

Lagos State of Nigeria
PFM Performance Measurement for Period 2009 - 2011

Self-Assessment by Lagos State Government

facilitated by

Chinedum Nwoko

*with support from the SPARC team of
Austin Ndiokwelu and Ifeanyi Peters Ugwuoke*

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Basic Information

Currency	Naira = 100 kobo
Exchange Rate	((US \$, 2011)155 Naira (Average)
Fiscal/Budget Year	Calendar Year, January - December
Weights and Measures	Metric System

Lagos State

Location	Nigeria
Government	Elected Executive Governor and unicameral Legislature
Political arrangement	Administrative, political, and fiscal autonomy
Administrative HQs	Ikeja
Industrial/Commercial Cities	Ilupeju
Population	million (2006 census); million (2012 projection)
Area	km ²
Population Density	persons/km ² ; persons/km ² (2012 projection)
Languages	English (official); Yoruba (local; widely spoken)

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Acronyms and Abbreviations

AC – Appropriation Committee	FGN – Federal Government of Nigeria
ACL – Audit Computer Language	FI - Financial Instructions
AGA(s) – Autonomous Government Agencies)	FMF – Federal Ministry of Finance
AIA – Activity Implementing Agency	FR - Financial Regulations
AIE – Authority to Incur Expenditure	FR – Financial Regulations
AIT – Activity Implementing Team	FSP – Fiscal Strategy Paper
ATRRS – Accounts Transaction Recording and Reporting System	GDP – Gross Domestic Product
BAC – Body of Appeal of Commissioners	HC – High Court
BC – Budget Calendar	HIV/AIDS – Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
BC&COA – Budget Classification and Chart of Accounts	HOS – Head of Service
CAC – Corporate Affairs Commission	HRM – Human Resource Management
CBD – Central Business District	ICAN – Institute of Chartered Accountants of Nigeria
CBN – Central bank of Nigeria	IFA – International Federation of Accountants
CIA – Central Intelligence Audit (Lagos State Ministry of Finance)	IGR – Internally generated revenue
COA – Chart of Accounts	IIA – Institute of Internal Auditors
COFOG – UN-supported Classification of the Functions of Government	ILO – International Labour Organization
CPDVD – Central Payroll Data Validation Directorate (of the Lagos State Treasury Office)	INTOSAI – International organization of Supreme Audit Institutions
CRF – Consolidated Revenue Fund	IPPIS – Integrated Personnel and Payroll Information System
CSC – Civil Service Commission	IPSAS – International Public Sector Accounting Standards
CSOs – Civil Society Organizations	ISPO(s) – Irrevocable Standing Payment Order(s)
DFID – UK Department for International Development	ISPPIA – International Standards for Public Practice in Internal Audit
DMO – Debt Management Office	JAAC – Joint Account Allocation Committee
DSA – Debt sustainability Analysis	JTB – Joint Tax Board
EIU – Economic Intelligence Unit	LAS(G) – Lagos State (Government)
EU – European Union	LASEEDS – Lagos State Economic Empowerment and Development Strategy
EU-SRIP – European Union Support for Reforming Institutions Programme	LCC – Lagos City Council
F & AC – Finance and Appropriation Committee (of the State House of Assembly – the specialized legislative committee in charge of the budget)	LG(s) – local government(s)
FA – Federation Account – the constitutional fund that accumulates all centrally and sharable revenues of the Federation, with the exception of value added tax revenue	LGA(s) – Local Government Area(s)
FAAC – Federation Account Allocation Committee, a quasi-formal intergovernmental body comprising representatives of the Federal Government, each of the 36 state governments, local governments, and some key federal/national bodies; FAAC meets monthly to share centrally collected revenues among the three tiers of government.	LIRS – Lagos Internal Revenue Service
FCT – Federal Capital Territory	LMDGP – World Bank funded Lagos Metropolitan Development and Governance Project
FG – Federal Government	M & E – Monitoring and Evaluation
	MDA – Ministries, Departments, and Agencies
	MDGs – Millennium Development Goals
	MEPB – Ministry of Economic Planning & Budget
	MTEF – Medium Term Expenditure Framework
	MTSS – Medium Term Sector Strategies
	NA – National Assembly
	NASB – Nigeria Accounting Standards Board
	NBS – National Bureau of Statistics
	NCS – National Council of State
	NEC – National Economic Council
	NEEDS – National Economic Empowerment and Development Strategy, Nigeria’s homegrown poverty reduction strategy;

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- NEEDS has a life span of four years, 2003 – 2007. NEEDS II is currently at an advanced stage of preparation.
- NGO** – Non-Government Organization
- NPC** – National Planning Commission
- OAG** – Office of the Accountant General
- OPS** – Organized Private Sector
- OSAG** – Office of the State Auditor General
- PAC** – Public Accounts Committee – the specialized legislative committee that scrutinizes audit reports
- PE(s)** – Public Enterprise(s)
- PEFA** – Public Expenditure and Financial Accountability
- PEMFAR** – Public Expenditure Management and Financial Accountability Review, a 2006 World Bank study in Nigeria published in 2007
- PER** – Public Expenditure Review
- PFM** – Public Financial Management
- PFM-PR** – Public Financial Management Performance Report
- PIT** – Personal Income Tax
- PITA** – Personal Income Tax Act (1994)
- PPP** – Purchasing Power Parity
- PPSB** – Post Primary Schools Board
- PS** – Permanent Secretary, usually the top civil servant in a government Ministry or quasi-ministerial department
- PSO** – Public Service Office (A department in the Office of the Head of Service)
- SAI** – Supreme Audit Institution (in Lagos State, the Auditor General)
- SBIR** – State Board of Internal Revenue
- SC** – Supreme Court
- SEC** – State Executive Council
- SEEDS** – State Economic Empowerment and Development Strategy; state governments’ version of NEEDS (see NEEDS above)
- SG(s)** – State Government(s)
- SHA** – State House of Assembly
- SLGP** – State and Local Government Programme
- SNG(s)** – Subnational government(s)
- SPARC** – State Partnership for Accountability, Responsiveness, and Capability
- STB** – State Tenders Board
- STO** – State Treasury Office
- TIN** – Taxpayer Identification Number
- UN** – United Nations
- UNDP** – United Nations Development Programme
- VAT** – Value Added Tax
- WB** – World Bank
- ZBB** – Zero Base Budgeting

Acknowledgements

Summary Assessment

1. This is a repeat assessment of the Lagos State Government of Nigeria PFM system using the PEFA PFM Performance Measurement Framework. The baseline assessment took place in 2009 and covered fiscal years 2006 to 2008. This current assessment covers the period 2009 to 2011; however, the 2011 financial statements used are drafts with unaudited figures. The assessment tracks and presents detailed changes in the baseline assessment in *Section 3*. This summary provides an integrated and strategic overview of those details. It begins with a storyline telling the main message of the outcomes. It then summarizes current performance along the six core dimensions of the PEFA PFM Performance Measurement Framework, highlighting any changes in baseline *status quo*. It also assesses the extent to which the PFM weaknesses identified in the assessment could have affected achievement of the tripartite outcomes of aggregate fiscal discipline, strategic allocation of resources, and effective service delivery. Finally, it assesses the prospects for reform planning and implementation in the state, outlining the institutional and other factors that could support or hinder PFM reform, also comparing this with the baseline *status quo*.

Story Line

2. The 2012 assessment show that the Lagos state (PFM) improved its performances over the 2009 baseline in four performance indicators, i.e., in PIs 11 – 14. These indicators deal with policy-based budgeting and the tax system. Overall, seven dimensions improved their performances over the 2009 status quo. These are *PIs 11 (ii), 13 (i), 13 (ii), 14 (i), 14 (ii), 24 (ii), and PI 27 (iii)*. Conversely, four performance indicators showed deteriorating assessments on their 2009 positions. These are PIs 2, 19, 20 and 26. Although there was a revision of PI-2 in 2010 with the addition of dimension (ii), the indicator still would still have showed deterioration on a comparison of only dimension (i). There was also a revision of PI-19 on public procurement requiring a more detailed assessment. This could have contributed to the deterioration in performance. Overall, eight dimensions showed deteriorating performances: *PIs 11(i), 18 (iii), 20 (ii), 22 (i), 25 (iii), 26 (i), 26 (ii), and 28 (ii)*. Fourteen performance indicators maintained their 2009 assessments. Finally, it was not possible to compare performances of six indicators because of incomplete evidence to assess in one or both of the two periods. *Table 1* summarizes the picture.

Performance Indicators													
Performance Indicators						Performance Indicators							
S/No.	Improvements			Deterioration			S/No.	With No Change in assessment			Not Comparable		
	2012 Ass	2009 Ass		2012 Ass	2009 Ass		2012 Ass	2009 Ass		2012 Ass	2009 Ass		
1	PI 11	C+	C	PI 2	D+	C	1	PI 1	D	D	PI 6	NR	C
2	PI 12	D+	D	PI 19	D	D+	2	PI 4	NR	NR	PI 7	D	NR
3	PI 13	B+	C	PI 20	C	C+	3	PI 3	D	D	PI 17	NR	D+
4	PI 14	B	D+	PI 26	B	B+	4	PI 5	D↑	D	PI 22	D	NR
Dimensions													
1	PI 11 (ii)	A	D	PI 11 (i)	D	B	5	PI 8	D	D	PI 23	C	NR
2	PI 13 (i)	A	C	PI 18 (iii)	B [↑]	A	6	PI 9	C	C	PI 28	D	NR
3	PI 13 (ii)	A	B	PI 20 (ii)	C	B	7	PI 10	C	C			
4	PI 14 (i)	B	D	PI 22 (i)	D	B	8	PI 15	D+	D+			
5	PI 14 (ii)	A	C	PI 25 (iii)	D	B	9	PI 16	D+	D+			
6	PI 24 (ii)	A	D	PI 26 (i)	B	A	10	PI 18	B+↑	B+			
7	PI 27 (iii)	B	D	PI 26 (ii)	B	A	11	PI 21	C+	C+			
8				PI 28 (ii)	D	C	12	PI 24	D+	D+			
							13	PI 25	D+	D+			
							14	PI 27	C+	C+			

Integrated Assessment of PFM Performance and Their Impacts

3. This section expounds the storyline by providing more detailed information of performance outcomes around the six core dimensions of the assessment framework namely, (i) credibility of the budget, (ii) comprehensiveness and transparency, (iii) policy-based budgeting, (iv) predictability and control in budget execution, (v) accounting, recording, and reporting, and (vi) external audit and scrutiny. The presentation also briefly analyses the potential contribution of the performances to attainment of the three budgetary outcomes of aggregate fiscal discipline, strategic prioritization and allocation of resources, and efficient service delivery.

Credibility of the Budget

4. *Credibility of the budget almost maintained the same level of performance as in 2009, except for deterioration in the performance composition variances (Table 2).* Failure to ‘bring in’ predicted revenue continues to affect budget execution, as inability to realize projected financing. The practice of midstream budget re-ordering continues to contribute to budget deviation and composition variance, as did the requirement of prior executive approval for implementation of the already approved budget. Inability to implement the budget as made undermines fiscal discipline and affects the sanctity of the budget. Further, Lack of information on payment arrears makes it difficult to understand the extent of use of non-transparent financing to accomplish the budget. Such non-transparent financing could mean higher budget deviation and composition variances.

Indicator	2012 Assessment					2009 Baseline				Brief Explanation of Difference with 2009 Baseline		
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used	Dimension Ratings				Overall Score	
	i	ii	iii	iv			i	ii	iii			iv
1. Aggregate expenditure out-turn compared to original approved budget	D				D	Actual expenditure was 34.9 percent, 24.5 percent, and 11.1 percent in 2008, 2009, and 2010 respectively	D				D	No change in performance, although annual deviation has been declining progressively
2. Composition of expenditure out-turn compared to original approved budget	D	A			D+	Composition variance was 20.9 percent; 18.1 percent, and 8.9 percent in 2008, 2009, and 2010 respectively.	C				C	Not comparable; indicator revised in 2010
3. Aggregate revenue out-turn compared to original approved budget	D				D	Internally generated revenue was 83.96 percent, 75.74 percent, and 80.69 percent in 2008, 2009, and 2010 respectively, i.e., below 92 percent of the budget.	D				D	No comparable; indicator revised in 2010.
4. Stock and monitoring of expenditure payment arrears	NR	D			NR	Evidence still being assessed	NR	D			Not rated	No change performance

Comprehensiveness and Transparency

5. *Ongoing efforts to prepare a new chart of accounts and align financial reporting with budget formulation and execution show the kind of effort required to improve overall transparency of the PFM*

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system. Otherwise, the general level of transparency is low, with the PFM system not improving on its 2009 performance on all indicators (Table 3).

<i>Table 3: Key Crosscutting Issues: Comprehensiveness and Transparency</i>												
Indicator	2012 Assessment					2009 Baseline				Brief Explanation of Difference with 2009 Baseline		
	Dimension Ratings				Overall Score	Dimension Ratings					Overall Score	
	i	ii	iii	iv		i	ii	iii	iv			
<i>B. Key Cross-cutting Issues: Comprehensiveness and Transparency</i>												
5. Classification of the budget	D [†]				D[†]	Current chart of accounts not GFS compatible; budgeting and execution (reporting) of the budget use different codes.	D				D	No change, but chart is being revised to make it GFS compatible
6. Comprehensiveness of information included in the budget	NR				NR	Evidence for rating six items not confirmed	C				C	
7. Extent of unreported government operations	D	D			D	Fiscal reports do not include details of the revenues and expenditures of the 69 parastatals, not even as annexes, representing 20 % of expenditures between 2009 and 2010 (measured by the proportion of their overheads to total overheads). R & E information on donor projects included in budget but not financial statements	NR	D			Not rated	Not comparable, but data available to measure performance in 2012
8. Transparency of inter-governmental fiscal relations	NR	D	D		D	Evidence of distribution of revenues to LGs submitted is not current; it relates to fiscal 2009 (this assessment is taking place in 2012); the state has discontinued the provision of fiscal projections to LGs; LGs learn of their allocations only when received from the FG; the state does not produce consolidated fiscal reports in any sector.	D	D	D		D	Assessment did not change from 2009 baseline for dimensions (ii) and (iii). Data for assessing dimension (i) is incomplete.
9. Oversight of	C	C			C	Many parastatals do	C	C			C	In 2009, most

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Table 3: Key Crosscutting Issues: Comprehensiveness and Transparency

Indicator	2012 Assessment					2009 Baseline				Brief Explanation of Difference with 2009 Baseline		
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used	Dimension Ratings				Overall Score	
	i	ii	iii	iv			i	ii	iii			iv
aggregate fiscal risk from other public sector entities						not submit their audited accounts thereby undermining accountability; LGs submit annual audited accounts but the state does not consolidate them.						AGAs submitted regular annual audited reports
10. Public access to key fiscal information	C				C	Only two of the listed seven items are easily accessible to the public.	C				C	No change

Policy-Based Budgeting

The cabinet now engages early with the budget process, providing guidance on detailed budget preparation. Fiscal forecasting also improved during the period. However, adhering to the budget calendar will help improve the timeliness of budget approval. In addition, mainstreaming fiscal forecasts into the budget and preparation and proper costing of sector strategies will contribute to the credibility of the budget.

Table 4; Policy-Based Budgeting

Indicator	2012 Assessment					2009 Baseline				Brief Explanation of Difference with 2009 Baseline		
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used	Dimension Ratings				Overall Score	
	i	ii	iii	iv			i	ii	iii			iv
11. Orderliness and participation in the annual budget process	D	A	C		C+	There is a budget calendar, but no evidence of adherence to it; cabinet provides guidance before issuing of the budget call circular; fiscal 2012 budget was passed on December 30, 2011; 2011 on January 31, 2011; and 2010 on March 1, 2010	B	D	C		C	Great improvement in providing policy guidance for budget, and timeliness of approving the budget, but evidence of adherence to budget calendar is not available
12. Multi-year perspective in fiscal planning, expenditure policy, and budgeting	C	D	D	D	D+	Government prepares 3-year rolling medium fiscal aggregates for the nine functional sectors; but there is a wide gap in practice between budgetary provisions and expenditure ceilings; the state has not done any debt sustainability analysis; strategies based	D	D	D	D	D	Medium term fiscal forecasting has improved since the 2009 baseline assessment. In 2009, the state was not making medium term fiscal projections. It has started preparing fiscal forecasts; but there is still some

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<i>Table 4; Policy-Based Budgeting</i>												
Indicator	2012 Assessment					2009 Baseline				Brief Explanation of Difference with 2009 Baseline		
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used	Dimension Ratings				Overall Score	
	i	ii	iii	iv			i	ii	iii			iv
						on administrative lines exist, but there is no costing; the state does not systematically link capital and recurrent budgeting; they remain separate activities					disparity between forecasts and final budget envelopes. The status quo remained in the other dimensions.	

Predictability and Control in Budget Execution

6. Tax administration and the legal and regulatory framework for public procurement are good, but these did not lead to implementation of the budget in an orderly and predictable manner (Table 5). Improvement in cash forecasting, release of funds, respect for rules and procedures, and internal auditing are necessary to enhance performance.

<i>Table 5: Predictability and Control in Budget Execution</i>												
Indicator	2012 Assessment					2009 Baseline				Brief Explanation of Difference with 2009 Baseline		
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used	Dimension Ratings				Overall Score	
	i	ii	iii	iv			i	ii	iii			iv
13. Transparency of taxpayer obligations and liabilities	A	A	C		B+	Legal provisions of and administrative procedures for the main tax laws are clear there is a high level of awareness among taxpayers on their tax liabilities; the current tax appeal system is not independent and needs substantial redesign to make it effective.	C	B	D		C	Tax laws and procedures clarified in recent amendments; improved tax education includes syndicated TV programmes; tax audit now covers 100 percent of database and includes clear criteria for self-audit.
14. Effectiveness of measures for taxpayer registration and tax assessment	B	C	A		B	The LIRS has a taxpayer registration system with interlinks with several user systems. Penalties for noncompliance with registration and tax declaration processes are ineffective; tax audit and fraud investigation processes are strong and effective.	D	C	C		D+	The taxpayer registration system has improved significantly since 2009 with several interlinks. Tax audit and fraud investigation now includes risk analysis with clear criteria for self-audit.
15. Effectiveness in collection of	NR	A	D		D+	No complete data on tax arrears at yearend; revenue collections	D	A	D		D+	No change; dimension (i) should not have

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Table 5: Predictability and Control in Budget Execution

Indicator	2012 Assessment					2009 Baseline					Brief Explanation of Difference with 2009 Baseline				
	Dimension Ratings			Overall Score		Brief Explanation and Cardinal Data Used				Dimension Ratings				Overall Score	
	i	ii	iii	iv		i	ii	iii	iv						
tax payments						sweep daily into Treasury controlled commercial bank accounts							been rated in 2009 for incomplete data		
16. Predictability in the availability of funds commitment of expenditures	D	D	B		D+	Cash management is by cash rationing rather than cash planning; MDAs do not receive information on resources available for commitment; budget reordering follows a formal process involving MDAs, although the process is not predictable.	C	D	B			D+	No change in overall score; however, evidence shows overrating of cash planning method in 2009 assessment.		
17. Recording and management of cash balances, debt, and guarantees	C	NR	C		NR	Gaps in domestic and foreign debt records raise quality concerns; evidence of daily consolidation of bank balances not established; rules for new loans include not include clear debt	C	D	C			D+	Evidence on consolidation on cash balances not established		
18. Effectiveness of payroll controls	A	B	B [†]	A	B+[†]	Payroll and personnel records reconciled monthly; changes to payroll records are usually less than three months, except in a minority of cases; authority for changes to payroll and personnel reside in different parties; a strong tradition of monthly payroll audit exists	A	B	A	B		B+	No change in overall result; but reform evidence in payroll controls		
19. Transparency, competition, and complaints mechanisms in procurement	C	D	D	D	D	Provisions of the new Public Procurement Law meet some good practices, but results not yet evident; the old legal and regulatory framework is deficient in many respects.	D	C	D			D+	Not comparable; indicator revised in 2010		
20. Effectiveness in internal controls for non-salary expenditure	C	C	C		C	Other controls are excessive because of requirement for Governor's approval of all payments above five million naira, contrary to the regulations. MDAs generally comply with rules for processing and recording transactions.	C	B	C			C+	Clarification provided in 2012 shows executive approval of payments has always be part of the Lagos state payment system; this shows overrating in 2009.		

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Table 5: Predictability and Control in Budget Execution

Indicator	2012 Assessment					2009 Baseline					Brief Explanation of Difference with 2009 Baseline	
	Dimension Ratings			Overall Score		Brief Explanation and Cardinal Data Used	Dimension Ratings					Overall Score
	i	ii	iii	iv			i	ii	iii	iv		
21. Effectiveness of internal audit	C	B	C		C+	The internal audit function is not sufficiently professional; the Central Internal audit Department issues monthly reports, but not according to a fixed schedule; delayed action taken on recommendations, and with limited results.	C	B	C		C+	No change in baseline status quo

Accounting, Recording, and Reporting

7. The timeliness of in year budget reporting improved significantly over the 2009 assessment, but the timeliness of bank reconciliation statements deteriorated. The timeliness and quality of financial reporting maintained the overall level of performance, which is low in several of the dimensions.

Table 6: Accounting, Recording, and Reporting

Indicator	2012 Assessment					2009 Baseline					Brief Explanation of Difference with 2009 Baseline	
	Dimension Ratings			Overall Score		Brief Explanation and Cardinal Data Used	Dimension Ratings					Overall Score
	i	ii	iii	iv			i	ii	iii	iv		
22. Timeliness and regularity of accounts reconciliation	D	D			D	Bank of accounts are in arrears of reconciliation with material differences not explained; advances to MDAs not cleared or reconciled timeously	B	NR			NR	Bank reconciliation habit has deteriorated since the baseline assessment. The state provided data for assessment of dimension (ii), which was not the case in 2009.
23. Availability of information on resources received by service delivery units	C				C	The Ministry of Economic Planning and Budget devised a system that tracks and collects resource information in education, but the system is not sufficiently comprehensive.	NR				Not rated	Improvement in provision of data for assessment
24. Quality and timeliness of in-year budget reports	D	A	C		D+	Budget report captures only releases and is too aggregated; quarterly reports issued within four weeks; data quality issues arise from difference between fund releases, payments, and	C	D	C		D+	Data is too aggregated unlike in 2009, but improvement in the timeliness of reporting

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Table 6: Accounting, Recording, and Reporting

Indicator	2012 Assessment					2009 Baseline					Brief Explanation of Difference with 2009 Baseline	
	Dimension Ratings			Overall Score		Brief Explanation and Cardinal Data Used	Dimension Ratings					Overall Score
	i	ii	iii	iv			i	ii	iii	iv		
						actual expenditure commitment						
25. Quality and timeliness of annual financial statements	C	A	D		D+	Gaps in annual financial statements include lack of information on authorized source deductions from federation allocations and expenditures on dedicated revenues; fiscal 2010 accounts submitted for audit on June 30, 2011; accounting standards used not disclosed.	D	A	B		D+	The 2009 baseline under assessed dim (i), regarding consolidation with LGs and AGAs' accounts as necessary and over assessed the dimension (iii) on accounting standards used.

External Scrutiny and Audit

8. External audit was good, but the ratings deteriorated from the 2009 levels. Time taken to scrutiny the budget also deteriorated. The 2012 assessment also shows that the State House of Assembly did not conclude hearing on any audit report within the last three years.

Table 7: External Scrutiny and Audit

Indicator	2012 Assessment					2009 Baseline					Brief Explanation of Difference with 2009 Baseline	
	Dimension Ratings			Overall Score		Brief Explanation and Cardinal Data Used	Dimension Ratings					Overall Score
	i	ii	iii	iv			i	ii	iii	iv		
26. Scope, nature, and follow-up of external audit	B	B	B		B	Audit covers all central government activities, but involves limited performance audit; fiscal 2010 audit submitted to the Legislature on December 28, 2011; significant number of issues raised in audit queries cleared during exit meetings.	A	A	B		B+	Deterioration of performance in audit coverage and timeliness from 2009 status quo
27. Legislative scrutiny of annual budget law	C	A	B	C	C+	Legislative scrutiny of the budget covers details of revenue and expenditure, but not fiscal policies and medium term fiscal forecasts; established budget approval process includes use of appropriation and specialized committees; the Legislature approved two of the last three budgets within six weeks of submission; the use of service votes allows extensive adjustment to the budget without referring to the legislature	C	A	D	C	C+	The Legislature took more time to approve the budget this time than in the 2009 assessment.

Indicator	2012 Assessment					2009 Baseline				Brief Explanation of Difference with 2009 Baseline		
	Dimension Ratings			Overall Score		Dimension Ratings					Overall Score	
	i	ii	iii	iv		i	ii	iii	iv			
28. Legislative scrutiny of external audit reports	D	D	D		D	No hearings on audit reported completed in the last three years; audit hearing is a closed affair and not open to the public; no recommendations issues in last three years.	C	A	NR		Not rated	No evidence of completed hearing in 2012

Assessment of the impact of PFM weaknesses

9. How could weaknesses in PFM have affected overall achievement of budget outcomes? Why should the weaknesses identified in PFM performance matter for the Federal Government of Nigeria? This section attempts an answer.

10. Lack of realism contributes to dysfunctional budget policy and suboptimal attainment of budgetary goals in several ways: erosion of fiscal discipline, upsetting the policy basis of budgeting, reducing value for money, and undermining budget realism and public trust. For instance, composition variance may entail midstream reordering of budget priorities without rules and may distort intended budgetary outcomes. Budget reordering and aggregate budget deviation may be the effect of poor project costing by some MDAs; this complicates budgetary control, management, and accountability for resources. Low budget credibility affects public trust in the budget as a true expression of government policy intentions. When government consistently does not implement the budget, the people come to “know and accept (?)” the government will not implement it. There is no way thus to hold anyone to account, and this perpetuates budget indiscipline.

11. Lack of comprehensiveness and transparency of the PFM system contributes to the perception of a high level of public corruption. Lack of transparency affects the entire PFM system, from credibility of the budget to accounting and record keeping. In particular, the link with audit and legislative scrutiny is clear – failure of audit follow up is both a result of and leads to lack of transparency. However, ignorance of fiscal outcomes and performances prevents the public from making valuable facts-based inputs and suggestions to improve governance and reduces opportunities for effective corrective intervention. Incomplete information also affects government agencies by limiting fair and transparent competition for resources during budget preparation. Unfair competition hinders allocative efficiency and leads to suboptimal allocation of resources. Finally, lack of comprehensive and transparent information increases the chances of wastes in the use of resources and hinders efficient and effective service delivery and value for money.

12. Policy weaknesses directly affect credibility of the budget and budgetary outcomes. They affect ability to control and implement the budget as planned, thereby causing or contributing to budget deviations and composition variances. Policy and planning weaknesses contribute to the unplanned budget reallocations (especially through service-wide votes) that feature in budget implementation and unauthorized expenditures reported in the external audit reports. Policy weakness is also a transparency issue because, in this case, it shrouds expenditure ceilings for the recurrent budget, which constitutes more than 70 percent of the budget.

13. *Unpredictability of resource flow denies service delivery units the ability to plan and use resources effectively and efficiently.* This links directly to credibility of the budget. Unpredictability of resource flow also affects procurement practices through uncompetitive tendering process. Uncompetitive tendering can reduce the efficiency of existing programs and increase the cost of procuring services. There are also questions on the extent of value for money in service delivery generally. Finally, unpredictability of resources is a transparency issue and it limits the completeness of information available to service delivery units for budget management.

14.21. *Accounting, recording, and reporting weaknesses particularly affect credibility of the budget and transparency and comprehensiveness of the PFM system.* Insufficient accounts disclosures affects public trust. Inadequacies in interim budget execution reporting constrains management decision making and control on of budget performance as; late release of the reports thus undermines ability to allocate resources effectively. It also affects ability to plan and manage services. In addition, it prevents timely detection of wastages and suboptimal use of resources. Finally, poor accounting and reporting affects availability of evidence for effective audit and oversight of the use of funds.

15. *Lack of audit oversight and reporting affects transparency of the system and ability to hold public officers to account.* Audit reports are replete with infractions of the rules. Poor legislative oversight made it difficult to hold government accountable to manage resources efficiently and in a rules-based manner. Failure to follow up on audit findings impact on budget credibility and comprehensive of the budget. For example, findings of excess expenditure that repeatedly feature in audit reports contribute to budget deviation and composition variance. Further, inability to follow up on findings affects transparency of the PFM system and contributes to poor accounting, recording, and reporting.

Prospects for Reform Planning and Implementation

16. *What existing institutional factors support reform programming and implementation in Lagos state? What conditions would enhance reform sustainability beyond this current administration. What guarantees are there against policy reversal and summersault?* The established tradition of PFM reforms, the educated workforce, role of the Ministry of Economic Planning & Budget in coordinating fiscal reforms and budget, and recent efforts to provide legislative bases for the reforms are favourable factors to long-term reform sustainability. However, strengthening recently enacted laws, enactment of further legislation, implementation of enacted laws, development of institutional and administrative capacity to champion the reforms, greater visibility of the Ministry of Finance in PFM reform coordination would further enhance prospects for implementation and sustainability. The following paragraphs briefly elaborate on these factors.

17. *Lagos state has developed a strong tradition of reforms since 1999.* This current administration inherited and expanded PFM reforms introduced by the earlier one that was in office from 1999 – 2007. This relatively smooth transition between the two regimes contributed to making this possible. For instance, the current governor was as chief of staff in the preceding administration. Similarly, the Commissioner for Economic Planning and Budget, the Accountant General, and the Permanent secretary in the Ministry of Finance also served in the same capacities in the earlier regime. This stability has helped developed a style, rhythm, and harmony favourable to reform implementation.

18. *Lagos state has developed a strong, educated, and stable workforce and good succession habit in vital positions.* These help advance reforms by ensuring continuity and shortening learning. For example, the state finds roles in the government for seasoned technocrats that retire from the service. For example, the last three permanent secretaries in the Ministry of Economic Planning & Budget still service in the government as chair the State Universal Education Board (SUBEB), Commissioner, and Economic Adviser to the Governor respectively. Besides, the last three permanent secretaries moved to that position

from being the Director of Budget in the Ministry. The government did not see the need appoint 'more senior' permanent secretaries from the service to that position, as often happens in federal and other state governments in Nigeria. Instead, the government preferred to promote 'more junior' by technically trained, qualified, and competent personnel from within the Ministry to that position. This has contributed to the steady progress of fiscal and budget reforms.

19.Strong MEPB leadership and coordination of the fiscal and budget management aspects of the reform also helps provide a good atmosphere for reform implementation. The Ministry is leading statewide reforms in budget preparation, budget classification, fiscal forecasting, medium term programming, sector strategies, budget performance reporting, statistics, etc. Other arms of the government accept and follow this leadership. The stable political leadership and smooth and sensible transition process in the Ministry over the years have helped foster this leadership. However, the Ministry does not lead or coordinate other PFM reform efforts such as accounts and treasury, revenue management, HR and payroll, internal and external auditing, etc. Better coordination of these reforms will further enhance reform implementation and sustainability.

20.Provision of legal backing for some recent and proposed reforms can help ensure sustainability. An organic public finance, public procurement, debt management, and audit commission laws are some of the recent PFM laws. The laws establish the reforms and make it more difficult to reverse or abandon. However, some additional measures will help strengthen the role of legislation in this regard.

21.These measures include strengthening observed weaknesses in some recently enacted laws, further key legislation, and proper implementation of enacted laws. For instance, several aspects of the new Public Procurement Law predispose to potential abuse. These aspects include the 'excessive' powers granted to governor, the cabinet's role as final arbiter in procurement complaints, very high threshold for application of open competition, and discretion in the use of other methods for procurement below the open competition threshold. The other recently enacted laws contain similar gaps, especially in the role granted the governor. Future regimes can use these powers to the detriment of the reforms. New legislation required includes a fiscal responsibility or related law. The Public Financial Management Law and the Debt Management Office Law do not sufficiently cover the field.

22.Unreserved implementation of already enacted laws will also help foster reform implementation and sustainability. Some aspects of the new laws are still awaiting implementation. For example, the government is yet to set up governing boards of the Lagos Inland Revenue Service (LIRS) and the Debt Management Office (DMO) several years after the laws came into effect. The bodies are operating without governing boards. Such selective implementation of reform legislation increase political exposure for these bodies. They also set a bad precedence that any future administration can exploit.

23.Development of institutional and administrative capacity to champion the reforms could provide a strong boost for sustainability. For example, performance of all treasury functions by the Treasury will ensure greater professionalism and competence in those functions. The Treasury will perform those functions in accordance with pre-established transparent guidelines. This will obviate the need for political involvement in decision-making on technical issues, which often is not transparent. Similarly, the MEPB and MDAs should acquire the capacity to implement the approved budget with a rules-based approach without political leaders. While budget formulation may involve a political element, budget implementation is purely a technical matter.

24.Central coordination of the entire PFM reform process will enhance the prospects of success and sustainability. Such a central coordination role is not currently visible in Lagos state. Different agencies lead different aspects of the reform process. Thus, the MEPB leads in fiscal and budget management, the LIRS in revenue management, the Ministry of Science & Technology in Oracle Financials (IFMIS), the

Treasury in payroll management, etc. Central coordination will promote even and rounded progress, rather than the current situation of unequal implementation of the reforms.

25. Greater visibility of the Ministry of Finance in PFM reforms is strategic for reform continuity. International good practices entrust the Ministry with overall leadership and coordination of the PFM reform process. Developing such leadership and coordinating capacity in the Ministry is vital for reform leadership. The Ministry occupies a central position in the PFM system; it is the melting point of all PFM issues. This uniquely equips it to have a fuller picture of the system than any other unit does. The Ministry could lead well in the preparation and implementation of a sequenced, reform master plan. This will enhance reform implementation and sustainability.

Section 1: Introduction

This is a repeat assessment of the Lagos state PFM system using the PEFA PFM Performance Measurement Framework. The baseline assessment took place in 2009. This assessment tracks changes that have occurred in the baseline performance. This introduction explains the purpose of this repeat assessment, describes the assessment and reporting process, outlines the role of donor sponsors and government partners, and explains its methodology, sources of information, and reliance placed on them. It also explains the scope of the assessment.

Lagos State Government has implemented governance, fiscal, and public financial management reforms since 1999. For instance, revenue administration reforms have led to increased internal revenue generation from 600 million monthly in 2002 to 14 billion monthly in 2011. Further, the state pioneered the integrated financial management information system (IFMIS) in the country with introduction of its Oracle Financials in the early 2000s. The SG also commenced budget and fiscal management reforms, which it has implemented since. The reforms have progressed much, and in some areas, follows an ordered process, rather than being piecemeal and fragmentary, which it initially was. The first PEFA assessment of 2009 help in streamlining reform implementation and rallying development partners to a common approach. This repeat PFM assessment tracks the progress of reforms by assessing their impact on key performance indicators.

The UK DFID supported this repeat assessment by Lagos State Government, as it did the baseline in 2009. DFID's support was through its *State Partnership for Accountability, Responsiveness, and Capability (SPARC Programme)*. SPARC funded the consultants, the assessment retreat and validation retreat, and production of materials. The funding covered sponsorship of government participants at events.

The assessment used the exposure draft on *Guidelines for Application of the PEFA PFM Performance Measurement Framework to Subnational Governments* published by the PEFA Secretariat in 2008 and their revisions to PIs 2, 3, and 19 published in 2010. The assessment also applied *Good Practice when Undertaking a Repeat Assessment: Guidance for Assessment Planners and Assessors* also issued in 2010.

The assessment commenced in February 2012 with the constitution of a technical team of mostly permanent secretaries and directors by the Lagos state government, setting up of a coordination secretariat in the State Treasury Office, and appointment of a Director in that office as project manager. The data collection phase commenced thereafter and lasted through the exercise. However, analysis of initial data preceded the scoring workshop that held from April 2 – 5, 2012. The residential workshop involved the technical team raised by the state, SPARC officials, and the consultant. However, several senior more officials attended portions of the exercise mostly to present evidence and participate in the scoring of indicators of their interest.¹ The workshop included one day training on the PEFA Framework and scoring methodology, and three full days of jointly assessing the evidence and rating the dimensions. The consultants then prepared the draft report for validation by the state government.

The validation process included high-level policy meetings with the commissioners for Economic Planning and Budget, and Finance, and the Accountant General. These meetings provided opportunity to review the scores and some of the narratives. Validation also included a one-day technical session with the assessment team. The session considered the draft report and reconciled outstanding issues.

¹ see list of participants in Appendix

Lagos State PEFA PFM-PR 2012

The assessment covered all areas of the Lagos State PFM system, excluding local governments because, as a separate tier of government, each with its own independent PFM system. It also does not cover parastatals because it was not possible to obtain information about them. Parastatals represented an average of 20 percent of actual spending in 2009 and 2010, measured by subventions to them (see *Table* below). This does not include internal revenues of the parastatals, which this report could not access.

Scope of the Assessment		
Institutions	Number of entities	% of total public expenditures
Central government*	43 [†]	80**
Autonomous government agencies	69 [†]	20
Sub-national governments – local governments	20	0.0
Sub-national governments – development area councils	57	0.0%
<p>* Includes ministries, departments and deconcentrated entities directly accountable to the Treasury on their expenditures [†]Sources: State official website, www.lagosstate.gov.ng [‡]Source: Office of the state, www.lagosstate.gov.ng; this is the list of entities subvented by the government in 2010 ^{‡‡}36 states governments + the Federal Capital Territory, Abuja **see calculation in PI 7 in Section 3</p>		

Section 2: Country Background Information

2.1 This chapter on country economic background puts this assessment of the Lagos state government PFM system in perspective. The chapter provides general contextual information on Nigeria and Lagos state. It briefly describes Lagos state economic situation, its budgetary outcomes, and the budgetary and institutional framework for public financial management in the state.

2.1 Description of Country Economic Situation

2.2 This subsection presents brief reviews of key social and economic indicators on population, the poverty, literacy, unemployment, growth rate, inflation, economic structure, and main development challenges.

History, Geography, Population, and Political Structure

2.3 Lagos State was one of the initial 12 states created on May 27, 1967 when the military administration restructured Nigeria from four regions. Currently, Nigeria has 36 politically and fiscally decentralized (especially on the spending side) and autonomous states, but Lagos State has retained its 1967 boundaries. Prior to the creation of Lagos State, political governance of Lagos was through a hybrid arrangement. Lagos Municipality, as the capital of Nigeria, was under the direct administration of the Federal Government through the Federal Ministry of Lagos Affairs. The Lagos City Council (LCC) governed the city of Lagos, while the Western Regional Government administered the metropolitan areas (Colony Province) of Ikeja, Agege, Mushin, Ikorodu, Epe, and Badagry.² Lagos was the first capital of Nigeria, and remained so until December 12, 1991 when the military administration officially moved the capital to Abuja.

2.4 This change in status notwithstanding, Lagos remains the economic, commercial, and financial hub of the country. In a very practical sense, Lagos is still Nigeria's economic capital and its "chief commercial, financial, and maritime nerve centre"³ Lagos hosts Nigeria's biggest and busiest international airport,⁴ and seaports at Apapa, Tin Can Island, Roro Terminal, and Ijora Container Terminal. In addition, there is the forever-expanding Central Business District (CBD) at the Tinubu and Victoria Island Conurbation where many key commercial and financial entities locate their capitals. For instance, all but one of Nigeria's 24 banks locate their corporate and business head offices within the CBD Lagos.

2.5 Geographically, "Lagos State is located in the Southwest of Nigeria on a narrow plain of the Bight of Benin. It lies approximately on longitude 2042'E and 322'E East respectively between Latitude 6022'N and 60N2'N." Lagos State shares boundaries with Ogun State of Nigeria in the north and east, and in the west with the Republic of Benin. In the south, Lagos State boundaries stretch "over 180 kilometres along the Guinea Coast of the Bight of Benin on the Atlantic Ocean".⁵

2.6 The population of Lagos State has remained controversial in Nigeria's political calculations where population is an important criterion for distribution of national revenues, etc. For instance, the 2006 National Population Census puts the population of the State at 9.013 million inhabitants consisting of 4.678 males and 4.336 females. With a land area of 3,671 km², Lagos had a population density of 2,455

² Lagos State Ministry of Information and Strategy, *300 Days in Office, His Excellency, Babatunde Raji Fashola (SAN), Governor of Lagos State*, 2008, page 15

³ 300 Days in Office, page 17

⁴ The Murtala Muhammed International Airport, Ikeja

⁵ *300 Days in Office*, page 15

persons per km² in 2006. This population performance ranked Lagos behind Kano State, with a population of 9.383 million people.⁶ Even then, with a land area of 20,280 km², Kano had a population density of only 463 persons per km².

2.7 The outcome of the 2006 National Population Census surprised most local and international watchers whose best estimates expected the population of Lagos State to be around 12 to 15 million in 2006.⁷ For instance, Lagos State cites the UN Habitat as estimating the population of Lagos State at above 16.86 million inhabitants.⁸ Lagos metropolis, with only 37 percent of Lagos land area, hosts 85 percent of this population. This amounted to a population density of 4,193 persons per km² in 2005.⁹ Lagos State also cites the UN Habitat as projecting Lagos population to be growing at a 5 percent annual rate. Thus, the Lagos is growing “10 times faster than New York and Los Angeles”¹⁰. By 2010, the population could reach 20 million, making Lagos bigger than 32 African nations combined by population.

Political Governance and Administration

2.8 As all of Nigeria, Lagos State was under strict and autocratic military governance for much of the country’s independent history, until in 1999 when the country returned to civil democratic rule. On return to civil rule on May 29, 1999, Nigeria adopted American style democratic system. Thus, Lagos State has a democratically elected government (as do other Nigerian States) consisting of an elected executive governor and a unicameral elected Legislative Assembly, Lagos State House of Assembly.¹¹

2.9 Lagos State citizens directly elect a Governor. The major function of the Governor is to formulate policies for the governance of the State, table them before the Legislature for approval, and execute them as approved by the State Legislature. The annual Lagos State Government budget is the single most important policy document of the State. To assist him in formulating and executing the budget, the Governor appoints a number of executive assistants (commissioners) to superintend over sectoral policies. The Legislature screens and approves the commissioners before they take office. In addition to commissioners, the Governor appoints a number of other personal aides, special advisers, and assistants that do not go through the process of legislative approval.

2.10 The major function of the Legislature is to make laws for the “peace, order, and good government” of Lagos State. One of the most important laws made by the Legislature is the annual budget or appropriation law. Annually, the executive lays before the House estimates of expenditures for the coming year aimed at achieving certain fiscal policy objectives. The Governor also lays before the Assembly, sources and projections of revenue for the State that would fund the expenditure estimates. The Legislature debates and considers the proposals and approves it, with or without amendments. This approved budget constitutes the annual budget law; the executive’s primary role is to implement it. The Lagos State House of Assembly, through its public accounts committee, also examines budget implementation results, one of the few states in Nigeria that actually does this.

⁶ National Bureau of Statistics: *Facts 2007*

⁷ Unofficial estimates by the Lagos Government puts the same census figures at above 13 million.

⁸ *300 Days in Office*, page 15

⁹ *300 Days in Office*, page 15

¹⁰ *300 Days in Office*, page 15

¹¹ The Federal Government has an elected bicameral legislature consisting of a lower House of Representatives and an upper chamber Senate.

2.11 Shortly after creation of the State, the military subdivided Lagos State into five administrative divisions, Ikeja, Ikorodu, Epe, Badagry, and Lagos (Eko).¹² Subsequent administrative reforms further subdivided the State into 20 local government council areas.¹³ However, in 2002 the Government of Lagos State attempted to create an additional 37 local councils areas bringing the total number of local governments to 57. This attempt resulted in a constitutional crisis and judicial dispute with the Federal Government with each claiming definitive powers to create local governments. The Supreme Court pronouncement on the issue was to the effect that both the Federal and the State Governments have respective roles in creation of local governments. For this reason, the Lagos State attempt was inchoate. Consequently, the FG refused to recognize and fund the additional 37 local governments. However, the State Government converted them into local development areas, and devised a means for funding them.

2.2 Socio-economic Performance

2.12 Nigeria's social statistics has been improving over the years, although it still lags behind many of its neighbours and peers on vital social indicators. Table 2.2 presents some recent quick statistics on Nigeria taken from The World Bank's external website¹⁴ and the National Bureau of Statistics.

	Yr 2009	Yr 2010	Unemployment	2011
Population, total (millions)	154.7	158.4	National	23.90%
Population growth (annual %)	2.3	2.5	Rural	25.60%
GDP (current US\$) (billions)	173.0	193.7	Urban	17.10%
GDP per capita (current US\$)	1,118	1,222	Male	23.50%
GDP growth (annual %)	5.6	7.9	Female	24.30%
Life expectancy at birth, total (years)	48.1	50.9	Real GDP (Q1, 2012)	6.17%
Mortality rate, infant (per 1,000 live births)	85.8	88.4	CPI May 2012: All Items Index	
Literacy rate, youth female (% of females ages 15-24)	65.3	65.3	Month-on-month	0.75%
Prevalence of HIV, total (% of population ages 15-49)	3.6	3.6	Year-on-Year	12.7%
			12 Month Avg. Chg	11.1%
<i>Source: The World Bank citing World Development Indicators</i>			<i>Source: National Bureau of Statistics (NBS) website, www.nigerianstat.gov.ng</i>	

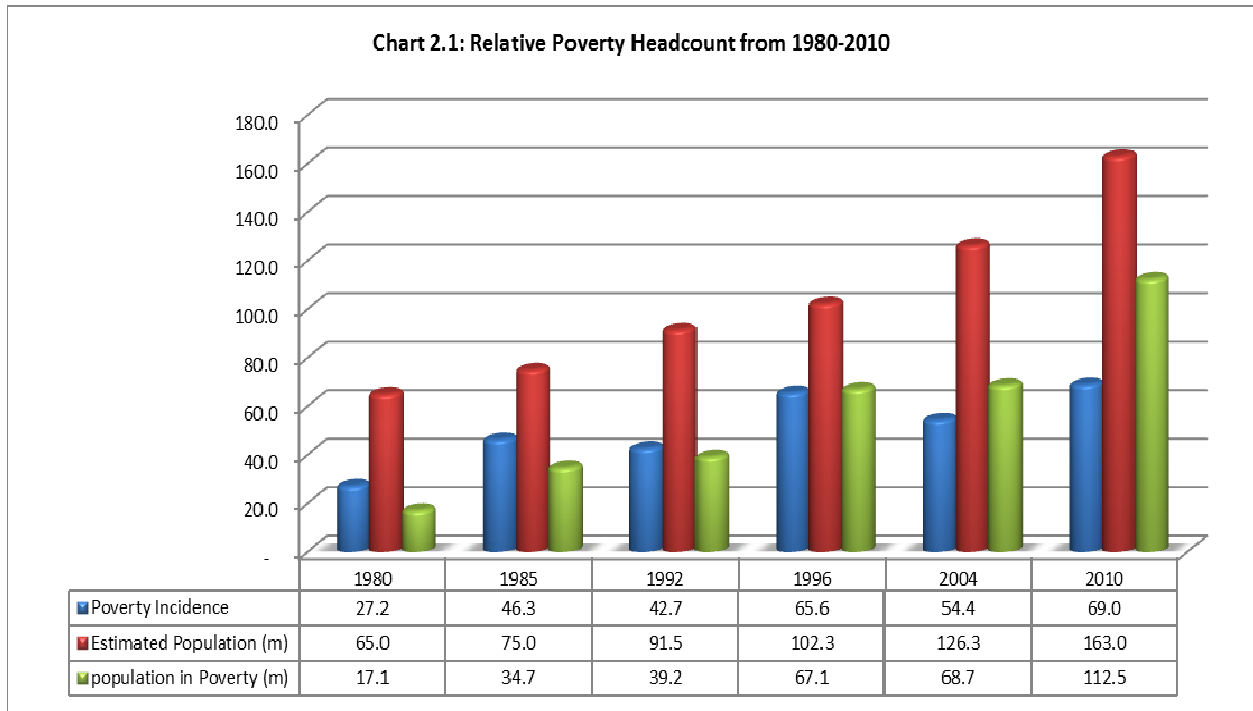
2.13 Recent statistics released by the National Bureau of Statistics shows a worsening poverty rate, despite Nigeria consistently recording of the most impressive annual GDP growths in recent years. The number of persons living below the absolute poverty line of less than one dollar (US) per day increased from 54.4 percent in 2004 to 69.0 percent in 2010. The official relative poverty head count was 112.5 million out of an estimated population of 163 million in 2010 (*Chart 2.1*). The absolute number of people in poverty may have increased with the estimated 2011 population rising to 167 million.

