

Kaduna State Government



PUBLIC FINANCIAL MANAGEMENT PERFORMANCE REPORT AND PERFORMANCE INDICATORS

FINAL REPORT

Kaduna PFM Reform Programme Team

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February 2012.

Acknowledgements

The PEFA Reform Programme Team and the SPARC consultants wish to thank all those who provided the information for assessing the indicators and ideas for future development contained in this report. Further, we would like to extend our gratitude to all the stakeholders who attended the Orientation Workshop and the PEFA Retreat in Abuja. Their discussions and evaluations have formed the basis of this report.

Abbreviations and Acronyms

AG	Accountant General
AGA	Autonomous Government Agencies
BATMIS	Budgeting, Accounting and Treasury Management Information System
BC&COA	Budget Classification and Chart of Accounts
BIR	Board of Internal Revenue
COFOG	Classification of Functions of Government
CRF	Consolidated Revenue Fund
DB	Director Budget (MOEP)
DFA	Department of Final Accounts
DFID	Department for International Development (UK)
DMD	Debt Management Department, MOF, KDSG
DMO	Debt Management Office (Abuja)
DT	Director Treasury
DTO	Department of Treasury Operations (MOF)
ESSPIN	Education Sector Support Programme in Nigeria (DFID funded)
EXCO	Executive Council of the State House of Representatives (the Cabinet)
GDP	Gross Domestic Product
GFS	Government Financial Statistics
ICAN	Institute of Chartered Accountants of Nigeria
IGR	Internally Generated Revenue
IPSAS	International Public Sector Accounting Standards
KADSEEDS	Kaduna State Economic Empowerment and Development Strategy
KDSG	Kaduna State Government
MDAs	Ministries, Departments and Agencies
MDGs	Millennium Development Goals
MOF	Ministry of Finance
MTB	Ministerial Tenders Board
MTEF	Medium Term Expenditure Framework
OAG	Office of the Auditor General
OAGLG	Office of the Auditor General – Local Government
OHCS	Office of the Head of Civil Service
PAC	Public Accounts Committee
PATHS	Partnership for Transforming Health Systems (DFID funded)
PAYEE	Pay As You Earn
PE	Public Enterprises
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public Expenditure Review
PFM-PR	Public Financial Management Performance Report
PMB	Project Monitoring Bureau
PME	Planning, Monitoring & Evaluation
PRS	Policy, Resource and Statistics
PRS	Policy, Research & Statistics
PS	Permanent Secretary
RDPT	Resident Due Process Team
SAVI	States Accountability and Voice Initiative
SPARC	State Partnership for Accountability, Responsiveness and Capability
SEEDS	State Economic Empowerment and Development Strategy
SGCBP	State Governance and Capacity Building Project (WB funded)
SHoA	State House of Assembly
SSG	Secretary to the State Government
WB	World Bank

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Summary Assessment

Introduction

The first PEFA assessment for Kaduna State Government (KDSG) was carried out in March 2008. Four years later, this report provides an update on progress against the objective standards set by the PEFA Performance Measurement Framework.

This report has gone outside the normal boundaries of Public Expenditure and Financial Accountability (PEFA) assessment, taking the opportunity to collect suggestions for improvement and progress made by the PFM Reform Programme team members and their assisting consultants, and to present these as a set of (unstructured) recommendations for further debate.

Many of the issues raised in the first PEFA report on Kaduna are presented again here. In particular, the need to improve Internal Generated revenue (IGR) is repeated here in even more urgent terms. If the ambitious IGR budget for 2012 stands any chance of success, radical changes need to be made now.

In the last four years there have been a number of initiatives to improve the technical processes of PFM in Kaduna State Government (KDSG). Some of these have resulted in improved PEFA scores and some have not. Where PEFA scores have improved, this is highly commendable, but where the scores have not improved this is not necessarily because of lack of progress, but often because one or two key targets have not yet been achieved or because information is not presented in the best way.

In only one case has the PEFA scores been significantly worse than in 2008: the Public Accounts Committee of the State House of Assembly (SHoA) has not considered the Report of the Auditor General at all during the period of this PEFA review (2008-2011). It is to be hoped that the current SHoA is prepared to be more conscientious in this respect.

The PEFA approach to assessing PFM performance

The PEFA Performance Measurement Framework assesses the whole financial management cycle: planning, budgeting, budget execution, accounting, reporting and external scrutiny.

It should be noted that the PEFA approach does not score organisations or individuals but systems, which usually cut across a number of MDAs. Where there are bad scores there is no blame to be apportioned but it is a sign that improvements to the system could produce a significant benefit to the whole process of Public Financial Management and hence to the delivery of services by the State.

A summary of the PEFA performance indicators (PI) for Kaduna State Government in 2012 and in 2008 is shown in Table 1 on page 11. Each indicator is scored on the scale A (strong) to D (weak). The following commentary explains their significance.

A: Credibility of the budget (PI 1 to 4)

In order for the budget to be a tool for policy implementation, it is necessary that the budget is realistic and implemented as passed.

