditure	1,587	596	1,277	(681)	681	53.3%
Statutory transfers	351	344	282	62	62	21.8%
Other outflows	1	130	1	129	129	16054.6%
allocated expenditure	6,053	4,871	4,871	0	1,362	
Contingency	-	-				
total expenditure	6,053	4,871				
overall (PI-1) variance		-19.5%	80.5%			19.5%
composition (PI-2) variance						28.0%
contingency share of budget						0.0%

Data for year =	**2017**					
Billion Naira	**Budget**	**actual**	adjusted budget	deviation	absolute deviation	percent
Recurrent debt (interest) payments	1,743	1,890	1,524	366	366	24.0%
Recurrent non-debt payments	2,991	2,830	2,615	215	215	8.2%
Capital expenditure	2,174	1,242	1,901	(659)	659	34.7%
Statutory transfers	434	440	379	61	61	16.0%
Other outflows	1	18	1	17	17	1958.8%
allocated expenditure	7,343	6,420	6,420	0	1,317	
Contingency	-	-				
total expenditure	7,343	6,420				
overall (PI-1) variance		-12.6%	87.4%			12.6%

composition (PI-2) variance	20.5%
contingency share of budget	0.0%

Calculation sheets PI 3- Revenue Outturns

Data for year =	**2015**					
Billion Naira	**budget**	**actual**	adjusted budget	deviation	absolute deviation	percent
Oil, gas and mineral revenue	1,703	1,386	1,301	85	85	6.5%
Non-oil revenue (Federal Acct and VAT)	1,215	824	928	(104)	104	11.2%
FG Independent Revenue	489	323	374	(51)	51	13.5%
Other revenue and inflows	-	70	-	70	70	-
Total	3,407	2,603	2,603	-	310	
overall (PI-3) variance		-23.6%				23.6%
composition (PI-3) variance						11.9%

Data for year =	**2016**					
Billion Naira	**budget**	**actual**	adjusted budget	deviation	absolute deviation	percent
Oil, gas and mineral revenue	821	716	446	270	270	60.4%
Non-oil revenue (Federal Acct and VAT)	1,455	814	791	23	23	2.9%
FG Independent Revenue	1,506	238	819	(581)	581	70.9%
Other revenue and inflows	(1)	288	(1)	289	289	53063.4%
Total	3,781	2,056	2,056	-	1,162	
overall (PI-3) variance		-45.6%				45.6%
composition (PI-3) variance						56.5%

Data for year =	**2017**					
Billion Naira	**budget**	**actual**	adjusted budget	deviation	absolute deviation	percent
Oil, gas and mineral revenue	2,267	1,125	1,387	(262)	262	18.9%
Non-oil revenue (Federal Acct and VAT)	1,373	955	840	115	115	13.7%
FG Independent Revenue	808	333	494	(161)	161	32.7%
Other revenue and inflows	-	309	-	309	309	#DIV/0!
Total	4,448	2,722	2,722	-	848	
overall (PI-3) variance		-38.8%				38.8%
composition (PI-3) variance						31.1%

Annex 6: Federal Government Fiscal Data used for PEFA- World Bank / Nigeria Fiscal Database: Construction, outcomes, and limitations

Context: Nigeria's statistical capacity lags those of other large countries. The quality of fiscal data in Nigeria has significant quality issues. Currently, there is no single public source of data that would provide reliable fiscal statistics for the entire Nigerian government. Key initiatives (including the Presidential Revenue Reconciliation Committee) aimed to address these issues but are still ongoing.

Objective: Federal Government of Nigeria PEFA report uses the World Bank Nigeria fiscal database. The World Bank Nigeria Federation Account and Federal Government Fiscal Database 2008-2018, based on the official OAGF data, is an output of the World Bank *Nigeria Fiscal Review*. The key aim of the database is to provide consistent time-series data of Federation revenues; and Federal Government aggregate fiscal accounts: all revenue, spending (debt, recurrent, capital expenditures and statutory transfers) and financing, and provide comparison between budget and realized annual amounts. No alternative fiscal database satisfying these criteria is currently available in Nigeria.

Process: The data (OAGF Fiscal Accounts Report)[98] was provided by the OAGF upon the official request from the World Bank. In principle, the data is also made publicly available on the OAGF website (although there may be some publication lags). The data has undergone; i) data cleaning; and ii) data reclassification. OAGF data is used by the World Bank, the IMF, and other agencies as the key source of fiscal data for the federal government of Nigeria, due to its official source and regular availability[99].

i) *Data cleaning*: in close consultation with OAGF, the World Bank staff has cleaned the data using the information available, to: a) eliminate simple errors; b) to make reporting items consistent over times.

ii) *Data re-classification*: As the FGN follows fiscal accounting principles slightly divergent from the international practices (i.e. GFS), the exercise also aimed to reclassify fiscal items in line with international standards, so that the international benchmarking and comparison of key fiscal indicators (e.g. fiscal balance) is meaningful. (For example, this involved removing financing items from the revenue component, of the public debt amortization from the debt service expenditures).

[98] Although the BOF (Budget Office of the Federation) publishes annual budget implementation reports (BIR) based on the same OAGF fiscal account data, the historical numbers do not always match the original OAGF data (for reasons such as: BOF reports are prepared based on preliminary data; contain unarticulated corrections and data manipulation; or contain information not available for OAGF (e.g. which capital releases in historical years were cash-backed and which were not). Furthermore, for the capital expenditures, the BIR reports on the execution of the capital expenditures according to the budget calendar (which due to the delayed budget passing is mis-aligned with the fiscal year, as the capital budget is implemented in one calendar year following the budget ascension). The World Bank Nigeria Fiscal Database allows for both ways of tracking, but for the purpose of the PEFA, the fiscal/financial/calendar year is followed.

[99] Ideally, the audited financial statements would be used; however, the OAuGF annual reports are published with significant lag: the 2017 report was not available during the preparation of this PEFA report. To ensure reporting consistency, the OAGF data, which is available for all three years evaluated (2015-2017), is used.

Outcomes: The database provides consistent time series data (monthly 2008-2018) of:

- Federation revenues and VAT (all Federally shared revenues, which are the dominant source of revenue for each tier of government); and
- Federal Government aggregate fiscal accounts by *economic classification*: revenue, spending (debt, recurrent, capital expenditures and statutory transfers), and financing; and provide comparison between budget and realized annual amounts.
- Annual and pro-rate budgeted; and monthly and annual actual outturns.

Limitations: *Functional/administrative classification*: As the Federal Government fiscal accounts contain only high-level information (aggregate share of federation revenues and independent revenues, minimal economic classification of expenditure (personnel costs and pensions, overheads, debt service, and capital expenditures), additional data was requested from to OAGF. OAGF provided 2008-2017 FGN capital budget implementation (disbursement) data by MDA (and by institution under a specific MDA). However, there were severe data shortcomings which prevented using the data to evaluate the budget performance by either administrative or functional classification: a) the capital data is reported by the budget implementation schedule, not the fiscal/financial year calendar; b) some significant components (particularly 'capital supplementation') cannot be mapped to a particular MDA or function; c) the recurrent spending data (by MDA)has not been made available.