¹² *300 Days in Office*, page 15

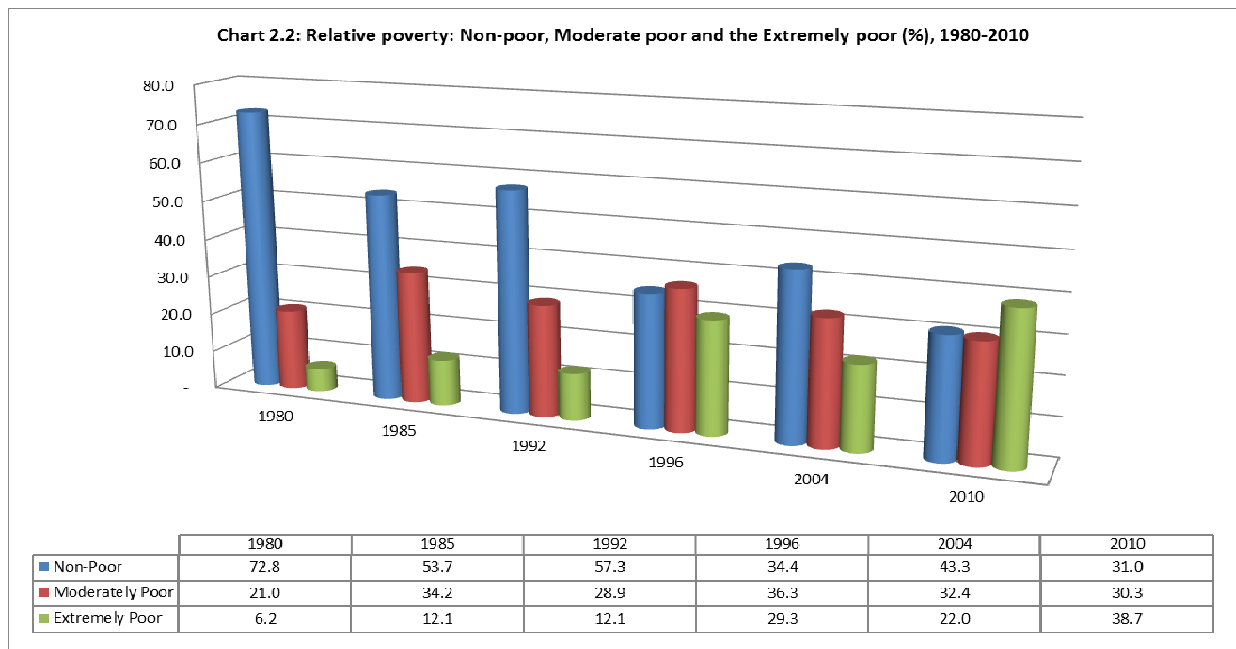
¹³ See the 1999 Constitution of the Federal Republic of Nigeria

¹⁴

<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/NIGERIAEXTN/0,,menuPK:368922~pagePK:141132~piPK:141109~theSitePK:368896.00.html>

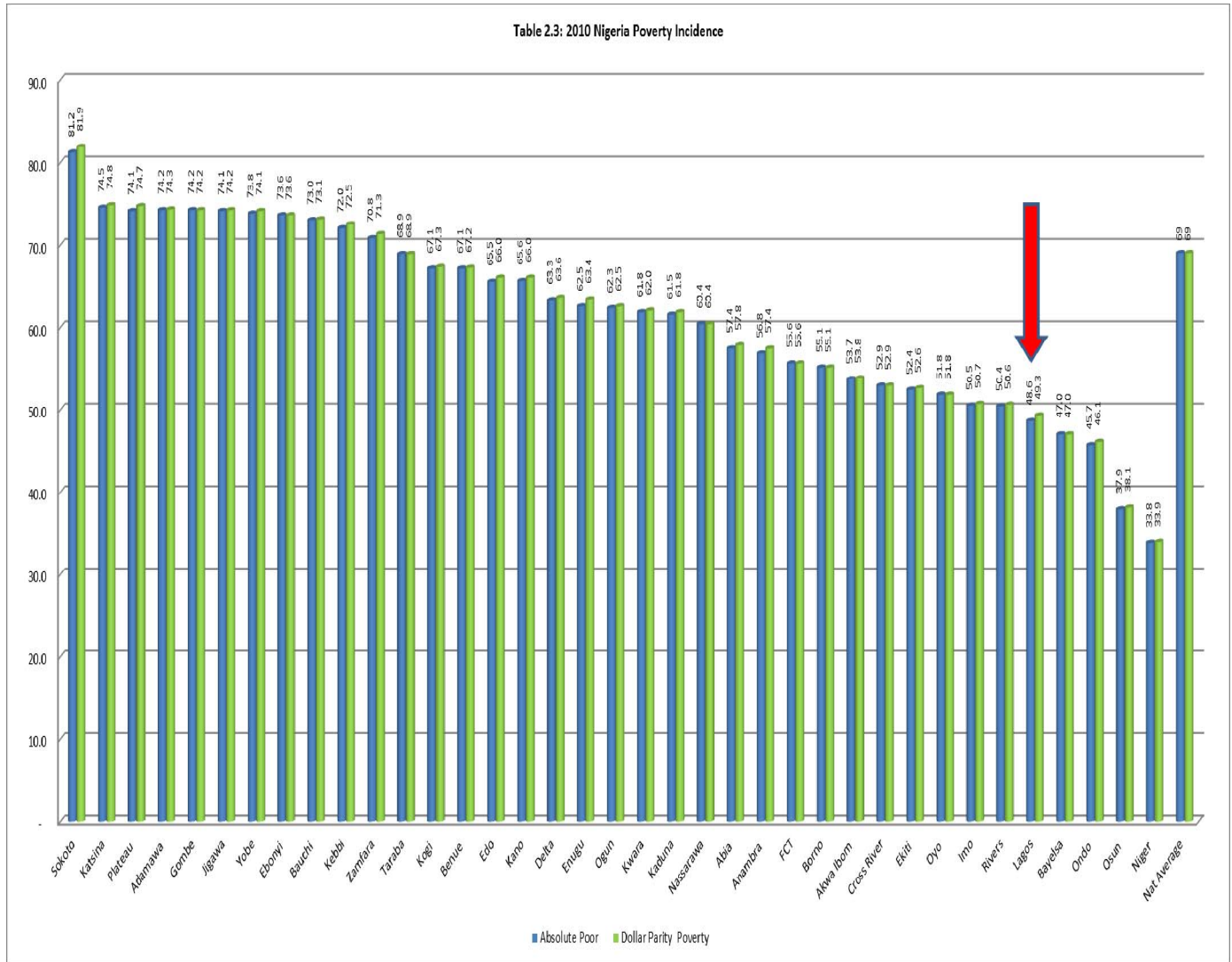


2.14 *Chart 2.2* illustrates the gradual translation of the non-poor category through the moderately poor to the extremely poor. While about 73 percent of the population was non-poor in 1980, only 31 percent remained so in 2010. Conversely, whereas only 6.2 percent of the population was extremely poor in 1980, the percentage had grown to nearly 40 percent by 2010.



2.15 *The incidence of poverty may be relatively high in Lagos State, but it ranks among the richest states in Nigeria.* The state's dollar-parity poverty rate of 49.3 percent and absolute poverty rate of 48.5 percent make it the fifth richest in Nigeria (*Chart 2.5*). This performance makes it the fifth richest of the 37 states

(i.e., including the Federal Capital Territory (FCT), Abuja). Dollar poverty incidences ranges from 33.9 percent in Niger state 81.9 in Sokoto state.



2.3 Intergovernmental Fiscal Relations

2.16 What arrangements govern the fiscal relationship of the federal and state governments in Nigeria? How do local government councils fit into the equation; what are their fiscal powers? This section briefly answers these questions in turn.

Distribution Fiscal, Taxing, and Revenue Powers in the Nigerian Federation

2.17 Nigeria intergovernmental fiscal arrangement is a paradox in a way: strong centralization of revenue administration and equally strong decentralization of budgetary decision making powers. Thus, although Nigerian state governments have great fiscal and budgetary autonomy, they depend on federal grants to fund their budgets. Nigeria accumulates the most important revenues at the centre and uses formulas to distribute accrued earnings periodically. The Federal Government collects and administers revenues from crude oil sales, petroleum profit taxes, royalties and other oil charges, company income taxes, customs duties, excise duties, stamp duties, value added tax, education tax, etc. The revenues accrue to main

accounts: the VAT Pool Account for value added tax proceeds, and the Federation Account for others.¹⁵ Using statutory revenue sharing formulas, the FG, SGs, and LGs share the revenues among themselves. The Federation Account Allocation Committee (FAAC) comprising representatives of the three levels of government meet monthly to apply the formulas to balances of these accounts.

2.18 *The vertical and horizontal sharing formulas for VAT revenues are straightforward.* The vertical formula is a 15:50:35 for federal, states, and local governments respectively. The horizontal formula for state governments is population (10 percent), derivation (50 percent), and equality of states (40 percent). A similar arrangement applies to local governments (*see Box 2.1*). However, states like Lagos and Ogun¹⁶ would prefer a different arrangement. These states account for much of VAT revenue proceeds for the country because they are large commercial hubs. Thus, for instance, Lagos state wants VAT administration decentralized to state governments. However, other state governments prefer federal administration because they do not have as many commercial activities and a strong revenue administration system as Lagos state.

2.19 *The vertical and horizontal formulas for Federation Account revenues are more complicated.* Oil-producing states first enjoy 13 percent of revenues from oil sources only, taken off the top of the Federation Account, as a first line charge.¹⁷ The horizontal formula for sharing this amount (i.e., 13 percent derivation) varies directly with the ratio in which states contribute to it. The vertical distribution formula applying to the residue¹⁸ is 54.68 percent to the Federal Government, 24.70 to states, and 20.72 for local governments. The horizontal sharing formula applied to the 24.70 percent accruing to SGs is too complex to narrate here but is as in *Box 2.1*.

2.20 *Both Federation Account and VAT revenues proceeds are unconditional transfers to state and local governments, by constitutional guarantee.* Nigerian governments often refer to these revenues¹⁹ as statutory transfers or statutory revenues, because of this constitutional protection. These transfers constitute between 85 and 95 percent the revenues of the constituent sub national governments, except Lagos and Rivers (see below).

2.21 *State governments also have constitutionally defined independent revenue sources, which they administer, collect, and retain.* However, they do not necessarily legislate on them. The federal government legislates on several of these state revenues as well, although state have residual powers to legislate on areas not covered by federal powers. The most important internally generated revenue source for state governments is personal income tax. The Federal Government legislates on personal income tax, but empowers state governments to collect and retain. SGs also collect stamp duties on individuals (taxes on registration of legal instruments). In addition, state governments generate additional revenue from several minor sources including, registration of business premises, licences, fees, fines, and investment earnings.

2.22 *State internally generated revenues often do not perform well.* The reasons are weak revenue administration systems of most state governments and the high and growing incidence of poverty (see discussion above). Consequently, many state governments are not able to generate more than 10 percent of their revenue needs from these internal sources. Lagos state is an outstanding exception here,

¹⁵ Education tax accumulates in the Tertiary Education Tax Fund (TEFFUND), an independent Fund managed solely for funding tertiary education.

¹⁶ And to some extent, Rivers

¹⁷ This charge applies only to natural resource revenues, not to all revenues.

¹⁸ i.e., after deducting the 13 percent

¹⁹ Especially the Federation Account component

generating nearly 65 percent of its revenues from internal sources. Rivers state also generates a significant proportion of its revenues (about 25 percent) from within.

2.23 *The federal government also depends on shared revenues to finance its budget.* The FG has independent revenue sources that do not accrue to the federation and VAT account and which it administers on its own. These sources include the education tax, personal income and capital gains tax of residents of the Federal Capital Territory, Abuja, members of the Nigerian armed forces, and Foreign Service personnel, sale of FG-owned asset,²⁰ investments earnings, etc. However, FG independent revenues accounted for only an average 12.9 percent of its total revenues between 2008 and 2010.²¹

2.24 *The Legislature must appropriate revenues for spending, notwithstanding the source of the revenue: whether statutory or internal/independent.* The National Assembly at the federal and respective state Houses of Assembly must appropriate funds for expenditure. Every year, the President or governor proposes an expenditure outlay for the relevant government to the Legislature for consideration and approval. The approved Appropriation Act becomes the budget. Currently, there are no efforts to consolidate the budgets, federal, states, and local, or to, at least ensure internal consistency among the various federal and state budgets.

2.25 *Similarly, each government does its own budget reporting.* There are no standards for reporting on budget performance, and there is no power in the federal government to require any state government to produce interim budget execution reports. Although the federal, state, and local governments have agreed a common financial reporting format for final accounts, the federal government cannot enforce compliance. However, the federal government has enacted the Financial Reporting Council Act, 2011, with powers to produce public sector accounting standards in addition to commercial accounting standards that the precursor body was producing.²² However, the FG cannot force states to comply with the standards when produced. Similarly, although there are constitutional requirements for auditing public accounts, the FG has no power to enforce this on any subnational government (SNG). The FG does not exercise oversight over SNGs in this regard; the arrangement is for the electorate to exact performance and accountability.

²⁰ Sale of nationally owned assets go into the common fund, i.e., the Federation Account

²¹ See Section 3, PI-3 below

²² The precursor is the now defunct Nigeria Accounting Standards Board (NASB).

Box 2.1: Vertical and Horizontal Revenue Sharing Formulas – FA and VAT Revenues		
<i>Vertical Sharing</i>	<i>% Share - Federation Account (FA) Revenues</i>	<i>% Share - Value Added Tax Revenues</i>
13% Derivation - Oil Producing States	13.00% off the top (mineral revenues only)	Nil
Federal Government	54.68	15.00
State Governments	24.70	50.00
Local Governments	20.62	35.00
Total	100.00	100.0
States' Horizontal Revenue Sharing Formulas		
<i>Principle</i>	<i>Federation Account (FA) Revenues (%)</i>	<i>VAT Revenue (%)</i>
Equality	45.23	40.00
Population	25.60	10.00
Population density	1.45	
IGR effort	8.31	
Landmass	5.35	
Terrain	5.35	
Rural roads/inland waterways	1.21	
Potable water	1.50	
Education	3.00	
Health	3.00	
Derivation	0.00	50.00
Total	100.00	100.00

2.26 *The constitution delineates expenditure responsibilities between federal and state governments, although overlaps are evident, at least during implementation.* Exclusive federal responsibilities include the international tradition of macroeconomic regulation and management, foreign relations, defence, internal security, legal tender, etc. However, the FG also has exclusive powers over such items as prisons and archives. In addition, the FG has concurrent responsibility with SGs in some areas. Thus, while SGs cannot execute responsibilities in the Exclusive Legislative list, they can exercise authority over the concurrent areas, but to the extent defined by the constitution. In addition, state governments exercise residual powers over areas not defined in either the legislative and concurrent lists.

2.27 *Concurrent jurisdiction refers to specific areas of joint responsibilities between the Federal and state governments, as already explained.* These areas include higher education, industrial, commercial, and agricultural development, scientific and technological research, statistics, etc. For each activity in this concurrent list, the constitution defines the extent of powers exercisable by the Federal and state governments.

2.28 *Residual responsibilities refer to tasks, which the Constitution did not codify either the exclusive or concurrent lists.* In other words, it is an imaginary list of duties consisting of the universe of tasks less those items specifically mentioned in the constitution. Thus, state governments can exercise authority in any area that the Constitution has not specifically debarred from them

2.29 *Jurisdictional overlap is common in practice, notwithstanding these detailed constitutional provisions.* The constitutional provisions seek to avoid ambiguities and overlaps as much as possible. However, there is a practical difficulty in achieving political, administrative, and fiscal coordination of these expenditure assignments, as is common with federal arrangements. In addition, local habits lead to federal presence in direct execution of traditional SNG tasks, such as direct construction and supervision of road, water, school, health, and other projects.

Fiscal Federalism and the Nigerian Local Government System

2.30 *Local governments have three constitutionally guaranteed sources of revenue namely: fiscal or taxing powers, statutory share of federation revenues,²³ and statutory 10 percent share of their host state governments' revenues.* The federal government transfers local government shares of federation revenues through their parent state governments, by constitutional provision. State governments should pass on these funds, but in practice, they make miscellaneous deductions before paying over the balance. The deductions made include for paying local government staff (including teachers') salaries, funding primary education, for contributions to staff pensions, for staff training, bank charges, etc. Most times, state government laws²⁴ authorize these deductions, for which reason, officials refer to them as statutory deductions. In addition to these 'statutory deductions' some state governments make additional deductions for joint projects, bank charges and other operations expenditures, including contracts. These deductions are sometimes so heavy that they leave local governments with no meaningful resources for investment.

2.31 *The constitution provides for state governments to contribute to the finding of local governments.* Section 162(7) of the 1999 Constitution requires each state government "to pay to local government councils in its area of jurisdiction such proportion of its **total** revenue on such terms and in such manner as" the National Assembly may prescribe. The applicable percentage contribution now is 10 percent. In other words, State Governments are obligated to transfer 10 percent of their total revenues from all sources to their local government councils. However, state governments find it difficult to comply with this provision. The practice differs among state; however, no state government transfers 10 percent of **total** revenue. A few states irregularly transfer 10 percent of their **IGR**, but some other states do not transfer any of their own resources, at all.

2.32 *Reasons adduced for this reluctance to comply differ among states.* Some state governments argue that local government councils fail to remit tax proceeds of personal income tax deducted from the salaries of LG staff.²⁵ They therefore "offset" that loss against what is due to LGs.²⁶ some also argue that it is unfair to require state governments to transfer resources to local governments, which receive allocations federal governments as state government do.

2.33 *The essence of the constitutional provision is clear and makes it difficult to appreciate the counter arguments.* The constitution makes local governments the hub of social and economic developments, they are the grassroots tier of government, i.e., closest to the people. The constitution therefore provides for adequate funding of these 'development centres,' as it refers to them. Grants and transfers are an important source of this funding arrangement, given the poor independent fiscal/taxing base of local governments as explained below. Failure to fund local governments adequately defeats the essence of the provisions.

2.34 *Local governments also have constitutionally defined independent revenue bases.* Among the "main functions" listed for a local government under the constitution is the collection of revenues from several local sources. These sources contained in Schedule 4 of the constitution include

- Collection of rates, radio and television licenses

²³ Federation Account and VAT Pool Accounts

²⁴ Made under sections 7 and 8 of the Constitution

²⁵ Personal income tax is mostly a state tax. Employers, including local government councils that deduct this tax from their staff emoluments must pay this over to the relevant state government.

²⁶ It is difficult to appreciate how this happens since state governments payroll local government staff

- Licensing of bicycles, manual trucks, canoes, wheel barrows, and carts
- Registration of all births, deaths, and marriages
- Assessment and levying of privately owned houses or tenements (subject to the State's Law)
- Control and regulation of outdoor advertising, movement and keeping of pets, shops and kiosks, restaurants, bakeries, laundries, and sale of liquor

2.35 *These local taxes are difficult to administer and easy to evade, especially in Nigeria, with a high rate of illiteracy and poverty.* For instance, there is no organized birth and death registration system. In the rural villages, most people die at home and their relatives bury them without registration. Not many LG staff would have the boldness to approach village house owners regarding payment of tenement. Usually, state governments do not allow local governments the freedom to manage property rates in townships and opened-up cities. Besides, many barrow owners do not understand why they should pay tax out of their poverty. In plain language, the local people resist payments of these taxes; therefore, their performance is poor.

2.36 *State governments have responsibility for defining expenditure responsibilities for their local governments, but this must be within constitutional guidelines.* The 1999 Nigerian Constitution gives state governments the task of defining the developmental functions of local governments. In addition, *Schedule 4* of the Constitution contains an item tagged, "Functions of a Local Government". These are general guidelines or model functions defining the broad limits from which state governments may select specific roles for their LGs as they wish. In other words, it will be *ultra vires* (beyond the powers of) a state government to assign roles to local governments outside the constitutional boundaries defined in *Schedule 4*.

2.37 *These ideal or model functions consist of both revenue collection functions and "active" developmental functions.* The preceding section has already addressed the revenue collection duties. This section therefore discusses the developmental functions of local governments. The developmental functions comprise

- Consideration and making recommendations to the State on economic development particularly on the areas of authority of the local government
- Participation²⁷ in the following matters
 - The provision and maintenance of primary, adult, and vocational education
 - Development of agriculture and natural resources, excluding exploitation of mineral resources
 - Provision and maintenance of health services
 - Such other functions as may be conferred by the House of Assembly

2.38 *The wording of the provisions on these functions is significant.* The Supreme Court of Nigeria held in 2002 that in using the word "participation," the Constitution did not intend to impose those responsibilities on local governments. The Court decided that the responsibilities were still those of state governments, and that local governments could only "participate" in them to the extent defined in the relevant state government's law.²⁸

2.39 *This decision has two important implications for local government responsibilities and activities.* First, local governments in Nigeria do not have original responsibility for any economic and social developmental in any sector, including agriculture, health, and education. Developmental functions belong to state governments and LGs cannot therefore be held originally or solely accountable for them.

²⁷ Emphasis added (see comment in succeeding paragraph)

²⁸ Attorney General of Ogun State and 35 others vs. Attorney General of the Federation; the case involved responsibility for primary education

Second, actual contributions of a local government to the development of its area of authority can only be within the context of a law made by the State for that purpose. In other words, under Nigerian law, it is not appropriate to hold a local government accountable for roles and responsibilities, which the state government did not expressly cede to it.

2.40 State governments control staffing, budgeting, fiscal reporting and auditing in their local governments. State governments have a number of dedicated institutions that superintend over the affairs of their local governments. These include ministries of local governments,²⁹ local government service commissions, offices of the auditor general for local governments, and the state-local governments joint account and allocation committees (JAACs).³⁰ State governments appoint all senior administrative and technical staff of local governments, including treasurers that keep the books and prepare the financial statements and accounts. State appointed auditors audit the accounts and report to state Houses of Assembly. In some states, the state governments establish expenditure and payments threshold, above which local governments must first obtain the state government's approval.

*2.41 In summary, local governments have little or no fiscal autonomy, including over their revenues, budgets, and financial reporting.*³¹ It is not clear that this is as the constitution intends it. However, the Constitution sowed the seed for the development when it guarantees "the system of local government by democratically elected local government councils," but requires "the government of every state [to] ensure their existence under a Law which provides for the establishment, structure, composition, finance and functions of such councils". State governments have completely emasculated local governments, reducing them to mere departments of the state government. For example, most local governments in the country have no elected councils, notwithstanding the constitutional guarantee. State governors sack elected councils and install caretaker committees in their place. Some states do not even have caretaker committees; instead, state appointed administrative heads run them.³²

2.4 Description of Budgetary Outcomes

2.42 The analysis in this section uses revenue as base rather gross state domestic product due to controversies about the reliability of Lagos state GDP. National income data published by the National Bureau Statistics (NBS) are not states specific, but relate to the general economy. The NBS is collaborating with the National Planning Commission (NPC), the Nigerian Governors Forum (NGF) Secretariat, the Central Bank of Nigeria (CBN), and the UNDP towards the computation of states' GDPs. The exercise commenced towards end 2011 in phases. The pilot phase is ongoing and comprises six states, one from each geopolitical zone: Anambra, Cross River, Gombe, Kano, Lagos, and Niger. The exercise is not yet complete in any state. Efforts by the Lagos state government to produce independent GDP data for the state are also ongoing. Draft GDP data exists, but there are no validated and officially published Lagos state GDP data.

2.43 Domestic revenues constitute the bulk of Lagos State finances, accounting for an average of 63.5 percent of total revenue between 2009 and 2011 (Table 2.3). Taxes constitute the major source of domestic revenue, accounting for an average of over 83 percent of total domestic revenues during the

²⁹ Or equivalent institution

³⁰ JAAC is a constitutional creation

³¹ Some state governments control local government budgets by having state legislatures approve them.

³² For example, Anambra state, this situation has existed for more than five years now.

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period.³³ Other sources of domestic revenues are (i) fines & fees, (ii) licenses, (iii) earnings and sales, (iv) rent on government property, (v) interest and dividend, and (vi) miscellaneous sources.

2.44 *Federal grants play a relatively minor role in funding the state's budget in comparison with other states.* Federal grants averaged 36.5 percent between 2009 and 2011. Federal grants are mainly oil revenue dependent. This therefore has the potential to oscillate according to market behaviour. Section 2.3 above explains the components of federal grants.

2.45 *Deficit budgeting and financing is a feature of the Lagos state budget, with actual deficits averaging 27 percent between 2009 and 2011.* However, the deficit fell sharply in 2011 to 18 percent of total revenues from a peak of 32 percent in the preceding year. This fall was due to the difficulty of realizing the proceeds of already negotiated domestic bonds from the capital market. The difficulty arose from unresolved issues between the state government and federal regulators. Domestic financing is the major source of plugging the financing gap. Borrowing from local sources averaged 31.4 percent of total revenue between 2009 and 2011. *Table 2.3* does not show the borrowing because the published financial statements do not disclose the interest element of public debt charges. The books lump together amortization and interest payment.

Table 2.2: Actual Lagos State Government Budget - Public Finance (% of Revenue*)

	2009	2010	2011	Average	2009	2010	2011	Average
	Percentage				Actual			
Total Revenue	100.0%	100.0%	100.0%	100.0%	210,426.50	257,798.69	323,084.67	263,769.96
Own Revenue (IGR)	61.1%	68.0%	61.4%	63.5%	128,484.27	175,411.95	198,460.22	167,452.15
Grants (Federation Flows)	38.9%	32.0%	38.6%	36.5%	81,942.23	82,386.74	124,624.45	96,317.81
Total Expenditures***	NA	NA	NA	NA	274,813.16	340,457.71	381,791.03	332,353.97
Non-interest expenditure	130.6%	132.1%	118.2%	126.9%	274,813.16	340,457.71	381,791.03	332,353.97
Interest Expenditure	NA	NA	NA	NA				#DIV/0!
Aggregate deficits (incl. Grants)	NA	NA	NA	NA				#DIV/0!
Primary Deficits	-30.6%	-32.1%	-18.2%	-26.9%	(64,386.66)	(82,659.02)	(58,706.35)	(68,584.01)
Net Financing	50.9%	45.1%	24.6%	37.9%	107,035.35	116,296.25	41,904.74	88,412.12
External	6.4%	2.1%	11.0%	6.5%	13,437.88	5,486.60	35,500.00	18,141.49
Domestic (loan + bond issues + 'other capital receipts')	44.5%	43.0%	13.6%	31.4%	93,597.47	110,809.66	44,017.69	82,808.27
Financing Gap (Primary Deficit - Net Financing)	20.3%	13.0%	6.4%	11.0%	42,648.69	33,637.23	(16,801.61)	19,828.10
*Used because state GDSP is unavailable								
The manner of keeping the books do not allow isolation of interest expenditure; 'Public debt charges' lumps together amortization and the interest element								

Allocation of Resources

2.46 *The general public services (GPS) sector was the priority sector, consuming the bulk of Lagos state government's budgets.* Allocations to the sector rose steadily from 39 percent in 2009 to 54 percent in 2011 (*Table 2.4*). Average allocation to the sector was two and a half times the average allocation to the next highest priority sector – economic affairs. (Economic affairs include the subsectors of agriculture and public infrastructure.) Indeed, allocation to services more than doubled the combined allocations to the education, health and environmental protection sectors, which averaged 20 percent between 2009 and 2011. Allocations to the GPS sector averaged 45 percent in the same period. Allocation to social protection was less than one percent of years.

³³ See Table 3.3b in Section 3 below

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Table 2.4: Actual Budgetary Allocations by Sectors (as percentage of total expenditures)

	2009	2010	2011	Average
1 General Public Services	39.4%	42.9%	54.1%	45.4%
2 Economic Affairs	19.4%	15.0%	20.2%	18.2%
3 Education	9.4%	9.4%	9.6%	9.5%
4 Health	7.0%	5.7%	7.0%	6.6%
5 Environmental Protection	4.6%	4.0%	3.4%	4.0%
6 Housing & Community Amenities	4.9%	2.9%	7.0%	5.0%
7 Public Order & Safety	2.3%	2.1%	1.9%	2.1%
8 Recreation, Culture, & Religion	2.1%	2.5%	1.1%	1.9%
9 Social Protection & Poverty Alleviation	0.7%	0.6%	0.7%	0.7%
10 Not Identified Elsewhere (n.i.e.)	10.3%	14.9%	0.0%	8.4%
Aggregate	100.0%	100.0%	100.0%	100.0%

Source of Data: Lagos State Treasury Office; 2011 data are unaudited and provisional; analysis by consultant

2.47 Capital expenditure averaged nearly 60 percent of aggregate expenditures between 2009 and 2011 (Table 2.5). This compares favorably with the federal most state's performances. Capital expenditure was only 22 percent of aggregate federal expenditures in 2010. Personnel grew marginally each from 16.6 percent of expenditures in 2009 to 18.3 percent in 2011. Conversely, overheads spending decreased annually to end at 21.2 percent of expenditures in 2011. As already stated above, the books do not include explicit information in interest payments.

Table 2.5: Actual Budgetary Allocations by Economic Classification, as percent of Total Expenditures

	2009	2010	2011	Average
Current expenditures	41.8%	41.4%	39.5%	40.9%
Wages and Salary	16.6%	17.0%	18.3%	17.3%
Goods and Services	25.2%	24.4%	21.2%	23.6%
Interest payments				
Transfers				
Others				
Capital Expenditures	58.6%	59.2%	61.0%	59.6%

*The published books do not show details of transfers and interest payments

2.5 Description of the Legal and Institution Framework for PFM

2.48 This section does three brief things. First, it discusses the context of economic and social reforms in Nigeria, including incentives for Nigerian states (Lagos state inclusive) to embark on PFM reforms. Then it appraises first, the legal and next, the institutional framework designed to support PFM and fiscal reforms in Lagos state, drawing parallels with the wider Nigerian context as appropriate.

The Context of Economic and Fiscal Reforms in States

2.49 *What is the legal and institutional framework for public financial management in Lagos state? What legislations and legal principles govern management of public finances? How does the Federal Government of Nigeria organize decision-making on financial management? What are the key institutions in the public financial management process?* This seeks to answer these questions by doing three things. First, it discusses the context of economic and social reforms in Nigeria. Next it appraises the laws and legal policies PFM in Nigeria. Finally, it describes institutional and organizational structure supporting PFM and fiscal reforms of the FG

2.50 The National Economic Empowerment and Development Strategy (NEEDS) supplied the context, and set the pace for the on-going widespread PFM reforms in Nigeria, at the Federal, State, and local government levels.³⁴ This is correct only in so far as NEEDS was the first successful attempt to articulate the government's vision for national development and poverty reduction in a coherent manner, give it focus, and outline the role of the key institutions of state in the process. The launching of NEEDS in May 2004 quickened the pace of reforms at the federal level, which had thitherto been³⁵, leading the federal government to initiate several public service and public financial management reform programmes.

2.51 Fiscal reforms have been slower in states notwithstanding their autonomy and the fact that they could proceed with their reform programs independent of the Federal Government. The Federal Government requested state governments to prepare their own development strategies, SEEDS, anchored on similar reform principles enunciated in the NEEDS. Incentives for state governments to comply came from two related initiatives, namely the FG/donors partnership to provide technical support to states willing to prepare their SEEDS, and the extension of this partnership to benchmarking and publishing state governments' reform progress in two exercises dubbed, *SEEDS Benchmarking* in 2005 and 2006.

Legal and Institutional Framework for PFM and PFM Reform in Lagos states

2.52 Lagos State Government economic reforms commenced shortly after the May 29, 1999 return to civil administration with the institution of the biennial Lagos State Economic Summit series tagged, *Ehingbeti*. The latest in the Ehingbeti series held in April 2012. The summits focus essentially on the physical transformation of Lagos State and solution of its acute transportation, housing, environmental, and other related problems. However, the early summits brought to the fore the imperative of a strong and performing fiscal and public financial management system as a basis for the canvassed public private partnership to work properly. Consequently, in 2002, the Government embarked on revenue administration and accounts reforms. The accounts consisted of the acquisition of the *Oracle Financials* as a first step towards integration of the accounts and budget management systems.

2.53 Following the elections of April 2003, the Federal Government introduced wide-ranging fiscal and economic reforms culminating in the launching of the *National Economic Empowerment and Development Strategy (NEEDS)*³⁶ in March 2004, arguably supplying the context and direction for and coordination of nationwide fiscal and PFM reforms. This is correct only in so far as NEEDS was the first successful attempt to articulate the government's vision for national development and poverty reduction in a coherent manner, give it focus, and outline the

³⁴ NEEDS was a home-grown poverty reduction strategy with three main pillars, empowering people to take care of their development, growing the private sector to lead the development effort, and changing the way government does its business. The PFM reforms anchor on the last pillar.

³⁵ NEEDS, which spanned of 2003 – 2007, has expired. The government prepared NEEDS II, but did not implement it; the incoming government in 2007 set it aside for its 7-point agenda. The vision 20/20 20 is the current reform blue print.

³⁶ NEEDS is a homegrown poverty reduction strategy. It has three main pillars, empowering people to take care of their development, growing the private sector to lead the development effort, and changing the way government does its business. The PFM reforms anchor on the last pillar.

roles of key institutions of state in the process. Following the launching of NEEDS, the pace of federal level reforms, sluggish at first, somewhat quickened³⁷.

2.54 The FG requested state governments to prepare their own development strategies, SEEDS, anchored on similar reform principles enunciated in the NEEDS. Incentives for state governments to comply came from two related initiatives, namely the FG/donors partnership to provide technical support to states willing to prepare their SEEDS, and the extension of this partnership to benchmarking and publishing state governments' reform progress in two exercises dubbed, *SEEDS Benchmarking* in 2005 and 2006. Although, as already stated, Lagos and indeed, some other states,³⁸ had already embarked on their own reform agendas, state governments, including Lagos complied. Lagos SEEDS thus provided added context for fiscal and public financial management reforms.

2.55 Donors have also played a role in supplying the context for economic reforms in Lagos State. For example, since return to civil rule, the World Bank has concluded a number of analytical studies in Lagos diagnosing issues and recommending needed reforms. These studies include an Expenditure Review in 2002, a State Financial Accountability Review in 2004, and the Lagos Finances Review and Agenda for Action (in conjunction with DFID) in 2007. The findings of these studies partly inform part of the *public governance and capacity-building* component of the *Lagos Metropolitan Development and Governance Project (LMDGP)* funded by the World Bank approved in June 2006.

2.56 The public governance and capacity building component of the LMDGP consists of three sub components namely, public finance management reforms, economic reforms and service delivery, and leadership enhancement program. The specific objective of the public finance management reforms is to “support budget preparation and expenditure management reform, and expenditure tracking in specific sectors”. To achieve this, the component “will finance (i) an update of the public finance legislation; (ii) consolidation of the MTEF; (iii) improve budget execution and treasury management; (iv) consolidation of the IFMIS for implementation by economic infrastructure and social services ministries. There is also a subcomponent on “Economic Intelligence and Service Delivery” intended to “support the Central Office of Statistics, (COS) Lagos to (i) consolidate/institutionalize the initiative of surveys of firms and households; and (ii) enhance economic performance and service delivery monitoring”.³⁹

³⁷ NEEDS, which spans of 2003 – 2007, has expired. A new document, National Economic Development Plan, has been in the works for more than 24 months, but is not yet published, although its principles have continued to guide FG reforms.

³⁸ For example, Cross River

³⁹ See the LMDGP Project Appraisal Document (PAD), pp 5 - 7

2.57 The UK Department for International Development, through its now defunct State and Local Government Programme (SLGP,) also facilitated reforms in several areas including a public expenditure tracking surveys, preparation of sector strategies in education, health, and environment, etc. DFID, through a successor programme,⁴⁰ is also the main facilitator of this PEFA PFM assessment aimed at defining the baseline for PFM reforms and drawing up agenda for a state-owned PFM reforms.

Legal and Institutional Framework for PFM and PFM Reform in X States

2.58 Notwithstanding the role of NEEDS and SEEDS outlined in the preceding section, there is no common legal and institutional platform for PFM reforms in Nigeria because the Constitution grants the Federal Government very limited and indirect influence over the fiscal and financial affairs of SNGs. SNGs' plans, budgets, accounts, procurements, etc., are not subject to federal scrutiny or control. This arrangement creates difficulties in the coordination and management of macroeconomic and fiscal policies and results. The FG also lacks the authority to set/enforce minimum standards of fiscal conduct for constituent governments. On the positive side, however, the arrangement affords reform-minded SNGs such as Lagos, the space required to proceed independently with PFM reforms without waiting for the centre. In other words, the Constitution provides the necessary space for individual governments, federal and state, to proceed separately with their reform efforts, at their own paces.⁴¹

2.59 Despite this independence and lack of common statutory and institutional impetus for PFM reforms, the legal and institutional arrangements for reform in states are similar to each other and to the federal arrangements. In any case, for the obvious and entirely reasonable rationale of national coordination (which a common platform will enhance) state governments tend to model changes in their PFM systems on the FG's. In addition, the FG has ability to attract more resources and donor technical assistance to experiment and pioneer reforms, which SGs can then replicate or modify to suit their particular circumstances. This provides the context for the general discussion below on the legal framework and institutional arrangements for public financial management reforms in Lagos State.

Legal Framework for PFM in Lagos State

2.60 Several legal instruments and enactments govern PFM in Lagos State. These include the 1999 Constitution of the Federal Republic of Nigeria, the Personal Income Tax Act (PITA), 1993, Value Added Tax Act, 1993 as amended to date, the Lagos State Revenue Administration

⁴⁰ State Partnership for Accountability, Responsiveness, and Capability (SPARC)

⁴¹ Lagos State has used this opportunity better than most others, outpacing the Federal Government in some areas of reforms, e.g., integrating the financial information management system.

Law,⁴² the Lagos State Accounting and Procedural Manual, 2000, the State Public Service Rules, 2000, and the occasional service circulars issued by the Accountant General. As the grundnorm of the country, the 1999 Constitution is the overriding law governing public financial management in Lagos State. Its provisions supersede and override the contents of any other law or provision in the State (and country). The other PFM-related laws and provisions elaborate and expand on the provisions of the Constitution; however, they cannot contradict its letters or intent.

Fiscal Relations under the 1999 Constitution

2.61 The 1999 Constitution contains provisions on Lagos State⁴³ revenue, taxing powers, intergovernmental fiscal relations (vertical and horizontal), the annual budget process, as well as accounts and audit. As already explained above, Nigeria runs a largely centralized revenue collection system, with the FG collecting the major revenue (petroleum revenues – profit taxes, royalties, crude sales, etc. – company income taxes, value added tax, and customs and excise duties, etc.⁴⁴) on behalf of the constituent governments. *Section 162* deals with the vertical sharing of these revenues among the three tiers of government. It also deals with the horizontal distribution of amounts accruing to the two lower levels of SNGs: state and local. That section of the constitution section is perhaps, the most important and most jealously guarded provision (by SNGs) in the Constitution.

2.62 *Section 162* requires the accumulation of revenues accruing to the entire Federation in a distributable pool account (the Federation Account) and their unconditional distribution across the three tiers of governments. The National Assembly devises both vertical and horizontal distribution formulas. Horizontally, the section authorizes the NA to make laws for the distribution of revenues accruing to States among them, taking into account the principles of population, equality of states, internal revenue generation, land mass, terrain, and population density (*s. 162(2)*). This provision is the livewire of the PFM systems of SNGs, since it supplies the major source of their revenues.⁴⁵ However, as already shown above, Federation revenues contribute only about 40 percent of Lagos State revenues, rather than the up to 90 percent as in other SGs.

⁴² *Lagos State Government, A Law to Make Provision for the Administration and Collection of Government of Lagos State and Local Government Councils in Lagos State to Establish the Relevant Administrative Structures and for Connected Purposes*

⁴³ And other Governments'; (and so with all the constitutional discussion in this section; nothing in the Constitution is specific to Lagos State, except for the mention of the State in the list of States, and the listing of its 20 local government areas)

⁴⁴ Personal income taxes, property taxes, etc., are essentially SNG taxes, administered, collected, and kept by them.

⁴⁵ It also provides for the *complete* distribution of FA balances among governments, without withholding of any amount, not even for *common intergovernmental services*. The provision became the subject of litigation in 2002, when the FG continued the habit of the erstwhile military government of withholding a percentage of the FA revenues for common services.⁴⁵ In addition, the FG was sequestering excess revenue earnings above the budget reference mark as a hedge against inflation, rather than share it immediately. The Supreme Court declared both actions illegal and unconstitutional.

2.63 *Section 162* also seeks to regulate fiscal relations of SGs and their LGs. First, it requires that FA revenues accruing to LGs pass through their parent states. Second, each SG must maintain a “State Joint Local Government Revenue Account” to receive LGs’ share of FA revenue proceeds (*s. 162(6)*). Third, it provides in *s. 162(7)* for each SG (including Lagos) to “pay to local government councils in their areas of jurisdiction a proportion of their *total* revenues. Fourth, it empowers State Houses of Assembly to make laws for the sharing of any revenues accruing to local government councils.

2.64 *Sections 162 and 163*, read in conjunction with *Parts I and II* of the *Second Schedule*, contain the taxing powers of SGs, including Lagos. In summary, the FG makes laws on personal income taxes (PIT). However, SGs administer, collect, and keep the proceeds of PITs of their residents.⁴⁶ States are free to make laws on other (residual) taxes not covered by the FG, including property taxes, registration of business premises⁴⁷ etc. Some of these laws, for example, property taxes, are collectible by LGs, but SGs make laws to regulate their administration.

Constitutional Provisions on Accounts, Budget, and Audit of States (including Lagos)

2.65 *Sections 120 – 129* of the Constitution contain provisions on SG accounts, audit, and investigations. The provisions require each state to maintain a Consolidated Revenue Fund (CRF) to receive all revenues accruing to the state. A state cannot create another public fund except as authorized by the State House of Assembly, and that for a specific purpose. The essence of the provision is to ease legislative control and audit of public funds. The SHA must authorize withdrawals from the CRF or any other public fund of the State in advance. Viewed in this regard, it would appear that the current arrangement by which the Lagos State Government creates dedicated accounts that allow some revenue generating MDAs to keep part of the proceeds without paying them into the CRF is unconstitutional. Unless the Lagos State House of Assembly follows constitutional provisions to sanctions creation of dedicated accounts, they may not be legal.

2.66 The method of withdrawing funds from the CRF is through the annual budget or appropriation process. The Governor prepares and lays expenditure proposals for the coming financial year before the SHA. This is the Appropriation Bill. Approval by the SHA is by way of enacting the Bill into an Appropriation or Budget Law. This law authorizes the Executive to

⁴⁶ Excluding those of members of the armed forces, police, Ministry of foreign Affairs, and residents of the Federal Capital Territory (FCT), which the FG collects as part of its independent revenue, *s. 162(1)*

⁴⁷ Not registration of business names, which the FG, through the Corporate Affairs Commission (CAC) covers

withdraw and expend the amount so provided from the CRF. The spending must be only on the items contained in the Law.

2.67 Several vital points are noteworthy about these provisions.⁴⁸ First, they do not require the Governor to lay before the Legislature, details of revenue sources or predictions for the coming year. Thus, constitutional legislative control is only over expenditure, not revenue sources. Second, the Constitution enjoins the Governor to present the Appropriation Bill “at any time” during the outgoing year. Thus, a Bill presented in the middle of December for next year’s spending (commencing January), would still be within the law, even though it affords little time for thorough legislative scrutiny. Further, they do not provide for multi-year budgeting since they clearly refer to budgeting one year at a time (see *s. 121*).

2.68 These issues need not provide “alibi” not to institute genuine fiscal reforms. It is possible to cure all these ills by specific legislation as the Fiscal Responsibility Act has sought to do at the Federal. It is not exactly clear that the Lagos State Government is proposing to enact a fiscal responsibility law. However, the State Government is preparing a public financial management law, which it says will also take care of these issues. At the very least, it is possible for the Executive and Legislature to reach political accommodation on both issues, even without passing formal laws on the subjects.

2.69 Sections 125 – 127 relate to audit of SGs’ accounts. The provisions require Lagos State⁴⁹ to appoint an independent Auditor General. The Constitution seeks to secure the independence of the office by making his/her appointment and removal subject to legislative control. Appointment is up to retirement age. Once appointed, it is not possible to remove him/her from office except for the specific reasons of infirmity of mind or body, misconduct, and inability to discharge functions of the office. In addition, the Constitution provides that in the exercise of his/her functions under the Constitution, the Auditor General “shall not be subject to direction or control of any authority or person”. Further, the Constitution guarantees his/her salary. Thus, the Auditor General’s salary and emoluments come directly from the CRF, and are not subject to either executive or legislative control. However, the budget of the Office of the Auditor General does not receive similar guarantee. Neither do the staff. Running costs and staff salary are subject to the annual budget approval and control processes. Besides, audit staff are usually civil servants recruited and posted by the State Civil Service Commission. These have the capacity to weaken independence of the Office.