Indicators PI-1 to PI-3 measured how close actual results have been to the original budget appropriations. Since the latest available audited results are for the fiscal year 2010, the three years, 2008 to 2010 have been examined, because the draft financial statements for 2011 were also available in time for the PEFA workshop, these have been included as well.

As on the previous PEFA, the results for all these indicators were **D** (bad). It has been clear throughout the period that KDSG has continued to set unrealistically high budgets. These were at their worst during the last years of the previous administration and it is hoped that the current administration will continue its work towards greater budget credibility, and that this will enable some realistic planning in ministries that are trying to deliver public services.

Indicator PI-4 is concerned with arrears of payments, including those claims for which payment is overdue and the possibility of unrecorded liabilities. The 'oil price shock' of 2008 brought this problem to the forefront of the government's attention. It was soon apparent that, faced with a reduction in

revenue expectations, KDSG had no method for prevention of commitments on budgeted contracts. Arrears of contractual liabilities grew very quickly.

However, the newly established Debt Management Department (DMD) in Ministry of Finance (MOF) was able to set up a system for recording these arrears and MOF has since been able to significantly reduce them. Estimated contractual liabilities rose to about N12 billion in 2010, since then they have been reduced to an estimate of N4 billion at the start of 2012.

This reduction in liabilities, and the recording system which measures it, have enabled an improvement in the score for PI-4 from D in 2008 to B in 2012.

B: Comprehensiveness and Transparency (PI 5 to 10)

Comprehensiveness of the 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.

The budget classification (PI-5) determines the extent to which income and expenditure information can be analysed and used for decision making and performance measurement. Over the last six years KDSG has made significant improvements to its budget classification, enabling greatly improved analysis of data and comparison of budgeted and actual results. However, in common with other Nigerian states, KDSG still produces separate recurrent and capital budgets which use related but separately organised budget classifications. This distinction holds the budget classification down to a **C** score, showing no improvement over 2008. Some recommendations for reporting improvements that would help improve the score for PI-5 have been made in this report.

Annual budget documentation (PI-6), as submitted to the legislature for scrutiny and approval, should provide a complete picture of the government's fiscal forecasts and budget proposals compared with the outturn for the previous year(s). In the 2008 PEFA, it was noted that the addition of a few items of data to the budget as presented to the SHOA could quickly improve this score. Examples are (i) the projected rate(s) of inflation; (ii) fiscal deficit; (iii) summaries of debt stock (balances); and (iv). Prior year's actual outturn. All of this data is now readily available but surprisingly, despite the productive work on budgeting in other areas, none of it has been included in the 2012 budget. The opportunity for a 'quick win' improvement in this score has been lost. It remains at **C**, no improvement over 2008.

Indicator PI-7 is concerned with unreported government operations, i.e. (i) government money that is executed through off-budget funds and (ii) donor project moneys which do not pass through the government books. Firstly, a clear accounting policy is needed to ensure proper and consistent accounting for internal grants from Federal government (such as the Education Trust Fund) which are executed through bank accounts not under the control of the accountant General.

Secondly, KDSG needs to make its method of budgeting and accounting for grant funded donor projects more consistent and comprehensive. All donor partners should be required to register with MOEP Department of Donor Aid Coordination, the budget should clearly distinguish grants 'in kind' and projects financed by them in a separate non-cash category, or as a note, and the annual financial statements should report actual receipts and expenditure in the same format as the budget, where possible (if the donor will supply the information). The score PI-7 remains at **D+**, no change from 2008.

Indicator PI-8 examines the transparency and timeliness of the transfer of moneys from the State to Local Governments (LGs) and the reporting of LGs' results back to the State. Whilst KDSG uses the same rules-based system for allocating money to LGs as is used by Federal Government, this score is low because reliable information on their allocations is given to LGs at a late stage and because there is no collection or consolidation of LG fiscal data, or sector analysis reporting - score **D+**, no change from 2008.

Examination of the boundary between state and local governments in Kaduna shows that there is a much more serious problem than is measured by PI-8. Many local governments report only the expenditure which they undertake themselves and none of the expenditure that is made on their behalf through the state and local government joint account. This latter expenditure is therefore not

reported by either state or local governments, which results in the combined operations of Kaduna State being seriously understated. This report suggests that a PEFA-based analysis should be conducted for the combined results of the 23 local governments in Kaduna State.

Indicator PI-9 measures the extent to which KDSG monitors aggregate fiscal risk from other public sector entities (i.e. autonomous government agencies (AGAs), public enterprises (PEs) and local governments). The monitoring is confined to the receipt of annual audited reports but no aggregate assessment of fiscal risks is made. This has been given a **D** score, the same as in 2008.

Indicator PI-10: For clear transparency, the public should have access to key fiscal information, including the state budget (at the time it is presented to the SHOA), accounting reports, audited financial statements, details of large contracts awarded, and resources received by key service units. Some of this information is available via government bookshop and newspapers, etc. The availability of this information merits a score of **C** (no change from 2008). Unlike indicator PI-6, improving this score would not be easy without policy changes and/or significant improvements in the availability of information.

C (i) Policy-based Budgeting (PI 11 and 12)

A policy-based budgeting process enables the government to plan the use of resources in line with its fiscal policy and national strategy.