⁴⁸ These are potential reform subjects or issues for Lagos State.

⁴⁹ As other states

2.70 These are not debilitating “defects” since they are curable by specific reform legislation. Indeed, Lagos State is drafting an audit reform law to strengthen and enhance independence of the auditor General’ for instance, the law would create an Audit Commission to hire, remunerate, promote, and discipline staff, thus removing the audit staff from the main civil service structure. The draft law also seeks to guarantee resources for the office by tying funding directly to internally generated revenue as a percentage deductible as first charge. However, this law has been long in the drafting stage, having lasted least four years and having been in and out of the Executive Council and Ministry of Justice.

2.71 The Auditor General audits all public accounts, offices, and courts of Lagos State, and submits the report to the SHA within 90 days of receipt of the Accountant General’s financial statement and annual accounts. However, he/she does not directly audit the accounts of government statutory corporations, commissions, authorities, agencies, etc., established by Law. The role of the Auditor General regarding them 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 annual accounts and auditor’s report thereon, and (iv) conducting periodic checks of them.

2.72 *Sections 128 – 129* relate to the power of a State House of Assembly to conduct investigations into the public accounts of the State. These provisions 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.

Other PFM Laws

2.73 Given its ancestry and history, a complete set of finance regulation documentation, even if outdated, should be available to Lagos State. The most important of these is the organic Federal Finance (Control and Management) Act, 1958. The Act, relevant to Lagos as a former federal territory, codifies budget and accounts management processes. (As stated above, Lagos State is in the process of enacting its own organic public finance management law.) The *Financial Regulations*, derived the Act contain detailed accounting, internal auditing, and stores procedures and routines. However, Lagos State Government produced its own Accounting and Procedural Manual covering the same grounds but better suited to its particular situations.

2.74 The Lagos State Government Public Service rules, further define the roles of public officers in the PFM system. Specifically, the rules detail HRM processes and tools including, recruitment, career, discipline, and boarding procedures. It also contains job descriptions and specifications, and staff roles and responsibilities. These legal and quasi-legal instruments may require further modernization to bring them in line with current political developments and evolutionary trends in public financial management.

2.75 The status of the Audit Law of 1957 is a bit ambiguous. The Federal Government has not formally repealed it. However, it subsumed its entire contents into first, the 1989 and later, the 1999 Constitution. Subsequently publications of revised versions of the Laws of the Federation have not reproduced it, creating the impression that it is no longer part of Nigerian law. Although some state governments⁵⁰ still cite its provisions as authority for public audit, the Lagos State government does not. Lagos rather cites the provisions of section 125 of the 1999 Constitution, and perhaps, rightly so. However, the state recently enacted an independent Audit Law.

Institutional Framework for PFM in Lagos State

2.76 The institutions for PFM in Lagos State follow the general pattern observed among the FG and SGs in the country with some modifications. Unlike in several other states, Lagos State concentrates the budget function (capital and (re)current) in one institution: the Ministry of Economic Planning and Budget.⁵¹ The Ministry of Finance sources funds and finances the budget. In this position, the Ministry is in charge of the State Treasury Office, headed by the Accountant General. However, the Lagos Internal Revenue Service (LIRS), which in most states and the Federal is an agency of the Ministry of Finance, reports directly to the Governor of Lagos State. On the other hand, the Ministry of Finance directly supervises the internal audit unit in Lagos State unlike in most other states and the Federal Government where the Office of the Accountant General supervises the function.⁵²

2.77 In Lagos State (as in the rest of Nigeria), the Office of the Accountant-General (OAG) or the State Treasury Office⁵³ is a powerful PFM institution. The Office performs actual treasury functions of government, including revenue collection (not generation) expenditure, and accounting.⁵⁴ OAGs are creations of the respective Finance laws applicable in state governments.

⁵⁰ For example, Enugu and Rivers States

⁵¹ In some States, a similar institution (Ministry or State Planning Commission) takes control of the capital budgeting process, while the Ministry of Finance takes charge of recurrent budgeting. Yet a separate or the same Ministry that controls recurrent budgeting controls funding. Examples here include Rivers and Ekiti. Some other States, including Plateau Ministry of Budget and Economic Development), and recently Anambra (Ministry of Finance and Economic Planning), merge the budgeting functions in one Ministry. The Lagos and new Anambra models have the added feature of combining medium and long term planning as well as capital budget monitoring in the same agency that prepares the budget. The Plateau model however, assigns planning and monitoring to the State Planning Commission. Enugu State has a unique arrangement in which the Economic Planning Commission controls the capital budget, the Budget Bureau (Governor's Office) controls the recurrent budget, and the Ministry of Finance controls funding. The Federal Government combines capital budgeting, monitoring, and financing in the Federal Ministry of Finance, but the National Planning Commission controls planning. Thus, in no state or the Federal Government does a single agency control the three functions of planning, budgeting, and finance.

⁵² In Cross River State, internal audit is a function of the Supreme Audit Institution, the Auditor General for the State.

⁵³ As it is more routinely called in Lagos

⁵⁴ In Lagos State, internal audit is not a function of State Treasury but of the Ministry of Finance.

The design was for the Office to be a powerful, semi-autonomous, and professional institution under the general supervision (not necessarily directive) of respective Ministries of Finance.⁵⁵ OAGs post accounts officers to all Ministries, Departments, and Agencies (MDAs) with self-accounting status, to carry out government treasury and accounting functions. In addition, they have sub-treasuries and pay offices across the state (including at least one in each local government) to facilitate transactions. The design is for accountants at the MDAs and sub-treasuries to make monthly, quarterly, half-yearly, and annual returns (including bank reconciliation) to the respective accountants-general.

2.78 The Central Internal Audit Unit Department of the Lagos State Ministry of Finance posts internal auditors to each MDA with a self-accounting status and to all sub-treasuries. However, internal audit is not a specialized, professional function in the State. Extant financial rules require internal auditors to ensure compliance of MDAs with applicable financial rules through a prepayment audit process. As in other state (and the Federal) governments, internal auditors report directly to accounting officers of their MDAs, but are under the control of the director of Central Internal Audit (CIA), who (theoretically at least) can post and withdraw them at will. Internal auditors are to review controls monthly, prepare reports for the accounting officers of their MDAs, and copy the director of the CIA. The CIA prepares a consolidated monthly internal audit report for the Permanent Secretary, Ministry of Finance, and sends copies to the Auditor General, Accountant General, and the Public Service Office in the Office of the Head of Service.

2.79 As already discussed above, the Office of the Auditor-General also plays a key role in Lagos State's PFM process.

2.80 Finally, the Lagos State House of Assembly completes the list of formal institutions for public financial management in the State. The SHA exercises approval and oversight functions over the budget process. It also has oversight responsibility over budget implementation, accounting, and audit processes.

⁵⁵ In many states and the Federal, a lot of the professionalism and independence of the Office has eroded over the years.

Section 3: Assessment of the PFM Systems, Processes, and Institutions

This assessment of Lagos State PFM system is a repeat of the baseline assessment of 2009, which covered fiscal 2006 to 2008. This current assessment relates to 2009 – 2011⁵⁶ and tracks changes in the baseline benchmarks. However, fiscal 2011 financial statements are in draft form; the audit was still ongoing during preparation of the report. Both the baseline and the tracking assessments embrace the 31 indicators in the exposure draft on *Guidelines for Application of the PEFA PFM Performance Measurement Framework to Subnational Governments*.⁵⁷ The assessments also use the revised indicators for PI 2, 3, and 19.

This repeat assessment applied the PEFA secretariat's *Good Practice when Undertaking a Repeat Assessment: Guidance for Assessment Planners and Assessors*.⁵⁸ This requires that during the fieldwork, the assessors should

- Verify⁵⁹ the basis for assigning the baseline scores and identified any indicators for which inadequate information is available for this verification
- Keep comprehensive notes on data and sources for each rating – for future tracking
- Not use “D” scoring when insufficient information is available to assign a score; instead, the assessment assigned the “NR score” as recommended in the Guidance on the “**No Score**” **Methodology** issued by the Secretariat in 2011
- Not re-rate the earlier assessment⁶⁰ since the scores have already been incorporated in documents, which – whether published or not – various stakeholders will have used.

Further, the draft explains any mistakes found in the earlier ratings in the discussing changes in indicator scores. The draft also inserts a note to the indicator overview table to explain that the present and previous ratings are not comparable, whenever necessary. Moreover, the draft is precise about data sources.

Presentation of the assessment outcomes follows a simple routine. An explanation of the indicator⁶¹ precedes a summary table of the assessment of both the baseline and the repeat assessments. Following this is a rationalization of the score, including an explanation of supporting evidence and sources. The narrative also explains changes in baseline scores, if necessary. The assessment concludes by reporting evident reforms.

The assessment took place during a four day workshop in which senior government officials effectively participated. The assessment team included some permanent secretaries but consisted mostly of directors from the following institutions: Ministries of Finance, Budget, Economic Planning (including the statistics department), and Local Government and Chieftaincy Affairs, Education, Health, Public Utilities, etc., and the treasury, revenue, audit, HRM, some local governments, etc.⁶² The workshop included with a one-day training on the PEFA framework and methodology on the first day.

⁵⁶ This was easy because the same consultant facilitated both the baseline assessment and this repeat assessment.

⁵⁷ Published by the PEFA Secretariat in 2008

⁵⁸ Issued in 2010

⁵⁹ Both from the consultants that conducted the 2008 assessment and the government

⁶⁰ Even when it is apparent that the earlier score was in error

⁶¹ For the benefit of readers who may be new to PEFA

⁶² See *Appendix 3* for the full list of participants.

Following this training, state officials and the consultants jointly evaluated the evidence presented by the state. The assessment admitted only authentic documentary evidence kept contemporaneously with the event being assessed. Oral evidence only served to elucidate the documents. Where no documentary evidence exists, the assessment presents the evidence but did not enter a score.

The report validation process involved exposure of the early draft to senior Lagos state government officials for review. Validation also involved a series of meetings with political and administrative heads at Ministries of Economic Planning and Budget and Finance, and the State Treasury Offices. The meetings reviewed the report and produced additional evidence as necessary. The validation process concluded with an all-day technical session on June 8, 2012. The session involved the same team that did the assessment scoring.

3.1 Budget Credibility (PI-1 – PI-4)

Credibility of the budget is the first of the six critical dimensions of the PEFA PFM Measurement Framework *in (the Bluebook.)*⁶³. It comprises four performance indicators (PI) numbered 1 to 4. These four indicators assess the realism of the budget and its dutiful implementation. The budget can be a useful tool for policy implementation and achievement of goals only to the extent that the instrument approved by the legislature is realistic and the government painstakingly executes it as approved. A budget that meets these two tests is credible. A credible budget is therefore, a *contract* between citizens and government. In a very real and practical way, it accurately expresses the public policy priorities that government intends to pursue. It is affordable, sustainable, comprehensive, implemented according to plan, and delivers on policy objectives and contents. The *sine qua non* features that facilitate credible budgeting include (i) robust macro-fiscal frameworks, (ii) realistic revenue projection and collection, (iii) credible assessments of costs of government programmes (existing and new initiatives), (iv) transparent and disciplined budget planning processes, (v) dependable systems of budget execution, financial management and accountability, and (vi) availability of good information on spending and service delivery.

The following paragraphs present the result of the assessment of the four indicators of budget credibility.

PI-1: Aggregate Expenditure Out-turn Compared to the Original Approved Budget

This indicator assumes that the *original* budget (i.e., the budget approved by the Legislature at the commencement of the fiscal year⁶⁴) correctly represents deliberate plans, intentions, and policies of government. In other words, the budget is a deliberate interpretation and presentation of the portion of government policies slated for pursuit in the year. The budget also expresses the workplan, and expenditure and output commitments in pursuit of the expressed goal. Thus defined, this indicator measures the difference between actual primary expenditure and the originally budgeted primary expenditure.⁶⁵ *Table 3.1* below summarizes the performance of Lagos State on this indicator from 2007 to 2009.

Dimension of	Current Assessment (2012)	Score in	Explanation
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⁶³ Blue is the colour of the PEFA PFM Performance Measurement Framework book.

⁶⁴ This definition appropriately excludes supplementary budgets passed midstream

⁶⁵ PEFA defines primary expenditure to exclude debt service obligations and donor commitments, over both of which government would have only little control during the year.

⁶⁶ See Annex 2 for detailed calculations; 2011 actual figures are unaudited and provisional

Measurement	Evidence Used	Score	Framework Requirement	Information Source	2009 Baseline Assessment	of Change since Baseline Assessment
The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges, but also excluding externally financed project expenditure)	The deviations (in absolute terms) were 24.1%, and 14.2%, and 17.3% 2009, 2010, and 2011 respectively.	D	(i) In two or all of the last three years did the actual expenditure deviate from budgeted expenditure by an amount equivalent to more than 15% of budgeted expenditure	The Ministry of Economic Planning and Budget (budget estimates) and the STO (audited financial statements reports)	D	Previous deviations were 25.2%, 24.8%, and 33.9% in 2006, 2007, and 2008 respectively

Rationale for the Score

Key questions

1. Is data on budgeted & actual primary expenditures readily available for last 3 FY?
2. Is data on primary expenditures broken down by functions &/or administrative agencies for last 3 FY?
3. If yes, where is it exactly located & in what form (hard copies, electronic)?
4. If not, where is data (on total expenditures, interest on the public debt, & donor-funded project expenditure) available & accessible to calculate total primary expenditures & primary expenditures by functions &/or administrations?

Sources and nature of data - *Budget data for this assessment came from the budget book published by the Ministry of Economic Planning and Budget (MEPB), while data on actual expenditure was from financial statements published by the State Treasury Office (STO) in the Ministry of Finance.* Although financial statements show both budget estimates and actual expenditures, the estimates are often revised figures reflecting midterm supplementary appropriations. Actual expenditure figures in the budget book are those of the preceding year. Consequently, the budget book is the most authentic source of information on the *originally approved budget* as the financial statement is for *expenditure outturn*.⁶⁷

Using budget and actual data from different sources posed difficulties of reconciliation. First, the two documents do not use the same reporting format necessitating adjustments and rework to allow figures comparability. Fiscal 2009, 2010, and 2011 budgets followed the newly introduced functional breakdown, with 2010 and 2011 budgets showing more details,⁶⁸ but the financial statements used administrative breakdown for all the years. The budget book and financial statements do not use the same reporting format; comparison is impossible without further detailed rework and analysis. Besides, certain

⁶⁷ This is the general trend in the Nigerian public sector, not only in Lagos State.

⁶⁸ The state is still evolving the newly adopted COFOG classification. For example, FY 2009 budget classified government functions into 10 including a defense function; but the 2010 budget correctly eliminated the defense function, which the state does not have.

information would be more explicit in one book, but the other. For example, figures under the ‘Statement of Grants, Contribution, and subvention, shown in the financial statements have no equivalent in the budgets. The explanation provided is that MDAs make these expenditures from their budget allocations and the Treasury classifies them as such.

Both budget and actual expenditure information were in hard copy documents,⁶⁹ requiring fresh data entry and analysis. This was a difficult and time-consuming exercise. Besides, it was not possible to identify interest charges or information on donor-funded projects. Lump sum figures for ‘public debt charges’ do not separate the debt service and amortization elements.

The state government adopted the GFS/COFOG classification in fiscal 2009 for budgeting, but financial statements still use the old reporting format. The 2010 budget defined nine functional sectors since as a subnational government; the state does not have a defense function. Mapping of expenditures to sectors is by administrative responsibility, rather than activities. Although the GFS accept this as an alternative, it produces suboptimal results in this case since agencies with overlapping expenditures jurisdictions may not necessarily belong to the same sector.⁷⁰

Factors responsible for the deviation and their impact – internal factors play an important role in budget deviations. Consistent inability to match domestic revenue predictions with collections is a major factor contributing to deviations. Domestic revenue accounted for an average of 64.33 percent of the state’s total revenue between 2009 and 2011. However, the collection percentage of domestic revenue averaged 79 percent during the period (*see PI-3 below*). In contrast, average collection of federal allocations in the same period was above 119 percent of the budget. However, federal allocations account for less than 36 percent of revenues. Underachievement of revenues prediction contributes to the cash rationing process⁷¹ that causes composition variance (*see PI-2*).

Another factor contributing to low budget performance is the ability of Lagos state government to realize projected capital receipt and financing options. Lagos state government budgets are deficit budgets, partly financed through bond issues on the capital market. During the period under review, the state government was unable to realize bond options due to issues arising from Nigeria’s federal structure. Federal authorities regulate SNG domestic borrowings, including from the capital market. Inability of the Lagos state government and federal regulators (the Federal Ministry of Finance and the Securities and Exchanges Commission (SEC)) to resolve all the issues prevented the state from actualizing projected bond issues, even though the state had completed reached agreement with market operators.

Reforms Underway

No reforms are evident here.

PI-2: Composition of Expenditure Out-turn Compared to Original Approved Budget

This indicator measures the extent to which the composition of *actual* expenditure varies from the composition of *budgeted* expenditure. It assesses to what extent actual budget implementation preserves the internal consistency of the approved budget. Virement between expenditure heads during budget implementation affects the relationship between approved budget and actual outcomes. A high degree of

⁶⁹ Copies of some documents available in the state government’s website (www.lagosstate.gov.ng) are not in the Excel or any other easy-to-manipulate format, but in PDF

⁷⁰ A similar situation exists at the federal level.

⁷¹ See PI-16 below

virement distorts inherent harmony and planned expenditure patterns and relationships. In that case, the budget ceases to be a useful statement of policy intent and action. It also helps the executive in remaking the budget during implementation, which is inconsistent with good practice. This suggests indiscipline during the budget execution or formulation process or both. Technical, *PI-2* assesses the degree to which variance in primary expenditure⁷² composition exceeded overall deviation in primary expenditure during the three years of last audit report.

Recent amendment to the Framework creates two dimensions of measurement for this indicator. The first indicator measures the extent to which reallocations between budget heads during execution have contributed to variance in expenditure composition. The measurement excludes debt service and donor funded project expenditure (as in *PI-1*). It also excludes contingency items, which it measures in the second dimension. The definition of contingency includes amounts, which are unallocated at budget preparation time but used to cover shortfalls in spending in any budget unit during execution. They can include a reserve allocation for wage increases, say, held centrally but distributed to budget users once the level of increase has been settled (or agreed with unions).⁷³ Usually, such funds are a separate vote, or as a sub-vote under the Ministry of Finance, with a clearly marked title such as “contingency reserve” or “unanticipated/miscellaneous expenditure”. “Contingencies established within budget user votes, as well as any vote suspected of really being allocated for contingencies, are not part of the definition.”

The second dimension assesses the practice with such contingency votes. It recognizes that while it is prudent to include an amount to allow for unforeseen events in the form of a contingency reserve (although this should not be so large as to undermine the credibility of the overall budget), accepted, good practice “requires not charging expenditures directly to these vote”. It requires virement of the amounts to those recording the unforeseen expenditure.⁷⁴

Dimensions of Measurement	Current Assessment (2012)				Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement	Information Source		
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency	Variance was 17.3%, 11.1%, and 41.5% in 2009, 2010, and 2011 ⁷⁵	D	(i) Variance in expenditure composition exceeded 15 % in at least two of the last three years	The Ministry of Economic Planning and Budget (budget estimates) and the STO (audited financial	C	This is deterioration from the previous assessment which was “C”

⁷² As defined under *PI-1* above

⁷³ As currently done in the federal government

⁷⁴ The steps in calculation for each year are as follows⁷⁴

- “For each budget head selected for composite variance analysis (i.e. excluding contingency items), calculate the “adjusted” budget (this is {the original budget for each head, multiplied by {aggregate actual expenditure divided by aggregate budget}}).
- For each budget head, calculate the deviation between actual expenditure and adjusted budget.
- Add up the absolute value of the deviations for all budget heads (absolute value = the positive difference between the actual and the budget figures). Do not use percentage deviations
- Calculate this sum as a percentage of the total adjusted budget (i.e. total actual expenditure)
- Establish in how many years the percentage points exceeded 5, 10, or 15, and go to the scoring *PI-2* table to determine the final score”

⁷⁵ 2011 actual data are unaudited and provisional

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items				statements reports)		
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.	Average expenditure to contingency was on average nil in the last three years.	A	(ii) Actual expenditure charged to the contingency vote was on average less than 3% of the original budget.		Not comparable - new dimension	
Indicator Score (Method M1)		D+			D	

Rationale for the Score

Dimension (i) Extent of variance in expenditure composition during the last three years, excluding contingency items

Assessment of this indicator used the same primary data as in PI-1. *Execution of the budget was not according to original sectoral budget compositors; there were reallocations between budget heads during execution (Table 3.2b).* These variances arise from the manner of approving the budget. First, top executive authorization is necessary to embark on and pay for already approved projects above a threshold.⁷⁶ Second, the rationing rather than proactive planning approach to cash management entails re-prioritization during budget execution. The state’s cash rationing procedure involves monthly assessment of cash availability, redefinition of priorities in case of cash shortage,⁷⁷ and allocation based on redefined immediate priorities. Third, over-budgeting resulting from consistent inability to meet optimistic domestic revenue forecast entails inability to implement the budget as approved. This forces readjustments during execution. Fourth, annual formal revision of the original budget through a supplementary process entails prioritization and reallocations between budget heads. This is another source of composition variance.

S/N	2008		2009		2010		2011		Average (2009 - 2011)	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
1	38.93%	38.48%	40.54%	39.37%	45.51%	42.86%	33%	54%	39.80%	45.44%
2	15.80%	23.90%	12.80%	19.45%	14.02%	15.02%	25%	20%	17.33%	18.22%
3	9.85%	9.32%	9.35%	9.36%	7.70%	9.40%	12%	10%	9.53%	9.45%
4	6.48%	6.41%	5.97%	7.00%	4.64%	5.74%	7%	7%	6.03%	6.60%
5	10.81%	5.36%	9.80%	4.57%	2.92%	3.99%	6%	3%	6.31%	3.99%
6	3.55%	2.57%	4.39%	4.91%	3.06%	2.93%	7%	7%	4.97%	4.96%
7	2.80%	1.94%	2.92%	2.28%	2.45%	2.11%	3%	2%	2.80%	2.09%
8	2.49%	1.84%	3.52%	2.09%	1.78%	2.48%	1%	1%	2.26%	1.89%
9	0.41%	0.43%	0.87%	0.66%	0.63%	0.59%	1%	1%	0.94%	0.65%
10	8.87%	9.75%	9.84%	10.30%	17.27%	14.89%	8%	0%	11.67%	8.40%
Aggregate	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100%	100%	100.00%	100.00%

Source of Data: Lagos State Ministry of Economic Planning & Budget (budget information) and State treasury Office (actual expenditure); 2011 Actual Data are unaudited and provisional; analysis by consultant

⁷⁶ MDAs must obtain the governor’s executive approval before embarking on projects above ₦100 million even already approved in the budget; the governor must also approve payment (see *PI-16* below).

⁷⁷ Which is always

Dimension (ii) the average amount of expenditure actually charged to the contingency vote over the last three years

The return of ‘A’ assessment here is because allocations to contingency do not meet the Framework’s definition. Budgeting for contingency⁷⁸ in Lagos State is not clear and is still evolving. The explanation provided is that development partners advised setting aside of at least five percent of the budget as planning reserve. The Ministry of Economic Planning and Budget must exhaust the reserve during allocations, i.e., before completing budget planning and sending the draft budget to the Legislature for approval. The state therefore used a reserve of three percent in the 2011 budget planning period, but did not use any in the 2012. However, evidence shows a supplementary budget provision for contingency of ₦1.818 billion in 2010. The provision is for “security, environment, and other emergencies”.

Reforms Underway

No reforms are evident in this area.

PI-3: Aggregate Revenue Out-turn Compared to Original Approved Budget

This indicator compares budgeted domestic revenue to actual domestic revenue. It measures the quality of revenue forecasting. Accurate forecasting of domestic revenue is crucial in determining budget performance since budgeted revenue is the basis of budgetary allocations spending. The only dimension of measurement for this indicator is “actual revenue compared to domestic revenue in the originally approved budget.”⁷⁹ The use of domestic revenue in this analysis shows that the indicator’s concern is with that portion of revenue over which Government has control and thus can predict.

In line with PEFA guidelines for assessing subnational governments that receive more than 10 percent of their revenues as unconditional flows, assessment under this indicator will use Lagos State government’s IGR as its domestic revenue. However, it will also measure predictability of transfers from the Federal Government separately under *HLG-1*. *Table 3.3b* shows, Lagos state public revenue performance under the IGR, Federal transfers, and total revenue headings for 2008 to 2010.

Dimension of Measurement	Current Assessment (2012)				Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement	Information Source		
Actual domestic revenue compared to domestic revenue in the originally approved budget	Actual domestic revenue collection was; 82% in 2009, and 76% in 2010, and 78% in 2011; and would rate as D either with the new or old methodology	D	Actual domestic revenue was below 92% or above 116% of budgeted domestic revenue in two or all of the last three years	The Ministry of Economic Planning and Budget (budget estimates) and the STO (audited financial statements reports)	D	Actual revenue performances 60%, in 2006, 154% in 2007, and 84% in 2008.

⁷⁸ ‘Stabilization fund’, as the state calls it

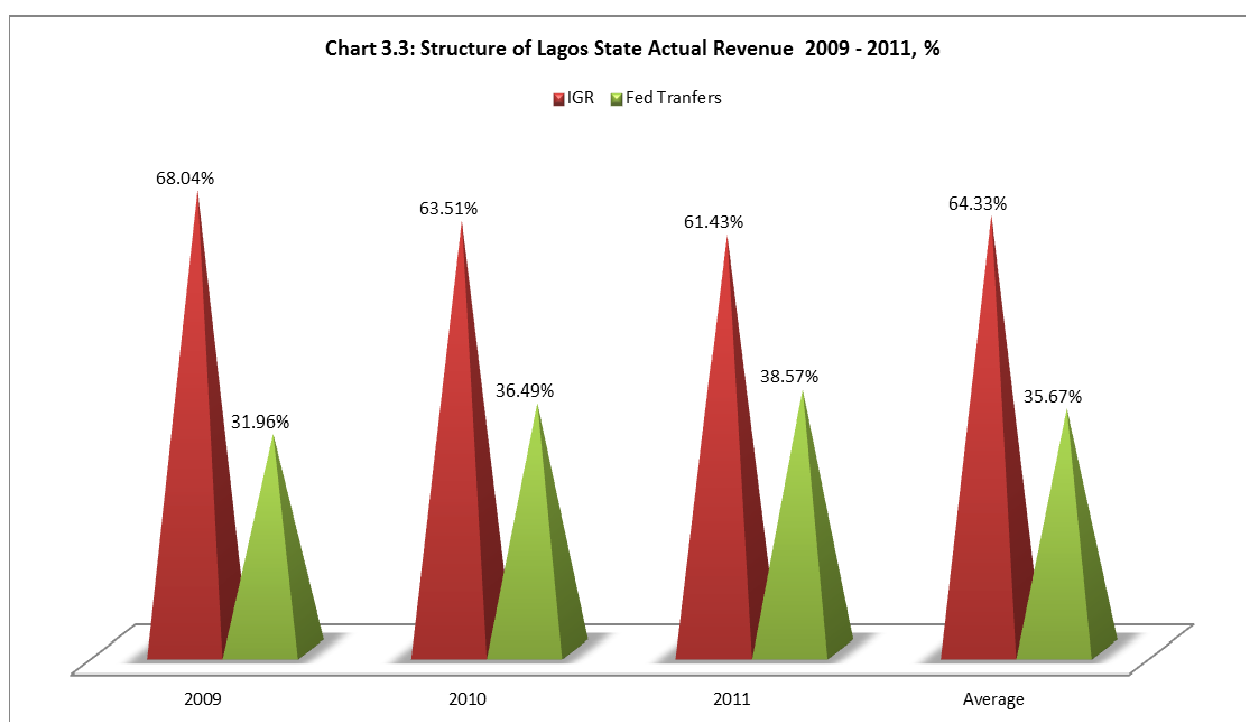
⁷⁹ See revised *PI-3* on the PEFA website.

Rationale for Scoring

Key questions

1. Is data on budgeted & actual domestic revenue (tax revenue & non-tax revenue) for the last 3 FY readily available?
2. Is the data disaggregated by major revenue head?
3. Where is this data exactly located and in what form (hard copies, electronic)?

Data on budgeted and actual revenue of Lagos are available in the Ministry of Economic Planning and Budget (MEPB) and the State Treasury Office (STO). For reasons given in *PI-1* above, this assessment took budget revenue from the MEPB and actual from the STO. The state has two main sources of revenue internally generated revenue (IGR, domestic) and unconditional federal transfers.⁸⁰ Lagos state IGR of the subnational governments, amount to an average of 64 percent between 2008 and 2010 (*Chart 3.3*).



The main sources of domestic revenue for Lagos State are taxes, fines & fees, licenses, earnings and sales, rent on government property; interest and dividend, dedicated revenue,⁸¹ and miscellaneous.⁸² Taxes are the most important source of domestic revenue, averaging 81 percent between 2008 and 2007

⁸⁰ See Chapter 2

⁸¹ Revenues collected by certain autonomous government agencies (AGAs), which the state allows them to keep for use in offsetting some their running costs. Examples of such agencies are tertiary educational and health institutions. The books record dedicated revenues without correspondingly recording ‘dedicated expenditures’, i.e., expenses incurred with the dedicated revenue. Complete accounting requires this to balance the books (see *PI-25* below).

⁸² Published books do provide information on the composition of ‘miscellaneous’ revenue, even though it was the second most important source of domestic revenue (*Table 3.3b*).

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(Table 3.3b). The Lagos State Internal Revenue Service (LIRS) administers taxes.⁸³ MDAs play a role in the generation, but those with regulatory functions⁸⁴ are particularly vital.

	2009		2010		2011*		Average	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Taxes	75.6%	79.3%	77.8%	85.6%	75.4%	84.7%	76.3%	83.2%
Fines & Fees	8.6%	6.3%	6.7%	0.9%	5.0%	2.1%	6.8%	3.1%
Licenses	3.5%	3.8%	1.6%	1.1%	2.4%	1.0%	2.5%	1.9%
Earnings & Sales	9.7%	1.5%	4.3%	4.7%	6.1%	0.4%	6.7%	2.2%
Rent on Government Property	0.4%	0.3%	0.3%	0.0%	0.3%	0.1%	0.3%	0.1%
Interest & Dividend	0.1%	1.6%	0.2%	0.5%	0.2%	0.4%	0.2%	0.8%
Dedicated Revenue	2.0%	2.1%	8.7%	3.0%	10.3%	6.5%	7.0%	3.9%
Miscellaneous	0.1%	5.1%	0.4%	4.4%	0.4%	4.7%	0.3%	4.7%
Internally Generated Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

2011 figures are provisional and unaudited

Table 3.2c shows the extent to which the government is able to predict its different revenues. Ability to predict revenue is poor, especially in relation to domestic revenue. Revenue prediction is not always a professional decision as it should be. Some of it is political, borne of zeal to generate as much revenue as possible to prosecute numerous ongoing development projects.

	2011 Assessment							2008 Assessment						
	2009		2010		2011		Average (Actual)	2006		2007		2008		Average (Actual)
	Budget	Actual	Budget	Actual	Budget	Actual		Budget	Actual	Budget	Actual	Budget	Actual	
IGR	212,949.83	175,411.95	229,004.38	173,447.73	254,584.73	198,460.22	182,439.97	103,050.15	61,684.47	131,669.10	102,494.97	154,996.31	139,563.17	101,247.54
Fed Trans	76,000.00	82,386.74	83,000.00	99,637.34	97,700.00	124,624.45	102,216.18	35,000.00	53,784.73	80,294.00	58,400.23	80,436.00	81,942.33	64,709.10
Total Rev	288,949.83	257,798.69	312,004.38	273,085.07	352,284.73	323,084.67	284,656.15	13,805,075.00	115.47	211,963.10	160,895.19	235,432.31	211,505.40	124,172.02
% IGR	82.37%	75.74%	77.95%	77.95%	77.95%	77.95%	78.69%	59.86%	77.84%	90.04%	90.04%	90.04%	90.04%	75.91%
% Fed Trans	108.40%	120.04%	127.56%	127.56%	127.56%	127.56%	118.67%	153.67%	72.73%	72.73%	72.73%	101.87%	101.87%	109.43%
Total Rev	89.22%	87.53%	87.53%	87.53%	87.53%	87.53%	89.49%	0.00%	75.91%	75.91%	75.91%	89.84%	89.84%	55.25%
	Source of Data: Financial Statements & Audit Reports, 2009 - 2011; 2011 is unaudited							Source of Data: 2009 PEFA Report						

Note 1: Until 2009, published financial statements treated value added tax as capital receipts. From 2009, the situation was corrected and VAT is now correctly reported as revenue. The analysis here included VAT as revenue even in 2008

Note 2: Grants (contribution) and Reimbursements have been removed from this analysis as not representing revenue but capital receipts.

Reforms Underway

No reform on improving revenue projection is evident.

HLG-1: Predictability of Transfers from Higher Level of Government

This indicator recognizes situations where transfers from a higher-level government, e.g., the central or federal government, constitute significant and important sources of SNG revenues. In such situations, inability to predict inflows of these transfers can affect the SNG's fiscal management and capacity to deliver services. Shortfalls in prediction of transfers and delays in receipt of inflows can seriously affect budget implementation.

⁸³ See PI 13-15 below.

⁸⁴ For example, Lands, Transportation, Ministry of Justice, Judiciary (courts), etc.

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This indicator defines transfers widely. It includes revenue inflows from a higher-level government, whether shared, block, unconditional, or earmarked and conditional grants. However, it excludes donor project or program funding, pooled at the central government and on lent or channeled to SNG through line ministries. Indicator D-2 measures this. In Nigeria's specific case, qualifying transfers from the federal to state governments will include shares of the federation account, VAT Pool account, oil mineral derivation (where applicable), shares from the excess crude, conditional transfers such as the universal basic education (UBE) funds, Health sector fund, ecological funds, etc.

The education tax fund (ETF) proceeds raise some definitional issues. The Education Trust Fund disburses proceeds of education tax directly to educational institutions (tertiary, secondary, and primary) in all states directly. The funds are for the execution of special infrastructural projects. Disbursement does not go through parent ministries of education or the state treasury. However, to access their allocations, beneficiary institutions must meet certain capacity, governance, and transparency (management, accounts, and reporting) conditions. For example, they must have an independent management body, produce project designs, workplans, and verifiably utilize, and satisfactorily account previous allocation. Often, institutions fall into several years' arrears in assessing their funds, due to, among others, the following

1. Inability to meet the governance criteria
2. Unnecessary political interference in the implementation of beneficiaries' projects/programmes, leading to delay in execution and in some cases, poor workmanship and cost overrun
3. Inexperienced desk officers for ETF projects in states nationwide causing poor workmanship and mismanagement of projects
4. Lack of capacity on the part of the beneficiaries to utilize allocated funds⁸⁵

For the reason that state governments do not play a direct role in the receipt or utilization of these funds, notwithstanding their inference with project funds as explained above, the definition of transfers from the FG will exclude education tax funds.

There are three dimensions of measurement under this indicator. Table HLG 1 summarizes performance under this indicator.

<i>Table HLG 1: Predictability of Transfers from Higher Level of Government</i>		
Dimensions	Score	Comments
Annual deviation of actual total HLG transfers from the original total estimated amount provided to SN entity for inclusion in the latter's budget.	NR	Data for this rating is incomplete. Information on federation and VAT flows are available. However, data on conditional transfers are not...
Annual variance between actual and estimated transfers of earmarked grants	NR	Lack of data
In-year timeliness of transfers from HLG (compliance with timetable for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year)	A	State governments receive the proceeds of Federation transfers monthly, immediately after each FAAC meeting. There has not been a single incidence of delay. Inability to access earmarked funds is because of the SG's internal problems.
Score (Method M1)	NR	

Rationale for the Score

⁸⁵ Postings on the ETF website www.etf.gov.ng

Annual deviation of actual total HLG transfers from the original total estimated amount provided to SN entity for inclusion in the latter's budget – there is no data to assess this. Although the federal government annually shares the basis of unconditional transfers with state governments in a detailed fiscal framework at the commencement of the budget period, it was not possible to obtain copies for assessment. Information of actual unconditional statutory transfers of shared revenues (federation and VAT Pool accounts), which constitute the bulk of central transfers to Lagos state government is available on the website of the Federal Ministry of Finance.⁸⁶ However, information on the earlier shared fiscal framework is not. *Notwithstanding this, the practice in Nigeria is for the federal government to dip into the reserve “excess crude oil” account to make up for any shortfalls in predicted and shared revenues.* This is the concept represented as “excess crude” in the final accounts of state governments.

Does the federal government advise state governments in advance of predictions on these receipts? Since introduction of fiscal reforms in fiscal year (FY) 2004, the FG annually publishes medium term fiscal predictions in a fiscal strategy paper (FSP). The predictions include revenue performance and underlying assumptions (and therefore, prospective shares of the various governments, among others). The most important aspect for state governments is the benchmark assumptions underlying revenue distribution because state governments use (or can or ought to use) them to determine their respective expected receipts. In practice, when actual revenue performance falls below the benchmark assumptions, the FG augments from past savings made when oil prices performed above the benchmark. Thus, of recent, actual federation transfers have not fallen short of prediction. Any shortfall in state budgets and accounts is due to the state's use of wrong values for the budget.

Annual variance between actual and estimated transfers of earmarked grants – the federal government makes conditional transfers to state governments to fund basic education. The most important earmarked grants in Nigeria are those from Education Trust Fund (ETF), the Universal Basic Education Commission (UBEC), the National Health Care Development Fund,⁸⁷ the debt relief Fund (MDG grants), the Ecological Fund, and the Stabilization Fund. The criteria for the distribution of the ETF, UBEC, MDG, and Health Funds are clear and transparent because they bodies are independent of the government. The criteria often involve direct allocations to state and local government implementing agencies that meet clear governance and reporting requirements. The basis of allocation is clear and defined by the enabling laws of the funds and their derived regulations. For example, the Health Fund is a minimum of 2 percent of the Consolidated Revenue Fund of the Federal Government and the law specifies the mode of distribution.

The federal Universal Basic Education Act, 2004 sets aside two percent from the Consolidated Revenue Fund (CRF) of the Federal Government to help states finance basic education. The Act provides for, among others, collaborative 50/50 funding of basic education by the federal and state governments.⁸⁸ The Universal Basic Education Commission (UBEC), which administers the fund, will match the verifiable amount set aside by a state government⁸⁹ to fund basic education, provided the minimum transparent governance arrangements is in place. These conditions include a state universal education law, an autonomous state universal education board, a management set up, evidence of judicious utilization of previous grants, a project report, etc.

⁸⁶ www.fmf.gov.ng

⁸⁷ Managed by the National Primary Health Care Development Agency (NPHCDA)

⁸⁸ There are further grants to redress educational imbalance, for states adjudged to be doing well, for school feeding programme, and to support education of physically and mentally challenged children.

⁸⁹ The funds must be deposited in the Central Bank of Nigeria and be accessible only to the state universal education board

The same is true for the ETF, UBEC, and the MDG. Agencies that fall short of the disbursement criteria, including audit and reporting requirements, have future allocations withheld until they meet them. Otherwise, allocations and disbursements are timely. The funds do not pass directly through state governments,⁹⁰ and most have not established effective mechanisms to track budgeted and actual allocations, and their utilization. Lagos financial statements sometimes include information on ETF receipts, but this is incomplete.

In-year timeliness of transfers from HLG (compliance with timetable for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year – the timetable for transfer is established by law, i.e., Allocation of Revenue (Federation Account, etc.) 1982 Act.⁹¹ It requires monthly distribution of accrued revenues. Distributable amounts are established by the constitution as “any amounts standing to the credit of the Federation Account”⁹² The fiscal framework published around august/September after agreeing with state governments, defines expected revenues and shares. As already stated, the practice is to make up revenue shortfalls from a reserve account during distribution. There are no delays in the transfer of the unconditional federation and VAT proceeds to state governments. There is strict adherence to the agreed timetable of monthly transfers. About the middle of each month, representatives of the federal, state, and local governments (and key central revenue collection and oversight bodies⁹³) who constitute the Federation Account Allocation Committee, FAAC, gather to distribute the previous month’s collection in accordance with statutorily stipulated formulas. Following this, the FG transfers due amounts to the different governments electronically. There is thus no delay in relation to the agreed timetable. There are also usually no delays in the transfer of matching grants to agencies that meet the conditions.

Shared revenues include proceeds of crude oil sales, petroleum profit taxes, pipeline fees, mining royalties, gas flaring penalties, companies income taxes, customs and excise duties, stamp duties on corporate registrable instruments, sale of federation assets, value added tax, etc. The federal government collects these revenues centrally.

PI-4: Stock and Monitoring of Expenditure Payment Arrears

This indicator assesses the existence and size of expenditure payment arrears, and the extent to which the Government is controlling and addressing the systemic problems that cause them. Expenditure payment arrears arise under contractual commitments or specific legal obligations, when government payment obligations to employees, suppliers, contractors, and loan creditors (interest payment) become overdue. A claim falls due when the contractual document or local practices and custom stipulate. Internationally accepted business practice is to recognize an arrear if the debtor does not settle a claim 30 days after receiving the supplier’s invoice. In the case of staff payroll or interest payment however, the practice is to recognize an arrear immediately on the due date for payment.

Payment arrears constitute a form of indirect and non-transparent financing. They indicate a number of possible problems (some bordering on *procurement*). These include inadequate commitment controls that accumulate debt without due regard to ability to pay, use of cash rationing in place of proper cash planning, forecasting, and management, award of contracts without adequate budget cover, under-

⁹⁰ With the exception of MDG grants

⁹¹ Cap A15 Laws of the Federation, 2004

⁹² Section 162(3) of the 1999 Constitution

⁹³ Including the Nigeria National Petroleum Corporation (NNPC), the Nigeria Customs Service (NCS), the Federal Inland Revenue Service (FIRS), the Debt Management Office (DMO), the Revenue Mobilization, Allocation, and Fiscal Commission (RMAFC), the civilian and military Pensions Boards, etc.

budgeting of specific items, and sheer lack of information, which could arise from bookkeeping defects. Cash rationing happens after the fact, i.e., after commitments in excess of cash or funding potentials, thereby necessitating prioritization at time of payment. This inevitably accumulates arrears. Cash budgeting, on the other hand, proactively matches available funds/cash with contractual commitments and obligations, thus ensuring ability to pay as obligations mature and fall due. *Table 3.4* rates the two dimensions of this indicator.

Dimensions of Measurement	Current Assessment (2012)				Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement	Information Source		
Stock of Expenditure Payment Arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the	Evidence on payment arrears was not available until December 2011. However, at the time of the field work, the state had not completed drafting 2011 accounts. It was not possible therefore to relate the debt to expenditure.	NR	No evidence to rate	Debt Management Office)	NR	Compared with 2009, performance improved with the commencement of recording of expenditure payment arrears. However, the reform is ongoing and has not yet impacted on the score
Availability of data for monitoring the stock of expenditure payment arrears	(ii) There is no reliable data on the stock of arrears from the last two years	D	(ii) Actual expenditure charged to the contingency vote was on average less than 3% of the original budget.		D	
Score (Method M1)	NR	NR			NR	

Rationale for the Score

Dimension (i): Stock of Expenditure Payment Arrears –

Key questions

1. What are the existing legislation and regulations referring to arrears?
2. To which extent are they respected in practice?

Records provided by the Debt Management Office (DMO) suggest that either evidence of expenditure payment arrears did not exist up to end of fiscal 2010 or at least, the state was not systematically recording them. The official reason for this failure is that cash basis of accounting used by the state recognizes only cash payments. However, the state could have shown unpaid vouchers and other payment arrears as memo items, for completeness. Recent reforms show state has started noting some arrears from fiscal 2011. Available figures contractor arrears was ₦41.6 billion and judgment debt, ₦1.1

billion at end of 2011. Nonetheless, it was no possible to calculate the percentage of arrears because information on aggregate 2011 expenditure was not available at the time of issuing this report.

Even then, some data quality issues are apparent. First, there are concerns about the completeness of the DMO data. For instance, the reporting format used does not list interest/debt service payments, suggesting non-inclusion.⁹⁴ Besides, the cash basis of accounting leaves a margin for error in any calculation of payment arrears. Total expenditure for the year will reflect actual cash outflows in the year. Thus, it will exclude unpaid vouchers (expenditure payment arrears), but include arrears of preceding year paid in current year.

The DMO does not generate the arrears information, but sources them from various agencies.

Dimension (ii): Availability of data for monitoring the stock of expenditure payment arrears

Key questions

1. Is there any reliable data on the stock of arrears for the last 2 years?
2. If yes, where is this data available and in what form (hard copies, electronic)?
3. Is this data broken down over arrears to employees, suppliers/contractors, interest on debt, others?
4. Has this data been generated by at least 1 comprehensive & ad hoc exercise within the last 2 years? OR
5. Is the data on the stock of arrears generated annually & likely not complete for a few identified expenditure categories or specified budget institutions? OR
6. Is reliable & complete data on the stock of arrears generated through routine procedures at least at the end of each FY (including an age profile)?
7. Which entity(s) are involved in this exercise?

Data is not incomplete as reported above.

Reforms Underway

Reform on debt gathering and reporting has been ongoing since 2009 when the state enacted the Lagos State Debt Management Office Law and the commencement of debt recording and reporting.

3.2 Comprehensiveness and Transparency (PI-5 – PI-10)

This set of crosscutting indicators deal with issues affecting comprehensiveness and transparency of the entire PFM system, i.e., planning, budgeting, accounting, audit, and reporting. Primarily, they assess two issues: the extent to which oversight over budget and fiscal risk is comprehensive, and budget and fiscal information is accessible to the public. PEFA expresses the importance of these indicators as follows, “*Comprehensiveness of budget is necessary to ensure that all activities and operations of governments are taking place within the government fiscal policy framework and are subject to adequate budget management and reporting arrangements. Transparency is an important institution that enables external scrutiny of government policies and programs and their implementation.*”⁹⁵ This set consists of PI-5 to PI-10.

⁹⁴ This is surprising because information on debt service arrears resides within the DMO.

⁹⁵ PEFA, **Public Expenditure and Financial Accountability** (the Blue Book), June 2005, page 66

PI-5: Classification of the Budget

Classification of the budget measures the robustness of the budget and accounts classification system and the extent to which it allows tracking of spending along administrative, economic, functional, and program dimensions. The most common international standard classification practices enable governments to report the budget and expenditure in a format consistent with that developed by the Statistics Department of the International Monetary Fund (IMF), i.e., the Government Financial Statistics (GFS) format. This format reflects the most important classifications – usually administrative combined with economic and functional (and sometimes programmatic). International good practices embed the classification of the government budget in the chart of accounts.