This section of PEFA evaluates the annual budget process (PI-11) and the multi-year perspective in planning and budgeting (PI-12). There have been significant improvements in both scores.

Indicator PI-11: There have been significant improvements in the budget calendar since 2008 and the call circular has been issued with expenditure ceilings since 2009. Recently those ceilings have been agreed by EXCO, though not before the call circular has been issued, and the EXCO-agreed ceilings have not been transparently linked to a realistic revenue forecast. On the negative side, the budget approval date has consistently been delayed to February by slippages in the budget calendar.

The overall score for PI-11 is C+, an improvement from C in 2008.

Indicator PI-12: Multi-year forecasts are now made for revenue, and allocation of revenue funds between sectors/ministries. However there is no clear link between the multi-year fiscal forecasts and the eventual approved budget. A Debt Sustainability Analysis has been undertaken twice in the last three years. Substantial medium term strategies exist for four major sectors, but the overall plans for KDSG are inconsistent with aggregate fiscal forecasts, and there is little linkage between the investment budget and recurrent budget.

The overall score for PI-12 is C, an improvement from D in 2008.

C (ii) Predictability and Control in Budget Execution

Predictable and controlled budget execution is necessary to enable effective management of policy and program implementation

PI-13 to 15: Taxation: Tax laws and rates are clearly laid down, the same as elsewhere in Nigeria, but, despite efforts made by BOIR to publicise taxpayer liabilities, the score for PI-13 remains at **C** because there is no effective independent appeals mechanism. Leakages can be significantly reduced by ensuring that all taxpayers are registered on a single database with links to other financial databases (PI-14 score **C**) and by tightening up on collections of tax assessments (PI-15 score **D+**). These scores are unchanged since 2008, despite some limited improvements by BOIR, who have increased tax receipts in real terms since 2008. There is still much scope for continued improvement.

Indicator PI-16: Predictability in the availability of funds for commitment of expenditure. This indicator has been largely irrelevant over the period 2009 to 2011 because the problem has been one of recovering from over-commitment and the resulting arrears (see PI-4). As such there has been very little money available for commitment to new expenditures. The score remains at **D+**, the same as in 2008, but there is now an improved system for setting aside funds once commitments have

been made, and it is hoped that this will help to increase the confidence with which MDAs can plan their expenditures.

Indicator PI-17: Cash and debt management. This score has improved compared with 2008, because the Debt Management Department has not only improved the recording of loans but is now also having an influence on state borrowing policy.

The overall score for PI-17 is C+, an improvement from D+ in 2008.

Indicator PI-18: Payroll is the largest component of the PFM system, an area where significant improvements can be made when the new computerised personnel records (currently being installed, cleansed and verified on the new HRMIS system) are completed and linked to payroll. Until then, the score for the existing payroll system remains the same as in 2008, warranting a score of **D+**.

Indicator PI-19: In common with most of Nigeria, the procurement system in KDSG is still weak by international standards, despite limited improvements resulting from the Due Process Guidelines. A new procurement bill is being prepared for presentation to the SHOA, hopefully this year. Meanwhile, the score remains at **D**, no improvement over 2008. Not only does this create the opportunity for corrupt practices, leakages and patronage, but it also limits the efficiency of programmes by increasing costs or leading to supply of goods of inadequate quality.

Indicator PI-20: Internal controls: Commitment controls over contracts have recently been improved, but it is too early to say whether these changes will be effective. Other internal controls are set out in the Financial Instructions and Stores Regulations and follow traditional government accounting rules and are generally adhered to, though external auditors detect (and require correction of) a significant number of infringements. Score = **C**, no change from 2008.

Indicator PI-21: Internal auditors do not have time to carry out any audit work because they spend their most of their time 'pre-auditing' vouchers prior to payment and therefore form part of the internal control system scored under PI-20. It is proposed that the Deloitte report on internal audit (2008) is taken out of storage and discussed as basis for improvements to the internal audit service. Score = **D**, same as 2008.

C (iii) Accounting, Recording and Reporting

Timely, relevant and reliable financial information is required to support all fiscal and budget management and decision-making processes

Indicator PI-22: Reconciliations. Most cash at bank is under the control of the Accountant General or BOIR. Reconciliations are carried out monthly. Bank reconciliations at MDAs are also carried out monthly. There are some problems with follow-up with old outstanding cheques that have never been presented. Reconciliation of suspense accounts is annual. Score = **C+**, no change from 2008.

Indicator PI-23: There is no routine collection of information dealing with delivery of front-line services to the community, and whilst some elements of both Health and Education service delivery information is in place, this information is not comprehensive. Score = **D**, no change from 2008.

Indicator PI-24: Quarterly budget reports: It is a missed opportunity that quarterly reports of budget performance are not produced by the computerised accounting system. Score = **D**, same as 2008.

Indicator PI-25: The annual financial statements (PI-25) are completed promptly and to a high standard compared with most Nigerian States, using the format of the Nigerian Standards of 2002. However, for this PEFA indicator, it is only possible to award a **C+** because to get a B, full information on revenue, expenditure, financial assets and liabilities needs to be shown. The KDSG financial statements are deficient in not disclosing contractual liabilities (as a note) and not disclosing full details of expenditure under capital contracts (these are shown as 'one-line' items). No change from the 2008 score.

C (iv) External Scrutiny and Audit

Effective scrutiny by the legislature and through external audit is an enabling factor in the government being held to account for its fiscal and expenditures policies and their implementation

Indicator PI-26: External audit is predominantly transaction-based testing, carried out by members of the Auditor General’s staff (for MDAs), who are based in the offices of the institutions they are auditing, and by the Local Government Audit Directorate (for LGs). Until budget execution and accounting systems are generally strengthened, this is an appropriate working arrangement for external audit, but it does not score highly against international audit standards (score **C+**, same as 2008). For example, it does not identify major areas of control risk and focuses on transactions that have been recorded, while omitting searches for items that have not been recorded.

Indicator PI-27: Review of the annual budget law by the SHOA takes place only when the detailed budget has been made available, and this is generally at a very late stage. Despite this, they take sufficient time (up to 2 months) to debate the budget. As regards the supplementary/revised budgets, these are largely driven by SHOA resolutions and there seems to be limited legislative scrutiny of reallocated supplementary/revised budgets. Supplementary budgets allow the regularisation of large changes in budget priorities. Score = **C+**, no change from 2008.

Indicator PI-28: The Public Accounts Committee (PAC) of SHOA has not met to review the Report of the Auditor General for the whole period which this review covers (2008-2011). In earlier years, follow-up on the recommendations in the audit report used to be stronger, as PAC had held in-depth hearings with responsible officers for all entities that had qualified or adverse audit reports.

The overall score for PI-28 is D, a decline from C+ in 2008.

Table 1: Summary of PFM Performance Scores

No	Performance Indicator	Score 2012	Score 2008
A	PFM OUT-TURNS: Credibility of the budget		
1	Aggregate expenditure out-turn compared to original approved budget	D	D
2	Composition of expenditure out-turn compared to original approved budget	D	D
3	Aggregate revenue out-turn compared to original approved budget	D	D
4	Stock and monitoring of expenditure payment arrears	B	D
B	KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency		
5	Classification of the budget	C	C
6	Comprehensiveness of information included in budget documentation	C	C
7	Extent of unreported government operations	D+	D+
8	Transparency of inter-governmental fiscal relations	D+	D+
9	Oversight of aggregate fiscal risk from other public sector entities	D	D
10	Public access to key fiscal information	C	C
C	BUDGET CYCLE		
C(i)	Policy-based Budgeting		
11	Orderliness and participation in the annual budget process	C+	C
12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C	D
C(ii)	Predictability and Control in Budget Execution		
13	Transparency of taxpayer obligations and liabilities	C	C
14	Effectiveness of measures for taxpayer registration and tax assessment	C	C
15	Effectiveness in collection of tax payments	D+	D+
16	Predictability in the availability of funds for commitment of expenditures	D+	D+
17	Recording and management of cash balances, debt and guarantees	C+	D+
18	Effectiveness of payroll controls	D+	D+
19	Competition, value for money and controls in procurement	D	D

No	Performance Indicator	Score 2012	Score 2008
20	Effectiveness of internal controls for non-salary expenditure	C	C
21	Effectiveness of internal audit	D	D
C(iii)	Accounting, Recording and Reporting		
22	Timeliness and regularity of accounts reconciliation	C+	C+
23	Availability of information on resources received by service delivery units	D	D
24	Quality and timeliness of in-year budget reports	D	D
25	Quality and timeliness of annual financial statements	C+	C+
C(iv)	External Scrutiny and Audit		
26	Scope, nature and follow-up of external audit	C+	C+
27	Legislative scrutiny of the annual budget law	C+	C+
28	Legislative scrutiny of external audit reports	D	C+
D	DONOR PRACTICES (see page 69)		
D1	Predictability of direct budget support	N/A	N/A
D2	Financial information provided by donors for budgeting and reporting on project and program aid	D+	D+
D3	Proportion of aid that is managed by use of national procedures	D	D