The GFS uses the functional classification of the UN-supported Classification of the Functions of Government (COFOG). COFOG classifies government functions into 10 main areas at the highest level. These are (i) general public services, (ii) defence, (iii) public order and safety, (iv) economic affairs, (v) environmental protection, (vi) housing and community amenities, (vii) health, (viii) recreation, culture, and religion, (ix) education, and (x) social protection. There are 69 functions at the second (sub functional level).⁹⁶ However, the defence function and its sub functions do not normally apply to SNGs.

Table 3.5: Classification of the Budget

Dimension of Measurement	Current Assessment (2012)				Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement	Information Source		
The classification system used for formulation, execution and reporting of the central government's budget	Budget formulation and execution use different formats. The summary budget is a functional (with limited economic) classification along GFS/COFOG. The budget also uses administrative classification. Execution and reporting do not use functional, but administrative, classification.	D [†]	(i) The budget formulation and execution is based on a different classification (e.g. not GFS compatible or with administrative break-down only).	The Chart of accounts, 2009, the summary Budgets, 2009, 2010, 2011; audited financial statements	D	No change in performance, but reform efforts are evident.

Rationale for the Score

⁹⁶ See <http://unstats.un.org/unsd/cr/registry/regcst.asp?CI=4>

Key questions

1. Is budget formulation & execution based on administrative, economic & functional classification?
2. If not, what types of classification are not possible?
3. Is any economic classification compatible with GFS (1986 or 2001 manuals)?
4. Is any functional classification compatible with UN-COFOG to main function level, or to sub-function level, or to program level?

The state introduced functional classification into its budgeting in fiscal 2009, identifying 10 functions then, including defence. Fiscal 2010 and 2011 budgets correctly reduced the functions to nine, since Lagos State is a subnational government, with no defence responsibility. The budget maps expenditures to functional areas through administrative units. However, the administrative mapping is not fully GFS/COFOG compatible because administrative responsibilities still overlap across functional sectors. For example, NYSC⁹⁷ allowances mapped to general public services include expenditures easily identifiable with other sectors. NYSC members serve in various administrative units that should bear their costs. Further, it is not clear what special expenditure⁹⁸ is and whether its expenditure is entirely of a general or specific nature.

In addition, several administrative units control statewide votes, which the classification does not account for in the user agencies, but in the controlling/administering agencies. Examples of administrative units that control statewide votes include the Office of the Chief of Staff (CoS) to the Governor, the Ministry of Economic Planning and Budget, the Ministry of Establishment and Pensions, the Ministry of Information, and the Ministry of Finance (for estacode⁹⁹ and insurance). Thus, for example, the Ministry of Agriculture will have to apply to the Ministry of Information to access the statewide vote for publicity; however, accounting for the expense incurred will be under the Ministry of Information, not Agriculture.

The current 27 digit chart of accounts¹⁰⁰ has only administrative classification, but not economic. The chart is undergoing revision; the reform team has already produced a draft.

Execution and reporting do not follow the same format as the budget. Reporting is along the old lines, which do not have functional elements. Besides, reporting does not group expenditures like the budget. This makes budget tracking difficult since it requires extensive rework.

Reforms Underway

Revision of the chart of accounts is in progress. A draft integrating economic classification is ready.

PI-6: Comprehensiveness of Information Included in Budget Documentation

This indicator assesses how sufficient the documentation received by the Legislature is to allow detailed and informed scrutiny of the budget. Transparency and efficiency in the budget process are promoted when the executive avails the legislature the benefit of the same underlying documents that guided its budget preparation. Consequently, documentation presented to the Legislature should permit a complete picture of relevant fiscal forecasts, budget proposals and out-turns of the previous year. Detailed information on revenues and expenditures are important, but not sufficient to provide a complete picture of underlying factors and assumptions. The indicator lists nine essential documentations, which if the

⁹⁷ National Youth Service Corps

⁹⁸ Mapped to general public services

⁹⁹ i.e., allowances for foreign travels - per diems, hotels, and running expenses

¹⁰⁰ Introduced in 2009

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Legislature should have, would give it a better overall perspective of the fiscal situation than the budget proposals (revenue and expenditure estimates/projections) alone could provide. The number of these items provided to the Legislature along with the budget proposal determines the indicator score.

This indicator is particularly important in those systems where there is no congressional budget office or where the office is not strong enough to carry out independent research and analysis as the US and UK equivalents do. In such societies, complete budget documentation from the executive to the Legislature is vital. Transparency requires that the Executive should grant the Legislature access to the same policy documentation that informed its budget decisions. In Lagos state, as in many Nigerian governments, legislators have the freedom to ask for additional documentation or information, which they believe would give them clearer understanding of issues. However, it is more transparent to provide sufficient advance documentation and in such form, quality, and standard that would reduce the need to ask for additional clarification.

Table 3.6 presents the result: available evidence shows that the SG provides only three of the nine items to the House of Assembly.

Table 3.6 presents the result: four of the nine items are either not relevant in the State, or the State provides them to the House of Assembly.

Rationale for the Score

Key questions

Does the annual budget documentation (annual budget & budget supporting documents), as submitted to the legislature for scrutiny & approval include 9 element

Dimension of Measurement	Current Assessment (2012)				Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement	Information Source		
Share of the above listed information in the budget documentation most recently issued by the central government (in order to count in the assessment, the full specification of the information benchmark must be met)		NR	Not applicable		B	Not comparable; evidence
		<i>No, provided</i>	<i>Macro-economic assumptions, including state level</i>	<i>Medium term budget</i>		

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Table 3.6: Performance on Indicator PI-6

Dimension of Measurement	Current Assessment (2012)				Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement	Information Source		
		<i>in fiscal 2010 only</i>	<i>estimates of economic growth in the SNG jurisdiction, etc.</i>	<i>framework (MTBF)</i>		
		<i>Yes</i>	<i>Fiscal deficits (where relevant)</i>	<i>Draft budget presented to the House</i>		
		<i>Yes</i>	<i>Deficit financing, describing anticipated composition (where relevant)</i>	<i>Draft budget presented to the House</i>		
		<i>NR</i>	<i>Debt stock, including details, at least for the beginning of the current year (where relevant)</i>	<i>The Debt Management Office produces debt reports, but there is no evidence that it is given to the Legislature</i>		
		<i>No</i>	<i>Financial assets, including details, at least for the beginning of the current year</i>	<i>Annual financial reports include information on financial assets, but information not given to House as part of budget documentation</i>		
		<i>NR</i>	<i>Prior year's budget out-turn, presented in the same format as budget proposal</i>	<i>No evidence</i>		
		<i>NR</i>	<i>Current year's budget (either the revised budget or the estimated out-turn), presented in the same format as the current budget</i>	<i>No evidence</i>		
		<i>NR</i>	<i>Summarized budget data for both revenue and expenditure according to main heads of classification, including data for the current and previous year</i>	<i>No evidence</i>		
		<i>NR</i>	<i>Explanation of budget implications</i>	<i>No evidence</i>		

Table 3.6: Performance on Indicator PI-6

Dimension of Measurement	Current Assessment (2012)				Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement	Information Source		
			<i>of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programme</i>			

Reforms underway

No reforms are evident here.

PI-7: Extent of Unreported Government Operations

This indicator assesses the extent to which government reports meant for public consumption, include all budgetary and extra budgetary activities. Extra budgetary operations are *activities of government not included in the annual budget, for example, those funded through extra budgetary funds, or unbudgeted revenue*.¹⁰¹ They refer to legal, lawful, and legitimate payments made or expenditures incurred outside of the usual government process. They include irrevocable standing payment orders (ISPOs) issued by SGs to the Federal Ministry of Finance¹⁰², authorizing it to deduct certain amounts at source from its share of Federation revenues to meet tied payment obligations. Governments deliberately establish extra budgetary funds through parastatals and other agencies to carry out specific functions, sometimes for reasons of efficient and effective service delivery. Examples include state owned institutions of higher learning. Such *extra budgetary funds* exist by special laws or regulations and generally follow different accounting rules, classification systems, or even different fiscal years. However, for comprehensiveness and completeness, published fiscal reports meant for public consumption ought to include all government operations (including extra budgetary revenues and expenditure) to present a consolidated picture of fiscal outcomes.

The indicator examines whether extra budgetary operations of the government are significant and whether the fiscal report includes them. It also examines the extent to which fiscal reporting includes activities provided for in the budget but managed outside government's budget management and accounting system. For example, to what extent do final accounts contain details of parastatal expenditures of subventions? Fiscal reports include annual budget estimates, in-year budget reports, year-end financial statements, etc. Public fiscal reports should allow a complete picture of the SG's revenue and financing across all categories.

¹⁰¹ Thus, extra-budgetary operations typically refer to the activities of parastatals, public enterprises (PEs), and other autonomous government agencies (AGAs), whose expenditures are not usually part of the government budgetary system. It would also include activities of MDAs that collect and spend revenues on their own outside the budget, whether or not government policy supports such spending.

¹⁰² And lately to commercial bank creditors, following reluctance of the federal government to honour any such requests not approved by the state legislature

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The indicator has two dimensions of measurement, namely, the level of unreported extra-budgetary expenditure (other than donor-funded projects) i.e., not included in fiscal reports, and income and expenditure information of donor-funded projects included in fiscal reports.

Table 3.7a summarizes this.

<i>Table 3.7a: Extent of Unreported Government Operations</i>						
Dimensions of Measurement	Current Assessment (2012)				Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement	Information Source		
(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports	There were 69 parastatals (i.e., AGAs) in 2010. Fiscal reports do not include details of their revenues and expenditures, not even as annexes. Measured by the proportion of their overheads, these parastatals represented 20% of total overheads in 2009 and 2010.	D	(i) The level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes more than 10% of total expenditure	Details of fiscal 2009 and 2010 subventions to parastatals from the Lagos website, www.lagosstate.gov.ng ; overhead expenditures from published financial statements (State Treasury Office).	NR	Incomplete evidence made it impossible to form an opinion on the status of this dimension in 2009.
(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports	Financial statements do not include details of income and expenditure on donor funded projects.	D	(ii) Information on donor financed projects included in fiscal reports is seriously deficient and does not even cover all loan financed operations			
Score (Method M1)		D			NR	

Rationale for the Score

Dimension (i) Level of unreported extra budgetary expenditure (other than donor funded projects)

Key questions

Do annual budget estimates, in-year execution reports & year-end financial statements (other fiscal reports are excluded) cover all activities of central government?

If yes, assign a score „A“ to both dims (i) & (ii). If not please address these queries:

1. What are the extra-budgetary activities other than donor-funded projects & in which entities do they take place?
2. Is data on extra-budgetary expenditures (other than donor-funded projects) readily available?
3. In which entities & in what form?
4. Is this data reliable?

In-year budget execution reports and published annual financial statements do not report details of income and expenditures of parastatals (autonomous government agencies). The state had 69 parastatals in fiscal 2009 and 2010 to which it was making overhead subventions.¹⁰³ The budget books show details of budget allocations to these parastatals, but the financial statements do not show actual subventions to them. However, information on actual overhead subventions to the 69 parastatals is available on the state's website. Using the proportion of total overhead expenditure that they consume as guide, these parastatals represent 20 percent of government expenditures. However, budget execution and financial reporting do not show details of their expenditures.

The general arrangement is for revenue collecting agencies to return their revenue collections to Treasury. The mechanism is for the agencies to assess and the clients/payers to pay directly into treasury controlled accounts. However, there are important exceptions with some parastatals including tertiary education institutions and hospitals. The educational institutions use the revenues they generate for part of their running costs, but fiscal reports do not include details of such collections and expenditures. Beginning in 2010, hospitals must send returns of their generated revenues and expenditures from them to the Budget Office and the Treasury, but these returns do not form part of published fiscal reports.

The state also introduced a dedicated revenue and expenditure system in 2010. The system earmarks (dedicates) a proportion of parastatals' internal revenues for certain specific (dedicated) expenditure. Affected parastatals¹⁰⁴ must open special accounts for such dedicated revenues. The 2010 financial statements show 43 dedicated accounts, and their yearend balances, 14 of which were in debit. However, while the financial statements show a block entry of ₦5.24 billion as dedicated revenue in 2010,¹⁰⁵ they neither show the details of the revenues nor expenditures¹⁰⁶ incurred through them.¹⁰⁷

The Ministry of Economic Planning and Budget requires parastatals to make monthly returns of their revenue collections and expenditures (including details of expenditure on subventions. However, these returns are not part of fiscal reports.

Dimension (ii): Income/expenditure information on donor-funded projects included in fiscal reports

¹⁰³ See the state government's website, www.lagosstate.gov.ng for details overhead subvention to parastatals in fiscal 2009, 2010, and 2011

¹⁰⁴ Especially hospitals

¹⁰⁵ ₦3.62 billion in 2009

¹⁰⁶ Block or details

¹⁰⁷ This also raises question on the completeness and correctness of the accounts. Inclusion of an entry on dedicated revenue requires inclusion of balancing expenditure.

Key questions

1. Is income/expenditure data on donor funded projects (loans & grants) readily available (excluding inputs provided in-kind)?
2. Is this data centralized & located in a specific entity of the central government?
3. Is this data reliable?
4. Do fiscal reports include income/ expenditure information on donor financed projects (loans & grants)?
5. If yes, is this information complete or does it only represent % of total loan-financed projects & % of grant-financed projects?

and expenditures of donor funded projects. The records exist in the MDAs,¹⁰⁸ but the Treasury does not coordinate and harness them into fiscal reports. For example, the Public Financial Management Unit (PFMU) of the Treasury handles financial flows on all World Bank and Africa Development Bank financed projects in the state. The unit ensures regular and timely preparation and audit of financial statements, i.e., six months after financial year end. However, the Treasury does not include the information in financial statements. The reason given is that donor funds do not pass through the consolidated Revenue Fund (CRF) and the Treasury only captures CRF transactions. Even then, it is possible to include the information as a note to the accounts.

Reform Underway or Ongoing in the Area

There are no indications of reforms in this area.

PI-8: Transparency of Inter-Governmental Fiscal Relations

PI-8 assesses the clarity of criteria, such as formulae, for horizontal distribution of revenues accruing to local governments by the SG. A clear and publicized set of criteria for distribution of revenues is important for transparency of intergovernmental fiscal relations and of the PFM system. Correct and transparent application of advised formulae also enhances the capacity and ability of LGs to plan resource availability and expenditure commitment in both the short and medium terms. Such planning capacity is acknowledged as currently generally weak in local governments. The indicator therefore also assesses the extent to which the SG help LGs' planning through provision of firm, reliable, and *advance* information on annual allocations. Finally, *PI-8* measures the extent to which the state government tracks expenditure information at all levels of government (i.e., state and local governments) according to sectoral categories. Given the increasing worldwide tendency to require LGs to manage primary service delivery (education and health); this tracking is essential to provide accurate information on sectoral resource allocations and actual spending effort. *Table 3.8* below presents the SG's performance on this indicator.

Explanation of Rationale for the Score

As indicated in *Section 2* above, sources of local government funding in Nigeria are federation allocations from parent state governments, and internally generated funds. Distribution of revenues between and among the three tiers of government is with firmly established statutory vertical and horizontal formulas. Federal and state governments' officials and a representation of local governments gather monthly to ensure integrity of distribution. By constitutional arrangement, due allocations to local governments must pass through their parent state governments, which after adding their contributions to local government funding, pass on the totals to their respective LGs.

¹⁰⁸ At least for multilateral projects

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Table 3.8a: Transparency of Inter-Governmental Fiscal Operations

Dimensions of Measurement	Current Assessment (2012)				Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement	Information Source		
(i) Transparent and rules based systems in the horizontal allocation among local governments of unconditional and conditional transfers from the SG (both budgeted and actual allocations)	Evidence submitted is not current; it relates to fiscal 2009 (this assessment is taking place in 2012)	NR		Local government councils	D	Comparison is not possible since there is insufficient evidence to rate the dimension in 2012,
(ii) Timeliness of reliable information to local governments on their allocations from State Governments for the coming year	The state has discontinued the provision of fiscal projections to local governments. Local governments learn of their allocations only when received from the FG.	D	Reliable estimates on transfers are issued after SN government budgets have been finalized, or earlier issued estimates are not reliable		D	No change in the status quo
(iii) Extent to which financial information (at least on revenue and expenditure) is collected and reported by the SG according to sectoral categories	The state does not produce consolidated fiscal reports in any sector.	D	(iii) Fiscal information that is consistent with central government fiscal reporting is collected and consolidated for less than 60% (by value) of SN government expenditure OR if a higher proportion is covered, consolidation into annual reports takes place with more than 24 months delay, if at all		D	No change in the status quo
Score (Method M1)		NR			NR	

Rationale for the Score

Dimension (i): Transparent and rules based systems in the horizontal allocation among local governments

Key questions

1. Which entities exist that meet the criteria for being SNG (ref SNG Guidelines)?
2. What are the fiscal relationships of CG with these entities and how are these defined (Constitution, specific law or decree; expenditure responsibility & revenue sharing arrangements)?
3. What transfers are made to the first tier of SNG and is the horizontal allocation of these transfers determined entirely or in part by transparent & rules based systems?
4. If in part, what is approximate % of transfers determined by transparent & rules based systems?
5. Can SNGs calculate in advance the amounts they should receive or do receive in accordance with these systems?
6. Is a specific formula used for these transfers? If yes, what criteria are taken into consideration (population, development levels, capacity to raise revenue, others)? N.B. rating depends only on transparency & objectivity

Evidence submitted for assessing this dimension relates to fiscal 2009; it is not certain whether the situation has remained the same in fiscal 2012 when this assessment is taking place. Local governments have two sources of unconditional grants under the Constitution: federal and state (s. 162). What was the situation in Lagos State in 2009?

While there is evidence of regular monthly federal grants to Lagos State's local governments,¹⁰⁹ there is no evidence of any state grants to its local governments. Federal grants to local governments pass through their parent state governments, by constitutional provision. The allocations are in the names of the state's 20 constitutionally recognized local governments councils; however, the state did not pass it on to them as transferred. First, the state made certain first line deductions from the allocations. These were for LWC (?), bank charges, LG staff salary,¹¹⁰ 7.5% pension contribution, LG Housing Board, and refuse and utility. Second, the state uses a horizontal formula to redistribute the balance. The formula is land mass and terrain (10%), internal revenue effort (10%), and social development (10%). The state does not pay over the moneys to the 20 local governments; instead, it redistributes the sums among the 57 local governments and local council development areas that it created.¹¹¹ However, the (re)distribution criteria are not clear; the records did not state them.

Dimension (ii): Timeliness of reliable information to local governments on their allocations

Key questions

1. When exactly during FY are reliable (not preliminary) estimates of central government transfers issued to SN entities? However the CG may answer this question, the reliability of estimated transfers can only be established ex post, by checking the variance with actual transfers. There may never be "reliable" estimates, say, variance < 5%
2. When do SN entities have to start preparing their estimates?
3. Are transfers notified too late in that SN budgets have already been finalized? Or are not finalized but notification is too late to allow changes?

In the distant past, Lagos State Government used to provide its local government with fiscal projections, but it no longer does. Local governments become aware of their fiscal allocations only when they receive their monthly grants from the FG through the state government. Local governments' revenues depend

¹⁰⁹ Evidence of regular monthly federal grants to local governments through 2012

¹¹⁰ Which the state government pays on their behalves

¹¹¹ This is not important for the assessment, i.e., whether or not the distribution is among 20 local government or the 20 plus 37 local council development areas (to make 57) is not important to this assessment. What counts for the assessment is the transparency of the distribution formula.

substantially on these grants for their budgetary needs. The state does not make grants to its local government contrary to provisions of the constitution.

Annually, the federal government publishes a medium term expenditure framework (MTEF) as part of the budget process, after consulting with state governments.¹¹² The MTEF usually contains a medium term fiscal framework (MTFF) showing three or four year's revenue projections.¹¹³ The projections include information on distribution of common revenues, i.e., expected shares of the three tiers of government: federal, state, and local governments. Respective state and local governments can therefore apply the statutory horizontal revenue sharing formula to determine their expected specific shares. However, local governments may not have the capacity to do this.

By constitutional provisions, share of federation revenues accruing to local governments must pass through their parent state governments, but state governments do not always pass them on in entirety. State governments exercise different kinds of controls over local government resources. They first make earmarked¹¹⁴ and (sometimes) non-earmarked deductions for various activities. Sometimes, states do not pass on all the balance to local governments; they may withhold some further proportion in balance or reserve for state governments. States may also devote some to 'joint state-local governments' projects'. Besides, by constitutional provision, state governments should distribute a proportion of their internally generated revenues among their local governments. Therefore, local governments need guidance from state governments on transfer expectations.

Figure 3.8: 2012 – 2015 Federal Government of Nigeria Fiscal Framework, showing Revenue projected revenue allocations to the various tiers of government

¹¹² See s. 11 of the fiscal Responsibility Act, 2007, which provides, among others, that, “The Federal Government after consultation with the states shall ... cause to be prepared and laid before the National Assembly, for their consideration a Medium-Term Expenditure Framework for the next three financial years ...”

¹¹³ The latest MTEF, published in 2011, is for a four period, 2012 - 2015

¹¹⁴ Sometimes referred to as statutory deductions, i.e., in accordance with statutes enacted by the state government

Annex: 2012-2015 Medium Term Fiscal Framework (MTFF)

FISCAL ITEMS	2011 Budget Amendment	2012 Projection	2013 Projection	2014 Projection	2015 Projection
	=N= bns	=N= bns	=N= bns	=N= bns	=N= bns
<u>KEY PARAMETERS, ASSUMPTIONS & INDICATORS</u>					
Average Budget price per barrel (in US\$)	75.00	75.00	75.00	75.00	75.00
Average Exchange Rate (NGN/US\$)	150.00	153.00	153.00	153.00	153.00
Oil Production (mbpd)	2.300	2.480	2.550	2.575	2.600
<u>GROSS FEDERALLY COLLECTIBLE REVENUE</u>					
Total Oil & Gas Revenue	6,815.45	6,896.04	7,006.24	6,953.08	7,272.37
Total Non-Oil	2,151.27	2,741.15	3,300.31	3,998.48	4,329.15
Special Levies for Targeted Expenditure	93.62	164.67	187.07	209.06	211.33
Other Non-Federation Account Items - Education Tax	91.91	103.77	110.77	110.66	110.74
<u>SUMMARY OF FAAC & VAT POOL</u>					
FGN	3,241.36	3,462.84	3,671.78	3,851.18	4,088.97
STATES	1,957.46	2,083.13	2,255.15	2,460.74	2,631.55
LGCs	1,482.89	1,578.66	1,705.75	1,854.67	1,982.15
Total	6,681.71	7,124.63	7,632.68	8,166.59	8,702.67
<u>FGN BUDGET REVENUE (INFLOWS)</u>					
Unspent balance from previous FY	120.00	100.00	100.00	100.00	100.00
FGN BUDGET Share of Federation Account (48.5%)	2,882.08	3,081.63	3,252.49	3,380.32	3,582.89
FGN BUDGET Share of VAT (14%)	103.50	107.90	129.71	167.56	184.14
FGN Independent Revenue	228.93	393.46	480.81	515.89	528.04
Estimated FGN's Balances of Special Accounts end Dec.	13.61	10.18	7.13	7.99	8.79
Total	3,348.12	3,693.17	3,970.14	4,171.77	4,403.86

Dimension (iii): Extent to which financial information (at least on revenue and expenditure) is collected and reported by the SG according to sectoral categories

Key questions

1. Do SN entities forward fiscal information (revenue & expenditure, budget & actual) to central government?
2. What % of SN expenditure is reported to central government?
3. Is SN fiscal data classification consistent with that of central government?
4. Is a consolidation of this information into annual reports carried out &, if so, within how many months of the end of FY?

The state government does not consolidate sector spending information. However, it does not aggregate information for the 16 local governments and it does not add on the state and federal government expenditures. There is therefore no consolidated overview.

Reforms Underway

No reforms are evident in this area.

PI-9: Oversight of Aggregate Fiscal Risks from Other Public Sector Entities

PI-9 recognizes the importance of effective supervision of the fiscal risk potentials of autonomous government agencies (AGAs) and local governments. It measures the extent to which the government keeps track of fiscal risk posed by its parastatals. Unmonitored borrowing and other debt-incurring activities¹¹⁵ of parastatals and LGs (where applicable) could pose serious fiscal risks to federal governments. Although parastatals and local governments often have independent fiscal and borrowing, they still portend potential fiscal hazards for which the FG, as the parent government, may bear ultimate responsibility. For example, the Brazilian debt crisis of the 1980s and the Argentine version of the 1990s resulted from the “excessively risky” borrowing activities of some of their SNGs (not the FGs), which were acting without effective supervision. The importance of this indicator is to maintain “vigilant and timely watch” to ensure that a similar dangerous situation does not arise, or to at least, to signpost early warning signals once such risks appear on the horizon.

The indicator underlines the responsibility of the SG to require and obtain quarterly financial and other statements from its autonomous (government) agencies (AGAs) and public enterprises (PEs) for use in monitoring their performance against previously set financial/fiscal targets. In addition, it requires the consolidation and reporting of information on the performance of AGAs and PEs to provide an aggregate and combined picture of fiscal risks for the State Government. Such monitoring will enable the SG take necessary proactive measures on potentially risky activities of its parastatals and LGs in a transparent and accountable manner, and in a manner consistent with governance arrangements and relative responsibilities of those institutions.

Most likely, parent ministries will have oversight responsibilities over their AGAs and PEs, and may require them to provide regular periodic and routine reports on their activities. The reports may or may not include fiscal components. Such reporting, as important and necessary as it is, does not meet the requirements of this indicator since it does not provide a global and comprehensive picture. Consolidation is required to provide proper overview of the fiscal risk.

Table 3.9 presents the performance of the State’s PFM system on the two dimensions of this indicator.

<i>Table 3.7a: Extent of Unreported Government Operations</i>						
Dimensions of Measurement	Current Assessment (2012)				Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement	Information Source		
(i) Extent of central government monitoring of AGAs and PEs	Many parastatals do not submit their accounts thereby undermining	D ¹¹⁶	(i) No annual monitoring of AGAs and PEs takes place, or it is significantly	The auditor general’s office/audit report 2010	C	In 2009, most parastatals were up to date with their accounts and

¹¹⁵ Such as contractor debts, salary arrears, etc.

¹¹⁶ The state government had rated this dimension as ‘C’ during the assessment workshop on the ground that only few parastatals have outstanding accounts, and that the auditor general carries out periodic visits on them. However, there is no documentary evidence on the number of parastatals with complete audited accounts.

	accountability		incomplete			audit
((ii) Extent of central government monitoring of SN governments' fiscal position	All 20 (57) local governments have audited their accounts up to date; however, a consolidated overview of their fiscal positions is lacking.	C	(ii) The net fiscal position is monitored at least annually for the most important level of SN government, but a consolidated overview is missing or significantly incomplete	Auditor general for local governments – audited reports of local governments for 2010	C	No change in status quo
Score (Method M1)		D+				

Rationale for the Score

Dimension (i): Extent of the SG's monitoring of AGAs and PEs

Key questions

1. What are major AGAs & PEs?
2. Do current legislation & regulations oblige AGAs & PEs to forward in-year financial statements & yearend financial statements to the central government? And do they do so?
3. Do current legislation & regulations require central government to monitor fiscal risk of AGAs, PEs, & SN entities on a regular basis (at least annually)? And does it do so?
4. Can SN governments borrow without prior approval of the central government? Does „borrowing“ include short-term overdrafts and supplier credit?
5. Does central government monitor AGAs & PEs?
6. If yes, is monitoring carried out through (semi-annual or annual) fiscal reports & annual audited accounts submitted by AGAs & PEs?
7. Are fiscal risk issues of AGAs & PEs consolidated annually into a report by the central government?

Monitoring of fiscal risk of parastatals is incomplete because many AGAs and PEs delay submission of annual reports. The 2010 audit report states as follows, “*many parastatals are guilty of submitting their audited reports at least one year in arrears. This does not enhance the concept of accountability. Some parastatals have even failed to submit their audited reports for many years.*”¹¹⁷ The exact number of AGAs and PEs and their extent of reporting are not clear; audit report do not include a list of parastatals, showing the regularity of their reporting. However, the state's website lists 69 subvented parastatals (AGAs); excluding public enterprises, i.e., those run on commercial lines and therefore do not receive grants from government. There is thus no basis to sustain the “C” rating of state at the assessment workshop. The state had argued that “most parastatals are up to date with their audited financial statements and the audit pays periodic visits to the few that don't have”.

Dimension (ii): Extent of the SGs' monitoring of LGs' fiscal position

¹¹⁷ See 2010 audit report, p. 133

Key questions

1. Are SN entities legally entitled to borrow with or without CG approval? Does this cover short-term overdrafts and supplier credit?
2. Does central government monitor SN entities' fiscal position at least annually?
3. Does government elaborate a consolidated overview (in form of an annual report) on the fiscal position of SN entities?

Audit of the accounts of the 20 local governments and the 37 local council development areas is complete up to fiscal 2010, but there is no consolidated overview of the fiscal position. A state appointed auditor general for local governments carries out annual audit of local governments' accounts.¹¹⁸

Reforms Underway

PI-10: Public Access to Key Fiscal Information

This is the last of the six indicators that measure crosscutting issues of the PFM system. It assesses transparency of the PFM system by examining the extent to which members of the public or, at least, key interest groups have access to information on fiscal plans, positions, and performance of government. It lists seven items to which the public ought to have routine access and awards a score based on the number positively identified as accessible to the public.

The definition of public accessibility is relative and depends on particular circumstances and the environment. In the past, publication of information in the Official Gazette used to be a sufficient means of releasing information to the public. Then, the Government widely circulated the Gazette to offices, libraries, and other similar places. The interested public could also readily purchase the Gazette at a reasonable price. Gradually, Nigerian SGs ceased regular publication and circulation of the Gazette. Some SGs now use their official websites to disseminate as much information as possible. Although, this has limited accessibility especially in rural areas, a growing population of citizens, including academics, students, and teachers are visiting and accessing information from the web. If it is official government policy to promote this source of information dissemination, the government should properly advertise the site widely each time it posts new information on it and encourage members of the public to visit it.

Some jurisdictions combine the use of websites with some other forms of dissemination suited to the environment. These include (i) sending free copies of publications (including gazettes) to public libraries and relevant CSOs, (ii) making copies available for public purchase at minimal cost and advertise the fact through suitable local media, (iii) putting vital fiscal data, especially the budget on CDs and disseminating same either freely or at easily affordable prices, (iv) holding local assemblies in appropriate cases, (v) publishing specialized journals (e.g., procurement journal), and (vi) disclosing facts specifically to beneficiaries (e.g., in cases of contract awards).

Table 3.10 lists these items and Lagos state's score.¹¹⁹

¹¹⁸ See Report of the Auditor General for Local Governments in the Accounts of 20 Local Governments and 37 Local Council Development Areas for the Year ended 31st December 2010, Vol. 11

¹¹⁹ As already indicated, the Framework applied here, as in all the assessment, is the exposure draft on assessment of SNGs. Under, this, there are seven items for consideration, rather than six in the case of central government t assessment.

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Key questions

For each of the information items made public:

- What was the delay from its production until it was actually accessible by the public?
- By which means was it being publicized?

Dimension of Measurement	Current Assessment (2012)				Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement	Information Source		
Number of the above listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met)		C	(i) the government makes available to the public 3-4 of the 6 listed types of information		C	No change in status quo
	Draft budget documents not published, but approved budget published a few months after legislative approval	<i>Not met</i>	<i>Annual budget documentation when submitted to legislature</i>			
	Budget review reporting done quarterly; Commissioner for Economic Planning & Budget makes a public announcement after cabinet approval; information posted on website thereafter	<i>Met</i>	<i>In-year budget execution reports within one month of their completion</i>	<i>Government website, www.lagosstate.gov.ng</i>		
	<i>Contrary to claims, financials statement on website at time of assessment was for fiscal 2008</i>	<i>Not met</i>	<i>Year-end financial statements within 6 months of completed audit</i>			
	Audit reports not systematically available to the public.	<i>Not met</i>	<i>Availability of external audit reports to the public</i>			

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Table 3.10: Public Access to Key Fiscal Information

Dimension of Measurement	Current Assessment (2012)				Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement	Information Source		
	Information on tender awards not published systematically; website www.stb.lagosstate.gov.ng shows fiscal 2009 awards without their costs	Not met	Contract awards with value above US\$ 100,000 approx. are published at least quarterly			
	Information on resources received by primary service providers not available	Not met	Availability to public of information on resources for primary service units			
	User charges posted on notice boards at point of service delivery	Met	Service delivery charges	Information posted at service points		

Reforms Underway

3.3 Policy Based Budgeting (PI-11 – PI-12)

This set of two indicators deal with the existence of clear and published policies and sectoral strategies and the extent to which they underpin the budget. Due regard for policy in budgeting is essential for a disciplined pursuit of the three outcomes of a good PFM system: aggregate fiscal discipline, strategic prioritization, and efficient delivery of services delivery. The two indicators in this set are orderliness and participation in the annual budget process and multi-year perspective in fiscal planning, expenditure policy, and budgeting.

PI-11: Orderliness and Participation in Annual Budget Process

Indicator *PI-11* assesses whether there is full, effective, and orderly participation in the annual budget process. Full and effective participation requires an integrated top-down and bottom-up budget process involving all relevant parties. Budget preparation must be orderly, timely, and in accordance with a predetermined and fixed budget formulation calendar. The budget calendar should allow MDAs prepare meaningfully detailed budget proposals and pass the budget before the start of the fiscal year. Delay in approving the budget undermines the process by creating uncertainties about levels of approved expenditures and thus slows down operations, especially processing of major contracts.

The indicator also requires that MDAs should receive appropriate guidance at the commencement of the budget process. This guidance should take the form of hard budget constraints such as government's binding spending priority choices and preferences for the medium term and approved sectoral spending ceilings. To avoid often inevitable but disruptive last minute changes to budget proposals, the political leadership should approve aggregate sectoral or functional allocations at an early stage of the budget preparation process. This should be by either approving the budget call circular prior to its issue or by a

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process culminating in the approval of a budget outlook or fiscal strategy paper, that includes budget constraints and sectoral ceilings.

Table 3.11 shows the three dimensions under the indicator and the State PFM's performance under each.

Dimensions of Measurement	Current Assessment (2012)			Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment	
	Evidence Used	Score	Framework Requirement			Information Source
Existence and adherence to a fixed budget calendar	The MEPB issues budget calendars, but adherence is poor; the calendar allows only about two weeks for MDAs to submit proposals	D	A budget calendar is not prepared OR it is generally not adhered to OR the time allowed for MDAs' budget preparation is clearly insufficient to make meaningful submissions	Ministry of Economic Planning and Budget	B	
Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions	The MEPB issues the budget circular with expenditure ceilings after the state executive council (cabinet) has approved the it	A	A comprehensive and clear budget circular is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent) prior to the circular's distribution to MDAs		D	
Timely budget approval by the State House of Assembly (within the last three years)	The Legislature approved fiscal 2012, 2011, and 2010 budgets on Dec. 30, 2011, January 31, 20011, and March 1, 2010 respectively.	C	The legislature has, in two of the last three years, approved the budget within two months of the start of the fiscal year	Lagos State House of Assembly records - Hansard	C	No change in the status quo
Score (Method M1)		C+			C	

*Rationale for the Score*Dimension (i): Existence and adherence to a fixed budget calendar

Key questions

1. Is a budget calendar prepared and adhered to?
2. Is the budget calendar clear?
3. How many weeks does the budget calendar allow to ministries, department and agencies (MDAs) to complete their detailed estimates?

Evidence shows lapses in adhering to the budget calendar and insufficient time allowed MDAs to prepare their budget proposals. The Ministry of Economic Planning and Budget issued budget calendars for the Y2012 and 2013 budget cycles.¹²⁰ The budget calendar is comprehensive, covering every aspect of the budget preparation process (see sample of Y2013 budget calendar below)¹²¹. However, the budget cycle missed several dates in the Y2012 calendar. For example, the calendar date for issuing Y2012 budget call circular was July 25, 2011; however, the actual issue date was 10 August 2011.¹²² Similarly, the calendar date for presenting the draft budget to the House of Assembly was 18 October, 2011, but the actual presentation date was November 14.¹²³ Further, both the calendar and the budget call circular allow MDAs an average of two weeks from the date of the circular to prepare and submit their proposals. For example, Y2012 call circular dated August 10, 2011 required MDAs to submit by August 21, 2011 (three weeks). Similarly, Y2011 circular dated August 16, 2010 required MDAs to submit by August 27 (11 days).¹²⁴

**Table 3.11a: Ministry of Economic Planning & Budget
Y2013 Budget Calendar**

S/No	Subject	Activities	Date Y2012/13	Action By	Remarks
1.	Commencement of Y2013 Budget Preparation	(a) Meeting with major revenue generating agencies on fiscal strategy 2013 – 2015	22 Mar	MEPB/revenue stakeholders	
		(b) Preparation and adoption of fiscal & sector strategy for 2013 – 2015	26 – 28 Mar	MEPB	
		(c) Presentation of Y2013 – 2015 MTBF to EXCO	16 Apr	H.C. (MEPB)	
		(d) Sectoral disaggregation of indicative envelopes	18 – 20 Apr	MDAs	
		(e) Budget retreat for MDAs	18 – 21 Jun	MEPB/MDAs	

¹²⁰ For example, the Ministry issued fiscal 2012 budget calendar on February 28, 2011 (see Circular No. MEPB/B/2011/3) and the fiscal 2013 calendar on February 16, 2012 (Circular No MEPB/B/2012/3)

¹²¹ Chosen because it is more comprehensive than the 2012 calendar; it appears the calendar approach is still evolving.

¹²² See Circular No. MEPB/B/2010/07 with Ref No. Ref. No. MEPB/B.2010/S.20A/797/052, titled, *Year 2012 Budget Call Circular* and dated 10 August 2011.

¹²³ See House of Assembly records ...

¹²⁴ Circular No. Circular No. MEPB/B/2010/07 with Ref. No. MEPB/B.2010/S.20A/797/052, titled, *Year 2011 Budget Call Circular*, dd. 16 August 2010

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Table 3.11a: Ministry of Economic Planning & Budget Y2013 Budget Calendar					
S/No	Subject	Activities	Date Y2012/13	Action By	Remarks
		(f) Uploading to the oracle	25 – 29 Jun	MDAs	
2.	Y2012 Budget Monitoring & appraisal	(a) 1 st Quarter Y2012 budget performance appraisal	11 Apr	H.C. (MEPB)	
		(b) 2 nd Quarter/midyear review of Y2012 budget performance	11 Jul		
		(c) 3 rd Quarter Y2012 budget performance appraisal	11 Oct		
3.	Preparation of Y2013 budget estimates	(a) Issuance of budget call circular	16 Jul	P.S MEPB	
		(b) Budget Consultative Forum	18 Jul	MEPB	
		(c) Submission of budget proposals	3 rd Aug	MEPB/MDAs	
		(d) Evaluation of proposals	6 – 17 Aug	Budget	
		(e) Bilateral budget discussions	21 Aug – 7 Sep	MEPB/MDAs	
4.	Y2013 Draft Budget	(a) Submission of Y2013 draft budget to His Excellency	18 Sep	HC (MEPB)	
		(b) Presentation of Y2013 draft budget to the State Treasury Board (STB)	20 Sep		
		(c) Presentation of Y2013 draft budget to the State Executive Council	24 Sep		
		(d) EXCO/Legislative parley	27 & 28 Sep		
5	Legislative Processes	(a) Presentation of Y2013 draft budget estimates to the House of Assembly	2 Oct	HE	To be agreed with LSHA
		(b) Consideration of budget proposals by LSHA	Oct - Dec	LSHA	
		(c) Passing of Y2013 Appropriation Bill			
6.	Appropriation Law	(a) Printing of Appropriation Law	20 Dec	LHSA	
		(b) Assent of Y2013 Budget by Governor	21 Dec	H.E.	
		(c) Uploading of approved budget unto Oracle	28 Dec	MDAs	
7	Commencement of Y2013 Budget	(a) Y2013 budget analysis	28 Dec	HC (MEPB)	
		(b) Issuance of general and development warrant	3 Jan	HC (Finance)	
		(c) Issuance of budgetary operation guidelines	4 Jan	PS (MEPB)	
8.	Conclusion of Y2012 Budget	Y2012 budget performance appraisal for the 4 th quarter/full year	18 Jan	Budget	

Dimension (ii): Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions

Key questions

1. Is a budget circular issued to MDAs?
2. Is the budget circular clear?
3. Does the budget circular include ceilings pre-approved by Cabinet?
4. If not, are Cabinet-approved ceilings notified in time for MDAs to amend their budget estimates?
5. Can the Cabinet still make adjustments to budget estimates before they are submitted to Parliament?

Cabinet gets involved in the budget process early enough by approving the medium term fiscal framework (MTFF) and the medium term budget framework (MTBF), including sectoral budget envelopes, prior to the issuing of budget guidance to MDAs. Besides, the cabinet¹²⁵ discusses and amends the draft master budget presented by the MEPB after bilateral budget discussions. The cabinet can do this directly or through its subcommittee, the State Treasury Board (STB).¹²⁶ Budget preparation follows this process¹²⁷

Box 3.11: Summary of Lagos Budget Preparation Process

1. The Ministry of Economic Planning and Budget (MEPB)
 - a. Meets with revenue generating agencies to agree revenue targets for the budget year
 - b. Meets with the Debt Management Office on financing options and their budgetary implications
 - c. Drafts and presents the medium-term fiscal framework (MTFF) to the state executive council (cabinet)
2. Upon cabinet approval, the MEPB prepares and publishes the medium-term budget framework, (MTBF), which contains indicative envelopes (expenditure ceilings) for sectors and MDAs. The ceiling is comprehensive, covering revenue, as well as personal, overhead, and capital expenditures.
Note: the Ministry of Establishment, Training, and Pensions issues personnel expenditure ceilings to MDAs, copying the MEPB following bilateral meetings with MDAs to discuss their establishments, promotions, entrants, and retirements
3. MDAs submit budget proposals and defend the same with the MEPB
4. State Treasury Board (STB) and State Executive Council (SEC) discuss and amend draft budget
5. SEC presents draft budget to House of Assembly for approval
6. House scrutinizes and approves
7. Governor accents to Appropriation Bill and implementation commences

Budget preparation guidelines are in the budget call circular issued to MDAs by the Ministry of Economic Planning & Budget (MEPB). The circular is clear and comprehensive. For instance, the 2012 circular examined policies in at least 20 areas, including (i) the MTEF, MTFF, and MTBF, (ii) Y2012 budget strategy, (iii) internally generated revenue, including dedicated accounts, (iv) personnel, overhead and capital expenditures, (v) management of liabilities, loans and grants, (vi) public –private partnerships (PPP), and (vii) parastatals and tertiary institutions. The circular also includes ceilings for the functional sectors, as well planning and contingency reserves.

Dimension (iii): Timely budget approval by the State House of Assembly (within the last three years)

¹²⁵ State executive council (SEC)

¹²⁶ See the budget preparation process in *Box 3.11*

¹²⁷ See also the sample budget calendar above.

Key questions

1. During the last three fiscal years, was the budget approved before the start of the fiscal year?
2. If not, when was the budget approved each year (how many months into the year)?

The legislature did not approve the budget before commencement of the year in the last three fiscal years. Approval dates for fiscal 2012 and 2011 budgets were within two months of the start of the year (*Table 3.11c*)

	Date of Presentation	Date of Approval	Time Taken to Pass Budget
2012	14-Nov-11	3-Jan-12	6 weeks
2011	14-Dec-10	31-Jan-11	6 weeks
2010	3-Nov-09	1-Mar-10	17 weeks
2009	17-Nov-08	5-Jan-09	2 weeks
2008	17-Dec-07	28-Jan-08	6 weeks

Sources: Published Budget Books and Budget Speeches of the LASG

*Reforms Underway***PI-12: Multi-year Perspective in Fiscal Planning, Expenditure Policy and Budgeting**

This indicator assesses the extent to which fiscal planning and expenditure decisions reflect the multi-year nature of economic development. Economic development and poverty reduction are not *ad hoc* annual phenomena arising from a single year event, i.e., one-year policy failure. Economic development or its lack is the cumulative effect of many years of policy formulation and implementation outcomes. Expenditure policy decisions aimed at progressive economic development or reversal of the effects of past policy failures ought to have similar multiyear scope. Therefore, expenditure policy decisions should align with resource availability in the medium term. Consequently, it is important to anchor changes in economic policy on multi-year fiscal forecasts of revenue, mandatory or committed expenditure aggregates, and potential deficit financing.

The indicator assesses the extent to which the SG recognizes this and adopts a multiyear approach to fiscal planning. It examines the existence of fully costed sector strategy documents and estimates of forward expenditure of both recurrent and capital spending. Costed strategies or development plans help to evaluate alternatives and options and to determine the affordability of current and new policies. They also form the basis for making policy choices and identification of priorities, and for establishing indicative medium term sector allocations. To complete the cycle, there should be a clear link between the following three processes

- (i) The explicit costing of forward estimates of new policy initiatives in the strategy or development plans
- (ii) Transparent selection criteria for investments (capital spending) clearly linked to the costed strategy
- (iii) Integration of the strategy into the annual budget process by incorporating the new initiatives

Table 3.12 shows the performance of Lagos state on the four dimensions of measurement under this indicator.

Dimensions of	Current Assessment (2012)	Score in	Explanation
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Lagos State PEFA PFM-PR 2012

Measurement	Evidence Used	Score	Framework Requirement	Information Source	2009 Baseline Assessment	of Change since Baseline Assessment
Score (Method M2)		D			D	
Preparation of multi-year forecasts and functional allocations or programs	Government prepares 3-year rolling medium fiscal aggregates for the nine functional sectors; but there is a wide gap in practice between budgetary provisions and expenditure ceilings	C	Forecasts of fiscal aggregates (on the basis of the main categories of economic classification) are prepared for at least two years on a rolling annual basis	Ministry of Economic Planning and Budget, Medium Term Budget Frameworks, 2011 – 2012 and 2012 - 2014	D	Government now prepares fiscal medium term forecast, which was not the case in 2009
Scope and frequency of debt sustainability analysis (DSA)	The state has not done any debt sustainability analysis in the last three years, notwithstanding documents titled as such published by the Debt Management Office	D	No DSA has been undertaken in the last three years	Debt Management Office	D	
Existence of sector strategies with multi-year costing of recurrent and investment expenditures	Strategies based on administrative lines exist. MDAs have not costed their strategies and do not link them to the budget.	D	Sector strategies may have been prepared for some sectors, but none of them have substantially complete costing of investments and recurrent expenditure	Ministry of Economic Planning and Budget	D	No change in the status quo
Linkages between investment budgets and forward expenditure estimates	The state does not systematically link capital and recurrent budgeting; they remain separate activities.	D	Budgeting for investment and recurrent expenditure are separate processes with no recurrent cost estimates being shared		D	

Rationale for Score

Dimension (i): Preparation of multi-year forecasts and functional allocations or programs

Key questions

1. Are forward estimates of fiscal aggregates undertaken in practice and for what duration (two-year, three-year)?
2. If yes, are they on a rolling annual basis?
3. How are they classified (economic, functional/sector)?
4. Are there any links between multi-year estimates and subsequent setting of annual budget ceilings?
5. If yes, are these links clear and are differences explained?