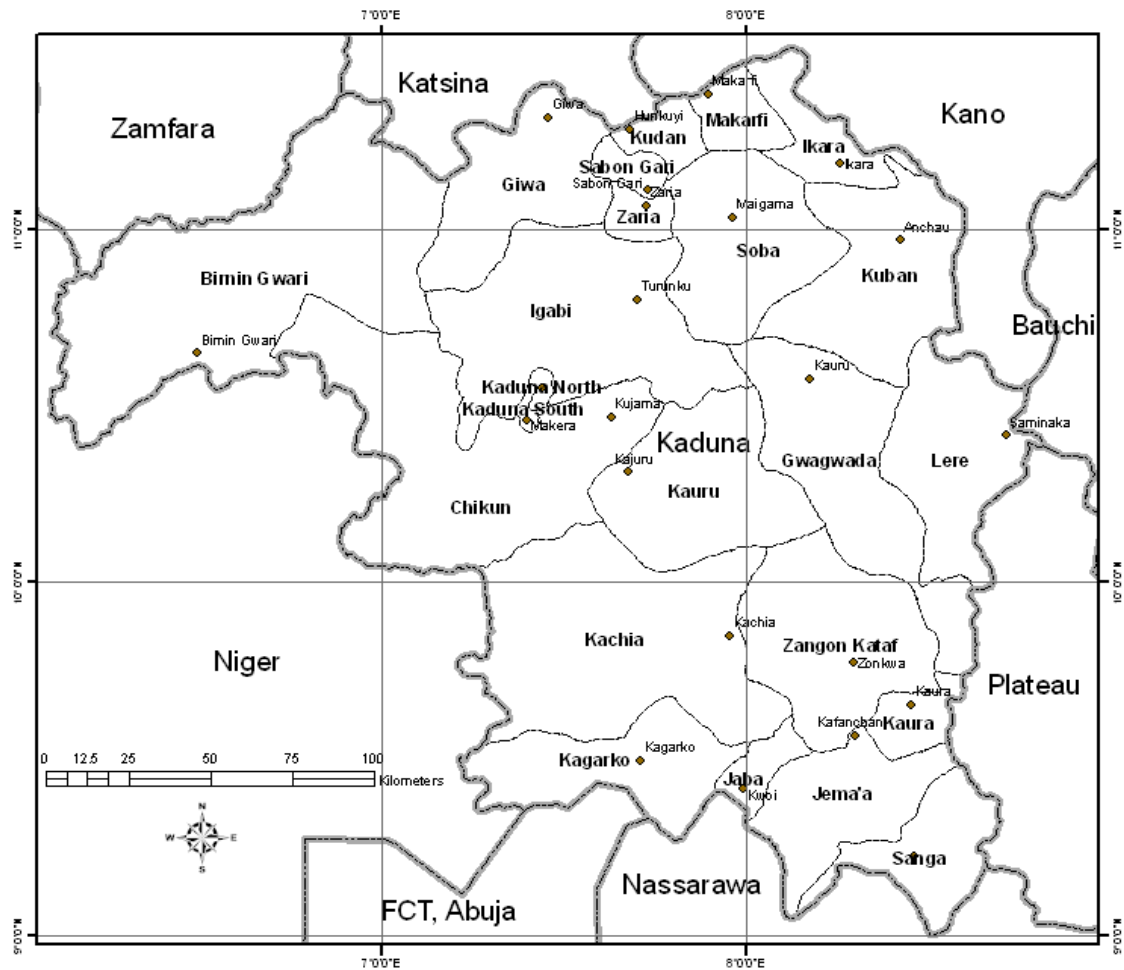
List of Recommendations

The following recommendations are presented in the order in which they appear in the text of the report. The page number references enable the recommendations to be seen in context of the PEFA performance indicators.

- Recommendation 1: The PFM Reform Programme team should formulate a request for technical assistance on mobilisation of IGR in Kaduna State. 31
- Recommendation 2: A system should be developed for producing clear and regular information on arrears of pensions and gratuities. 32
- Recommendation 3: Reports on budget and actual capital expenditure summarised by administrative unit and economic item should be developed. 34
- Recommendation 4: Reports on budget and actual recurrent expenditure summarised by sub-sector should be developed. 34
- Recommendation 5: The following additional information should be included with the draft budget submitted to SHOA: (i) the projected rate(s) of inflation; (ii) fiscal deficit; (iii) summaries of debt stock (balances); (iv) prior year's actual outturn. 35
- Recommendation 6: An accounting policy should be introduced that all revenue and expenditure from all funds and grants received in cash from other levels of Nigerian government should be fully and consistently recorded in the budget and financial statements of KDSG. 36
- Recommendation 7: MOEP Department of Donor Aid Coordination should devise a system for ensuring that all donors register with them, that a clear and up-to-date register of donor programs and projects is kept. 36
- Recommendation 8: MOEP Planning Department should develop a system for distinguishing between donor amounts received in cash and in those received in kind. In the annual budget estimates, donor amounts receivable in cash should be clearly distinguished from those to be received in kind. Amounts to be received in kind should be dealt with in a separate 'non-cash' section of the budget statement, or included in a note that lists and totals non-cash grants and expenditures. 36
- Recommendation 9: Receipts and payments from all KDSG bank accounts that handle donor cash grants should be included in the annual financial statements. For grants in kind, each donor should be asked to provide at least a broad estimate of the actual value of grant executed in KDSG's financial year, for inclusion in the annual financial statements as part of a non-cash section or note. 36
- Recommendation 10: A separate PEFA style assessment should be carried out for the combined operations of the 23 Local Governments in Kaduna State. This should include evaluation of best options for accounting for local government money managed by KDSG (acting as agent) and also practical suggestions for speeding up the preparation of LG accounts. 38
- Recommendation 11: SPARC/SAVI should consider promoting further explanations for the general public, explaining the importance of the reports of the Accountant General and Auditor General (as distinct from the budget estimates). 41
- Recommendation 12: MOEP should build on its experience of advance revenue forecasting, by focusing on monthly revenue collection results and using these to continuously update revenue forecasts. These updates should be presented to EXCO monthly and should provide the baseline for decisions made by the Revenue Estimates Committee. 43
- Recommendation 13: The PFM Reform Programme Team, assisted by SPARC, should formulate a practical plan for how to engage EXCO in the agreement of realistic expenditure ceilings before the call circular for the 2013 budget is issued. One suggestion is to have a high level retreat. .. 45
- Recommendation 14: The next DSA to be carried out should include an assessment of pension liabilities. 45

Recommendation 15: Budgeting for existing liabilities and commitments will take place within MDAs' budget allocations, not from a separate MOF fund.	46
Recommendation 16: A one day workshop is held for MDAs explaining how to budget when they are likely to have unpaid liabilities and commitments at the start of the budget year.	46
Recommendation 17: Those MDAs which are able to describe their capital projects by a more detailed analysis of economic items are encouraged to do so.	47
Recommendation 18: KADP and PFMU must report all loan drawdowns to the AG and DMD as soon as they happen.	53
Recommendation 19: The State House of Assembly should be sensitized on the principles, contents and importance of the Procurement Bill.	59
Recommendation 20: A one-day workshop should be held to discuss the Deloitte report on internal audit, to decide which elements should be endorsed, and to produce a series of actionable steps for implementation, including the identification of pilot ministries.	61
Recommendation 21: The Accountant General's reconciliation unit should extend its work on suspense accounts and 'below the line items' to MDAs.	62
Recommendation 22: Methods for financing and conducting a survey of a random sample of schools and/or clinics are discussed and proposals put to potential funds providers.	63
Recommendation 23: A meeting should be held to discuss a progressive strategy for generating in-year budget performance reports, using the improved information availability from the accounting and BATMIS systems. The meeting should include Final Accounts Department, MOEP, and representative from MDAs, as well as representatives from the information systems.	64
Recommendation 24: The decision on which accounting system is adopted by KDSG should take into account the requirements of PEFA indicator PI-24 (regular in-year reports) as well as the ability to produce annual financial statements.	64
Recommendation 25: Details of year end contractual liabilities (analysed by project) should be included as a note to the financial statements.	65
Recommendation 26: Suggestions for achieving the audit of non-compliant parastatals are debated and documented. These should include the review of the organisation's legal status, if necessary.	66
Recommendation 27: The Budget Scrutiny Manual for SHOA should be completed, using technical assistance. Technical assistance should be conditional on an indication that the Public Accounts Committee is prepared to meet and review reports of the Auditor General.	67
Recommendation 28: SHOA should employ the services of economic advisers to assist them with budget scrutiny, using the allowances they are given under the KDSG budget.	68

Kaduna State and the LGAs



LGA	HEADQUARTER	MALES_06	FEMALES_06	POP_06	AREA SQ KM	POP DENSITY
Bimin Gwari	Bimin Gwari	128330	124033	252363	6,185	41
Chikun	Kujama	186874	181376	368250	4,645	79
Giwa	Giwa	144218	142209	286427	2,066	139
Igabi	Turunku	219269	210960	430229	3,727	115
Ikara	Ikara	96866	97060	193926	853	227
Jaba	Kwoi	80283	75094	155377	368	422
Jema'a	Kafanchan	145667	133068	278735	1,661	168
Kachia	Kachia	124655	119619	244274	4,632	53
Kaduna North	Doka	186263	171431	357694	72	4,940
Kaduna South	Makera	210486	191904	402390	59	6,782
Kagarko	Kagarko	127457	113486	240943	1,864	129
Kajuru	Kajuru	55712	55156	110868	2,464	45
Kaura	Kaura	115369	107210	222579	485	459
Kauru	Gwagwada	86397	83611	170008	2,810	60
Kubau	Anchau	142642	139403	282045	2,505	113
Kudan	Hunkuyi	70951	68041	138992	400	348
Lere	Saminaka	167392	163769	331161	2,158	153
Makarfi	Makarfi	74601	71658	146259	541	271
Sabon Gari	Sabon Gari	149004	137867	286871	263	1,089
Sanga	Gwantu	76284	73049	149333	1,256	119
Soba	Maigama	148605	144665	293270	2,234	131
Zangon Kataf	Zonkwa	160646	155724	316370	2,668	119
Zaria	Zaria	214057	194141	408198	300	1,362

1. Introduction

1.1. Kaduna State background

Kaduna State is located in central northern Nigeria. The population of the state is estimated at just over 6 million in the 2006 census with a growth rate of 3.2% per year, making it the third most populous state in Nigeria after Lagos and Kano. Most people live in towns and semi-urban areas, the largest of which are Kaduna, Zaria, Kafanchan, Kagoro, Zonkwa, Birnin Gwari, Makarfi and Zangon Kataf. The 23 local government areas within Kaduna state are illustrated on the map with accompanying statistics on the preceding page.

Kaduna State contains a cultural mix of six major ethnic groups and more than 20 other smaller groups. In the northern part of the state the Hausas and others practice Islam (Zaria was among the largest of the seven Hausa States of the early 15th century), while the majority of people in the southern areas profess Christianity.