The Ministry of Economic Planning and Budget has been preparing fiscal aggregates on a rolling basis since 2010, linking them to the budget through the budget call circular; however, analysis of actual budgetary provisions and actual expenditures show significant differences. The fiscal forecasts are on an annual rolling basis and they comprise a medium term fiscal framework (MTFF) and a medium term budget framework (MTBF). The fiscal framework includes three macro-economic and revenue forecasts, while the budget framework shows the medium term sectoral expenditure allocations (ceilings). However, it appears that mainstreaming the ceilings into the budget is still evolving as the analysis in Table 3.12 shows.

First, the budget call circular did not convey the ceilings in the MTBF in fiscal 2010, but did so subsequently in 2011 and 2012. Second, the MTBF and budgetary ceilings are not the same for 2011 and the call circular does not explain the difference. Fiscal ceilings in the 2012 call circular agree with those in the MTBF. Third, there is a wide disparity between the MTBF ceilings and budgetary provisions in fiscal 2010 and 2011. For example, MTBF ceiling for the general public services sector was 27.5 percent in 2010, but actual budgetary provision was nearly 46 percent and actual expenditure 43 percent. Similarly, general public services envelope was 25 percent in the MTBF, 22.1 percent in the call circular, but more than 35 percent in actual budgetary provision. This signifies a gap between policy intention and practice. These facts do not support the “A” rating that the state awarded itself.

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Table 3.12b: Comparison of Sectoral Budget Allocations in Various Fiscal documents , %				
	MTBF 2012 - 2014	Budget Call Circular	Budget Provision	Actual Expenditure
Fiscal 2010				
1 General Pub Serv	27.45%	Not indicated in Budget Call circular	45.51%	42.86%
2 Public Order & Safety	2.95%		2.45%	2.11%
3 Economic Affairs	31.55%		14.02%	15.02%
4 Environmental Protection	6.45%		2.92%	3.99%
5 Housing & Com Amenities	8.98%		3.06%	2.93%
6 Health	6.36%		4.64%	5.74%
7 Reaction, Culture, & Religion	2.12%		1.78%	2.48%
8 Education	13.50%		7.70%	9.40%
9 Social Protectionj	0.64%		0.63%	0.59%
10 Planning Reserve	-			
11 Not Identified Elsewhere	-			17.27%
Total	100.00%		100.00%	100.00%
Fiscal 2011				
1 General Pub Serv	25.00	22.10	35.19%	Not yet available
2 Public Order & Safety	3.20	3.00	2.93%	
3 Economic Affairs	31.50	35.00	24.49%	
4 Environmental Protection	8.20	7.10	6.05%	
5 Housing & Com Amenities	5.90	6.00	2.45%	
6 Health	8.80	7.40	7.27%	
7 Reaction, Culture, & Religion	1.50	1.37	1.44%	
8 Education	14.40	13.60	11.21%	
9 Social Protection	1.40	1.44	1.29%	
10 Planning Reserve	-	3.00		
11 Not Identified Elsewhere	-	-	7.68%	
Total	99.90	100.01	100.00%	
Fiscal 2012				
1 General Pub Serv	24.17%	24.17%		Not yet available
2 Public Order & Safety	3.25%	3.25%		
3 Economic Affairs	31%	31%		
4 Environmental Protection	8.10%	8.10%		
5 Housing & Com Amenities	5%	5%		
6 Health	8.79%	8.79%		
7 Reaction, Culture, & Religion	1.36%	1.36%		
8 Education	13.43%	13.43%		
9 Social Protectionj	0.90%	0.90%		
10 Planning Reserve	2%	2%		
11 Contingency Reserve	2%	2%		
Total	100.00%	100.00%		

Sources of Data: MTBEFs, Budget CAirculars, Budget Books, and Audited Financial Statements

Dimension (ii): Scope and frequency of debt sustainability analysis (DSA)

Key questions

1. During the last three years, how often has Debt Sustainability Analysis (DSA) been undertaken for external and domestic debt or for external debt only?
2. Dates?

Lagos State government has not prepared a debt sustainability analysis in the last three years, notwithstanding documents titled as such published by the DMO. The document titled, Debt Sustainability Analysis 2007 – 2011 tabulates different sources of domestic and external debts, shows proposed borrowings, sources of revenue, and the gross domestic product for various years. Then, it calculates simple indices, for example, debt/revenue and debt service/revenue. There is sophisticated modeling of scenarios and projections, no analysis of the economic environment, etc. There is also no medium term debt strategy.

Lagos State does not need annual DSAs given the size of its investments, operations, and the public debt. However, professional capacity within the DMO to do this may be short. This is one of the issues the DMO Board may have to pay urgent attention to when inaugurated.

Dimension (iii): Existence of sector strategies with multi-year costing of recurrent and investment expenditures

Key questions

1. For the last completed budget, have sector strategies been prepared for some or more sectors?
2. Have these been costed (for investments and recurrent expenditure)?
3. If yes, what percentage of total primary expenditure do the costed sectors represent?
4. Are the costs consistent with fiscal forecasts?

The state has prepared medium term strategies based on administrative ministries, rather than sectors, except for the generic sectors of education, health, and environment, but the strategies do not have completed costing¹²⁸. Moreover, MDAs have not started mainstreaming their strategies into the budget systematically. The health sector strategy has some costing, but the state does not incorporate it into the budget because the cost is higher than the sector's ceilings. The health sector strategy is part of the national strategy on health into which all states keyed. There is no real ownership by states at the highest political level. This is the reason for the failure of state governments¹²⁹ to fund their health sector budgets.

Dimension (iv): Linkages between investment budgets and forward expenditure estimates

Key questions

1. For the last completed budget, are budgeting for investment and budgeting for recurrent expenditure two separate processes (with no recurrent cost estimates being shared)?
2. How significant is the link between investment decisions, sector strategies and their recurrent cost implications?

There is no systematic link between capital and recurrent budgeting, despite recent efforts. The two remain separate activities. Lagos state uses the dual budgeting approach as all of public sector Nigeria does. There is no obvious link between the capital and current budgets. The government is evolving a strategy to ensure proper staffing of all new projects. Agencies involved dialogue with the Ministry of Establishment and Pensions to plan for their staffing needs prior to commencement of the new projects. Even then, there is no proper link between investment and recurrent costs.

Reforms Underway

The state is currently working to prepare medium term sector strategies and to cost them.

3.4 Predictability and Control in Budget Execution (PI-13 – PI-21)

Planning alone is not sufficient to deliver expected results, notwithstanding how principled and policy-based the planning process may be. To realize anticipated budgetary outcomes of fiscal discipline, strategic allocation of resources, and efficient and effective service delivery, rigorous implementation must support policy based planning and budgeting. This next set of nine indicators, *PI-13 – PI-21*, deal with budget implementation, examining whether implementation is in an orderly and predictable manner, and what arrangements there are for exercising control and stewardship over the use of public funds.

¹²⁸ With the possible exception of the health sector

¹²⁹ Not only Lagos

PI-13: Transparency of Taxpayer Obligation and Liabilities¹³⁰

This indicator evaluates the degree of openness of the tax administration system, i.e., the extent to which the system effectively determines and communicates taxpayer responsibilities. An open and transparent tax system in which taxpayer obligations and liabilities are clear would better secure taxpayer compliance than a closed system in which tax obligations are not clear enough. A transparent tax system has a number of characteristics, clarity of tax legislation, access to information on tax liability, and ability to contest administrative rulings on tax liability, etc. Clear and comprehensive tax legislation limits discretionary powers of tax assessment institutions and officials, and narrows the room for individual negotiation of tax liability and unnecessary exemptions. A good tax education system facilitates taxpayer compliance with registration, declaration, and payment procedures, as does the opportunity to contest administrative rulings in a fair and cost effective manner.

Table 3.13 presents the rating of the performance of Lagos state on each of the three dimensions of this indicator, and the overall score.

Dimensions of Measurement	Current Assessment (2012)				Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement	Information Source		
Score (Method M2)		B+			C	
Clarity and comprehensiveness of tax liabilities	Tax laws and procedures are clear and comprehensive, affording only limited discretion.	A	Legislation and procedures for all major taxes are comprehensive and clear, with strictly limited discretionary powers of the government entities involved	Lagos Internal Revenue Service	C	The 2011 amendment of the PIT Act clarified ambiguities including in the definition of 'residence' for tax purposes; LIRS has further clarified tax procedures
Taxpayers' access to information on tax liabilities and administrative procedures	Tax payers have easy access to information; the LIRS uses multiple media reach taxpayers: leaflets, the web, TV in English	A	Taxpayers have easy access to comprehensive, user friendly and up-to-date information tax liabilities and administrative		B	There is an intensification of tax education with addition of several syndicated TV programmes

¹³⁰ PI-13 – 15 apply to subnational governments only to the extent that they have capacity to raise revenue through taxes and not only user charges. The indicators also do not apply to cases of revenue sharing where the government collects taxes on behalf of SNGs. Although the bulk of SNG revenues are of the form of unconditional transfers from centrally collected revenues, SGs still have responsibility for administering, collecting, and using personal taxes, both income and capital, and for legislating on and administering property taxes, for their residents. These three indicators apply to Kano State in respect of these taxes.

Dimensions of Measurement	Current Assessment (2012)				Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement	Information Source		
Score (Method M2)		B+			C	
	and three local languages, etc.		procedures for all major taxes, and the RA supplements this with active taxpayer education campaigns			
Existence and functioning of a tax appeals mechanism	The current tax appeal system is underdeveloped, lacking independence and transparency, and being under routine political and bureaucratic supervision.	C	A tax appeals system of administrative procedures has been established, but needs substantial redesign to be fair, transparent and effective	Lagos State Internal Revenue Service/Office of the Special Adviser to the governor on Revenue	D	An appeals process now exists, but it lacks independence

Rationale for the Score

Dimension (i): Clarity and comprehensiveness of tax liabilities

Key questions

1. What are legislation & procedures referring to main taxes & custom duties?
2. Are legislation & procedures comprehensive & clear for all areas of taxation or just for some areas?
3. Does the existing legislation include elements of administrative discretion in assessment of tax liabilities or penalties?
4. If yes, are these elements significant, fairly or strictly limited?

Tax laws and procedures are clear and comprehensive, affording only limited discretion. Lagos State government collects at least 13 taxes (see *Box 3.13a*). The collection authority is the Lagos Internal Revenue Service (LIRS). The most important of these taxes are personal income tax (PIT), capital gains tax (CGT), and registration of business premises. State governments have administrative jurisdiction over these federally legislated taxes. The Joint Tax Board (JTB)¹³¹ recommends administrative procedures and regulations on PIT and these common taxes. Legislative provisions on these major taxes are both clear and comprehensive, with clear clauses on liability, penalties, administration, and appeals process. Tax laws restrict of discretionary powers to two authorities. The governor can forgive taxes, while the tax authority can forgive interest and penalty. There is also some level of discretion in best of judgment (BOJ) assessments, applied when the taxpayer is not forthcoming with information on his/her income. In

¹³¹ See *Box 3.11b*

practice, however, Lagos State does not forgive taxes outright, but it does forgive interest and penalties in cases of education or health. These cases are not significant.

Box 3.13a: Taxes and Levies Collected by the Lagos State Inland Revenue Service (LIRS)

Below is a list of taxes and levies collected by the Lagos Internal Revenue Service

- (i) Personal Income Tax
- (ii) Withholding Tax (Individuals Only)
- (iii) Capital Gains Tax (Individuals Only)
- (iv) Stamp Duties on instruments executed by individuals.
- (v) Pools betting and Lotteries
- (vi) Gaming and Casino Tax
- (vii) Road Tax
- (viii) Business Premises registration fee
- (ix) Development Levy (Individuals Only)
- (x) Name of Streets registration fees in the state capital
- (xi) Rights of Occupancy fees on land owned by the State Government
- (xii) Market Taxes and Levies where state is financed is involved
- (xiii) Hotel Occupancy and Restaurant Consumption Law - Hotel Occupancy and Restaurant Consumption Law is a law enacted by the Lagos State House of Assembly, which imposes tax on goods and services consumed in hotels, facility or event centers within the territory of Lagos State.

Source: <http://www.lirs.net/tax-systems.html>

Dimension (ii): Taxpayers' access to information

Key questions

1. What means are currently used to allow taxpayers access to information on tax liabilities & administrative procedures (website, brochures, regular radio or TV programs, specialized seminars, hotline, etc.) & which taxes are covered?
2. In addition to the above, are there tax education campaigns? In the main taxpayer languages?
3. Are these campaigns limited to taxpayers in the capital or main cities?
4. Is there a special information desk in main tax offices nationwide?

Lagos taxpayers have easy access to information on their liabilities and administrative procedures. The tax authority uses at least five media to inform taxpayers: (i) freely distributed leaflets and booklets, (ii) web based messages and guide, (iii) TV programmes, syndicated drama campaigns, and compact discs. The messages have different themes including to guide, inform, persuade, cajole, and threaten. Four of the 10 or more campaign main leaflets and booklets are very informative; the others can pass for propaganda. The informative ones are

- i. *Guidelines for the Operation of Pay as You Earn Scheme*,¹³² produced by the Joint Tax Board, but issued by the LIRS. The document aims at both PAYE payers and their employers, and does the following among others
 - a. Define common tax terms
 - b. Explains tax chargeable income
 - c. Explain and itemize detailed tax rates, reliefs, and allowances
 - d. Describe procedure for tax administration, including how to make tax declarations and submissions

¹³² 28 pages, pocket size, well written

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- e. Clarify procedure for obtaining tax clearance certificates
 - f. Explain procedure for obtaining tax refund
 - g. Describe offences and related sanctions
 - h. Provide addresses and telephone contacts of tax field offices in the state
- ii. *List of Lagos State Designated Revenue Collecting Banks* – this one full-size paged document lists 38 revenue bank accounts, the bank name and branch, type of taxes to pay in each, account number, and sort code for electronic transfers.
 - iii. *Frequently Asked Questions about Tax Obligations on Religious Organizations and Leaders* – this one page document clarifies the tax obligations of churches and house of worship and their leaders under the law.
 - iv. *Hotel Occupancy and Restaurant Consumption Law* – this pamphlet reproduces this relatively new law in a handy and easily readable form.

The LIRS website <http://www.lirs.net/>¹³³ contains the key tax laws and procedures. It also includes an electronic tax calculator with which the taxpayer can determine applicable liability.

The LIRS runs a weekly television programme called “Tax Talk” in English and three Nigerian languages: house, Igbo, and Yoruba. It also runs sponsors syndicated TV programmes on specific topics. One recent example is sponsorship of an edition of the popular “Inside-Out” on the topic, “*Religious Bodies & Tax Obligations*”. An official of LIRS appeared with three other persons¹³⁴ to answer questions from an audience on the topic. There have also been at least two appearances on “*Moments with Mo*” seen throughout Africa on DSTV.

The syndicated TV appearances are available on DVDs for easy distribution and replay. Also available on DVD is a dance-drama in the local Yoruba language, titled, *Owo Ori*.¹³⁵

¹³³ <http://www.lirs.net/>

¹³⁴ One Christian, one Moslem, and one civil society organization (CSO) leader

¹³⁵ Meaning, tax

Box 3.13b: The Joint Tax Board

Although the federal government enacts laws on major taxes and fixes tax rates, state governments make vital inputs into the process through the Joint Tax Board (JTB). The JTB is a statutory body (*s. 86(1)* of the Personal Income Tax Act Cap P8 LFN 2004) of top tax officials of the federal and state governments and with coopted membership of the Federal Road Safety Commission (FRSC), Revenue Mobilization Allocation and Fiscal Commission (RMAFC), Federal Capital Territory Administration, and Federal Ministry of Finance. The JTB has the following functions¹

- i. Advising all tiers of government on tax matters in order to evolve an efficient tax administration system in the country
- ii. Resolving areas of conflict on tax jurisdiction among member states
- iii. Promoting uniformity in both the application of tax laws and in the incidence of tax on individual throughout the country
- iv. Imposing its decision on matters of procedure and interpretation on income tax matters on member states

In this capacity, the JTB is important in setting tax rates, and adopting common practices on administrative procedures. Indeed, the body suggested the amendments that the Federal Government made recently (2011) to the Personal Income Tax Act. The amendment lowered tax rates, increased personal allowances and reliefs, and redefined the concept of residence.¹ The JTB has also finalized work on a new national tax policy, which is currently awaiting enactment into law by the National Assembly.

Source of Information: <http://www.jtb.gov.ng/node/1>

Dimension (iii): Existence of a functioning tax appeal mechanism

Key questions

1. Is there a tax appeal mechanism (other than recourse to the general law courts)?
2. If yes, how does it work?
3. Is it operational in practice?
4. Is it fair, transparent & effective (are its decisions promptly acted upon in practice? Refer to the same criteria of effectiveness as in PI-19 (iv))
5. If not, what issues need to be addressed, or does it need substantial redesign?

The current tax appeal system is underdeveloped, lacking independence and transparency, and being under routine political and bureaucratic supervision. The Revenue Complaints Resolution Centre in the Office of the Special Adviser (SA) to the Governor on Revenue Matters handles tax complaints. An official of the Lagos Internal Revenue Service heads the Centre. The official refers decisions to the SA for review and action. This process may not imbue confidence; it requires substantial redesign.

Credibility requires that the tax appeal process comply with legal provisions, i.e., the Personal Income Tax Act, 2004 as amended to date. These provisions include appeal first to the relevant tax authority (*s. 58*), and next to a body of appeal commissioners (BAC, *s. 62*), and State High Court (*s. 65*). The Law specifies qualifications of appeal commissioners (*s. 60*). These include persons seasoned in economics and law, expertise in tax matters, independence, etc. Decisions of BAC are binding on both the taxpayer and the tax authority. The other recourse is to the law courts. Lagos state government needs to establish such a body.

Reforms Underway

No reforms are evident in this area.

PI-14: Effectiveness of Measures for Taxpayer Registration and Tax Assessment

This performance indicator recognizes the role of an effective system for registering potentially liable taxpayers in facilitating tax administration. Effective taxpayer registration will enhance correct assessment of tax liabilities and boost tax revenue collection. In many jurisdictions, taxpayer registration is a compulsory civil obligation, governed by law with penalties for non-compliance. The system involves creation of a comprehensive taxpayer database with adequate control mechanisms to facilitate taxpayer registration. A good taxpayer database will usually have a unique taxpayer identification number (TIN) linked to or combined with other government registration systems involving taxable turnover of assets¹³⁶ to enhance effectiveness. Usually, there are additional measures to secure and enhance compliance. These may include occasional surveys of potential taxpayers, e.g., by selective, physical inspection of business premises and residences, and penalties for default.

Table 3.14 summarizes the assessment of performance of LAGOS State on the three dimensions of measurement of this indicator.

<i>Table 3.14: Effectiveness of Measures for Taxpayer Registration and Tax Assessment</i>						
Dimensions of Measurement	Current Assessment (2012)				Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement	Information Source		
Score (Method M2)		B			D+	
(i) Controls in taxpayer registration system	The taxpayer database with an identification system has manual links with motor vehicle registration, but not bank or pension fund accounts. .	B	Taxpayers are registered in a complete database system with some linkages to other relevant government registration systems and financial sector regulations	Lagos Internal Revenue Service	D	Taxpayer registration has improved through linkage to motor vehicle registration and some other systems.
(ii) Effectiveness of penalties for non-compliance with registration and tax declaration	Tax laws impose penalties for non-declaration, but not for non-registration; but the penalties are not effective.	C	Penalties for non-compliance generally exist, but substantial changes to their structure, levels or administration are needed to give them a real impact on compliance		C	No change
(iii) Planning and monitoring of tax audit programs	The LIRS has a viable tax audit system that ensures 100 percent audit of corporations.	A	Tax audits and fraud investigations are managed and reported on according to a comprehensive and documented audit		C	Tax audit now covers 100 percent of those on the database, and includes clear criteria for

¹³⁶ Issuance of business licenses, opening of bank accounts and pension fund accounts, etc., for instance

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Table 3.14: Effectiveness of Measures for Taxpayer Registration and Tax Assessment

Dimensions of Measurement	Current Assessment (2012)				Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement	Information Source		
			plan, with clear risk assessment criteria for all major taxes that apply self-assessment			self-audit.

Rationale for the Score

Dimension (i): Controls in taxpayer registration system

<p>Key questions</p> <ol style="list-style-type: none"> 1. Is there a taxpayer registration system? 2. Does it assign a Tax Identification Number (TIN) to each taxpayer? 3. Are authorities obliged to quote unique TIN in correspondence with taxpayers? 4. If yes, does this happen in practice? 5. What is registration system (manual, electronic database using/ not using specialized software)? 6. Is the taxpayer registration system linked to other relevant government registration systems (eg. supplier registration, business licensing, pension fund accounts)? 7. Are these linkages weak, partial or comprehensive? 8. Are surveys of potential taxpayers carried out?

Lagos State maintains an electronic taxpayer database with an identification (ID) number for each taxpayer, but the database has inchoate links with other databases. The LIRS has a relationship with the Lagos Motor Vehicle Authority (MVA) by which the MVA provides it with information on registration of new vehicles showing owner, address, type of car, etc. Similarly, the MVA reports details of persons who commit traffic violations to the LIRS for tax assessment and inclusion in its tax database, if they are not already in it. The LIRS has added an about 10,000 new taxpayers into its tax database in the last two to three years from tax offences. Currently, the LIRS tax database has established links with the following databases: PAYE, consent fees, land approvals, and vehicle licenses. However, the database has no link to bank or pension fund accounts. There is also a system of annual taxpayer survey, but this is to enable auditors visit and verify details taxpayers on the database, rather to net new taxpayers; however, the consultants can bring in details of new taxpayers they encounter in the field. Thus, the taxpayer registration system is not comprehensive and systematic, allowing a lot of potential taxpayers remain outside the tax system.

The Federal Inland Revenue Service (FIRS) in collaboration with the Joint Tax Board (JTB) is introducing a national taxpayer data base with a unique taxpayer identification number (UTIN) applicable across the country. In those states where implementation UTIN has taken off, it is mandatory to have the UTIN in order to open a new bank account, for instance. An exchange of data/information is currently on going between the FIRS and those state governments with their own tax ID systems. The FIRS and LIRS are yet to integrate their respective taxpayer registration regimes.

Dimension (ii): Effectiveness of penalties for non-compliance with registration and tax declaration

Key questions

1. Are there penalties for non-compliance with registration & tax declaration in existing legislation or current administrative procedures?
2. If yes, are they sufficient to impact on compliance or are changes needed?
3. How do they work in practice? Are they enforced?

Tax laws impose penalties for non-declaration, but not for non-registration; but the penalties are not effective. The Constitution of the Federal Republic of Nigeria makes tax an obligation for every citizen, but does not provide for compulsory tax registration of taxpayers. Section 24(f) provides, “*it shall be the duty of every citizen to declare his income honestly to the appropriate and lawful agencies and pay his tax promptly*”. No other law provides for compulsory registration of taxpayers. The law requires that PAYE agents register with the tax authority. PAYE agents are firms and companies, which by law collect PIT from their employees on behalf of the Revenue. There are stiff penalties for non-compliance. The tax authority collects a list of eligible PAYE taxpayers from these agents, registers them, and issues each with a unique file number. This makes registration of persons subject to PAYE relatively easier. There is no law on compulsory registration of taxpayers for other taxes, including those subject to self-assessment. The PIT Act also includes penalties for noncompliance with tax declarations. It allows a 90-day grace period to file tax returns. Defaulters face a penalty of 10 percent on the tax liability plus interest at commercial rate calculated to the date of payment. Enforcement of provision on interest and penalties on individuals is not effective. The tax authority also exercises some discretion in enforcement on corporate defaulters, except, perhaps, in cases of criminal collusion.

Dimension (iii): Planning and monitoring of tax audit programs

Key questions

1. Are there any tax audits (or tax audit programs) & fraud investigations?
2. If yes, how many tax audits were carried out in the last year?
3. Are audit programs carried out based on a documented audit plan, with clear risk assessment criteria for selection of audits?
4. If yes, what are the taxes that apply self-assessment?

The LIRS has a viable tax audit system that ensures 100 percent audit of corporations. The tax audit plan covers the 7,000 corporate organizations on the database. The audit year begins about February each year with the selection of consultants and matching them with LIRS staff. The audit program gives priority to high taxpayers and those that pay their tax obligations towards the end of the fiscal year. Taxpayers that pay at yearend create the impression of trying to avoid penalty that may apply for paying the following year, thereby suggesting high risk. The LIRS allows some firms to self-audit. These firms have achieved a high level of tax integrity and received the *annual tax compliance award/plaque*.

The LIRS also carries out tax fraud investigations through its Strategic Audit Unit. The Unit sometimes uses consultants. Triggers for fraud investigations include petition from whistle blowers, submission of fake tax receipt or information during tax audit, etc.

Reforms Underway

No reforms are evident in this area.

PI-15: Effectiveness in Collection of Tax Payments

PI-15 deals with the credibility of the tax administration system. It assesses the ability of the revenue authority to collect taxes and the willingness of taxpayers to pay their taxes voluntarily without close follow-up. It examines how government reconciles records of tax assessments against collections and arrears. The ability of the revenue authority to collect tax arrears is important, unless the overall level is insignificant. Tax assessment alone is not sufficient to raise revenues. For convenience and ease of payment, the tax authority may allow taxpayers to meet their obligations in installments. However, it must have a reliable way of tracking outstanding tax assessments to ensure effective collection of assessed revenues. If there are no records of tax arrears, it will not be possible to track the extent to which government collects tax debts.

It is also important to ensure prompt transfer of collections to the State Treasury. Modern systems have several ways of achieving promptness, e.g., by putting in place a mechanism that encourages taxpayers to pay directly to Treasury bank accounts, by the revenue authority frequently making full transfers into Treasury accounts, etc. Revenue reporting is also important: the revenue authority should aggregate and report on periodic tax assessments, collections, and transfers to the Treasury. To complete the process, it is necessary to carry out periodic reconciliation of assessments, collections, and transfers.

Table 3.15 summarizes the performance of the State on the three dimensions of this indicator.

Dimensions of Measurement	Current Assessment (2012)			Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement		
Score (Method M1)		NR		D+	
(i) Collection ratio for gross tax arrears, being percentage of tax arrears at beginning of a fiscal year, which was collected during that fiscal year (average of last two fiscal years)	There is no data on tax arrears at yearend and percentage collections in the next fiscal year.	NR		D	The situation was the same in 2009, but the assessment had rated it a "D". It should not have been rated.
(ii) Effectiveness of transfer of collections to the Treasury by the revenue administration	Revenue collections sweep daily into Treasury controlled commercial bank accounts.	A	(ii) All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily.	A	No change
(iii) Frequency of complete accounts reconciliation between tax	Complete reconciliation of assessments, collections,	D	(iii) Complete reconciliation of tax assessments, collections,	D	

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Table 3.15: Effectiveness of Collection of Tax Payments

Dimensions of Measurement	Current Assessment (2012)			Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement		
assessments, collection, arrears records, and receipt by Treasury	arrears, and transfers does not take place,		arrears and transfers to Treasury does not take place annually or is done with more than 3 months" delay		

Rationale for the Score

Dimension (i): Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years)

Key questions

1. Is there any reliable data on tax arrears (gross & net) at least for last 2 FYs?
2. Are they updated at least every year?
3. Does data show the % of gross arrears at beginning of each FY that was collected during that FY?

There is no data on tax arrears at yearend and percentage collections in the next fiscal year. Evidence produced is of "Tax Liability Defaulters as at 22 February, 2012" listing eight federal agencies, whose files are already in the Legal Department and 14 others whose files were not yet in the Legal Department. Some of the debts date back to 1999¹³⁷ and 2001.¹³⁸ Most of them date from 2003¹³⁹ and 2004.¹⁴⁰ However, the data does not show annual debt figures, but establishes only one bloc amount for each defaulter for the entire period of default. Data supplied also show various analyses of tax audit collections from companies.¹⁴¹ However, there is no systematic data on total tax arrears existing at year end or of percentage of the arrears collected in the following fiscal year.

The assessment of 2009 is still relevant here. The assessment states,

"The SG does not keep record of past tax assessments and arrears. Consequently, it is not possible to determine the collection ratio of arrears. The official explanation is that because of the cash basis of accounting the SG uses, there is no custom of recording outstanding tax receivables and recognizing them as potential assets. Any collection of tax arrears happens fortuitously.¹⁴² When the SG "catches" a tax potential offender, (for example when an eligible taxpayer has official transactions with the SG - land transaction requiring state registration, contest of elective political office, etc.) they must show evidence of payment of taxes for the last three years or face fresh assessment for those number of years."¹⁴³

¹³⁷ Federal Institute of Industrial Research, Oshodi

¹³⁸ Nigeria Customs Service (NCS)

¹³⁹ Nigeria Railway Corporation (NRC) and Nigerian Security & Civil Defence Corps

¹⁴⁰ Central Bank of Nigeria (CBN) and Federal Inland Revenue Service (FIRS)

¹⁴¹ For example, comparison with voluntary tax payments, tax audit collections from companies paying in excess of ₦50 million, etc.

¹⁴² Except of course, for corporate taxpayers

¹⁴³ See PI-15(iii) in 2009 PEFA Report

Dimension (ii): Effectiveness of transfer of collections to the Treasury by the revenue administration

Key questions

1. Where do taxpayers & importers pay their taxes & duties (directly to RA, commercial banks, central bank, post office, etc.)?
2. How do taxes & duties reach Treasury?
3. How long after collection are revenues transferred to Treasury? What is average frequency and delay?

Revenue collections sweep daily into Treasury controlled commercial bank accounts. Revenue payers pay directly into designated government accounts in commercial bank after obtaining payment advice from the responsible government agency. Collecting banks issue PAY-DIRECT receipts to the payer. The Treasury maintains revenue-collecting accounts in all commercial banks, but these accounts are not also expenditure accounts from which government can spend. Thus, the Treasury has no control over revenue account collections (even though it can view them through the collecting banks' webpages) until they sweep into the Treasury's expenditure accounts.¹⁴⁴ Revenue collections sweep daily into these special government expenditure accounts. Designated government officials can view all revenue collecting and expenditure accounts online and real-time through the banks' webpages.

Dimension (iii): Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury –

Key questions

1. Is a reconciliation exercise of tax assessments, collections, arrears & transfers to Treasury carried out?
2. If yes, how often?
3. When exactly is the reconciliation exercise completed after the period under consideration?

Complete reconciliation of assessments, collections, arrears, and transfers does not take place. This is not possible because the state government does not maintain records of assessments. The LIRS sends tax assessments to the consultants that oversee collections,¹⁴⁵ but not to the Treasury.¹⁴⁶ The LIRS has no control over collections and does not receive bank statements (the Treasury does). Rather, the LIRS receives daily reports from the consultants on lodgments. The LIRS also receives monthly confirmation from all collecting banks showing *total* (not detailed) revenue collected. The LIRS compares this with the daily reports it receives from the consultants.

In summary, there is no direct interface between the Treasury and the LIRS. The LIRS compares total amount collected by banks as advised by them, with reports provided by the consultants. The STO also compares reports provided by the consultants with bank records. Comparison with assessment and determination of arrears are missing in the arrangement.

Reforms Underway and Planned

No reforms are evident.

¹⁴⁴ However, see *PI-17(ii)* below, showing 38 revenue accounts have debit balances, showing they admit expenditures. This does not have any adverse impact on the rating of this dimension.

¹⁴⁵ Alpha Beta Consultant (ABC) Ltd

¹⁴⁶ Similarly, MDAs do not send debit notes to other revenue payers to the STO.

PI-16: Predictability in Availability of Funds for Commitment Expenditure

This indicator assesses the extent to which the Ministry of Finance (MoF), or other responsible body¹⁴⁷, provides reliable information to MDAs on actual funds available for implementation of the approved budget. The basic assumption is that individual MDAs have primary responsibility for executing the budgets under their jurisdiction and that the approved budget is sufficient authority to implement.¹⁴⁸ Timely and reliable information to MDAs (usually by periodic release warrants) on amount available for commitment within a period is therefore necessary. There are several ways of achieving this.

The MoF may release funds at staged and regular intervals, say quarterly, during the budget year. This approach is consistent with the warrant system of expenditure, for which many financial regulations in the country provide. It is also consistent with current practice at the Federal Government level. In other situations, passage of the budget law grants full authority to spend at the beginning of the year. In this case, MDAs require no further information on resource availability. This is practicable in situations where the Government commits to strict execution of the budget and achievement of targets, and puts in place, a mechanism for forestalling potential midstream shortfalls in revenue collection, e.g., by dipping into previous savings, sourcing short-term (bridging) finance, or sale of (financial) assets. Governments that rely on this approach must have accumulated sufficient savings (and other assets), or have credibility (good credit rating) to source bridging finance from commercial sources. The government must also have a record of fiscal and budget discipline and strict abidance by fiscal rules. For instance, the government does not immediately spend¹⁴⁹ but rather saves earnings in excess of budgeted revenue. Finally, the approved budget must be realistic representing what is actually fundable and implementable in the fiscal year.¹⁵⁰ Notwithstanding all these, the MoF may, impose delays on ministries in making new commitments when there is temporary cash squeeze.

Whichever option applies, it is important not to reduce the amount of funds made available to an entity in a specific period. Mid-stream reduction of voted funds makes the PFM system unreliable, availability of funds unpredictable. Unpredictability of funds availability is very inimical to budget implementation. The Treasury can achieve greater predictability by effectively planning, monitoring, and managing cash flows in order to facilitate accurate forecast of funds availability.

This indicator has three dimensions of measurement. *Table 3.16* shows the ratings and scores.

Dimensions of Measurement	Current Assessment (2012)				Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement	Information Source		
Score (Method M1)		D+			D+	
(i) Extent to which cash flows are forecast and	The state government does not do cash	D	(i) Cash flow planning and monitoring are	Ministry of Economic Planning &	C	The status quo has not changed since

¹⁴⁷ Such as the State Treasury Office (STO)

¹⁴⁸ It does not envisage a situation (as is the most common practice among Nigerian states) where individual approved projects are subject to additional specific approval by the chief executive before their implementation; where MDAs must *a priori* seek and obtain written approvals of the chief executive.

¹⁴⁹ As most Nigerian governments do

¹⁵⁰ A wish list will not do; but a realistic statement of intent is necessary

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Table 3.16: Predictability in the Availability of funds for Commitment of Expenditures

Dimensions of Measurement	Current Assessment (2012)				Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement	Information Source		
monitored	planning and thus does not establish cash inflows and outflows at the beginning of the year.		not undertaken or are of very poor quality	Budget/State Treasury Office		2009, baseline assessment erroneous
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	MDAs do not receive reliable indication of actual resources available for commitments in advance; the current practice is that the STO queues vouchers from MDAs for payment as described above	D	(ii) MDAs are provided commitment ceilings for less than a month OR no reliable indication at all of actual resource availability for commitment	Ministry of Economic Planning & Budget/State Treasury Office	D	No change
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs	“Budget re-ordering” takes place once a year, after the second quarter budget performance review; it follows established procedures.	B	(iii) Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a fairly transparent way	Ministry of Economic Planning & Budget/State Treasury Office	B	

Dimension (i): Extent to which cash flows are forecast and monitored

Key questions

1. Is a cash flow forecast established at the start of the new FY, for year ahead? If so, is it revised & updated during year?
2. How frequently (monthly, quarterly half yearly)?
3. Do in-year updates of cash flow forecasts include re-estimates of future cash requirements?

The state government does not do cash planning and thus does not establish cash inflows and outflows at the beginning of the year. The state adopts a cash rationing or ‘pay-as-you-go’ approach to cash management. The Treasury determines cash availability by aggregating all collections daily, and making weekly returns on revenues from all sources. It prioritizes personnel costs¹⁵¹ and debt servicing.¹⁵² The

¹⁵¹ Including personnel subventions to parastatals

balance is available to pay contractors. Usually, the STO earmarks about ₦50 million to effect payments below five million naira, which it handles without further authorization. It refers the balance to the governor, who directs on which contractor to pay. The STO sends a monthly list of outstanding contractor payments to guide the governor.

Further, a monthly highly level meeting of all revenue stakeholders to assess the revenue performance of the state and adopt necessary measures to improve performance holds on the last Friday. For this purpose, the Budget Office (BO) receives monthly revenue returns from MDAs, issuing ‘queries’ to those that fall short of revenue targets. The BO takes analysis of the collections to the stakeholders’ meeting chaired by the governor.

Dimension (ii): Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment

Key questions

1. Are MDAs provided with reliable indication of actual resources available for commitments?
2. How much in advance is this indication provided (1, 2, 3 or 6 months)?
3. As a result, are MDAs able to plan & commit expenditures in accordance with budget appropriations?
4. In practice, does Treasury use non-transparent cash control mechanisms during periods of cash flow problems (e.g. delaying printing of cheques to suppliers for centrally administered purchases or delaying transfer of funds to budget entity accounts for which cheques have already been written by budget entities)?

MDAs do not receive reliable indication of actual resources available for commitments in advance; the current practice is that the STO queues vouchers from MDAs for payment as described above. The Treasury does not cash back expenditure warrants issued by the Commissioner for Finance.¹⁵³ The current practice is that at the beginning of the year (following approval of the budget by the Legislature), the Commissioner issues a general release warrant covering the entire capital budget. This release warrant is authority to incur expenditure and empowers MDAs to commence implementation of their capital budgets. However, the release warrant does not guarantee availability of cash to make payments. Therefore, upon receipt of payment vouchers from MDAs for processing and payment, the STO prioritizes payments as discussed above. The practical consequence of this is the inevitable accumulation of contract payment arrears of uncertain and unplanned proportions.

Budget entities do not embark on budget commitment without additional express approval, even with the release warrant. Approval is by the Ministry of Economic Planning and Budget (MEPB) or the governor, depending on the amount involved. For expenditures up to ₦5 million (recurrent) and ₦10 million (capital), MDAs raise request memos to MEPB. MDAs direct their memos to the Governor for amounts in excess of these. To facilitate the approval process, the administration requested MDAs to “frontload” requests to the governor. Both the MEPB and the governor can refuse to grant approvals.

This contract/project and payment approach affects budget implementation, distorting sectoral composition of the budget. For example, while 2010 audit report shows inability to implement the capital budget by 22 percent, it shows also that 18 MDAs overspent their capital budgets by ₦32.02 billion or 13 percent of actual capital expenditure. Thus, while some MDAs did not get their share of the budget, others spent more than their share. The same situation happened with recurrent expenditure where 22

¹⁵² Interest and repayment of principal

¹⁵³ Except for the Public Works Corporation (PWC), which receives N250 million naira monthly before the rainy season for road maintenance and N150 million naira during the rainy season

MDAs overspent their budgets by ₦16.78 billion or 24 percent of actual expenditure. Total recurrent expenditure also fell short of the budget by 9 percent.¹⁵⁴

Dimension (iii): Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs

Key questions

1. What are legislative & procedural rules for making adjustments to original budget appropriations (e.g. virements, supplementary budgets)?
2. Are these rules respected?
3. What adjustments were made to budget allocations during last completed FY (with respect to virements, supplementary budgets & any other cause)?
4. Were these adjustments carried out transparently?

“Budget re-ordering” takes place once a year, after the second quarter budget performance review; it follows established procedures. The objectives are to attend to MDAs applying for more funds, provide for unbudgeted emergencies, include projects considered important but excluded from the original budget, and mop up funds from MDAs with idle or unutilized funds. The Ministry of Economic Planning and Budget first discusses with the MDA making a request and advances causes of those it deems worthy. The process then follows the usual budgeting practice culminating with legislative approval.

Reforms Underway

Some reform is evident here. Already, DFID’s State Programme on Accountability, Responsiveness, and Capability (SPARC) is assisting MDAs to prepare periodic cash needs/requirements in advance to help the STO in cash allocation. This is not the same as a cash budgeting approach to cash management, but it may be the starting point.

PI-17: Recording and Management of Cash Balances, Debt, and Guarantees

PI-17 evaluates the quality of management of debt and guarantees. Ineffective management of debt and guarantees can create unnecessary high debt service costs and accentuate the significance of fiscal risks. A key requirement to avoid unnecessary borrowing is the consolidation of cash balances in all bank accounts, or better, use of a single Treasury Account or centralization of all accounts. Maintenance of multiple bank balances complicates the task of monitoring and managing cash. It is critical to properly record and report all guarantees issued by the government. It is also important for a single government entity to approve all guarantees.

This indicator has three dimensions. *Table 3.17* rates the performance of Lagos State on them.

Dimensions of Measurement	Current Assessment (2012)2009 Baseline				Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement	Information Source		
Score (Method M2)		NR			D+	

¹⁵⁴ See *Table 3.20b* for details

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Table 3.17a: Recording and Management of Cash Balances, Debt, and Guarantees

Dimensions of Measurement	Current Assessment (2012) 2009 Baseline				Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement	Information Source		
(i) Quality of debt data recording and reporting	Records of domestic and foreign debt exist, but there are data gaps and some concern with quality in the annual reports produced by the DMO.	C	Domestic and foreign debt records are complete, updated and reconciled at least annually. Data quality is considered fair, but some gaps and reconciliation problems are recognized. Reports on debt stocks and service are produced only occasionally or with limited content	Ministry of Economic Planning & Budget/State Treasury Office	C	No change
(ii) Extent of consolidation of the government's cash balances	It was not possible to establish evidence that the state consolidates all bank balances daily.	NR		Ministry of Economic Planning & Budget/State Treasury Office	D	Suggested 2012 evidence not established
(iii) Systems for contracting loans and issuance of guarantees	Cabinet (the state executive council) decides on acquiring new loans and issuing guarantees, but this decision is not within an overall debt ceiling.	C	Central government's contracting of loans and issuance of guarantees are always approved by a single responsible government entity, but are not decided on the basis of clear guidelines, criteria or overall ceilings	Ministry of Economic Planning & Budget/State Treasury Office	C	No change

Rationale for the Score

Dimension (i): Quality of debt data records

Key questions

1. Where is debt data recorded?
2. Does debt data cover both external & domestic debt?
3. Does debt database use specialized debt software?
4. Is the software equally used for external & internal debts or does each type of debt use different software?
5. Are data on external debt & data on internal debt complete?
6. What is quality of both external & domestic debt data?
7. Are data on external & internal debt updated & reconciled on a regular basis (monthly, quarterly, yearly, other)?
8. Are there any regular reports on external & domestic debt?
9. What is frequency of issue of such reports (monthly, quarterly, yearly, others)?
10. Do reports cover debt service, stock & operations?

Records of domestic and foreign debt exist, but there are data gaps and some concern with quality in the annual reports produced by the DMO. The Debt Management Office maintains the state's records of domestic and external debt on an Excel database. The figures come from various sources. External debt figures come from the federal DMO, which manages foreign debts on behalf of the country. The figures comprise mostly of multilateral debt of the World Bank (WB) and Africa Development Bank (AfDB) origins. The Lagos State DMO reconciles these figures with the federal DMO annually. The State Treasury Office (STO) supplies weekly data on outstanding payment vouchers (contractor arrears). The Pension Office provides pension and gratuities' arrears (monthly), while the Office of Public Private Partnership (PPP) sends data on all guarantees (contingent liabilities) to the DMO. The DMO is custodian of information on formal domestic debt, i.e., bonds and commercial loans and the Ministry of Justice is the source of judgment debt. .

The quality of formal debt is good, but the quality of informal debt is suspect. Formal debt information includes some persuasive analysis of their schedules and histories. Thus, the reports provide schedules of contingent liabilities (guarantees), bank loans, and multilateral debts showing purpose, date, original amount, currency, amortization, and amount. Contractor debt does not show any such analysis or history. Besides, they are of long origin, some cases dating back to above 20 years. Some of these debts still issues of reconciliation.

The evidence provided is that of annual reporting, representing yearend figures from 2007 to 2011. There are no indications of quarterly reports. Besides, it is not clear to whom the DMO issues this report, i.e., aside from the Ministry of Economic Planning and Budget to which the DMO provides information during the annual budgeting process (see *PI 11* above). The reports are loose Excel printouts with no covering memo. Whether it presents the report to other parties, or it is for internal consumption/programming is unclear.

Dimension (ii): Extent of consolidation of the government's cash balances

Key questions

1. Is there an STA where all government accounts are centralized?
2. Where are government bank accounts maintained?
3. Are all government bank accounts known (including those for extra-budgetary funds & government controlled project accounts)?
4. Are balances of some or all government accounts calculated & consolidated?
5. How often are bank balances consolidated or total of all balances calculated & known to government (daily, weekly, monthly, other)?

It was not possible to establish evidence that the state consolidates all bank balances daily. Lagos State government does not run a single treasury account (STA). The state maintained 463 commercial bank accounts in 2010. The financial statements list them as 226 revenue, 32 expenditure, 17 domiciliary, six call, 43 dedicated, six car loan, 12 other, 128 MDA, and three special accounts.¹⁵⁵ The official explanation is that the revenue accounts do not admit expenditure, but all sweep into the expenditure accounts daily. The Treasury then consolidates all expenditure accounts also daily, to determine total cash availability before expenditure. However, it was not possible to view any documentary evidence in this regard. Besides, at least 38 of the revenue accounts had yearend debit balances of huge amounts,¹⁵⁶ showing they admit expenditures. This is not easily reconcilable with the suggestion of consolidating balances before spending. Moreover, it is not clear whether the Treasury also consolidates MDA bank balances. The 128 MDAs had an aggregate yearend balance of ₦16.43 billion. This could have helped offset some of the state's debt, if it was running a single treasury account (STA). It is not clear why the state should be holding huge debts, while it has surplus cash balances lying idle in banks. It is not possible to sustain the state's rating of an "A" score here without further evidence.

Dimension (iii): System for contracting loans and issuance of guarantees – not rated; no information

Key questions

1. What is current legal framework which governs contracting of loans & issue of guarantees (including to AGAs & PEs)?
2. Who can authorize loans & issue of guarantees, (eg. MoF, other ministries)?
3. Are decisions concerning contracting of loans & issue of guarantees taken on basis of clear guidelines, transparent criteria & fiscal targets?