It is estimated that 22% of the population is aged 0-5 while a further 18% is 6-11. There is a high infant mortality rate while life expectancy for 90% of people is 44 years.

1.2. Public Financial Management in Kaduna State

Within Kaduna State, sub-national public finance is managed by Kaduna State Government (KDSG) and the 23 Local Governments.

The Executive of KDSG, headed by the State Governor, is responsible for the KDSG Budget, and reports on its execution (total value approximately N136 billion in 2011) to the Kaduna State House of Assembly. This PEFA report is mainly concerned with the PFM systems of KDSG.

The Local Governments, which received about 43%, 37% and 34% of the revenue of Kaduna State in 2008, 2009 and 2010 respectively, are intended to operate in a similar democratic way. Each Local government council is responsible for its own budget and should report on its execution to the Local Government Service Commission and to the Ministry of Local Government of Kaduna State Government. The following comments are noted:

1. In practice most local government expenditures are executed through joint bank accounts which are under the control of State Government entities but not reported in public financial statements by either the State Government or the Local Governments, thus leaving nearly 50% of expenditure in Kaduna State not properly reported. This is not the case in all Nigerian states.
2. Though this PEFA assessment, like its predecessor, is not specifically concerned with local government expenditure, except under the two specific indicators PI-8 and PI-9, it has been felt necessary to comment on the unsatisfactory accounting arrangements for local governments in several places in this report.

Branches of Federal Government agencies operating within Kaduna State are accounted for centrally and are not the subject of this report.

1.3. Context of this updated PEFA assessment

Public Expenditure and Financial Accountability (PEFA) is a multi-agency partnership program with a secretariat based at the World Bank. PEFA has developed a set of indicators for Public Financial Management known as the PEFA-PFM Performance Measurement Framework, which is designed to facilitate comparison of PFM performance over time and between countries/states. Assessments using this framework are referred to as PEFA Assessments for short.

The PEFA methodology was originally designed in 2005 for assessing PFM performance at national government level, but has since been adapted to allow assessment of sub-national governments (state and local government levels).

The KDSG PFM Reform Programme Team first carried out a PEFA Assessment in March 2008 and this updated 2012 assessment facilitates evaluation of progress since then.

It is important to emphasise that the purpose of this assessment has not been to evaluate and score specific institutions or government personnel. The focus is on the PFM system as a whole, and the results of the evaluation have enabled the Team to make recommendations for further improvement.

1.4. The PEFA indicators (PEFA-PFM Performance Measurement Framework)

The PEFA framework uses 28 performance indicators to score the state government, as shown in Table 2 below.

Table 2: Dimensions of Public Financial Management Performance

Indicators	PFM objective	Factors assessed
PI 1 - 4	Credibility of the budget	The budget is realistic and is implemented as intended.
PI 5 - 10	Comprehensiveness and transparency	The budget and the fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public.
PI 11 - 12	Policy-based budgeting	The budget is prepared with due regard to government policy.
PI 13 - 21	Predictability and control in budget execution	The budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds
PI 22 - 25	Accounting, recording and reporting	Adequate records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes.
PI 26 - 28	External scrutiny and audit	Arrangements for scrutiny of public finances and follow up by executive are operating.

In addition there are three indicators (D1-3) that assess donor practices in the country, and an additional indicator (HLG-1) that assesses the predictability of transfers from Federal to State Government.

1.5. Methodology Organisation

The evaluation was carried out during the period 1st to 29th February 2009. The KDSG PFM Reform Programme Team (see Annex 1), which was formed in 2008, led the evaluation process and was assisted in completing the evaluation by independent monitoring consultants appointed by SPARC.

The evaluation involved:

- Collecting and analysing existing documentation on the Kaduna PFM system;
- Collecting data and information from interviews with key stakeholders and individuals with key responsibilities within the PFM system;
- Quality assurance by seeking independent confirmation on data and information either from complementing interviews or from available recent reports;
- Discussions within the team and with stakeholders to interpret data and achieve a consensus on scoring for each of the PEFA indicators.

Three workshops were conducted. The first was a short introduction to discuss the purpose and methodology of the evaluation and the meaning of the indicators. This was followed by a three day 'retreat' to discuss each indicator in detail in the context of the evidence that had been collected.

The consultants then collated the evidence and the agreed scores to enable the presentation of an initial draft report on 27 February 2012 for validation and confirmation.

This final draft report incorporates the comments from a validation meeting held by the Self Assessment Core Team on 26th March 2012 and comments from DFID.

Scoring Methodology

When interpreting the scores listed in this document, it is important to understand the basis on which they have been calculated:

1. Each performance indicator (PI) may have several dimensions. For each of these dimensions the minimum requirements for scoring A, B, C or D is clearly described in the PEFA PFM manual.
2. Scoring method M1: For PIs where poor performance on one dimension is likely to undermine good performance on another, the score is based on the weakest link. Thus, for example, in assessing 'predictability in the availability of funds for commitment of expenditures' (PI-16), supplementary budgets may be relatively transparent (scoring B) but cash flow forecasting is weak (scoring D). The weakest link determines that the overall score will be a D, with a '+' added to indicate that some dimensions are better. Hence the overall score is D+.
3. Scoring method M2: For PIs where the dimensions are essentially independent, the overall score is determined by averaging. For example see PI-14 or PI-17.