Cabinet (the state executive council) decides on new loans and issuing guarantees¹⁵⁷, but the decision is not within an overall debt ceiling. The procedure is that the Debt Management Office sends proposal to the state executive council through the governor on how to fund a budget deficit established during budget planning. The proposal analyzes the debt scenario using various indices that show the total debt stock/debt service as a percentage of some bases. The executive council takes the decision on how to populate the deficit considering the DMO's suggestions. However, there is no evidence that the cabinet's decision and the DMO's advice are within the overall debt ceilings and conditions set out *in ss. 41-44* of the Fiscal Responsibility Act, 2007.¹⁵⁸ Lagos State may have exceeded its borrowing limits, going by those provisions. The state had a debt to GDP ratio of 6.97 percent in 2010 and 7.78 percent in 2011, and projected to increase to 8.93 percent in 2012.¹⁵⁹

Reforms Underway

No reforms are evident in this area.

PI-18: Effectiveness of Payroll Controls

PI-18 recognizes that the wage bill is one of the largest items of government expenditure and that often, it is susceptible to weak controls, abuse, and corruption. A good PFM system must pay particular attention

¹⁵⁵ See Report of the Accountant General, financial statement 2010, pp 66 - 81

¹⁵⁶ One account was more than ₦4.9 billion in the red

¹⁵⁷ The House of assembly must approve before the transaction takes place.

¹⁵⁸ These sections have national application even though the entire Act does not.

¹⁵⁹ See Lagos State DMO record, *Debt Sustainability Analysis, 2007 – 2011*

to the effectiveness of control measures and practices around the payroll. The existence of a number of features in payroll controls will enhance their effectiveness. The key to payroll control is the link between the personnel database (nominal roll) and the payroll. Procedures for amending the nominal roll should also be clear but tight.

A comprehensive personnel database or nominal roll needs to underpin the payroll. The database may or may not be computerized; however, it should provide a list of staff for monthly payroll. The database must be verifiable. It should be possible to confirm the payroll against the establishment list and the individual staff files. Strict controls should surround amendments to the nominal roll. For instance, changes should

- (i) Flow from the appropriate authority
- (ii) Be processed in a timely manner through a change report, and
- (iii) Result in an audit trail.

Finally, regular personnel audits will help identify ghost workers, fill data gaps, and identify control weaknesses.

Table 3.18 presents and rates the four dimensions of this indicator.

<i>Table 3.18: Effectiveness of Payroll Controls</i>						
Dimensions of Measurement	Current Assessment (2012)				Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement	Information Source		
Score (Method M1)		B+			B+	
(i) Degree of integration and reconciliation between personnel records and payroll data	Lagos State government runs a fully automated and integrated human resource and payroll process, with a shared database and monthly reconciliation of nominal and pay rolls.	A	(i) Personnel database and payroll are directly linked to ensure data consistency and monthly reconciliation		A	Government now prepares fiscal medium term forecast, which was not the case in 2009
(ii) Timeliness of changes to personnel records and the payroll	Changes to personnel records and payroll take place timely, but there are instances of delays of up to three months. However, this affects only a relatively small number of staff.	B	(ii) Up to three month' delay occurs in updating of changes to the personnel records and payroll, but affects only a minority of changes. Retroactive adjustments are made occasionally		B	
(iii) Internal	Audit reports	B↑	(iii) Authority		A	Audit concerns

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Table 3.18: Effectiveness of Payroll Controls

Dimensions of Measurement	Current Assessment (2012)			Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement		
controls of changes to personnel records and the payroll	cite important control shortfalls and systems security issues; ongoing reforms addressing the issues assess.		and basis for changes to personnel records and the payroll are clear		suggests deterioration in the control environment of 2009; however, ongoing reforms are addressing the issue
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	The payroll system has a strong system of monthly payroll audit carried out by the Central Internal Audit (CIA) Department of the Ministry of Finance.	A	(iv) A strong system of annual payroll audits exists to identify control weaknesses and/or ghost workers	Central Internal Audit Department of the Ministry of Finance	Payroll audit has improved with monthly verifications of physical staff and records, and making of actionable recommendations

Rationale for the Score

Dimension (i): Degree of integration and reconciliation between personnel records and payroll data –

Key questions

1. Who is in charge of central government payroll(s)?
2. Is payroll data centralized &/or computerized (with or without specialized software)?
3. Who is responsible for personnel records & personnel database?
4. Does information in above 3 exist in electronic form?
5. What can be said about quality & completeness of payroll data, personnel records & database?
6. Are payroll data, personnel records & personnel database electronically linked or are they regularly reconciled (is there any crosscheck between personnel database & payroll)?
7. If yes, what is the frequency of reconciliation (monthly, quarterly, every six months, other)?
8. Is the payroll centrally operated (does treasury make payments directly to individuals for all institutions throughout government)?
9. Are all payments made directly to bank account for each individual (if not, how are payments made)?

Lagos State government runs a fully automated and integrated human resource and payroll process, with a shared database and monthly reconciliation of nominal and pay rolls. The government acquired the Oracle Enterprise Resource Planning Financial Application on first on April 1, 2000 and updated it in 2004, with an HR upgrade in 2010.¹⁶⁰ The application currently has 11 modules.¹⁶¹ The human resource

¹⁶⁰ From Release 11 to Release 12

¹⁶¹ Namely, general ledger, accounts payable, accounts receivable, cash management, payroll, human resources, fixed assets, public sector budgeting, purchase order, treasury management, and inventory management

and payroll module became effective in 2003. The application fully integrates the HR and payroll such that HR information flows directly into payroll for the processing of monthly payroll for both employees and pensioners. Thus, there is a direct link between, but separate control of, the personnel and the payroll records in the Oracle database. The Public Service Office (PSO) and the Ministry of Establishment & Training control and upload information on personnel records for senior and junior staff respectively into the Oracle database. The Central Payroll and Data Validation Directorate (CPDVD) of the State Treasury Office uses the uploaded personnel data to prepare and control payroll process (*see Box 3.18*). The Public Service Office (PSO) and the Ministry of Establishment, Training, and Pension populate and update by the HR module. Payroll adopted e-payment in February 2012, making direct payments to bank accounts of individual employees.

Dimension (ii): Timeliness of changes to personnel records and the payroll

Key questions

1. What is the average or typical delay between a personnel change (eg. recruitment, promotion, transfer, separation) & corresponding payroll change?
2. Are retroactive adjustments widespread, frequent, occasional or rare?

Changes to personnel records and payroll take place timely, but there are instances of delays of up to three months. However, this affects only a relatively small number of staff. The details are as below.

- a) Promotions - The HR updates changes arising from promotions of core Civil service employees immediately with effect from their various financial dates, thus obviating the need for arrears. HR effects promotion of employees in both the Teaching and Health Services when the governor approves it. However, it is not clear how long the governor takes to approve. In any case, current government policy allows payment of only three months arrears.
- b) Short payment of allowances - this occurs mostly in both the Health and Teaching Services when employees move from one unit to another within the same department. The new Consolidated Salary Structure ties allowances to current postings. Delays in receiving applicable allowances may arise if the employee delays in completing necessary paper work for new posting. For example, teachers deployed from administration to the classroom will not receive teaching allowance until they file their papers. The time lag between producing the necessary documents to update their HR data results in short payment.

However, both promotion arrears and short payment arrears are always negligible when compared with the total population and salary figures. For example, both amounted to 4.26 percent of the total staff on payroll and 2.49 percent of salary value in November 2011.¹⁶²

- c) Changes in payment method - with implementation of the e-payment system, the state decided to discountenance requests for changes in both bank and account numbers by employees.¹⁶³ Payroll has thus, disabled the Payment Method Field in Oracle Financials.
- d) Changes in deductions such as cooperatives (CTSS) union dues, loans etc.) – done monthly and timeously. Respective CTSS submit requests in both hard and soft copies before the 10th of every month for uploading. Requests received after that cut date reflect in the next month.

¹⁶² Source: Central Payroll and Data Validation Directorate (CPDVD), Lagos STO

¹⁶³ See Treasury Circular No. TR/0020/VOL.XIII/306 titled, *Implementation of Centralized Salary Payment through the e-Payment Platform*, dd 31 October 2011

- e) Suspension/DNP/HOP/EXIT – Payroll sends an e-payment bank schedule monthly to indicate staff that should be off the payroll, DNP or HOP in the remarks column. This practice commenced with commencement of the centralized e-payment salary process in February 2012. The permanent Secretary, director of accounts, director finance and admin, and the internal auditor must countersign. Payroll immediately implements the request.
- f) Reinstatement - only the Central Internal Audit (CIA) has the authority to include or reinstate into Payroll Database those employees who were initially off – pay roll. It is not clear how long it takes the CIA to makes the changes; however, the number of changes involved is negligible.
- g) Change of name – the system no longer allows routine change of names as part of the centralized e-payment process.¹⁶⁴ However, recently a high powered committee chaired by the Head of Service considered and certified documents relating to genuine change of names and authorized such changes in the HR application.
- h) Posting – HR uploads posting of employees immediately the posting circular is out, moving the pay points of those newly posted staffs to their new posts. However, the audit reports instances of continued” payment of some staff salaries in their previous offices after being posted out.”¹⁶⁵

Dimension (iii): Internal controls of changes to personnel records and the payroll

Key questions

1. What are controls on changes to personnel records?
2. Are they good enough to avoid payment errors & to ensure full integrity of data?
3. Are authority & basis for changes to personnel records & payroll clear & restricted to named officers?
4. Do changes of records & payroll result in an audit trail?

*Audit reports cite important control shortfalls and systems security issues; although ongoing reforms are addressing the issues. The 2010 audit report observed that, “The Internal control procedures in the payroll system were observed not to be strictly adhered to leading to abuses. There were instances of continuous (continued?) payment of some staff salaries in their previous offices after they have been posted out; a possible source of fraudulent practices Delayed return of unpaid salaries to chest was prevalent, thereby encouraging fraudulent tendencies of teeming and lading ... ”*¹⁶⁶ The existing and new measures aimed at addressing these issues are as follows.

Changes to personnel records and the payroll reside in different persons; the recent upgrade of the payroll module to Release 12 necessitated additional control measures, including automatic audit alerts. Box 3.18 illustrates the internal control process in effecting changes to personnel data and the payroll. Depending on their nature and purpose, changes involve different offices. For instance, the PSO or the Ministry of Establishment generate changes on new entrants, the CSC generates changes on exit from the Service and transfer from the Service to the Pensions roll, the Central Internal Audit (CIA) generates changes involving reentry, for example, for those who were on leave of absence (without pay), etc. Further, each month, the CPDVD prepares salary variation report comparing the salary position for the month with the salary position for the preceding month, explaining any changes. This CPDVD addresses

¹⁶⁴ See Circular ref No. CIR/HOS/10/VOL.1/069 titled, *Embargo on Change of Name*, dd 20 July, 2011

¹⁶⁵ See for instance, 2010 audit report, page v.

¹⁶⁶ 2010 Audit Report, pp v - vi

the report to the Accountant General and it must satisfactorily explain any significant changes before the Accountant General will approve.

The recent upgrade of the Oracle Payroll Application from 11i to Release 12 and the implementation of the LASG Consolidated Salary Structure propelled additional controls. The new controls include, (i) security profiling (password management and user responsibility), (ii) addition of LASG Payroll Audit Responsibility to keep track of all changes that take place in the application, generate reports, and initiate audit trail and audit alerts,¹⁶⁷ (iii) payroll procedure controls, and (iv) generation of exception reports.

Dimension (iv): Existence of payroll audits to identify control weaknesses and/or ghost workers

Key questions

1. Have partial or full payroll audits or staff surveys been undertaken within last 3 years?
2. If yes, were all Central government entities covered?
3. Were audits/surveys done independently of the payees. This question is intended to draw attention to possibility of collusion within the audited agencies and the validity of the audit findings?
4. Is there a strong system of annual payroll audits to identify control weaknesses &/or ghost workers?

The payroll system has a strong system of monthly payroll audit carried out by the Central Internal Audit (CIA) Department of the Ministry of Finance. The process involves several activities. First, there is a monthly summary and comparison of the payroll and HR nominal roll (i) showing officers on one roll but not the other, (ii) comparing with the preceding month's figures, and (iii) rationalizing responsible factors.¹⁶⁸ Second, payroll audit investigates names in current month's bank schedule but not in the preceding,¹⁶⁹ and sends a written explanation of findings to the Commissioner for Finance. Indeed, payroll audit findings and recommendations led to the cancellation of change of bank pay points by staff. Third, payroll audit involves physical identification of staff in the nominal and payrolls.¹⁷⁰ The audits make findings, including the following taken from the November 2011 report

- Overloading of the payroll, i.e., more names on payroll than on nominal roll
- Lapses in updating the nominal roll resulting in nominal rolls not representing correct staff strength
- Details of officers that did not turn up for the physical exercise
- Redeployed officers (118)¹⁷¹ whose salary points do not reflect their new postings

¹⁶⁷ The system immediately sends audit alerts to the following in cases of changes to the application: Head of Service (HOS); Commissioner for Science and Technology, Commissioner for Finance, all super users, designated staff of the Ministry of Science and Technology, and the CIA

¹⁶⁸ See for instance, *Summary and Comparison of February 2012 Payroll & Human Resources Nominal*, submitted in evidence.

¹⁶⁹ See for instance, *Names in December 2011 Bank Schedule Report Not in November 2011*, and *List of New entrants for the Month of February 2012* submitted in evidence

¹⁷⁰ See the following submitted in evidence (i) memo INT./AUD./61/VOL.II/295, *Summary of Staff Audit Reports from MDAs in the State Civil Service for the Month of August 2011*, dd 22 September, 2011, (ii) memo INT./AUD./61/VOL.II/312, *Summary of Staff Audit Reports from MDAs in the State Civil Service for the Month of September 2011*, dd 24 October 2011, (iii) INT./AUD./61/VOL.II/337, *Summary of Staff Audit Reports from MDAs in the State civil Service for the Month of October 2011*, dd 19 December 2011, (iv) INT./AUD./61/VOL.II/358, *Summary of Staff Audit Reports from MDAs in the State Civil Service for the Month of November 2011*, dd 6 January, 2012, (v) INT./AUD./61/VOL.II/375, *Summary of Staff Audit Reports from MDAs in the State civil Service for the Month of December 2011*, dd 10 February, 2012, and (vi) INT./AUD./61/VOL.II/395, *Summary of Staff Audit Reports from MDAs in the State Civil Service for the Month of January 2012*, dd 28 February 2012

¹⁷¹ Out of a staff strength of 53, 624

The audit also suggests remedial action for each of the findings.

Box 3.18: The Lagos State Oracle-based Human Resource and Payroll Management System

The **Oracle application** fully integrates the HR and the Payroll Modules with human resources information flowing seamlessly into payroll for the processing of the monthly payroll for both employees and pensioners. This helps in the auditing and in decision-making processes

The **HR Module** controls data input and ensures accuracy of payroll information/record, availability of real time remuneration data and history, easy storage, access, update and retrieval of employee and pensioners information, effective work structure management, effective personal and employment information, effective and comprehensive career management, and complete salary history information. The data entry function involves creation of new entrants, update of employees information (change of bank, change of bank account, change of name, etc.), upload of promotion/confirmation (completion of notional and financial promotion schedule), entry of advancement/secondment information into Oracle, posting/transfer

The **Payroll function** involves entry of promotion data into Oracle for all staff (completion of notional and financial promotion schedule), entry of confirmation of appointment information into Oracle for all staff

Key players in the process are as follows

- Payroll module - Central Payroll and Data Validation Directorate (CPDVD)
- HR Module
 - The Public Service Office (PSO) – staff on levels 07 and above
 - Ministry of Establishment & Training (staff below salary level 07; career management circulars)
 - Civil Service commission
 - Central Internal Audit
 - Pensions office - Civil and Teachers' service pensions

The Public Service Office (PSO) The PSO creates new employees on salary grade levels 7 and above, assigning grade levels to them and effecting promotion information, transfer of salary, and change of name. The PSO thus maintains checks and balances by updating and monitoring of employees' information/official documentation.

Ministry of Establishment, Training, and Pensions: The ministry creates new employees on G L 1 to 6, uploads promotion information in retro (GL1-6), renders career management services, issues circulars on any change in government payroll policy

The Civil Service Commission (CSC) controls data on eventual termination of appointments of employees, i.e., staff leaving the Service (after performing all due procedures). The Commission also converts staff from active to pension whenever they voluntarily or statutorily retire, uploads promotion information in the Oracle Retro sub module that calculates arrears of salaries every May and November, controls process for ending employment and retirement information into Oracle, and entry of information for disciplinary action in Oracle

The Central Internal Audit Unit exercises authority for inclusion and exclusion into the payroll database, reinstate employees who at some point were off the payroll, reconciles variances arising from salary and pension prose.

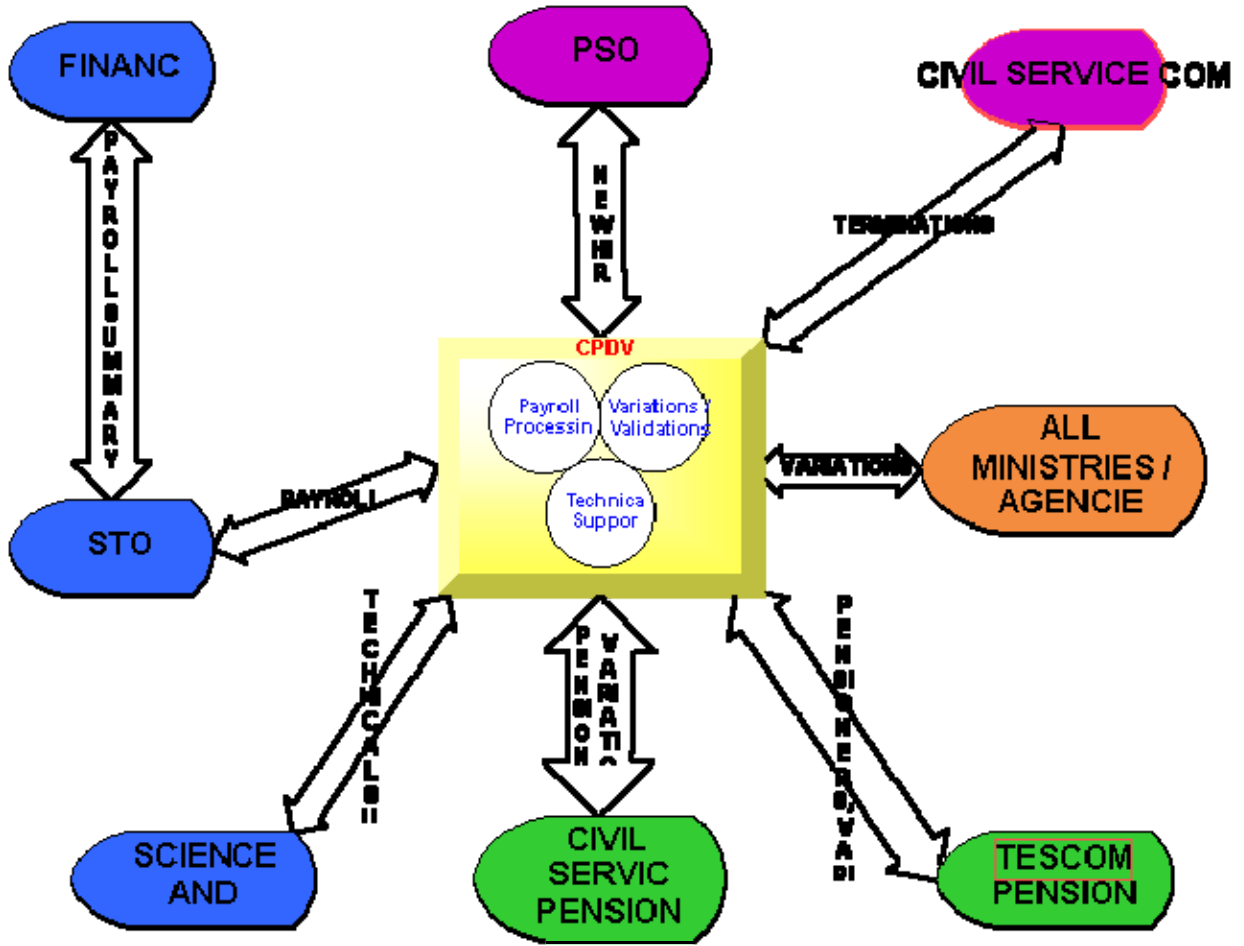
Ministries, Departments, and Agencies (MDAs) prepare variations for employees in their respective ministries for validation by CPDVD, checking, reconciles and confirms the monthly checklist before CPDVD does the final payroll run

Reporting, reconciliation, and control: HR Reports – monthly, the PSO and Ministry of Establishment, etc. forwards to Payroll, new entrants reports for(new) employees created on GL 7 and above or GL 1 to 6 respectively in that month. Both the permanent secretary and the HR Director must sign this report. Payroll compares these reports with new entrants reports generated monthly and sent to the Central Internal Audit (CIA). The Civil Service Commission (CSC) sends twice-yearly reports of those statutorily retiring within the next 6 months to Payroll. The first in January for those retiring between January and June and the second is July for those retiring between July and December.

Voluntary Resignations/Hold on Pay (HOPs)/do not Pay (DNPs) - with the implementation of the centralized e-payment salary process in February 2012, Payroll sends an e-payment bank schedule to all MDAs monthly to indicate staff that should be off payroll in the remarks section. The permanent secretary, the director of accounts, the director finance and admin and the internal auditor of the MDAs must sign this schedule.

Reconciliations - Payroll generates monthly Oracle reports of exit and offpayroll, reconciles this with reports received and sends copy to the Central Internal Audit (CIA) Department. Payroll also forwards to monthly reconciliations of population and values between prior and current month done immediately after payroll run to the CIA. Further, Payroll submits the reconciliations with the payroll figure to the governor for approval.

Chart 3.18: Diagrammatic Representation of the Lagos State Payroll Control Process: Relationship between the Central Payroll and Data Validation Department (CPDVD) and Other Ministries/Agencies



Reforms Underway and Ongoing

PI-19: Transparency, Competition, and Complaints Mechanism in Procurement¹⁷²

¹⁷² This is the new title of the indicator following an amendment in September 2010. The old title was, “Competition, Value for Money, and Controls in Procurement”

Public procurement (PP) accounts for between 20 and 70 percent of total public spending, and 15% and 30% of GDP and more.¹⁷³ PP in advanced and developed economies, where private sector involvement in provision of social services (health care, education, public infrastructure, etc.) is very high, is closer to the lower margins. However, in many developing and emerging economies where the Government directly provides social and economic services, it is closer to 70 percent.¹⁷⁴ In all societies, public procurement is an important part of the PFM process. “Few activities create greater temptations or offer more avenues for corruption than public procurement. Damage from corruption is estimated at normally between 10% and 25%, and in some cases, as high as 40 to 50%, of the contract value.”¹⁷⁵ The higher the proportion of public resources procurement consumes, the greater the attention it deserves in the public financial management process.

The importance of public procurement in securing a good and effective PFM system is the reason for which the PEFA PFM Measurement Framework pays much attention to it. *PI-19* devotes entirely to public procurement; however, it is only one of about 10 indicators that bear on the subject. Other procurement related indicators include *PI-4, PI-10, PI-12, PI-16, PI-20, PI-21, PI-26, and PI-28*.

PI-19 focuses on the quality and transparency of the procurement regulatory framework and the extent to which open and fair competition is the preferred method of public procurement. An open and transparent procurement process recognizes the existence of circumstances that may warrant use of a less competitive method e.g., in certain security contracts or in emergencies. The procurement system therefore clearly defines the alternatives to open competition and outlines the exceptional situations that would justify their use. In this way, a properly functioning procurement system ensures effective and efficient use of resources and promotes value for money.

A recent amendment revised the indicator from three to four dimensions. While the first dimension deals with the scope of the legal and regulatory framework, the other three dimensions focus on how the system operates practice. The dimensions now itemizes features of a good PP system and determines the score by counting the number of features met. *Table 3.19a* presents the three dimensions of this indicator and their ratings.

Dimensions of Measurement		2012 Assessment		2009 Baseline Assessment	Explanation	
		Score	Framework Requirement	Score		
(i)	Transparency, comprehensiveness and competition in the legal and regulatory framework	C	<i>The legal and regulatory framework for procurement should</i>		Not comparable	Not comparable; the new methodology uses 4 dimensions,
			<ul style="list-style-type: none"> • be organized hierarchically and precedence is clearly established 	√		
			<ul style="list-style-type: none"> • be freely and easily accessible to the public through appropriate means 	√		

¹⁷³ TI Handbook on Curbing Corruption on Public Procurement (2006), www.transparency.org/content/download/12496/120034; Fighting Corruption and Promoting Integrity in Public Procurement, 2005, www1.fidic.org/resources/integrity/corrupt_proc_OECD-rapport-2005-aase.pdf

¹⁷⁴ Concept Note of the High Level Forum on Public Procurement Reforms in Africa organized by the African Development Bank (AfDB), in partnership with the Common Market for Eastern and Southern Africa (COMESA), the West African Economic and Monetary Union (WAEMU), the African Capacity Building Foundation (ACBF), the Organization for Economic Co-Operation and Development (OECD) and the World Bank (WB), will be organized in Tunis, Tunisia, on 16th and 17th November 2009

¹⁷⁵ Transparency International (TI): TI Handbook on Curbing Corruption on Public Procurement (2006), www.transparency.org/content/download/12496/120034

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Table 3.19a: Transparency, Competition, and Complaints Mechanism in Procurement

Dimensions of Measurement		2012 Assessment		2009 Baseline Assessment	Explanation
		Score	Framework Requirement	Score	
			<ul style="list-style-type: none"> apply to all procurement undertaken using government funds 	√	instead of 3, & is more comprehensive. The major reform since 2009 is the enactment of the PPL 2011 (but which took effect from April 2, 2012), but the law does not embody many of the good practices of modern public procurement. Besides, the law will not take full effect until a two-year capacity building period i.e., until 2014
			<ul style="list-style-type: none"> make open competitive procurement the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified 	X	
			<ul style="list-style-type: none"> provide for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints 	X	
			<ul style="list-style-type: none"> provide for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature 	X	
(ii)	Use of competitive procurement methods	D	Data not supplied		
(iii)	Public access to complete, reliable and timely procurement information	D	The public does not have access to any of the key procurement information listed		
(iv)	Existence of an independent administrative procurement complaints system	D	<p>Complaints are reviewed by a body which</p> <ul style="list-style-type: none"> is comprised of experienced professionals, familiar with the legal framework for procurement, and includes members drawn from the private sector and civil society as well as government is not involved in any capacity in procurement transactions or in the process leading to contract award decisions does not charge fees that prohibit access by concerned parties follows processes for submission and resolution of complaints that are clearly defined and publicly available exercises the authority to suspend the procurement process issues decisions within the timeframe specified in the rules/regulations issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority) 	X X X X X X	
	Score (Method M2)	D		D+	

Rationale for the Score

Dimension (i): Transparency, comprehensiveness and competition in the legal and regulatory framework

Key questions

Is the legal and regulatory framework for procurement:

- (i) organized hierarchically and precedence clearly established;
- (ii) freely and easily accessible to the public through appropriate means;
- (iii) applied to all procurement undertaken using government funds;
- (iv) making open competitive procurement the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified;
- (v) providing for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints;
- (vi) providing for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature?

The major development here since the 2009 assessment is the passage of the Lagos State Public Procurement Law 2011, which took effect on April 2, 2012,¹⁷⁶ but with certain provision suspended until 2014 or later.¹⁷⁷ The law falls short of the modern standards or the principles embodied in the UNCITRAL model Law in several respects as shown below.

Hierarchical organization of establishment of precedence – the Law does not define a hierarchy, but empowers the Public Procurement Agency to determine “approval and prior review benchmarks”. Although the Agency has not set any, existing rules define approval limits for the ministerial tenders’ boards (MTBs) contracts from ₦500,000 to ₦10 million) and the State Tenders’ Board (STB), contracts above ₦10 million. However, contracts evaluated by MTBs and the STB are subject to further approval as follows Commissioner for Economic Planning and Budget (up to ₦5 million), the governor (above ₦5 million to ₦100 million), and cabinet (state executive council), above ₦100 million.¹⁷⁸

Public access to the legal framework – the government has published the new law in its official gazette,¹⁷⁹ making it publicly available.¹⁸⁰ The Law is not available on the state government’s website.

Applicability to all procurement undertaken using government funds – s. 71 of the Law makes it applicable to all procurements with public funds of the state and its local governments.

Open competitive procurement as the default method of procurement – the Law limits the impact of its own provision by making open competition applicable to only contracts above ₦100 million.¹⁸¹ This is more than \$625,000 at current exchange rate. Many of the contracts the state awards fall into this category, although in value, the huge road construction works may be more. Open competition need not imply international competitive bidding (ICB) or national competitive bidding (NCB). Various other means of advertisement could apply, e.g., publication in the procurement journal, website, local daily, notice boards, etc. This is the case under current practice¹⁸² Current STB rules allow open competition for contracts below the new threshold as *Chart 3.19* shows.

Chart 3.19: Procurement Methods under Current STB Guidelines, www.stb.lagosstate.gov.ng, sourced on

¹⁷⁶ See s. 74 of the Lagos State PPL

¹⁷⁷ See s. 25(c), (d)

¹⁷⁸ See circular ref. No. MEPB/B/S.2006/S.20A/192/62, circular no. MEPB/B/2008/5 of 29 July, 2008, titled, *Delegation of Financial Authority and Approval Limits*

¹⁷⁹ Gazette No. 6, Vol. 45, 31 January, 2012, ISSN 0 189-0174 (*Extraordinary*)

¹⁸⁰ This is probably debatable, whether gazetting makes a document freely accessible in today’s Nigeria.

¹⁸¹ Section 31(4, 5)

¹⁸² See Guidelines for the Award of Contracts on the State Tenders Board website, www.stb.lagosstate.gov.ng

May 30, 2012

Contract Value	Advertisement Media
N500,000 – N5m	Notice Board of Procuring Agencies
N5m – N10m	Notice Board, Alausa Alert and One (1) National Newspaper
N10m – N50m	Notice Board, Alausa Alert, One (1) National Newspaper, LASG Website
N50m and above	Notice Board, Alausa Alert, two (2) National Newspaper, LASG Website

However, by expressly providing that open competitive bidding shall not apply to contracts below ₦100 million, the PPL allows restrictions on competition and transparency in public procurement.

Providing for public access to key procurement information – the Law does not contain provisions on free access to bidding opportunities through open competitive bidding,¹⁸³ subject to the foregoing discussion. There is no provision on free access to government procurement plans, contract awards, and data on resolution of procurement complaints.

Providing for an independent administrative procurement review process prior to contract award – the Law weakens its own provision in this regard by subjecting appeals to the state executive council (cabinet) as final arbiter.¹⁸⁴ An aggrieved party can appeal to the procuring entity, the agency, and the Lagos State Executive Council (cabinet) in that order. The appeal to the cabinet shall be final and there is no provision for proceeding to the courts. The cabinet cannot be an independent arbiter because the political head of the agency that the complaint is against is its member. This violates a key principle.

Dimension (ii): Use of competitive procurement methods

Key questions

1. Do existing legislation & regulatory requirements clearly establish open competition as preferred method of procurement?
2. If yes, how regular & strong is justification for use of less competitive methods?
3. Are less competitive methods justified in accordance with regulatory requirements?

There is no data to evaluate this.

Dimension (iii): Public access to complete, reliable and timely procurement information

Key question

Is key procurement information, (government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints) made available to the public through appropriate means?

¹⁸³ Sections 22 and 31

¹⁸⁴ Sections 67 and 68

The public does not have access to procurement documents. Similarly, the public does not have access to data on resolved cases. The State Tenders' Board website contains guidelines for registration of contractors, procurement guidelines, and some on projects. However, it does not show value of the contracts. Further, the information is stale dating back to 2009.

Dimension (iv): Existence of an independent administrative procurement complaints system

Key questions
 Are complaints reviewed by a body which:

- (i) is comprised of experienced professionals, familiar with the legal framework for procurement, and includes members drawn from the private sector and civil society as well as government;
- (ii) is not involved in any capacity in procurement transactions or in the process leading to contract award decisions;
- (iii) does not charge fees that prohibit access by concerned parties;
- (iv) follows processes for submission and resolution of complaints that are clearly defined and publicly available;
- (v) exercises the authority to suspend the procurement process;
- (vi) issues decisions within the timeframe specified in the rules/regulations; and
- (vii) issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority).

There is no independent procurement appeal and resolution process in the state.

Reforms Underway

The new PPL law took effect from April 2, 2012. The government has appointed a general manager for the Public Procurement Agency. The next stage is to develop capacity both in the Agency and in MDAs to implement the Law.

PI-20: Effectiveness of Internal Controls for Non-Salary Expenditures

This indicator examines the effectiveness of internal control procedures for non-salary expenditures.¹⁸⁵ Effective, internal controls are relevant, comprehensive, easily understood, widely accepted, and substantially complied with. Compliance is particularly crucial to controls effectiveness. Circumvention of internal controls must be occasional, occurring only in genuine and exceptional emergencies. Such circumvention must be transparent and open (that is, the circumstances surrounding it must be clear and not shrouded in secrecy). Proper documentation of the necessity for and process of any circumvention is vital, since it will inevitably result in an audit trail.

In addition to their many values and contributions to the PFM system, effective internal controls are important to protect the integrity of the procurement process. Weak controls create gaps that could lead to errors, wastes, and potentially, fraud.

Table 3.20 outlines the three dimensions of this indicator, their ratings, and the overall score.

<i>Table 3.20: Effectiveness of Internal Controls for Non-Salary Expenditure</i>			
Dimensions of	Current Assessment (2012)	Score in	Explanation

185 Dealt with under PI-18

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Measurement	Evidence Used	Score	Framework Requirement	Information Source	2009 Baseline Assessment	of Change since Baseline Assessment
Score (Method M1)		C+			C+	
(i) Effectiveness of Expenditure Commitment Controls	Expenditure commitment controls are only partially effective, leading to annual over commitment of the budget in some MDAs	C	(i) Expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditures or they may occasionally be violated.	Ministry of Economic Planning & Budget/State Treasury Office	C	No change in baseline assessment
(ii) Comprehensiveness, relevance, and understanding of other control rules/procedures	Other rules are clear, but multiple levels of approvals promote inefficiency and add little to control.	C	(ii) Other internal control rules and procedures consist of a basic set of rules for processing and recording transactions, which are understood by those directly involved in their application. Some rules and procedures may be excessive, while controls may be deficient in areas of minor importance.	State Treasury Office	B	Clarification provided in 2012 shows executive approval of payments has always be part of the Lagos state system; this shows overrating in 2009
(iii) Degree of compliance with rules for processing and recording transactions	There is evidence of compliance with rules in the majority of cases, but audit reports continue to cite cases of some “major unreserved issues” as in 2009	C	(iii) Compliance with rules is fairly high, but simplified/emergency procedures are used occasionally without adequate justification.	Ministry of Economic Planning & Budget/State Treasury Office	C	No change in baseline assessment

Rationale for the Score

Dimension (i): Effectiveness of expenditure commitment controls

Key questions

1. Are there expenditure commitment control systems in place?
2. How do they operate in practice?
3. Are they respected, or are they overridden at top level?
4. Do they cover all expenditures?
5. Do they effectively limit commitments to projected cash availability & approved budget allocations for most types of expenditures or for all expenditures?

Expenditure commitment controls are only partially effective, leading to annual over commitment of the budget in some MDAs. Extant commitment control rules prohibit expenditure above budget provisions, aggregate and sectoral. Thus for example, the government may not exceed the aggregate approved budget, neither may it overspend specific budget heads. The constitution makes it clear that the state may only incur expenditure as appropriated by the House of Assembly,¹⁸⁶ this includes both respecting both the total and composition of the budget. The Lagos State Public Financial Management Law, 2011 reiterate the same principles by providing that withdrawals from the state's Consolidated Revenue Fund (CRF) shall only be to meet payments authorized in a Law of the House of Assembly or the Constitution of Nigeria.¹⁸⁷

However, the rules are not working, as they should. The existence of arrears of contract payments is evidence of commitment above cash capacity. Besides, audit reports regularly show some MDAs overspend their budgets. *Table 3.20b* shows MDAs with excess capital and recurrent expenditures¹⁸⁸ in fiscal 2010. Eighteen MDAs overspent their capital budgets and 22 their recurrent budgets. Similar overspending was evident in 2009. The baseline PEFA assessment of 2009 also report the same for the period 2006 – 2008. This shows that commitment controls do not work in the MDAs that override their budget limits.

Inability to use cash planning and forecast to guide expenditure commitment adversely affects commitment controls and thus the level of expenditure payment arrears. Although release of a general warrant at the beginning of the fiscal year may be an authority to incur expenditure, it is not a reflection of cash realities and payment abilities, as explained under *PI-16*. Thus, MDAs expenditures do not reflect actual cash availability and timing. Besides, failure to use a single treasury account (STA) or to consolidate cash balances periodically (*PI-17*)¹⁸⁹ leaves idle balance of cash in MDAs vault while the government reprioritizes the budget by taking funds from some budget heads to another. Mopping up idle cash will also help reduce short term cash pressure.

Disabling of the commitments control feature of Oracle Financials allows occasional overriding of commitment controls.

¹⁸⁶ Section 121, 1999 Federal Republic of Nigeria Constitution as amended

¹⁸⁷ Section 8, Lagos State Public Financial Management Law, 2011

¹⁸⁸ Above the revised budget, not the original budget

¹⁸⁹ The state claims to be doing this, but the evidence suggests otherwise or that it is ineffective.

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Table 3.20b: Schedule of MDAs with Excess Capital & Recurrent Expenditures in 2010 (Naira Million)								
Capital Expenditure				Recurrent Expenditure				
	Estimate	Actual	Excess		Estimate	Actual	Excess	
1	20,900.00	37,838.14	(16,938.14)	1	1,664.48	4,561.44	(2,896.97)	Health
2	41,107.82	44,884.49	(3,776.67)	2	18,116.61	20,696.36	(2,579.75)	Chief of staff
3	500.00	3,704.10	(3,204.10)	3	5,848.94	7,994.70	(2,145.76)	Health Services Commission
4	1,000.00	2,620.95	(1,620.95)	4	3,070.88	4,832.27	(1,761.39)	Education District II
5	4,220.00	5,714.53	(1,494.53)	5	3,939.31	5,462.20	(1,522.89)	Education District I
6	4,012.40	5,093.79	(1,081.39)	6	4,735.00	6,229.71	(1,494.71)	Gratuity & Pension (civl & teachers)
7	39,000.00	40,044.54	(1,044.54)	7	367.33	1,553.54	(1,186.21)	Motor Vehicle Administration Agency
8	1,472.00	2,206.87	(734.87)	8	4,571.27	5,396.30	(825.03)	Education District VI
9	2,500.00	3,186.60	(686.60)	9	3,601.39	4,136.18	(534.79)	Education District VI
10	500.00	975.61	(475.61)	10	2,639.31	3,141.14	(501.83)	Education District IV
11	1,250.00	1,627.16	(377.16)	11	154.54	638.08	(483.54)	Civil Service Pensions Office
12	-	198.06	(198.06)	12	1,915.66	2,341.53	(425.87)	Education District III
13	1,063.75	1,240.10	(176.34)	13	1,641.92	1,810.38	(168.46)	Lagos State Judiciary
14	100.00	251.26	(151.26)	14	1,344.51	1,474.10	(129.59)	Ministry of Education
15	30.00	70.46	(40.46)	15	394.63	463.70	(69.06)	Physical Planning
16	-	14.73	(14.73)	16	141.27	162.74	(21.47)	Housing
17	-	2.31	(2.31)	17	350.63	361.40	(10.77)	Rural Development
18	10.00	11.25	(1.25)	18	237.34	245.84	(8.50)	Office of Infrastructure
Total	117,665.97	149,684.94	(32,018.96)	19	175.87	180.96	(5.09)	Civil Service Commission
Note: agg actual capital expenditure fell short of the budget by 69,328.08 million				20	36.85	38.75	(1.89)	Valuation Office
Aggregate Capital Expenditure	314499.282	245,171.20	69,328.08	21	93.76	94.59	(0.83)	Auditor General - LGs
				22	125.09	125.13	(0.04)	Cabinet Office
				Total	55,166.59	71,941.04	(16,774.45)	
				Note: agg actual recurrent expenditure fell short of the budget by 34,285.91 million				
				Aggregate Recurrent	178,004.02	143,718.11	34,285.91	

Source: 2010 Audit Report, pp 4 - 6

Dimension (ii): Comprehensiveness, relevance, and understanding of other control rules/procedures

Key questions

1. Are there clear & comprehensive control rules/procedures in other important areas?
2. If yes, are they excessive?
3. Are they well understood by those directly involved in their application?
4. Are they efficient & do they contribute to reduce unnecessary delays?
5. Are they comprehensive & cost-effective?

Other rules are clear, but multiple levels of approvals promote inefficiency and add little to control. Existing rules are excessive in some respects. For example, project approval and payment procedures described in *PI-16* show roles for the Ministry of Economic Planning & Budget and governor that add little or no value to controls. For example, the Treasury arranges vouchers for the governor to select the order of payment. These are treasury functions. The governor's involvement in this purely treasury function constitutes excessive control and a potential source of delay.¹⁹⁰

During the 2009 assessment, the Ministry of Finance had an *Accounting and Procedural Manual* for use in the accounting and treasury operations. The manual was comprehensive clear, covering

- The government's accounting principles and policies
- Rules for financial planning and control including virement,
- An explanation of the financial system
- Revenue control and accounting procedures
- Expenditure control and accounting procedures
- Payroll control and accounting rules and procedures

¹⁹⁰ Clarification provided in 2012 shows executive approval of payments has always be part of the Lagos state payment system; this shows overrating in 2009.

- Rules for treasury operations (investment and banking)
- Accounting and control of payroll
- Contract and tender processes
- Accounting for and control of stores
- Accounting for and control of fixed assets
- Public finance and debt management rules
- Internal and external audit rules and procedures
- Financial and statutory reporting procedures

However, new evidence suggests that some top political heads of units may not be aware of the existence of this manual. This appears to be a sensitization issue. The Treasury appears to be revising the manual to reflect the new Public Financial Management Law.

Dimension (iii): Degree of compliance with rules for processing and recording transactions

Key questions

1. In routine financial procedures, are there any error rates or rejection rates compiled? What do these rates imply for assessing the understanding of rules, & compliance with them?
2. Is compliance with rules low, fairly high or high?
3. How widespread is the unjustified use of simplified/emergency procedures?

There is evidence of compliance with rules in the majority of cases, but audit reports continue to cite cases of some “major unreserved issues” as in 2009. Here is a sample taken from the 2010 audit report.¹⁹¹

- “Serious delays in issuance of receipts by the monitoring agent for revenue paid into designated banks... in some cases, lodgment could not be traced to the agent’s manifest”
- “few cases of insufficient documentation supporting purchases and failure to account for stores properly”
- Prevalence of “delayed return of unpaid salaries to chest ... thereby encouraging fraudulent tendencies of teeming and lading”
- Failure to present outstanding payment vouchers for audit examination
- Failure to retire vouchers
- Failure to receipt vouchers properly
- Failure to resolve “differences in bank reconciliation of the state government revenue accounts and records of the revenue consultants”

Reforms Underway

No reforms are evident in this area.

PI-21: Effectiveness of Internal Audit

This indicator assesses the effectiveness of internal audit and its ability to provide sufficient and timely feedback to management. It also assesses its ability to support the work of the Supreme Audit Institution (SAI), that is, the Auditor General of the State. It assesses the extent to which internal audit functions as a systems monitoring process (rather than merely as a prepayment audit unit¹⁹²). It also assesses the ability of internal audit to produce relevant and timely reports. In addition, it examines how management reacts to internal audit reports. These functions help the internal audit play a very important role in

¹⁹¹ 2010 Audit Report, pp v - vi

¹⁹² PEFA considers prepayment audit to be part of internal controls assessed under *PI-20*.

protecting the integrity and sanctity of the procurement process. The high level of public procurement in Lagos State underscores the potential critical role that internal audit could play in securing effectiveness of the PFM system in the state.

To discharge its functions effectively, the internal audit unit must possess the key twin attributes of professionalism and independence. *International Standards for the Professional Practice in Internal Audit (ISPPIA)*, issued by the **Institute of Internal Auditors (IIA)** provide a guide to good internal audit practices.

This indicator has three dimensions as set out in *Table 3.21* with the applicable ratings and overall score for Lagos.

<i>Table 3.21: Effectiveness of Internal Audit</i>						
Dimensions of Measurement	Current Assessment (2012)				Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement	Information Source		
Score (Method M1)		C+			C+	
(i) Coverage and quality of internal audit function	The Central Internal Audit (CIA) in the Ministry of Finance audits all departments of the central government (i.e., excluding parastatals, which have separate internal audit units), but systems audit remains the weak link as in 2009; audit procedures are basic and do not conform to ISPPIA or IIA standards	C	(i) The function is operational for at least the most important central government entities and undertakes some systems review (at least 20% of staff time), but may not meet recognized professional standards	Central Internal Audit (CIA) Department of the Ministry of Finance/Audit Reports	C	No change from baseline performance
(ii) Frequency and distribution of reports	The CIA issues monthly reports, but not according to a fixed schedule. Copies of reports go to the Accountant General, Auditor General, Commissioner for Finance, the Permanent Secretary for Finance, the Public Service Office	B	(ii) Reports are issued regularly for most audited entities and distributed to the audited entity, the ministry of finance and the SAI		B	

Dimensions of Measurement	Current Assessment (2012)			Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement		
(iii) Extent of management response to internal audit findings	In addition to response of heads of units to internal audit queries, the Head of Service also queries erring officials.	C	(iii) A fair degree of action taken by many managers on major issues but often with delay		C

Rationale for Score

Dimension (i): Coverage and quality of internal audit function

Key questions

1. Who is in charge of internal audit?
2. Is internal audit separate and independent of payment and accounting processes?
3. How operational is audit function & which entities of Central government does it cover? What % of total expenditure is covered?
4. Does internal audit focus on systems (as opposed to individual transactions)?
5. If yes, how much of staff time is spent on systemic issues (20%, 50%, other).
6. Does internal audit meet recognized professional standards?

The Central Internal Audit (CIA) in the Ministry of Finance audits all departments of the central government (i.e., excluding parastatals, which have separate internal audit units), but systems audit remains the weak link as in 2009; audit procedures are basic and do not conform to ISPPA or IIA standards. Unlike in the federal government and most other states, internal audit in Lagos State is not a Treasury function. It is an independent function reporting to the permanent secretary of the Ministry of Finance. Internal audit functions include 100 percent prepayment audit of vouchers. While it is not easy to estimate the amount of audit time this takes, it distracts from the core audit task of systems oversight and reporting. Audit does not meet modern tests of professionalism and independence (*see Box 3,21*).

Dimension (ii): Frequency and distribution of reports

Key questions

1. Are internal audit reports issued?
2. With what frequency?
3. Are reports issued regularly for most government entities?
4. Are reports distributed to the audited entity, the MoF & SAI?

The CIA issues monthly reports, but not according to a fixed schedule. Internal auditors of MDAs prepare monthly reports for most audited units, which they send to their accounting officers and the director of the CIA. The CIA consolidates the reports by easing out critical issues for distribution to Finance, Treasury, State Audit, and the Head of Service (Public Service Office). However, compliance is not 100 percent in all the ministries. There are indications of delays, and sometimes non-performance, in a small number of MDAs.

Dimension (iii): Extent of management response to internal audit findings

Key questions

1. Are internal audit recommendations addressed by government managers?
2. Is a fair degree of action or comprehensive action taken by managers on major issues?
3. Is action taken by many managers or across central government entities?
4. Is action taken immediately or with delay?

In addition to response of heads of units to internal audit queries, the Head of Service also queries erring officials. Many MDAs act on internal audit findings. However, the 2009 finding of more enthusiastic response to the external auditors query remains valid. The reason may be that the Public Accounts Committee of the State House of Assembly does not enforce internal audit findings as it does external audit findings. However, the Head of Service now issues queries to accounting officer of erring MDAs. Besides, there is evidence of recent systemic changes to the payroll process following internal audit findings and recommendations (see PI-18 above).

Box 3.21: The Internal Audit Function in Lagos State

The internal audit function in Lagos State belongs to the Central Internal Audit Department, a department of the Ministry of Finance. A director heads the CIA. Its responsibilities include monitoring of compliance with statutory rules and regulations and involves monitoring of administrative units, systems audit, and payment vouchers audit (pre-payment audit). The Department deploys internal auditors to all MDAs. In 2009, there were 185 internal auditors posted out to 75 MDAs.

In addition to prepayment audit, these internal auditors review the accounting and internal control systems, conduct periodic stock taking and assets verification exercises, conduct staff audits, etc. In particular, internal auditors prepare monthly reports, highlighting weaknesses and areas of divergence from the rules, and recommend remedial actions. Internal audit plays an important role in payroll controls and staff audit (see PI-18 above). For example, it features prominently in the reconciliation of monthly payroll and personnel records, and investigation of HOP and DNP cases. It is also key in recent systems security changes. However, it is not clear that staff have acquired the necessary training, skills, and expertise to ‘sit on top of’ the Oracle systems security.

Internal auditors send copies of their monthly reports to the Director of the Central Internal Audit Department, who prepares a consolidated monthly report. Distribution list of the consolidated report includes the Commissioner for Finance, the Permanent Secretary, Account General, State Auditor General, and the Public Service Office. The monthly reports are regular, but not necessarily timely.

The Central Internal Audit Department faces a number of critical challenges. These include (i) need for a higher standard of professionalism (ISSIPIA/IIA standards) and independence (real as opposed to apparent), and (ii) specialized training, especially in systems security and auditing and particularly in relation to the Oracle solutions. It will also help to remove internal audit from performing the purely account function of prepayment audit. This will enhance their independence and accord with modern practice. The current organizational arrangement of the Lagos CIA may be among the best in the country, but it needs to measure up to modern tests of independence and professionalism. Real independence involves four key tests, administrative, political, emotional, and financial.

Reforms Underway

3.5 Accounting, Recording, and Reporting

The accounting and reporting process is key in supporting the PFM system to secure and strengthen its integrity. The accounting system maintains, produces, and disseminates records and information for critical decision making and control. This set of indicators, *PI 22 – 25*, recognizes this and seeks to measure how effectively the accounting system helps the PFM system to discharge this function.

PI-22: Timeliness and Regularity of Accounts Reconciliation

This indicator is a critical part of the internal control function. It assesses a key measure contributing to securing reliability and integrity of financial information, i.e., reconciliation of accounts. It measures the requirement of constant checking and verification of recording practices of accounts; in particular,, to what extent, there is proper reconciliation of bank and book balances, It also assesses the treatment of suspense accounts and advances. Advances refer to cash payments made but for which there has not been any record of expenses, even if such payments are for a purpose. They include travel advances and operational imprests, but exclude budgeted transfers (subventions) to parastatals and local government classified as expenditures when effected, even if periodic reporting on any earmarked portion is the norm. Timeliness and frequency of reconciliation are critical and fundamental to reliability. The indicator has two dimensions, regularity of bank reconciliation, and regularity of reconciliation and clearance of suspense accounts. *Table 3.22* presents the ratings and the indicator score.

<i>Table 3.22: Timeliness and Regularity of Accounts Reconciliation</i>						
Dimensions of Measurement	Current Assessment (2012)				Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement	Information Source		
Score (Method M2)		D			NR	
(i) Regularity of bank reconciliations	Treasury managed revenue accounts are in arrears of reconciliation; material differences remain unresolved in expenditure accounts; MDA accounts not regular	D	Bank reconciliation for all Treasury managed bank accounts take place less frequently than quarterly OR with backlogs of several months	State Treasury Office/Audit reports for 2008, 2009, and 2010	B	OVERRATING OF THE 2009 ASSESSMENT
(ii) Regularity of reconciliation and clearances of suspense accounts and advances	Uncleared suspense accounts exist at the yearend; the suspense accounts comprise of various items; audit complains about the handling of suspense accounts annually.	D	Reconciliation and clearance of suspense accounts and advances take place either annually with more than two months" delay, OR less frequently		NR	AVAILABLE EVIDENCE ENABLED THE RATING OF THE DIMENSION IN 2012, WHICH WAS NOT THE CASE IN 2009

Rationale for the Score

Dimension (i): Regularity of bank reconciliations

Key questions

1. Who undertakes reconciliation of central government bank account statements with the corresponding cashbooks?
2. How frequently are bank reconciliations made? (i) for all Treasury managed bank accounts, and (ii) for all other bank accounts (less than quarterly, quarterly, monthly, other)?
3. When does reconciliation take place after the period under consideration (i) for all Treasury managed bank accounts, & (ii) for all other bank accounts (8 weeks, 4 weeks, other)? How many bank accounts are there (i) Treasury managed, (ii) other?
4. Does bank reconciliation take place at aggregate & detailed levels?
5. Are there any significant unresolved differences between treasury records & bank account information?
6. When was the last reconciliation for which all differences have been satisfactorily explained?

The 2010 audit report states that the State Treasury Office operated 179 bank accounts in 2010.¹⁹³ The accounts comprise 134 revenue, 16 expenditure, and 29 domiciliary accounts. These are different from MDA accounts, numbering about 128. There are issues with reconciliation of the revenue accounts. Although the Treasury ‘owns’ the revenue accounts, state appointed consultants control and monitor lodgments into them, issue receipts to revenue payers, and render reports periodic reports to the STO. The STO also receives statements from the collecting banks. There is thus need to reconcile the revenue accounts with both the bank and the consultants. There are issues, however. First, reconciliation is neither timely nor complete. Audit comments that, “*the State Treasury Office should deploy more resources to ensure that reconciling differences in bank reconciliation of state government revenue accounts in the records of the revenue consultants, the state government bankers, and the State Treasury Office are harmonized*”. Audit further notes that, “*reconciliation of revenue accounts is complicated by the fact that data in respect of the numerous banks are not replicated in the State Treasury Office. This has prevented the use of online services to effect reconciliation*”.¹⁹⁴ The audit reports also, “*reiterate our earlier comment*¹⁹⁵ *for an urgent need to reconcile the revenue figures of the State Treasury Office (STO) with those of the revenue consultants (Alpha Beta Consulting Limited). We noted that attempt at reconciliation had started in 2010 accounts, but there are however, many issues still to be resolved that necessitate immediate action*”.¹⁹⁶

Although the STO reconciles expenditure accounts, material differences remain unexplained. Table 3.22b is a schedule of unexplained differences, post reconciliation. The audit reports also complain about them, recommending that “*all reconciling differences be cleared promptly*”¹⁹⁷.

¹⁹³ However, the financial statements list 226 revenue, 32 expenditure, and 17 domiciliary bank accounts. In addition, the statements list six call, 43 dedicated, six car loan, 12 other, and 128 MDA, making a total of 463 commercial bank accounts in 2010 (*see PI-17(ii) above*). The wording of the audit report is “operated”. Perhaps, this means the state operated only those numbers of accounts out of the total (?).

¹⁹⁴ 2010 audit report, p. 6

¹⁹⁵ In previous years’ audit reports

¹⁹⁶ See 2010 audit report, p. 7

¹⁹⁷ See 2010 audit report, p. 7

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Table 3.22b: Schedule of Expenditure Accounts with Unexplained Post-Reconciliation Differences

	Bank	Account No.	Bal per C/book after Reconciliation	Bal per Bank Statement
1	Fidelity Bank	... 019	(565.72)	34.24
2	FCMB	... 001	14,544.75	407.67
3	First Bank of Nigeria	... 143	13,532.41	352.49
4	FBN (Crude)	... 338	287.54	31.06
5	Guaranty Trust Bank	... 300	7,111.57	4.80
6	UBA	... 274	10,344.14	431.26
7	Intercontinental Bank	... 848	504.75	5,537.22
8	Skye Bank (Salary)	... 631	(2,915.47)	537.68
9	IBTC	... 051	(403.01)	175.18
10	Zenith Bank Plc	... 257	5,929.95	593.71
11	Oceanic Bank Plc (VAT)	... 710	(4,460.37)	8.56
12	Skye Bank (Exp)	... 077	4,434.55	527.67
13	Access Bank	... 435	5,685.50	6,818.27
14	Sterling Bank	... 000	3,054.87	355.39
15	Bank PHB	... 068	2,382.43	214.22
16	Fin Bank	... 051	(427.14)	45.57

Source: 2010 Audit Report, page 7

There are also issues with reconciliation of MDA accounts. The audit report points this in its comments on audit of MDAs.

Dimension (ii): Regularity of reconciliation and clearances of suspense accounts and advances

Key questions

1. How many suspense accounts & advance payments are there & what funds are allocated to them (for travel allowances, construction advances, other)?
2. What are rules that govern suspense accounts & advance payments?
3. How frequently does reconciliation & clearance of suspense accounts & advances take place (annually, quarterly, other)?
4. How long after period under consideration does reconciliation & clearance of suspense accounts & advances take place (more than two months, within two months, within a month)?
5. Is the number of accounts with un-cleared balances brought forward significant? Or just some of the accounts?

Many suspense accounts with outstanding balances exist in the Lagos state books. Account codes 10291 to 10299 represent suspense accounts taking care of treasury clearance accounts, i.e., about 100 accounts. Treasury clearance accounts are running costs (imprests) that the Treasury gives to MDAs. The Treasury debits this into the books awaiting retirement. Suspense accounts also hold bulk release to MDAs for approved expenditures they carry out at their discretion. An example is the monthly advance of ₦250 million monthly and ₦150 million monthly given to the Public Works Corporation before and during the rainy season for road maintenance. They remain clearance accounts until retired. Evidence suggested at the assessment workshop is the Treasury clears suspense accounts 'regularly' by cancelling out the accounts by debiting the necessary expenditure lines. Amounts not cancelled out shows the agencies have not retired them. The rules require that MDAs retire all advances at the end of the year.

However, the books show annually outstanding suspense account figures. For example, 'remittances within Lagos State' show as ₦(7.59) billion and ₦(3.42) billion at end of fiscal 2009 and 2010

respectively.¹⁹⁸ Details of the 2010 figure are as in *Table 3.22c*. The details show several more items contribute to suspense account balances than bulk transfers and running costs to MDAs.

Transfer (from/to) STO	(89.42)
Bank charges recoverable from STO	34.24
OT interbank transfer	2.92
Bulk releases	(6,217.530)
Pensions Control Account	6.56
Receivable – global	2,838.83
Total	(3,424.40)
<i>Source: Report of the Accountant General – Financial Statement 2010, page 81</i>	

Commenting adversely on these accounts, audit 2010 wrote, “these accounts should normally have a NIL balance if properly maintained. Remittances to each agency should be treated as receipts and payments by agencies and the State Treasury office respectively. While there is appreciable reduction in these accounts in comparison with the previous year, the accountant general is still advised to institute stricter control over unreciprocated remittances in order to ensure that they are cleared before the closure of the book of accounts by the year end.”¹⁹⁹

Reforms Underway

No reforms are evident in this area.

PI-23: Availability of Information on Resources Received by Service Delivery Units

PI-23 measures the extent to which the PFM system tracks resources (whether in cash or kind) available to frontline service delivery units providing service at the community level (such as schools and health clinics). Such tracking is necessary given that frequently, frontline service delivery units suffer most when resources fall short because they are furthest in the resource allocation chain. In addition, there may be significant delays in providing resources to such units. It is crucial to track information on resource allocation and availability to such primary service delivery units in order to determine the extent to which the PFM system effectively supports frontline service delivery. *Table 3.23* presents the summary of performance at this level.

Dimensions of Measurement	Current Assessment (2012)				Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement	Information Source		
Score (Method M1)		C			NR	
(i) Effective collection and processing of information to demonstrate	SUBEB’s annual financial statements show cash contributions	C	Special surveys undertaken within the last 3 years have	State Universal Basic Education Board (SUBEB)/Hospitals Management Board	NR	Insufficient evidence did not permit rating in 2009

¹⁹⁸ See 2010 financial statement, page 25

¹⁹⁹ 2010 audit report, p. 9

Table 3.23: Availability of Information on Resources received by Service Delivery Units

Dimensions of Measurement	Current Assessment (2012)				Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement	Information Source		
resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to overall resources made available to the sectors(s) irrespective of which level of government is responsible for the operation of the funding unit	from the federal and state governments; its recently introduced reform is capturing in kind donations as well, but this may not be comprehensive.		demonstrated the level of resources received in cash and in kind by either primary schools or primary health clinics covering a significant part of the country OR by primary service delivery units at local community level in several other sectors			

Rationale for the Score

Key questions

1. Is data collected on resources received by service delivery units (mainly primary schools & primary health clinics)?
2. Which entity is in charge of this collection?
3. When was this done last?
4. Are both resources in cash & in kind taken into consideration when data is collected?
5. Have special surveys been undertaken during last 3 years to collect data on resources to services delivery units?
6. Does the accounting system provide reliable information on all types of resources in cash & in kind by either primary schools or primary health clinics or both?
7. If yes, is this information compiled into annual reports?

SUBEB's annual financial statements show cash contributions from the federal and state governments; its recently introduced reform is capturing in kind donations as well, but this may not be comprehensive. Funding for primary education and healthcare delivery comes from several sources: including the federal government, the state government, local governments, development partners (including non-governmental organizations), and the private sector. Funding is in both cash and kind and sometimes involves counterpart contributions from the state and other agencies.

The State Universal Basic Education Board (SUBEB) charged with managing basic education²⁰⁰ prepares audited annual financial statements that show revenue receipts from the federal and state governments.²⁰¹ However, the reports do not capture in-kind donations, including books and materials distributed by the federal Universal Basic Education Commission (UBEC). Recently, SUBEB began annual compilation of information on donor intervention in education, in cash and kind. The compilation includes, for example, assistance in the provision of infrastructure and facilities,²⁰² donation of books, and capacity building and training during the last one year. However, information on in-kind resources from local governments may not be complete.

The Ministry of Economic Planning & Budget has designed a proforma for collecting annual information on the education service delivery, whether cash or kind. The results of the effort were not available as evidence during the time of the fieldwork for this assessment.

Reforms Underway

No reform is evident in this area.

PI-24: Quality and Timeliness of In-year Budget Reports

PI-24 assesses the ability of the accounting system to produce *timely, comprehensive, and quality* reports on all aspects of budget execution. Budget reports provide sufficient information to meet the requirements of monitoring and corrective decision-making. “Flash reports” on release of funds to MDAs do not qualify as interim/in-year budget reports because they do not provide detailed analysis. Proper in-year budget reports should cover expenditures at both commitment and payment stages to facilitate monitoring of budget implementation and utilization of released funds. Budget reports must (i) be regular, (ii) be timely, (iii) be available to both the Ministry of Finance and the cabinet (Executive Council) to monitor performance, (iv) if necessary, identify new actions needed to get the budget back on track, and (v) be available to MDAs for managing their affairs. In-year reports also include interim budget performance reports to the Legislature.

In many ways, in-year budget reporting is critical to the PFM system. Generally, the quality of in-year budget reporting determines the

- *Timeliness of final accounts* - how quickly the Accountant General is able to prepare the final accounts after the end of the year; quick turn out of final reports is a function of the quality of returns received from MDAs (and of course, of capacity in the Accountant General’s Office).
- *Timeliness of bank reconciliations* - the time lag in reconciling the above-the-line (explicit) budget accounts with the below-the-line (implicit or not so explicit) accounts of government in the banking system, the frequency of bank reconciliation: daily, weekly, monthly, etc.
- *Frequency of measurement and reconciliation of data at different stages of the expenditure process:* commitments and verifications, verifications and payment orders/authorization/actual/payment, cheques issued for payments and actual payments recorded by the banks
- *Pervasiveness of suspense and below the line accounts*

²⁰⁰ (I.e., primary plus the first three years of secondary education

²⁰¹ The funding arrangement is 50-50 between the federal and state government.

²⁰² Construction of classrooms, libraries, access roads, etc.)

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- *Genuineness and independence of audit functions, internal and external: how quickly the Auditor General completes the audit*

Table 3.24 summarizes the performance of Lagos state on the three dimensions of this indicator.

Dimensions of Measurement	Current Assessment (2012)			Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment	
	Evidence Used	Score	Framework Requirement			Information Source
Score (Method M1)		D+			D+	
(i) Scope of reports in terms of coverage and compatibility with budget estimates	Quarterly budget performance reports do not compare performance along administrative headings, thus affecting their usefulness for “bringing in” the budget.	D	Comparison to the budget may not be possible across all main administrative headings	Ministry of Economic Planning & Budget	C	Budget reporting is now too aggregated and does not show administrative breakdowns, unlike during the 2009 budget assessment
(ii) Timeliness of issues of the reports	MEPB publishes quarterly reports within four weeks off end of quarter.	A	(ii) Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period.	Ministry of Economic Planning & Budget	D	Great and long running improvement in timing of reports
(iii) Quality of information	Reported actual data may be useful in showing level of budget performance, but are of limited use in controlling the budget	C	There are some concerns about the accuracy of information, which may not always be highlighted in the reports, but this does not fundamentally undermine their basic usefulness	Ministry of Economic Planning & Budget	C	No change

Rationale for the Score

Dimension (i): Scope of reports in terms of coverage and compatibility with budget estimates

Key questions

1. Are in-year budget reports produced which show actual expenditures /revenues compared with approved budgets?
2. Who is in charge of preparing & issuing these reports (for expenditures & for revenues)?
3. Do expenditure in-year reports include information on commitments?
4. What level of aggregation /disaggregation is used in in-year budget reports?
5. What classification is used in reports?

Quarterly budget performance reports do not compare performance along administrative headings, thus affecting their usefulness for “bringing in” the budget. The Ministry of Economic Planning & Budget prepares quarterly budget performance reports with inputs from the State Treasury Office and operating MDAs. Towards the end of the quarter, the ministry issues circulars demanding returns from all agencies and giving a deadline of about the middle of the month. The draft reports pass through various stages of approval, culminating with the state executive council (cabinet). The Commissioner for Economic Planning & Budget publicly presents the report after cabinet approval.

Publicly issued quarterly budget reports are usually terse documents showing very high-level revenue and expenditure aggregates. For example, they show total, internally generated, dedicated, extra ordinary revenues, and federal transfer. They also show recurrent, personnel, overheads, and capital items; they calculate certain performance averages and compares them with historical performances. However, the reports thus do not show revenue and expenditure performance along the same administrative and sectoral lines used in preparing the budget.²⁰³

Reported actual figures used in the reports relate to only one of commitments, cash third party payments, and releases to MDAs, but it is not clear which. It is likely that the ‘actuals’ relate to a bit of each. For example, ‘actual’ would mean payments in instances where the Treasury pays contractors, but it could mean releases in the case of say, the Public Works Corporation that receives bulk funds in advance for routine road maintenance.

These issues limit their usefulness as budget control documents.

Dimension (ii): Timeliness of issues of the reports

Key questions

1. How often are in-year budget reports produced (monthly, quarterly, others)?
2. How long after end of period covered are reports distributed (e.g. within 4, 6, 8, more than 8 weeks)?

The Ministry of Economic Planning & Budget issues reports within four weeks of the end of the quarter. Preparation of the report commences immediately before the end of the quarter with calls on revenue and expenditure units to send in returns. The final report routinely emerges after a series of successively high-level meetings that include cabinet approval. Sample of report provided shows first and second quarter 2012 reports are already available on the government website,²⁰⁴ assessed on July 22, 2012.

Dimension (iii): Quality of information

²⁰³ For example, see circular no. MEPB/B/2011/5 with ref. No. MEPB/B.2011/S.20A/769/022 titled, *1st Quarter Y2011 Budget Performance, dd 3 June, 2011*, provided in evidence

²⁰⁴ www.lagosstate.gov.ng

Key questions

1. What is quality of data of in-year budget reports?
2. Is basic usefulness of the reports undermined by inaccuracies or omissions?

Reported actual data may be useful in showing level of budget performance, but are of limited use in controlling the budget. The manner of reporting affects the quality of the reports and their fitness for purpose in ‘bringing in’ the budget. The data are high aggregates without break down along administrative lines. They do not follow the same classification used in preparing the budget. In addition, more information is necessary to determine the level of commitment and payment. They are therefore of limited value in tracking the budget.

Further, the reports include only financial information and do not include results (outputs and outcome) information. They do not analyze risks and factors that affected achievement of results; they also do not indicate necessary mitigating or remedial actions. Reasons adduced for poor performance usually relate to inadequate generation of revenue. Suggested remedial measures are often in terms of “overall revenues [rising] significantly and the need for MDAs to “deliver on recurrent revenue”.²⁰⁵ The analyses do not focus attention on performance factors inherent in project execution themselves or in the MDAs executing the projects, such as capacity constraints, difficulty of dealing with communities displaced or affected by projects and how to deal with them, environmental factors, etc. Measures such as these are not likely to yield immediate or short-term results to change the direction of budget performance sufficiently.

Reforms Underway

No reforms are evident in this area

PI-25: Quality and Timeliness of Annual Financial Statements

This indicator assesses whether the SG prepares annual financial statements, the completeness and timeliness of such statements, and whether they conform to generally accepted accounting standards. To be complete, financial statements must cover details of all ministries, independent departments, and deconcentrated units. Timeliness of the financial statements indicates how well the accounting system is functioning and the quality of records maintained. Compliance with international standards makes the accounts understandable and transparent in dealing with assets and liabilities.

This indicator has three dimensions; *Table 3.25* summarizes the performance of the dimensions and the overall indicator.

<i>Table 3.25: Quality and timeliness of Annual Financial Statements</i>						
Dimensions of Measurement	Current Assessment (2012)				Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement	Information Source		
Score (Method M1)		D+			C+	
(i) Completeness of the financial statements	Published financial statements cover the	C	A consolidated government statement is prepared annually.	State Treasury Office – Financial Statements	D	The 2009 assessment considered non consolidation

²⁰⁵ See 2011 1st Quarter Report

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Table 3.25: Quality and timeliness of Annual Financial Statements

Dimensions of Measurement	Current Assessment (2012)			Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement		
	main government entities, but the accounts are incomplete or deficient in several key respects.		Information on revenue, expenditure and bank account balances may not always be complete, but the omissions are not significant	2008 - 2010	with parastatals and LGs' accounts as crucial to the assessment until subsequent clarified by PEFA Secretariat
(ii) Timeliness of submission of the financial statements	Fiscal 2010 financial statement was ready for audit on June 30, 2011	A	The statement is submitted for external audit within 6 months of the end of the fiscal year	State Treasury Office/2010 Audit Report	A No change
(iii) Accounting standards used	Financial statements comply with local reporting guidelines, but does not disclose accounting standards used.	D	Statements are not presented in a consistent format over time or accounting standards are not disclosed	State Treasury Office – Financial Statements 2008 - 2010	B The 2009 assessment overrated this dimension because reports were in line with local reporting requirements, but the requirements are not accounting standards and they are not IPSAS compliant

Rationale for the Score

Completeness of the financial statements

<p>Key questions</p> <ol style="list-style-type: none"> 1. Is a government statement covering whole of budgetary central government prepared annually? 2. Is it comprehensive: complete information on revenue, expenditure, financial assets & liabilities? 3. If not, are omissions significant?

Published financial statements cover the main government entities, but the accounts are incomplete or deficient in several key respects. Financial statements present revenue and expenditure performance of all main entities of the administration, i.e., entities covered by the budget. The statements show both budget and outturns against each entity. They also show highlights at the beginning and provide explanation of details by way of notes. However, there are important omissions or items requiring clarification. First, the books do not state whether revenue streams from the centre are gross or net. The federal government

makes several authorized first-line deductions from revenues accruing to states, including Lagos. These include for subsidy on petroleum, fertilizer payments, and contractual obligations of states for which the federal government is guarantor.²⁰⁶ Proper accounting treatment would be to report the revenues at gross and the deductions as expenditure under appropriate headings. However, the books do not show this. Second, the books count “dedicated revenue” of ₦5.24 billion in 2010 and ₦3.63 billion in 2009 as internally generated revenue. However, it does not correspondingly show expenditures for it. Third, published financial statements do not state subventions to parastatals, even though the budget states them. Actual subventions to parastatals are available only the state government’s website.

Dimension (ii): Timeliness of submission of the financial statements

Key question

When are financial statements submitted for external audit after end of FY (more than 15 months, within 15, 10 or 6 months of end of FY)?

*Fiscal 2010 financial statement was ready for audit on June 30, 2011. The 2010 audit report states, “the Year 2010 financial statements were submitted by the accountant general on 30 June 2011”.*²⁰⁷

Dimension (iii): Accounting standards used

Key questions

1. Are financial statements presented in a consistent format over time?
2. Are accounting standards disclosed, partially disclosed or not disclosed at all?
3. Are International Public Sector Accounting Standards (IPSAS) or corresponding national standards partially or fully applied for statements?

Financial statements comply with local reporting guidelines, but does not disclose accounting standards used. Nigeria has not yet published any public sector accounting standards, but, the conference of accountants general for the Federation and states issued a “*Financial Reporting Model*” for the federal, states, and local governments in 2002. The model standardized government/public reporting so as to make them comparable. These reporting standards are not accounting standards and they do not pretend to comply fully with international public sector accounting standards (IPSAS) issued by the International Federation of Accountants (IFA). The format requires that

“The Notes to the financial statements should present information about the basis of preparation of the Financial Statements and the use of specific accounting policies selected and applied for significant transactions and other events. For purposes of users’ understandability and comparability, notes to the accounts are normally presented in the following order

- Statement of compliance with any known accounting standards
- Statement of accounting policies applied
- Supporting information for items presented on the face of the Financial Statements
- Supporting Statements
- Additional disclosures”²⁰⁸

²⁰⁶ These include deductions for foreign debt service (interest and amortization) and irrevocable standing payment orders (ISPOs) on federally guaranteed Lagos State obligations.

²⁰⁷ 2010 audit report, p. 1

²⁰⁸ Report on Standardization of Federal, State and Local Governments Accounts in Nigeria, volume 2: Executive Summary and Reporting Model, pages ix - x

Lagos State Government's accounts substantially complied with these recommendations in the years of assessment. The financial statements include with a statement of accounting policies, disclosing the basis of accounting and including an explanation of the presentation of the financial statements, depreciation policy, treatment of stocks, investments, investment income, and foreign currencies. However, it does not disclose the accounting standards used as required by the *Notes* to reporting format cited.

Reforms Underway

The national Assembly enacted the Financial Reporting Council (FRC) Act in early 2011. The Council will combine the functions of NASB, which is to make private or commercial accounting standards, with making public sector accounting standards. However, it has not yet issued any public sector accounting standards.

3.6 External Scrutiny and Audit

This set of indicators recognizes the importance of high quality external scrutiny and audit by bodies normally outside the budget process: preparation, execution, recording, and reporting. The Legislature and the Supreme Audit Institution (SAI) provide this crucial oversight. The Audit examines the final accounts and all aspects of internal controls against internationally accepted principles and standards of accounting and auditing and makes recommendations for improvement to the Legislature. The Legislature, on the hand, scrutinizes executive budget proposals before approving them. It also examines audit findings and recommendations, and makes rulings for the executive to enforce. This section considers how these bodies approach their tasks.

PI-26: Scope, Nature, and Follow-Up of External Audit

There are several aspects to the quality of external audit reports. First, it should have adequate scope and coverage, with audit mandate that extends to extra-budgetary funds, including AGAs, except where there is a separate provision for auditing them. Second, the audit process must adopt appropriate audit standards and procedures especially, where possible, standards of international practices in auditing. Third, the external audit institution must have a high level of political, administrative, financial, and emotional independence²⁰⁹. Fourth, the audit must focus on systemic PFM issues, including the functioning of internal controls and procurement systems and the reliability of financial statements. Finally, there ought to be proper follow-up of audit findings through correction of errors and weaknesses identified by the auditors.

Table 3.26 presents the performance of the SG on the three dimensions of this indicator.

Dimensions of Measurement	Current Assessment (2012)				Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement	Information Source		

²⁰⁹See for example, the standards set by the International Organization of Supreme Audit Institutions (INTOSAI) - the professional organization of supreme audit institutions (SAIs) in countries that belong to the United Nations or its specialist agencies

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Table 3.26: Scope, Nature, and Follow Up of External Audit

Dimensions of Measurement	Current Assessment (2012)				Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement	Information Source		
Score (Method M1)		B+			B+	
(i) Scope/nature of audit performed (including adherence to auditing standards)	Audit covers entities representing 100 percent of central public expenditures and involves a wide range of audits, but does not disclose audit standard used.	B	Central government entities representing at least 75% of total expenditures are audited annually, at least covering revenue and expenditure. A wide range of financial audits are performed and generally adheres to auditing standards, focusing on significant and systemic issues	Auditor General/audit reports, 2008 - 2010	A	There are issues with performance audit
(ii) Timeliness of submission of audit reports to legislature	Audit submitted fiscal 2010 audit report to the House on 28 December, 2011, i.e., 6 months after receipt of the financial statements	B	Audit reports are submitted to legislature within 8 months of end of period covered and in the case of financial statements from their receipt by the auditor.	Auditor General/audit reports, 2008 – 2010/acknowledged letter submitting report to Legislature	A	Audit performance deteriorated in this area from the level in 2009
(iii) Evidence of follow-up on audit recommendations	Audit reports include responses of audit units'; however, several identified issues recur in subsequent audit reports	B	A formal response is made in a timely manner, but there is little evidence of systematic follow up	Ministry of Economic Planning & Budget/State Treasury Office	B	No change

Rationale for the Score

Dimension (i): Scope/nature of audit performed (including adherence to auditing standards)

Key questions

1. What legislation regulates external audit (including organization of SAI)?
2. What % of total expenditure of central government was achieved in audit coverage for last FY audited (50% or less, over 50%, over 75% or 100%)?
3. Do audit activities cover PEs & AGAs?
4. What is nature of external audit performed (audits of transactions or audits of systems)?
5. Are performance audits performed in addition to financial audits?
6. To what extent do audit activities adhere to auditing standards?

Audit covers entities representing 100 percent of central public expenditures and involves a wide range of audits, but does not disclose audit standard used. The primary legislative document is the Constitution of the Federal Republic of Nigeria, 1999 as amended to date. Section 125 creates the office of the auditor general for the state, defining responsibilities of the office audit of “public accounts of [the] state and of all offices and courts of the state”, except parastatals. The governor appoints the auditor general subject to confirmation by the Legislature. Once appointed, the auditor serves until retirement age or life as the case may be; neither the executive nor the legislature can remove him/her except for inability to perform functions of the office arising from infirmity of mind or body, or for misconduct. The Constitution protects the remuneration and allowance of the auditor general by making it a direct charge on the Consolidated Revenue Fund of the state. However, the Constitution does not create an audit service and so does not protect the cost of running the office including staff salaries. The Lagos State Audit Law 2011²¹⁰ creates the Lagos State Audit Commission to formulate and implement audit guidelines and “advise the governor on the need to provide for the welfare of Office staff”. The Law is currently in the process of implementation.

Fiscal 2010 audit covered all 43 mainline government agencies, representing 100 percent of public expenditures excluding parastatals, which follow a different audit arrangement. Audit also carried out period checks on 29 parastatals and reviewed “reports on those audited by private audit firms”²¹¹ in line with constitutional provisions.

The audit includes a full range of financial audits, i.e., audit of revenues and expenditure, financial assets, fixed assets, and liabilities. The audit reports contain detailed analysis and comments on revenue and expenditures of auditees. Audit further involves some of performance audit, especially for capital or investment projects. The Auditor General’s Office has a Projects Monitoring Office that carries out this function, although it does not carry out full performance audit. Audit reports comment on the level of performance of particular projects and their value for money. Audit reports on contract specifications, performance level, payments made, and remedial action.

The audit also covers systemic issues including internal controls. For instance, the reports identified repeated payroll issues, non-compliance with stores and fixed asset procedures, non-reporting of government revenue, wrong accounting procedures, etc. Audit also reviews the Oracle-based integrated financial information management system, using the Audit Command Language (ACL) software.

²¹⁰ That took effect on July 26, 2011

²¹¹ See 2010 audit report, pp v, vii

Although the 2010 audit did not disclose the audit standard used the applicable audit standard in Nigeria is the Public Sector Auditing Standards issued by the Auditor General for the Federation and all State Auditors General in 1997. The standards are comprehensive and cover a lot of ground, but they are old and do not meet current INTOSAI requirements

Dimension (ii) Timeliness of submission of audit reports to legislature

Key questions

1. What is the law on the timeliness of submission of audit reports to legislature?
2. Is the legislation followed in practice?
3. When are audit reports submitted to legislature after end of period covered (more than 12, within 12, 8 or 4 months)?
4. When are audits of financial statements submitted to legislature from their receipt by the auditors (more than 12, within 12, 8 or 4 months)?

Audit submitted fiscal 2010 audit report to the House on 28 December, 2011, i.e., 6 months after receipt of the financial statements. The Constitution requires the Auditor General to submit the audited reports to the Legislature within 90 days of receipt of the financial statement from the Accountant General. Compliance with this provision has been on the increase with return to democracy and increased demands for transparency and rule of law. This 2010 performance represents of deterioration in performance.²¹²

Evidence of follow-up on audit recommendations –

Key questions

1. Are audit recommendations from SAI to entities audited addressed by management?
2. Is there any clear evidence of timely & systematic follow up on these recommendations?

Audit reports include responses of audit units’; however, several identified issues recur in subsequent audit reports. The audit reports include details of findings in particular entities, issues raised, responses by auditee, and any follow up audit comment. Agencies respond to audit queries promptly. The 2010 audit report observes that there “*was a general improvement and prompt response by management and staff to audit observations, which resulted in many corrections of audit observations, while rectifiable lapses were effected*”.²¹³ The audit team discusses the query and response with the auditee at the exit meeting. These exit meetings successfully clear some issues, but some continue to recur in subsequent years. Among these recurring issues are some concerns around payroll/nominal roll, reconciliation of treasury revenue accounts, stores recording and accounting, maintenance of fixed assets, etc.

Reforms Underway

There is no indication of reforms in this area.

PI-27: Legislative Scrutiny of Annual Budget Law

PI-27 assesses how the Legislature approaches the task of approving the annual budget law, i.e., the thoroughness and rigour with which it exercises its mandate to authorize government spending through

²¹²212 The standard during the 2009 PEFA assessment were 2008 (May 11, 2009 – two months); 2007 (June 19, 2008 – one month); and 2006 (September 7, 2007 – two and a half months)

²¹³ 2010 audit report, p. v

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passage of the Appropriation Bill. To promote the goals of accountability and transparency of government operations to the electorate, there is need for a rigorous and clear process in scrutinizing and approving the budget. The indicator assesses the scope of the Legislature’s scrutiny, the internal legislative procedures, and the time allowed for that process. It also examines rules for in-year budget amendments and the level of adherence to them.

This indicator has four dimensions. *Table 3.27* rates them and scores the indicator.

Dimensions of Measurement	Current Assessment (2012)				Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement	Information Source		
Score (Method M1)		C+			D+	
(i) Scope of Legislatures Scrutiny	Legislative budget scrutiny covers detailed revenue and expenditure proposals, but not fiscal policy.	B	The legislature’s review covers fiscal policies and aggregates for the coming year as well as detailed estimates of expenditure and revenue	Ministry of Economic Planning & Budget/Lagos State House of Assembly	C	No change
(ii) Extent to which Legislature’s procedures are well-established and respected	The State House of Assembly follows a firmly established procedure for approving the budget; the procedure includes use of specialized committees and negotiation with MDAs.	A	The legislature’s procedures for budget review are firmly established and respected. They include internal organizational arrangements, such as specialized review committees, and negotiation procedures	Lagos State House of Assembly – business rules & standing Order of the Lagos State House of Assembly	A	
(iii) Adequacy of time for the Legislature to provide response to budget proposals, both to detailed estimates, and where applicable, for proposals on macro fiscal aggregates earlier in the budget cycle (time allowed in practice for all stages combined)	The House directs itself and determines how long it takes to approve the budget; it took six weeks to approve the budget in two of the last three years	B	The legislature has at least one month to review the budget proposals	Lagos State House of Assembly – Votes & Proceedings for Tuesday	D	
(iv) Rules for in-year amendments to	Rules for in	C	Clear rules exist,		C	

Table 3.27: Legislative Scrutiny of the Annual Budget Law

Dimensions of Measurement	Current Assessment (2012)			Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement		
the budget without ex-ante approval by the Legislature	year budget amendment are the same as for approving the original budget; the rules disapprove of un-appropriated expenditure; however, there are important violations.		but they may not always be respected OR they may allow extensive administrative reallocation as well as expansion of total expenditure		

Rationale for the Score

Dimension (i): Scope of Legislatures Scrutiny

Key questions

1. Is there a functioning legislature?
2. What budget documents are presented to legislature?
3. Are budget documents reviewed by legislature?
4. If yes, is legislative review limited or detailed?
5. If detailed, does legislature review cover expenditures & revenues, fiscal policies, medium-term fiscal framework & medium term priorities?

Legislative budget scrutiny covers detailed revenue and expenditure proposals, but not fiscal policy. Lagos state has a functional legislature of 40 members. Members elect one of them as speaker to preside over the affairs of the State House of Assembly, i.e., the Legislature. The House must approve the proposed budget prior to its implementation. The budget proposal presented for legislative approval consists of detailed revenue and expenditure with sectoral breakdown. Lagos state began producing medium fiscal frameworks, including macroeconomic projections and fiscal policies in fiscal 2010; however, it does not present it to the House for approval.²¹⁴ The governor presents the budget proposals to the House for review with a speech. The governor's speech is the major budget policy statement to the House and it usually (i) briefly reviews the current (outgoing) year's budget performance, (ii) summarizes budget aggregate revenue and expenditure proposals, and (iii) explains the major development thrust for the coming year. Neither the speech nor the budget proposal includes a clear statement of fiscal policy or strategy over the medium term. The House discusses the budget speech as part of the approval process.

Dimension (ii): Extent to which Legislature's procedures are well established and respected

²¹⁴ Although the executive presented the 2010 Fiscal Strategy along with the draft budget to the House after presentation of the budget (see memo MEPB/B.2010/S.20A/824/59 of 14 December 2010, titled, Y2011 Draft Budget, this is not appear to be a consistent practice. There is also no evidence in the House records, of debate or discussion of the fiscal strategy.

Key questions

1. Are procedures for legislative review established and are they mandated by legislation?
2. If yes, are they comprehensive?
3. Do they include internal organizational arrangements such as specialized review committees, & negotiation procedures?
4. Are the current procedures for legislative review respected by both the committee members and the government?

*The State House of Assembly follows a firmly established procedure for approving the budget; the procedure includes use of specialized committees and negotiation with MDAs. The **Business Rules and Standing Orders of the Lagos House of Assembly** contain the procedures.²¹⁵ This procedure includes use of 24 specialized committees for detailed scrutiny. The procedure includes the following steps.*

- The governor introduces the Appropriation Bill to the House, “*which shall contain the estimated financial requirements for expenditure on the consolidated revenue fund on all the services of the government for the succeeding financial year. The details of these financial requirements shall be contained in the estimates, which shall be presented at the same time*” (para. 80(1)(a) of the House Rules). It is public knowledge that the governor complies with the procedure.²¹⁶
- The House deems the presentation by the governor to be the first reading of the Bill (*para. 80(1)(b)*)
- The second reading debates only “the financial and economic status of Lagos State and the government financial policy”, but “detailed not items in the estimates” (*para. 80(3)*). Various House of Assembly records confirm observance of these procedures.
- Following the second reading, the House commits the Bill to the Appropriation Committee. The other committees become subcommittees of the Appropriation Committee and they “shall consider estimates for the ministries, departments, and agencies, which come under their charge” (*para. 80(4)(a)*)
- The AC may invite any MDA in the presence of the chairman of the standing committee” to defend or clarify” any issue (*para. 80(4)(c)*). There is evidence that the AC does invite MDAs in practice.²¹⁷
- The committees make their reports to the Appropriation Committee (AC). The AC deliberates on the subcommittees’ reports and in turn reports “*to the Committee of the Whole House known as “Committee of Supply”*” (para. 80(4)(b)).
- The Committee of Supply considers the report of the Appropriation Committee in detail and approves each budget head in turn (with or without amendment). The Appropriation Committee has three days to effect the amendments made by the Committee of Supply and represent the Bill for third reading (*para. 80(5 – 16)*).
- Following a clause-by-clause-by-clause reading of the entire amended Bill, the House reads the Bill a third time and the budget passes (*para. 80(17)*).

Dimension (iii): Adequacy of time for the Legislature to provide response to budget proposals

²¹⁵ See s. 80, pp 60 - 64

²¹⁶ See also, for example, (i) Votes & Proceedings for Tuesday, 14 December 2010, (ii) Votes & Proceedings for Tuesday, 17 November, 2009, and (iii) Votes & Proceedings for Monday, 10 November, 2008 on presentations of the of the 2011, 2010, and 2009 budgets and first readings

²¹⁷ For example, see memo ref. No. LSHA/LM/C/10/VOL.V/460 dated 10 January 2010, titled, *Defence of Year 2011 Budget before the Ad Hoc Committee of the House on Economic Planning and Budget* inviting commissioners, special advisers, permanent secretaries, etc., to appear before it to defend their 2011 budget proposals.

Key question

How much time is allowed for the legislature's review (less than one month, at least one month, at least two months)?

The House directs itself and determines how long it takes to approve the budget; it took six weeks to approve the budget in two of the last three years (see Table 3.11c, reproduced below). The executive does not always present the budget on time to enable the Legislature pass the budget before the commencement of the budget year. However, the House takes as much time as it deems necessary to pass the budget.

	Date of Presentation	Date of Approval	Time Taken to Pass Budget
2012	14-Nov-11	3-Jan-12	6 weeks
2011	14-Dec-10	31-Jan-11	6 weeks
2010	3-Nov-09	1-Mar-10	17 weeks
2009	17-Nov-08	5-Jan-09	2 weeks
2008	17-Dec-07	28-Jan-08	6 weeks

Sources: Published Budget Books and Budget Speeches of the LASG

Dimension (iv): Rules for in-year amendments to the budget –**Key questions**

1. Are there any legal & procedural rules that govern in-year budget amendments by the executive?
2. If yes, how clear are these rules?
3. Do they allow extensive administrative reallocation as well as expansion of total expenditure or do they set strict limits on the extent and nature of amendments?
4. Are they always respected?

Rules for in year budget amendment are the same as for approving the original budget; the rules disapprove of un-appropriated expenditure; however, there are important violations. The Constitution of the Federal Republic of Nigeria 1999²¹⁸ prohibits expenditure not first appropriated by the Legislature in an original or supplementary law. The House follows the same rules to approve supplementary appropriation that it uses to approve the original budget.²¹⁹ The rules do not place limits on the level of expenditure. Thus for instance, a supplementary appropriation may seek to spend windfall revenue and new expenditure, or just reorder the budget through virements. The Lagos State budget-reordering process does not usually seek to expand the budget, but to mop and vire funds within the original budget limits.

The evidence shows expenditure not in conformity with approved budget (original and supplementary). For example, *PI-16* and *PI-20* show cases of overspending the recurrent and capital budget in many MDAs.²²⁰ Such expenditure amounts to further reordering or amending of the budget without legislative approval. This is a yearly occurrence.

Reforms under Way

²¹⁸ as amended,

²¹⁹ See for instance, Lagos State House of assembly Hansard for Monday, 22 August 2011, p. 76, in which the House resolved to a Committee of the Supply to take the Report of the Appropriation Committee on "Appropriation (Amendment) Law 2011 (Re-ordering of Priorities in Y2011 Budget)".

²²⁰ 18 for capital and 22 for recurrent

No reforms are evident here.

PI-28: Legislative Scrutiny of External Audit Reports

PI-28 examines how the Legislature performs its other key PFM role of scrutinizing budget implementation. The Legislature's role should not end with approval of the budget; its interest should include manner of implementing the budget. Usually, a dedicated legislative committee (the Public Accounts Committee, PAC) examines external audit reports and questions responsible parties over irregular audit findings. The oversight work of the committee covers both government entities directly audited by the SAI, and AGAs, which by law, use other auditors. In addition to the recommendations of the external auditor, this committee imposes/recommends sanctions, which the executive implements. To facilitate operations of this committee, it is important to allocate adequate financial and technical resources to its work.

Table 3.28 set out the three dimensions of this indicator and their ratings.

Dimensions of Measurement	Current Assessment (2012)			Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment	
	Evidence Used	Score	Framework Requirement			Information Source
Score (Method M1)		D+			NR	
Timeliness of examination of audit reports by the Legislature (for reports received within the last three years)	There is no time limit for the House to conclude hearings on audit findings; for example, the House has not issued any recommendations on the 2009 audit report, even though consideration commenced in October 2010.	D	Examination of audit reports by the legislature does not take place or usually takes more than 12 months to complete	Ministry of Economic Planning & Budget/State Treasury Office	C	No evidence of completed hearing in 2012
(ii) Extent of hearings on key findings undertaken by the Legislature	In depth hearings on audit findings include invitations to heads of indicted MDAs to come with their relevant heads of department and documents to "required to attend to the issue on hand".	A	In-depth hearings on key findings take place consistently with responsible officers from all or most audited entities, which receive a qualified or adverse audit opinion	State Treasury Office	A	No change
(iii) Issuance of	The House issues	D [†]	No	Ministry of	NR	Incomplete

Table 3.28: Legislative Scrutiny of External audit Reports

Dimensions of Measurement	Current Assessment (2012)				Score in 2009 Baseline Assessment	Explanation of Change since Baseline Assessment
	Evidence Used	Score	Framework Requirement	Information Source		
recommended actions by the Legislature and implementation by the executive	recommendations on audit findings, but there is no evidence of action taken to implement them, but the new audit Law compels action by the MDA.		recommendations are being issued by the legislature	Economic Planning & Budget/State Treasury Office		evidence did not allow rating of this dimension in 2009. A major ongoing reform here is the enactment of the Audit Commission compelling action on approved audit recommendations

*Rationale for the Score*Dimension (i): Timeliness of examination of audit reports by the Legislature Public**Key questions**

1. Do current legislation &/or existing procedures establish any deadlines for review of audit reports by legislature?
2. When examination of audit reports takes place by legislature, how long does it take in practice for to complete this examination (more than 12, within 12, 6 or 3 months from receipt of reports)?
3. Was duration of examination of audit reports by legislature same on all audit reports received during last 3 FYs?

There is no time limit for the House to conclude hearings on audit findings; for example, the House has not issued any recommendations on the 2009 audit report, even though consideration commenced in October 2010. The Constitution of the Federal Republic of Nigeria 1999²²¹ requires that the public accounts committee of the House of Assembly examine the audit report²²², but does not set a deadline. The usual practice among Nigerian legislatures is for the House to set the time for its committees²²³ to complete deliberations and submit report on any matter delegated to them. However, there is no evidence in this case of how much time the House allows the public accounts committee for deliberation.

The House received the auditor general's report for 2009 on October 6, 2010.²²⁴ The public accounts committee commenced consideration of the report the same month.²²⁵ Anecdotal²²⁶ evidence adduced suggests that it has concluded its deliberations and submitted its findings and recommendations to the

²²¹ As amended to date

²²² Sections 125(5)

²²³ Including the public accounts committees

²²⁴ See letter AUD/S.210/VOL.1/117, *Submission of the Year 2009 Statutory audit Report on the Accounts of the Lagos State Government*, dd 4 October 2010, but acknowledged by the House on 6 October 2010.

²²⁵ i.e., October 2010; see letter LSHA/LM/C/5/VOLL.II/379 titled, *Consideration of the Year 2009 State Auditor General's Report by the Lagos State House of Assembly Ad Hoc Committee on Public Accounts (State)*, dd 11 October 2010

²²⁶ Verbal testimony at the assessment workshop

House for approval. The House is yet to approve. The House received fiscal 2010 report on December 28, 2011²²⁷ and commenced deliberation on it in February 2012.²²⁸ The public accounts committee had not concluded sittings on it at the time of the fieldwork.

Dimension (ii) Extent of hearings on key findings undertaken by the Legislature

Key questions

1. What action does legislature take with respect to key findings in audit reports (e.g., hearings, which require members of executive to answer questions or to bring evidence)?
2. Does the legislative committee have technical assistance, e.g., from the SAI, in undertaking their scrutiny?
3. Do in-depth hearings on key findings take place occasionally, on a routine basis, or consistently?
4. Do in-depth hearings take place with responsible officers from all audited entities on which audit report raises queries?

In depth hearings on audit findings include invitations to heads of indicted MDAs to come with their relevant heads of department and documents to “required to attend to the issue on hand”. The MDAs attend according to a schedule attached to the invitation. Hearings also invite the auditor general. However, it is not clear what the role of the auditor general is, and whether the House receive any technical assistance from that office or from any other. Even then, hearings are in-depth, judging by the evidence of the public accounts committee’s report on the 2008 audit findings. The report covered all 55 major unresolved findings in the audit report, making recommendations on each. The hearings resolved several of the issues raised especially those concerning correction of records. The report also included generic recommendations aimed at tackling inherent systemic issues giving rise to the infractions.²²⁹

Dimension (iii): Issuance of recommended actions by the Legislature and implementation by the executive

Key questions

1. Does law require actions to be taken with respect to recommendations of legislative review?
2. In practice, are recommendations being issued by legislature?
3. Is there any evidence that recommendations are acted on by the executive?

The House issues recommendations on audit findings, but there is no evidence of action taken to implement them. Under the Constitution, resolutions by the legislature are recommendations to the executive to act on as it wishes; they have no inherent compelling force. The House has no executive powers and cannot implement its recommendations.²³⁰ The House would usually communicate its resolutions to the secretary to the government for implementation. There is no evidence that the House has done so with regard to its recommendations on the 2008 report.

²²⁷ See letter AUD/S.210/VOL.11/203, *Submission of the Year 2010 Statutory audit Report on the Accounts of the Lagos State Government*, dd 28 December 2011 and acknowledged by the House on same date

²²⁸ See letter LSHA/LM/C/5/VOLL.II/382 titled, *Consideration of the Year 2010 State Auditor General’s Report by the Lagos State House of Assembly Ad Hoc Committee on Public Accounts (State)*, dd 13 February 2012

²²⁹ See *Report of the Public Accounts Committee (State) on the Accounts of Lagos State for the Year Ended 31 December 2008*, dd 19 January 2010

²³⁰ In practice, MDAs ‘fear’ the House because of its powers of budgetary allocations, which it can use to ‘punish’ any agency that defies it.

However, the new Lagos State Audit Law 2011 requires accounting officers in MDAs to establish audit committees. Audit committees will implement the auditor general’s recommendations approved by the House of Assembly and prepare annual reports showing the status of the implementation. Status reports will show the remedial actions already taken or planned to avoid or minimize the “occurrence of undesirable features in the accounts and operations” of the MDA. The report will also show the timeframe for completion of the action. The MDA will send a copy of the report to the auditor general.

Reforms Underway

The state enacted an audit law in 2011 that compels MDAs to respond to audit findings. Implementation is ongoing.

3.7 Donor Practices

The three indicators in this set capture elements of donor practices, which affect the performances of country’s or sub national Government’s (as the case may be) PFM system. Donor assistance varies in nature and extent. Most donor assistance is probably project-tied, in which case, the funds are available for the execution of specific (named and costed) projects only. In some cases, permission of the donor is necessary to move funds from one activity to another even within the same project. Donors may directly execute project-tied projects, in which case the donor directly procures consultants, equipment, goods, and other services. In other words, such donor funds do not flow through the recipient country’s PFM system. However, some other project-tied aid passes through the PFM system, sometimes channelled through special funds, and may function as extra-budgetary funds with special procurement, disbursement, accounting, and audit rules. Yet, some assistance is by way of direct budget support, which could be general support to the Treasury or tied to specific sectors. Indicators D-1 to D-3 assess the applicability of these donor practices to and performance of Lagos State on these indicators.

D-1: Predictability of Direct Budget Support

Direct budget support is an important source of revenue for many aid dependent countries. The distinguishing feature of this type of assistance is that donors channel such support through the recipients’ Treasury. Donors may route the support through separate or joint donor holding accounts (basket funds) before eventually releasing them to the Treasury. Procurement, disbursement, accounting, and reporting are in accordance with the country’s procedures applying to general revenue and expenditures. As explained above, direct support may be general budget support or sector-tied. The distinguishing feature however, is that they use the country’s financial system.

Since direct budget support is an important source of revenue for countries that depend on it, it is important that they be able to predict it. Predictability of the level of budget support is therefore as important for fiscal management as predictability of other revenues is. Poor predictability of either could transmit shocks into the revenue performance and shortfalls may affect ability to implement the budget as planned. Delays in in-year distribution of aid flows also have similar serious implications. The two dimensions of measurement of this indicator are as in the box below. The basis of assessment of dimension (ii) is quarterly distribution of actual support inflows compared to the distribution according to the agreed plan. The weighted average delay is the per cent of funds delayed multiplied by the number of quarters of the delay.

Table 3.29: Predictability of Direct Budget Support

Dimension	2012 assessment		2009 Baseline	Explanation
	Score	Comments	Score	

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(i)	Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the Government submitting its budget proposals to the Legislature (or equivalent body for approval)					
(ii)	In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)					
Score (Method M1)		NA Score				

Rationale for the score

Lagos state government does not enjoy direct budget support.

D-2: Financial Information provided by donors for Budgeting and Reporting on Project and Program Aid

Predictability is also important in project/program-tied aids because it affects implementation specific budget lines or items. The ability of the government to budget the resources and report actual disbursement and use of funds may depend on the extent of its involvement in planning and management of resources. Limited government involvement may create difficulties in budgeting and reporting. The less involved the government is, the greater the responsibility of the donor to provide necessary information for budgeting and reporting. For cash aids, disbursement may be through a separate bank account or as extra-budgetary funds. The government (through the spending units and the Treasury, perhaps) should be able to budget and report on cash received through such assistance. However, the government totally depends on donors for information on in-kind assistance. Whether assistance is in cash or kind, donor reports are vital for reconciliation between donor disbursement records and government project accounts. This indicator assesses the completeness and timeliness of budget estimates on project support by donors. It also assesses the frequency and coverage of reporting by donors on actual funds flow.

Table 3.30: Financial Information provided by Donors for Budgeting and Reporting on Project and Program Aid

Dimension		2011 assessment		2007 Baseline	Explanation
		Score	Comments	Score	
(i)	Completeness and timeliness of budget estimates by donors for project support	NR	UN agencies provide advance information to the SG that could help complete budget estimates. Neither is a major donor. Government officials directly execute WB projects and they produce workplans, but do not integrate them into the state's budgets. However, quantitative data is not available to properly assess.	Not assessed in 2007	
(ii)	Frequency and coverage of reporting by donors on actual flows for project support.	D	No quantitative data from donors. Donors do not provide quarterly report on their activities to the Government. Through the client connection function, the state has on line and real time access to disbursement information on WB		

		financed projects.		
Score (Method M1)		NR		

Rationale for the Score

The United Nations Development Programme (UNDP) signs an MOU state governments (including Lagos) participating in its programmes. The MoU indicate cost of programmes in areas of its support intervention. Each year, the UNDP produces a workplan, which indicates the budget for each activity. The UNDP implements these programmes, directly disbursing funds to contractors and consultants. Therefore, participating SGs pay their counterpart funds in cash to the UNDP. Activities not completed in one year carry over to the next year. It is possible to forecast spending year disbursements based on the original MOU and the annual workplans.

Similarly, UNICEF signed a Programme Implementation Agreement with the SG on its programme. The organization produces an annual workplan at the beginning of each year, which it shares with the SG. The workplan shows the cost of projects/programmes and respective contributions of UNICEF and the Government. Unlike the UNDP, UNICEF does not require bulk release of Government counterpart funding to it. Rather, the release is in tranches in the implementing agency of the Government to match the timing release of UNICEF's own funds. UNDP and UNICEF are not major donors to Lagos state and their intervention constitutes a small fraction of donor assistance to the State.

EU-SRIP implements its programmes and projects directly and does not give information to the government ante or post on their cost. Similarly, other smaller donors such non-governmental organizations implement their projects directly and do not provide annual financial information to the SG for budgeting and reporting purposes.

The World Bank channels funds for its projects through the State's Projects Financial Management Unit (PFMU). This Unit operates as an extra-budgetary fund, with its own management. Although managed by Treasury staff, the WB resources do not mix with the SG's. Procurement, disbursement, accounting, and auditing are in accordance with World Bank procedures for aid management rather than the SG's. Executing agencies for WB projects produce annual workplans, budgets, as well as annual disbursement and procurement plans. However, there is no deliberate requirement by the State Government for them to produce these plans early during the budget period and to share them for budget purposes. Similarly, although WB projects produce regular annual audit reports, the SG does view or integrate them into its financial system. Through the "client connection function", the state has on-line and real-time access to disbursement information on WB financed projects. However, it does not integrate this into its reports. Finally, UNICEF and Lagos state conduct joint annual reviews of activities, through which the state can generate reports, but these are neither regular nor timely.

D-3: Proportion of Aid Managed by Use of National Procedures

This indicator assesses the extent to which donor agencies rely on domestic procedures to manage their assistance programmes. Some general national or domestic legislation and regulations establish procedures for the management of funds. Implementation of these procedures is usually through mainstream line management structures and functions of Government. At the Federal level, the Finance (Control and Management) Act, 1958 and the Financial Regulations (last revised in 2009) drawn from it contain detailed procedures banking, authorization, procurement, disbursement, accounting, audit, and reporting of the use of Government funds. The Lagos state government officially adopts the federal financial Regulations. Some donors do not trust existing domestic structures and arrangements. Consequently, they establish parallel structures to manage their assistance. This diverts capacity away from managing the state system and becomes worse when different donors require different management

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arrangements. Use of national/domestic structures help focus efforts on strengthening and complying with the national procedures, including for domestic operations.

Table 3.31: Proportion of Aid Managed by Use of National Procedures

Dimension		2011 assessment		2007 Baseline	Explanation
		Score	Comments	Score	
(i)	Overall proportion of aid funds to central Government managed through national/State procedures			Not assessed in 2007	
Score (Method M1)					

Rational for the Score

Donors do not use domestic procedures to manage their assistance. The narrative in D-2 describes the system used by different donors to manage their aid programmes.

Section 4: Government Reform Processes

Widespread public financial management (PFM) reforms have been ongoing in Lagos state since Nigeria returned to civil rule in 1999. The state government has initiated several of these reforms on its own momentum, but it also has been receiving support from international development partners. The World Bank and the UK Department for International Aid (DFID) are the more active partners in this field. This section outlines some of the major ongoing reforms and discusses the prospects for their sustainability.

4.1: Description of Recent and Ongoing Reforms

Ongoing reforms include in the following areas

- PFM legislation
- Fiscal and budget
- Public procurement
- Accounting and treasury management
- HR and Payroll management
- Audit
- Internal audit
- Revenue management
- Debt management
- Intergovernmental fiscal relations

The Lagos State government has enacted four recent PFM legislations. The legislations are (i) the Public Financial Management Law (2011), (ii) Public Procurement Law (2012), (iii) the Audit Service Law (2011), and (iv) Debt Management Office Law (2009). The legislations seek to modernize and strengthen public financial management practices in their subject matter areas. The Laws are at various levels of implementation, most of them not having really taken off.

Adoption of the UN-supported Classification of Government Functions (COFOG) in 2009 is perhaps the most important fiscal and budget management reform of recent years. The state government reclassified its revenues expenditures along nine main functions namely, (i) general public services, (ii) public order and safety, (iii) economic affairs, (iv) environmental protection, (v) housing and community amenities, (vi) health, (vii) recreation, culture, and religion, (viii) education, and (social protection and poverty alleviation). Mapping of functions into COFOG is along administrative lines rather than through activities. Although this is acceptable good practice, further refinement is necessary to eliminate sectoral overlaps resulting from how to report expenditure responsibilities, i.e., whether by (budget) user department or by control department. The budget has been along these lines since 2009, with performance improving with usage. However, budget reporting and accounts has not adopted the new format; it is still using the old system.

Ongoing fiscal reforms also extend to introduction of multiyear fiscal planning. Aspects of this include introduction of multiyear fiscal forecasting and attempts to mainstream them into the budget and efforts to develop and cost sector strategies. However, these efforts are still at an early stage. For example, the state has not yet been able to follow through on sectoral budget allocations during implementation. Besides, the sector strategies relate to administrative units, rather than the nine functional sectors (except for the generic sectors of education, health, and environment). Besides, none of the strategies has complete and proper costing. This makes it difficult to use them for budgeting.

Other fiscal reforms are in the area of budget management. This category of reforms include introduction of the budget calendar, use of budget ceilings to guide MDAs during budget preparation, and early involvement of cabinet in the budget process through approval of ceilings. Budget performance reporting is another area of improving performance. Performance reports have become more timely and professional; however, more improvement is necessary to make the reports more relevant in controlling the budget.

The new Public Procurement Law came into effect in April 2012 with a two-year implementation transition period. The old procurement system will continue during this period. The government has already established the regulatory organ: the Lagos State Public Procurement Agency. The newly set up Agency will use this period to produce implementation guidelines and manuals, and develop the institutional capacity to implement the Law.

Accounting and treasury management reforms are perhaps the longest running PFM reforms in Lagos State, with commencement of Oracle Financials nearly 10 years ago. Oracle Financials is the state's version of integrated financial management information system (IFMIS) that electronically links budgeting, accounting, treasury, revenue, human resource, and asset management functions. The state has activated many of the features, but several remain outstanding.

Other ongoing accounting reforms include adoption of the treasury single account (TSA) system, revision of the Chart of Accounts (CoA), and preparation/review of the state's financial instruction.

Human resource and payroll management reforms automatically link the nominal roll and payroll through Oracle Financials. Various measures of integrity seek to ensure data security and integrity. However, there may be issues of sustainability with continuing external management of the Oracle Financials system, including the overall control passkey.

Enactment of the Audit Commission Law in 2011 has given added impetus to external audit reforms that have been ongoing for several years now. The Law seeks to strengthen the Office of the Auditor General for the State²³¹ by reinforcing its independence. Audit staff will no longer be subject to general civil service conditions of work. The Audit Commission will now be responsible for staff recruitment, remuneration, and discipline, rather than the Civil Service Commission (CSC).

Internal audit are also underway. A recent situation analysis and review of made recommendations on how to strengthen the internal audit function to make it more professional and independent. The current arrangement places the Director of the Central Internal Audit Department under the Permanent Secretary of the Ministry of Finance. The recommendations for improvement include raising the status of the head to that of Permanent Secretary with powers to enforce internal audit recommendations and findings.

Revenue management – recent tax administration reforms have helped raise the internally generated revenue (IGR) profile in the state. Lagos is the only Nigerian state government that consistently generates more than 60 percent of its total revenue from domestic sources. Current reforms focus on expanding the taxpayer database and implementation of taxpayer identification number system. The state has already completed a scoping exercise towards these efforts.

The Lagos State Debt Management Office Law, 2009 is the basis for reforms in this area. The law establishes the Debt Management Office to manage both domestic and external debts. Planned reforms

²³¹ The Supreme Audit Institution (SAI)

aim to develop a medium term debt strategy and to acquire capacity to prepare of a debt sustainability analysis (DSA).

Intergovernmental fiscal relations - planned reforms here aim to introduce greater transparency around transfer of funds to local governments by having the state government publish funds releases and local governments publish details of receipts and their utilization. The reforms also will increase capacity in the state government to provide assistance to local governments in budget preparation.

4.2: Institutional Factors Supporting Reform Planning and Implementation and Sustainability

What existing institutional factors support reform programming and implementation in Lagos state? What conditions would enhance reform sustainability beyond this current administration. What guarantees are there against policy reversal and summersault? The established tradition of PFM reforms, the educated workforce, role of the Ministry of Economic Planning & Budget in coordinating fiscal reforms and budget, and recent efforts to provide legislative bases for the reforms are favourable factors to long-term reform sustainability. However, strengthening recently enacted laws, enactment of further legislation, implementation of enacted laws, development of institutional and administrative capacity to champion the reforms, greater visibility of the Ministry of Finance in PFM reform coordination would further enhance prospects for implementation and sustainability. The following paragraphs briefly elaborate on these factors.

Lagos state has developed a strong tradition of reforms since 1999. This current administration inherited and expanded PFM reforms introduced by the earlier one that was in office from 1999 – 2007. This relatively smooth transition between the two regimes contributed to making this possible. For instance, the current governor was as chief of staff in the preceding administration. Similarly, the Commissioner for Economic Planning and Budget, the Accountant General, and the Permanent secretary in the Ministry of Finance also served in the same capacities in the earlier regime. This stability has helped developed a style, rhythm, and harmony favourable to reform implementation.

Lagos state has developed a strong, educated, and stable workforce and good succession habit in vital positions. These help advance reforms by ensuring continuity and shortening learning. For example, the state finds roles in the government for seasoned technocrats that retire from the service. For example, the last three permanent secretaries in the Ministry of Economic Planning & Budget still service in the government as chair the State Universal Education Board (SUBEB), Commissioner, and Economic Adviser to the Governor respectively. Besides, the last three permanent secretaries moved to that position from being the Director of Budget in the Ministry. The government did not see the need appoint ‘more senior’ permanent secretaries from the service to that position, as often happens in federal and other state governments in Nigeria. Instead, the government preferred to promote ‘more junior’ by technically trained, qualified, and competent personnel from within the Ministry to that position. This has contributed to the steady progress of fiscal and budget reforms.

Strong MEPB leadership and coordination of the fiscal and budget management aspects of the reform also helps provide a good atmosphere for reform implementation. The Ministry is leading statewide reforms in budget preparation, budget classification, fiscal forecasting,

medium term programming, sector strategies, budget performance reporting, statistics, etc. Other arms of the government accept and follow this leadership. The stable political leadership and smooth and sensible transition process in the Ministry over the years have helped foster this leadership. However, the Ministry does not lead or coordinate other PFM reform efforts such as accounts and treasury, revenue management, HR and payroll, internal and external auditing, etc. Better coordination of these reforms will further enhance reform implementation and sustainability.

Provision of legal backing for some recent and proposed reforms can help ensure sustainability. An organic public finance, public procurement, debt management, and audit commission laws are some of the recent PFM laws. The laws establish the reforms and make it more difficult to reverse or abandon. However, some additional measures will help strengthen the role of legislation in this regard.

These measures include strengthening observed weaknesses in some recently enacted laws, further key legislation, and proper implementation of enacted laws. For instance, several aspects of the new Public Procurement Law predispose to potential abuse. These aspects include the ‘excessive’ powers granted to governor, the cabinet’s role as final arbiter in procurement complaints, very high threshold for application of open competition, and discretion in the use of other methods for procurement below the open competition threshold. The other recently enacted laws contain similar gaps, especially in the role granted the governor. Future regimes can use these powers to the detriment of the reforms. New legislation required includes a fiscal responsibility or related law. The Public Financial Management Law and the Debt Management Office Law do not sufficiently cover the field.

Unreserved implementation of already enacted laws will also help foster reform implementation and sustainability. Some aspects of the new laws are still awaiting implementation. For example, the government is yet to set up governing boards of the Lagos Inland Revenue Service (LIRS) and the Debt Management Office (DMO) several years after the laws came into effect. The bodies are operating without governing boards. Such selective implementation of reform legislation increase political exposure for these bodies. They also set a bad precedence that any future administration can exploit.

Development of institutional and administrative capacity to champion the reforms could provide a strong boost for sustainability. For example, performance of all treasury functions by the Treasury will ensure greater professionalism and competence in those functions. The Treasury will perform those functions in accordance with pre-established transparent guidelines. This will obviate the need for political involvement in decision-making on technical issues, which often is not transparent. Similarly, the MEPB and MDAs should acquire the capacity to implement the approved budget with a rules-based approach without political leaders. While budget formulation may involve a political element, budget implementation is purely a technical matter.

Central coordination of the entire PFM reform process will enhance the prospects of success and sustainability. Such a central coordination role is not currently visible in Lagos state. Different agencies lead different aspects of the reform process. Thus, the MEPB leads in fiscal and budget management, the LIRS in revenue management, the Ministry of Science & Technology in Oracle Financials (IFMIS), the Treasury in payroll management, etc. Central

coordination will promote even and rounded progress, rather than the current situation of unequal implementation of the reforms.

Greater visibility of the Ministry of Finance in PFM reforms is strategic for reform continuity. International good practices entrust the Ministry with overall leadership and coordination of the PFM reform process. Developing such leadership and coordinating capacity in the Ministry is vital for reform leadership. The Ministry occupies a central position in the PFM system; it is the melting point of all PFM issues. This uniquely equips it to have a fuller picture of the system than any other unit does. The Ministry could lead well in the preparation and implementation of a sequenced, reform master plan. This will enhance reform implementation and sustainability.

Appendixes

Appendix 1: Lagos State PEFA PFM Performance (2009 – 2011) Indicators Summary

Indicator	2012 Assessment					2009 Baseline					Brief Explanation of Difference with 2009 Baseline	
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used	Dimension Ratings					Overall Score
	i	ii	iii	iv			i	ii	iii	iv		
A. PFM Outturns: Credibility of the Budget												
1. Aggregate expenditure out-turn compared to original approved budget	D				D	The deviations (in absolute terms) were 24.1%, and 14.2%, and 17.4% 2009, 2010, and 2011 respectively.	D				D	No change in performance, although annual deviation has been declining progressively
2. Composition of expenditure out-turn compared to original approved budget	D	A			D+	Composition variance was 17.3 percent; 11.1 percent, and 41.5 percent in 2009, 2010, and 2011 respectively.	C				C	Not comparable; indicator revised in 2010
3. Aggregate revenue out-turn compared to original approved budget	D				D	Internally generated revenue was 83.96 percent, 75.74 percent, and 80.69 percent in 2008, 2009, and 2010 respectively, i.e., below 92 percent of the budget.	D				D	No comparable; indicator revised in 2010.
4. Stock and monitoring of expenditure payment arrears	NR	D			NR	Evidence still being assessed	NR	D			Not rated	No change performance
B. Key Cross-cutting Issues: Comprehensiveness and Transparency												
5. Classification of the budget	D [†]				D[†]	Current chart of accounts not GFS compatible; budgeting and execution (reporting) of the budget use different codes.	D				D	No change, but chart is being revised to make it GFS compatible
6. Comprehensiveness of information included in the budget	NR				NR	Evidence for rating six items not confirmed	C				C	
7. Extent of unreported government operations	D	D			D	Fiscal reports do not include details of the revenues and expenditures of the 69 parastatals, not even as annexes, representing	NR	D			Not rated	Not comparable, but data available to measure performance in 2012

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Indicator	2012 Assessment					2009 Baseline					Brief Explanation of Difference with 2009 Baseline	
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used	Dimension Ratings					Overall Score
	i	ii	iii	iv			i	ii	iii	iv		
						20 % of expenditures between 2009 and 2010 (measured by the proportion of their overheads to total overheads). R & E information on donor projects included in budget but not financial statements						
8. Transparency of inter-governmental fiscal relations	NR	D	D		D	Evidence of distribution of revenues to LGs submitted is not current; it relates to fiscal 2009 (this assessment is taking place in 2012); the state has discontinued the provision of fiscal projections to LGs; LGs learn of their allocations only when received from the FG; the state does not produce consolidated fiscal reports in any sector.	D	D	D		D	Assessment did not change from 2009 baseline for dimensions (ii) and (iii). Data for assessing dimension (i) is incomplete.
9. Oversight of aggregate fiscal risk from other public sector entities	C	C			C	Many parastatals do not submit their audited accounts thereby undermining accountability; LGs submit annual audited accounts but the state does not consolidate them.	C	C			C	In 2009, most AGAs submitted regular annual audited reports
10. Public access to key fiscal information	C				C	Only two of the listed seven items are easily accessible to the public.	C				C	No change
C. Budget Cycle												
C (i). Policy-Based Budgeting												
11. Orderliness and participation in the annual budget process	D	A	C		C+	There is a budget calendar, but no evidence of adherence to it; cabinet provides guidance before issuing of the budget call circular; fiscal 2012 budget was passed on December 30, 2011; 2011 on January 31, 2011; and 2010 on March 1, 2010	B	D	C		C	Great improvement in providing policy guidance for budget, and timeliness of approving the budget, but evidence of adherence to budget calendar is not available
12. Multi-year perspective in fiscal	C	D	D	D	D+	Government prepares 3-year rolling medium fiscal aggregates	D	D	D	D	D	Medium term fiscal forecasting has improved

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Indicator	2012 Assessment					2009 Baseline					Brief Explanation of Difference with 2009 Baseline	
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used	Dimension Ratings					Overall Score
	i	ii	iii	iv			i	ii	iii	iv		
planning, expenditure policy, and budgeting						for the nine functional sectors; but there is a wide gap in practice between budgetary provisions and expenditure ceilings; the state has not done any debt sustainability analysis; strategies based on administrative lines exist, but there is no costing; the state does not systematically link capital and recurrent budgeting; they remain separate activities						since the 2009 baseline assessment. In 2009, the state was not making medium term fiscal projections. It has started preparing fiscal forecasts; but there is still some disparity between forecasts and final budget envelopes. The status quo remained in the other dimensions.
<i>C(ii) Predictability and Control in Budget Execution</i>												
13. Transparency of taxpayer obligations and liabilities	A	A	C		B+	Legal provisions of and administrative procedures for the main tax laws are clear there is a high level of awareness among taxpayers on their tax liabilities; the current tax appeal system is not independent and needs substantial redesign to make it effective.	C	B	D		C	Tax laws and procedures clarified in recent amendments; improved tax education includes syndicated TV programmes; tax audit now covers 100 percent of database and includes clear criteria for self-audit.
14. Effectiveness of measures for taxpayer registration and tax assessment	B	C	A		B	The LIRS has a taxpayer registration system with interlinks with several user systems. Penalties for noncompliance with registration and tax declaration processes are ineffective; tax audit and fraud investigation processes are strong and effective.	D	C	C		D+	The taxpayer registration system has improved significantly since 2009 with several interlinks. Tax audit and fraud investigation now includes risk analysis with clear criteria for self-audit.
15. Effectiveness in collection of tax payments	NR	A	D		D+	No complete data on tax arrears at yearend; revenue collections sweep daily into Treasury controlled commercial bank accounts	D	A	D		D+	No change; dimension (i) should not have been rated in 2009 for incomplete data
16. Predictability in the availability of	D	D	B		D+	Cash management is by cash rationing rather than cash	C	D	B		D+	No change in overall score; however, evidence

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Indicator	2012 Assessment					2009 Baseline					Brief Explanation of Difference with 2009 Baseline	
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used	Dimension Ratings					Overall Score
	i	ii	iii	iv			i	ii	iii	iv		
funds commitment of expenditures						planning; MDAs do not receive information on resources available for commitment; budget reordering follows a formal process involving MDAs, although the process is not predictable.						shows overrating of cash planning method in 2009 assessment.
17. Recording and management of cash balances, debt, and guarantees	C	NR	C		NR	Gaps in domestic and foreign debt records raise quality concerns; evidence of daily consolidation of bank balances not established; rules for new loans include not include clear debt	C	D	C		D+	Evidence on consolidation on cash balances not established
18. Effectiveness of payroll controls	A	B	B [†]	A	B+ [†]	Payroll and personnel records reconciled monthly; changes to payroll records are usually less than three months, except in a minority of cases; authority for changes to payroll and personnel reside in different parties; a strong tradition of monthly payroll audit exists	A	B	A	B	B+	No change in overall result; but reform evidence in payroll controls
19. Transparency, competition,, and complaints mechanisms in procurement	C	D	D	D	D	Provisions of the new Public Procurement Law meet some good practices, but results not yet evident; the old legal and regulatory framework is deficient in many respects.	D	C	D		D+	Not comparable; indicator revised in 2010
20. Effectiveness in internal controls for non-salary expenditure	C	C	C		C	Other controls are excessive because of requirement for Governor's approval of all payments above five million naira, contrary to the regulations. MDAs generally comply with rules for processing and recording transactions.	C	B	C		C+	Clarification provided in 2012 shows executive approval of payments has always be part of the Lagos state payment system; this shows overrating in 2009.
21. Effectiveness of internal audit	C	B	C		C+	The internal audit function is not sufficiently professional; the Central Internal audit Department	C	B	C		C+	No change in baseline status quo

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Indicator	2012 Assessment					2009 Baseline					Brief Explanation of Difference with 2009 Baseline	
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used	Dimension Ratings					Overall Score
	i	ii	iii	iv			i	ii	iii	iv		
						issues monthly reports, but not according to a fixed schedule; delayed action taken on recommendations, and with limited results.						
<i>C(iii) Accounting, Recording, and Reporting</i>												
22. Timeliness and regularity of accounts reconciliation	D	D			D	Bank of accounts are in arrears of reconciliation with material differences not explained; advances to MDAs not cleared or reconciled timeously	B	NR			Not rated	Bank reconciliation habit has deteriorated since the baseline assessment. The state provided data for assessment of dimension (ii), which was not the case in 2009.
23. Availability of information on resources received by service delivery units	C				C	The Ministry of Economic Planning and Budget devised a system that tracks and collects resource information in education, but the system is not sufficiently comprehensive.	NR				Not rated	Improvement in provision of data for assessment
24. Quality and timeliness of in-year budget reports	D	A	C		D+	Budget report captures only releases and is too aggregated; quarterly reports issued within four weeks; data quality issues arise from difference between fund releases, payments, and actual expenditure commitment	C	D	C		D+	Data is too aggregated unlike in 2009, but improvement in the timeliness of reporting
25. Quality and timeliness of annual financial statements	C	A	D		D+	Gaps in annual financial statements include lack of information on authorized source deductions from federation allocations and expenditures on dedicated revenues; fiscal 2010 accounts submitted for audit on June 30, 2011; accounting standards used not disclosed.	D	A	B		D+	The 2009 baseline under assessed dim (i), regarding consolidation with LGs and AGAs' accounts as necessary and over assessed the dimension (iii) on accounting standards used.
<i>C(iv) External Scrutiny and Audit</i>												
26. Scope, nature, and follow-up of	B	B	B		B	Audit covers all central government activities, but	A	A	B		B+	Deterioration of performance in audit

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Indicator	2012 Assessment					2009 Baseline					Brief Explanation of Difference with 2009 Baseline	
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used	Dimension Ratings					Overall Score
	i	ii	iii	iv			i	ii	iii	iv		
external audit						involves limited performance audit; fiscal 2010 audit submitted to the Legislature on December 28, 2011; significant number of issues raised in audit queries cleared during exit meetings.						coverage and timeliness from 2009 status quo
27. Legislative scrutiny of annual budget law	C	A	B	C	C+	Legislative scrutiny of the budget covers details of revenue and expenditure, but not fiscal policies and medium term fiscal forecasts; established budget approval process includes use of appropriation and specialized committees; the Legislature approved two of the last three budgets within six weeks of submission; the use of service votes allows extensive adjustment to the budget without referring to the legislature	C	A	D	C	C+	The Legislature took more time to approve the budget this time than in the 2009 assessment.
28. Legislative scrutiny of external audit reports	D	A	D		D	No hearings on audit reported completed in the last three years; audit hearing is a closed affair and not open to the public; no recommendations issues in last three years.	C	A	NR		Not rated	No evidence of completed hearing in 2012
HLG-1 Predictability of Transfers from Higher Level Government												
Predictability of Transfers from Higher Level Government							C				C	
D. Donor Practices												
D-1. Predictability of Direct Budget Support							NA				NA	
D-2. Financial information provided by donors							D	D			D	

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Indicator	2012 Assessment					2009 Baseline					Brief Explanation of Difference with 2009 Baseline	
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used	Dimension Ratings					Overall Score
	i	ii	iii	iv			i	ii	iii	iv		
for budgeting and reporting on project and program aid												
D-3. Proportion of aid that is managed by use of national procedures							D				D	

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Appendix 2: Excel Calculations for PI-1 & PI-2

Data for year =		2009					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent	
General Public Services	146,725.52	108,201.61	111,403.4	-3,201.7	3,201.7	2.9%	
Public Order & Safety	10,570.92	6,276.36	8,026.1	-1,749.8	1,749.8	21.8%	
Economic Affairs	46,334.04	53,447.71	35,179.8	18,268.0	18,268.0	51.9%	
Environmental Protection	35,481.57	12,551.19	26,939.9	-14,388.7	14,388.7	53.4%	
Housing & Community Amenities	15,874.61	13,491.09	12,053.0	1,438.1	1,438.1	11.9%	
Health	21,603.91	19,243.48	16,403.1	2,840.4	2,840.4	17.3%	
Recreation, Culture, & Religion	12,726.86	5,743.55	9,663.0	-3,919.5	3,919.5	40.6%	
Education	33,847.70	25,721.20	25,699.3	21.9	21.9	0.1%	
Social Protection & Poverty Alleviation	3,151.30	1,821.59	2,392.7	-571.1	571.1	23.9%	
Not Identified Elsewhere (n.i.e.)	35,630.50	28,315.38	27,052.9	1,262.4	1,262.4	4.7%	
allocated expenditure	361,946.93	274,813.16	274,813.2	0.0	47,661.5		
contingency							
total expenditure	361,946.93	274,813.16					
overall (PI-1) variance						24.1%	
composition (PI-2) variance						17.3%	
contingency share of budget						0.0%	
Table 3							
*Data for year =		2010					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent	
General Public Services	180,571.87	145,925.36	154,948.23	- 9,022.87	9,022.87	5.82%	
Public Order & Safety	9,731.46	7,171.64	8,350.54	- 1,178.90	1,178.90	14.12%	
Economic Affairs	55,643.57	51,131.86	47,747.59	3,384.26	3,384.26	7.09%	
Environmental Protection	11,585.67	13,567.46	9,941.63	3,625.84	3,625.84	36.47%	
Housing & Community Amenities	12,157.88	9,970.26	10,432.65	- 462.39	462.39	4.43%	
Health	18,424.32	19,538.26	15,809.86	3,728.40	3,728.40	23.58%	
Recreation, Culture, & Religion	7,066.71	8,440.18	6,063.93	2,376.26	2,376.26	39.19%	
Education	30,556.40	31,994.00	26,220.36	5,773.64	5,773.64	22.02%	
Social Protection & Poverty Alleviation	2,510.10	2,023.29	2,153.91	- 130.62	130.62	6.06%	
Not Identified Elsewhere (n.i.e.)	68,510.91	50,695.41	58,789.03	- 8,093.62	8,093.62	13.77%	
allocated expenditure	396,758.88	340,457.71	340,457.7	0.0	37,776.8		
contingency							
total expenditure	396,758.88	340,457.71					
overall (PI-1) variance						14.2%	
composition (PI-2) variance						11.1%	
contingency share of budget						0.0%	
Table 4							
*Data for year =		2011					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent	
General Public Services	154,131.59	206,465.28	127,301.94	79,163.34	79,163.34	62.19%	
Public Order & Safety	14,044.22	7,230.16	11,599.54	- 4,369.39	4,369.39	37.67%	
Economic Affairs	116,380.28	77,121.87	96,121.99	-19,000.12	19,000.12	19.77%	
Environmental Protection	28,753.89	13,103.62	23,748.71	-10,645.09	10,645.09	44.82%	
Housing & Community Amenities	11,666.88	7,417.76	9,636.03	- 2,218.26	2,218.26	23.02%	
Health	34,541.60	26,915.64	28,528.95	- 1,613.31	1,613.31	5.65%	
Recreation, Culture, & Religion	6,820.43	4,203.63	5,633.20	- 1,429.57	1,429.57	25.38%	
Education	53,297.41	36,657.74	44,019.94	- 7,362.20	7,362.20	16.72%	
Social Protection & Poverty Alleviation	6,136.92	2,675.33	5,068.66	- 2,393.34	2,393.34	47.22%	
Not Identified Elsewhere (n.i.e.)	36,482.60	-	30,132.08	-30,132.08	30,132.08	100.00%	
allocated expenditure	462,255.81	381,791.03	381,791.0	0.0	158,326.7		
contingency							
total expenditure	462,255.81	381,791.03					
overall (PI-1) variance						17.4%	
composition (PI-2) variance						41.5%	
contingency share of budget						0.0%	

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List of Lagos State Government Officials that Participated in the Assessment Workshop

April 2 - 5, 2012

S/N	Name	Designation	Ministry	2 nd April	3 rd April	4 th April	5 th April
1	Adelaja A.O (Mrs.)	Deputy Director	LSUBEB		✓	✓	✓
2	Engr O. A Olayinka	Director	Works & Infrastructure	✓	✓	✓	✓
3	Mr. R.O Osinaike	Director Audit	Lagos Water Corporation		✓	✓	✓
4	Akin Onimole	General Manager	Lagos State Procurement Agency		✓	✓	✓
5	Bashorun Oladokun	A.C.A.O	MEPB	✓	✓	✓	✓
6	Gbolahan K. Daodu (Mrs.)	Executive Chairman	State Universal Basic Education Board	✓	✓	✓	✓
7	D.O.A Sunmoni	State Auditor-General	Office of State Auditor-General	✓	✓	✓	✓
8	Kassim Bode	Director	DMO			✓	✓
9	F. O. Lasisi	Director	Office of State Auditor-General	✓	✓	✓	✓
10	Omojola Larry	PPO STO	STO	✓	✓		✓
12	Olagboye N.O	CT	Ikeja Local Government	✓	✓		✓
13	Shodimu G.O	Director(PPR&S)	Education	✓	✓	✓	✓
14	Awe M.O.K	Assistant Director		✓	✓	✓	✓
15	Omotara S.A	CT	Ikorodu Central				
16	Abass F.T	Director	Lagos State Internal Revenue Service	✓			
17	Odusanya S.O	Assistant Director (Account)	O.E.S	✓	✓	✓	✓
18	Adenuga	Deputy Director Computer Services	MOST	✓		✓	✓
19	Mofunlewi O.M	Principal Accountant	Lagos Mainland LG	✓	✓	✓	✓
20	Jibodu Oluremi(Mrs.)	Director Budget	MEPB	✓		✓	✓
21	Keshinro K.O	D/A	Office of Infrastructure	✓	✓	✓	✓
22	Seun Akinsanya	D(EP)	MEPB	✓	✓	✓	✓
24	Engr Teslim Balogun	Director	Public Works Corporation	✓	✓	✓	✓
25	Bisiriyu W.A	Assistant Director	House of Assembly	✓	✓	✓	✓
26	Odusote A.A	Senior Accountant	STO	✓	✓	✓	✓
27	Obafemi K.O	DFA	OSA(T&R)	✓	✓		✓
28	Bolaji R.A	Assistant Deputy Account	Finance	✓	✓	✓	✓
29	TP Ogedingbe	AD	Debt Mgt Office	✓	✓	✓	✓
30	AS Umar (Mrs.)	Deputy Director CPDU	STO/Finance	✓	✓	✓	✓
31	GT Azeez	D/FIS	STO	✓	✓	✓	✓
32	Adebayo M.B	Deputy Director(Accounts)	MoST	✓	✓	✓	✓
33	Akinlemibola A.J	Deputy Director TO	STO	✓	✓	✓	✓
34	Adegboji Onikoyi	Director	Finance(CIAD)	✓	✓	✓	✓
35	J.O Odupitan	Sec. STB	State Tenders Board, Cabinet Office	✓		✓	✓
36	Hon Kazeem Alimi	LAHA	LAHA	✓	✓	✓	✓
37	Onibon Waliu A	D/A	Lands	✓	✓	✓	✓
38	Kadri A.A	Deputy Director Planning	Office of Infrastructure	✓	✓	✓	✓
39	Oseni Ope B.T	Assistant Director	MEPB	✓	✓		✓
40	Kazeem Bode	D(EP)	MEPB	✓			
41	Motajo D.S	C/T Ikorodu	Local Government	✓	✓	✓	✓
41	Salami S. A	Deputy Director	Office of the Auditor – General for Local Governments	✓	✓	✓	✓
42	Dr. Olatunji	Perm. Sec.	H. SC	✓	✓	✓	

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43	Olabewau T Ademola (Mrs.)	PS	DMO	✓			
44	Jibodu Oloremi(Mrs.)	Director Budget	MEPB	✓	✓		
45	Adetona G.M	Director	Min of Local Government & Chieftaincy Affairs	✓	✓	✓	✓
46	Ajenifuja M. O	Assistant Director	STO	✓		✓	✓
47	Tunde Fowler	Executive Chairman LIRS	Lagos Internal Revenue Service	✓		✓	
48	Bisi Alh	DDPIT	LIRS		✓	✓	✓
49	Mr. Fara Made Ogunsanya	Director Finance & Administration	LIRS			✓	
50	Mr. Olufolarin Ogunsanwo	Board Secretary	LIRS			✓	

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State Treasury Office, Summary report of the Staff Audit
Exercise from MDAs for the month of November &
December 2011, January 2012
State Treasury Office, TR/0020/VOL.XIV/332, Closing
of Accounts-Financial Year 2010, December 6, 2010
State Treasury Office, TR/0020/XIII/327, Prohibition of
Issuance of Single Treasury Receipt to Multiple
Payees, 7 June 2010
Summary and Comparison of February, 2012 Payroll and
Human Resources Nominal Roll
Summary of Recurrent Expenditure by Agency from
Approved Budget Y2010
Summary of Revenue by Classification, December 2010
Supplementary Reordering Appropriation 2010
Tax Liability defaulters as at 22 February 2012
Treasury Operations Directorate, Daily Cash Position at
20 March 2012-4th April 2012

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Appendix 5: Participation in Validation Workshop

Validation Meeting with the at the Ministry of Economic Planning & Budget, June 5, 2012

1. Ben Akabueze - Commissioner for Economic Planning and Budget
2. Iyabo Aluko – Special Adviser to the Governor on Economic Affairs
3. Bayo Sodeinde - Permanent Secretary, Ministry of Economic Planning & Budget
4. Jibodo Oloremi (Mrs.) - Director of Budget

Validation Meeting with the at the State Treasury Office, June 6, 2012

1. Akin Ambode – State Accountant General
2. Larry Omojola – PPO, State Treasury Office

Validation Meeting with the with the Commissioner for Finance, June 9, 2012

1. Adetokumbo M. Abiru – Commissioner for Finance
2. Larry Omojola – PPO, State Treasury Office
- 3.

Statewide Validation Meeting with assessment Team on June 8, 2012			
S/N	Name	Designation	Ministry
1	Adelaja A.O (Mrs.)	Deputy Director	LSUBEB
2	Engr Olayinka	Director	Works & Infrastructure
3	Mr. Osirilake	Director Audit	Lagos Water Corporation
4	Akin Onimole	General Manager	Lagos State Procurement Agency
5	Bashorun Oladokun	A.C.A.O	MEPB
6	Gbolahan K. Daodu (Mrs.)	Executive Chairman	State Universal Basic Education Board
7	D.O.A Sonmoni	State Auditor General	Office of Auditor General for Lagos State
8	Femi Ogulana	Assistant Director	Office of Auditor General for Lagos State
9	F. O. Lasisi	Director	Office of Auditor General for Lagos State
10	Omojola Larry	PPO STO	STO
11	Rowaiye B.O	ACA	STO (Federal Inland Revenue)
12	Olagboye N.O	CT	Ikeja Local Government
13	Shodimu G.O	Director	Education
14	Awe M.O.K	Assistant Director	
15	Omotara S.A	CT	Ikorodu Central
16	Abass F.T	Director	Lagos State Internal Revenue Service
17	Odusanya S.O	Assistant Director (Account)	O.E.S
18	Adenuga	Deputy Director	MOST
19	Mofunlewi O.M	Principal Accountant	LMLG
20	Jibodo Oloremi (Mrs.)	Director Budget	MEPB
21	Keshinro Kamoru	Deputy Director	
22	Seun Akisanya	DEP	MEPB
23	Alli Muideen Abdukadir	ACED	Min of Science & Technology
24	Engr Taslim Balogun	Director	Public Works Corporation
25	Bisuriyo W.D	Assistant Director	House of Assembly
26	Odusote A.A	Senior Accountant	STO
27	Obafemi K.O	DFA	
28	Ben R.A	Assistant Deputy Director	