1.6. Scope of the assessment

This PEFA assessment is concerned with the PFM systems of Kaduna State Government. It does not include PFM systems to handle the revenues and expenditures of local governments in Kaduna State, except as required by indicators PI-8 and PI-9.

It is acknowledged that the local governments of Kaduna State have a combined budget nearly equal to that of KDSG, financed mainly by allocations from the Federation Account. It is also recognised that the execution of local government budgets is not adequately reported in local government annual accounts, which contain serious omissions.

<p>It is therefore recommended that a separate PEFA style assessment should be carried out for the combined operations of the 23 Local Governments in Kaduna State. This recommendation is fully documented under indicator <u>PI-8</u>.</p>
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2. Public Financial Management in Kaduna State Government

2.1. Regulatory framework

The regulatory framework for Public Financial Management in Nigeria includes the following documents to which reference is made in this report:

- The Public Finances (Control and Management) Law (1958): The legal framework for financial management in the state.
- The Kaduna State Audit Law (2010): This makes provisions for the preparation and audit of the Public Accounts and public offices of Kaduna state, in accordance with section 125 of the Constitution of the Federal Republic of Nigeria 1999.
- The Personal Income Tax Act (1993) guides the assessment and collection of income taxes for all states.
- Financial Instructions (updated 2005): instructions and guidelines for budget execution and accounting
- Stores Regulations (updated 2005): regulations for procurements, contract awards, contract records, stores management.
- Due Process Guidelines (2007): extend procurement rules and introduce the resident Due Process Team in ministries; describe the need for Due Process Compliance Reviews of projects, to be carried out by the Bureau of Budget Implementation, Monitoring and Price Intelligence (BBIM&PI).
- Report on Standardisation of Federal, States and Local Governments Accounts in Nigeria (2002).

Further regulations and guidelines are contained in:

- Public Service Rules (updated 2005); and
- Guide to Administrative Procedures (updated 2005).

2.2. Bills in progress

The following bills are at various stages of preparation and awaiting presentation to the State House of Assembly:

- Fiscal Responsibility Bill
- Procurement Bill
- Financial Management Bill

2.3. Fiscal performance – Overview

The Accountant General of Kaduna State Government produces comprehensive annual cash-based reports on the state's actual financial performance which are more transparent, detailed and understandable than those of many other Nigerian states. This allows a reasonably detailed analysis of the state government's fiscal performance to be made (but not of the fiscal performance of local governments).

As at February 2012, the last fiscal year for which audited results have been reported is 2010 but the draft report of the accountant general for 2011 is also available (this report was produced in record time by 15 February 2011, and congratulations are due to those responsible).

The following notes illustrate the total income and expenditure from 2008 to 2011, subject to the accuracy of the underlying records (and remembering that the 2011 accounts are as yet unaudited).

A detailed analysis of the trend in financial performance of Kaduna State Government from 2004 to 2011 is contained in the SPARC publication 'KDSG PFM Facts Sheets'.

Summary of receipts and payments 2008 to 2011

Between 2008 and 2011, total reported receipts rose from N57 billion to N100 billion. Total reported payments increased over the period 2008 to 2010 from N59 billion to N85 billion, but in 2011 the draft accounts show a fall in payments to N76 billion.

The difference between total receipts and payments is explained by changes in surplus cash balances. At the beginning of 2008 there was N12 billion in the bank. This fell to N7 billion by 2009 and rose again to N9 billion by 2010, but in 2011 there was a significant increase in the cash balance to **N33 billion** (higher than the entire annual salaries bill), apparently caused by higher than expected receipts of Statutory Allocation moneys (this needs verification by the Auditor General).

Table 3: KDSG summary of total receipts and payments 2008 to 2011 (N million)

RECEIPTS	2008 Actual	2009 Actual	2010 Actual	2011 Actual
Revenue (from Federation Account and from Kaduna State)	55,657	53,915	60,397	82,025
Grants and loan drawdown	1,312	3,653	26,868	18,322
Total receipts	56,969	57,568	87,265	100,347
PAYMENTS				
Recurrent expenditure	32,459	31,977	36,684	47,325
Loan repayment/transfer to sinking fund	1,243	1,419	3,049	3,593
Total capital expenditure	25,511	26,791	45,443	24,605
Total payments	59,213	60,187	85,176	75,523
Cash surplus /(deficit) of receipts over payments	(2,244)	(2,619)	2,089	24,824
Add: Opening cash balance	11,649	9,404	6,785	8,875
Closing cash balance	9,405	6,785	8,874	33,699

For the period 2008 to 2011, revenue accounted for 83% of the state's reported total receipts, with the balance raised from loans and grants.

In the same period, reported payments were split 53% recurrent expenditure, 44% capital expenditure and 3% loan repayments.

Further analysis of these figures is presented in sections 2.5 and 2.6.

Figure 1: KDSG summary of receipts and payments 2008 to 2011 (N billion)

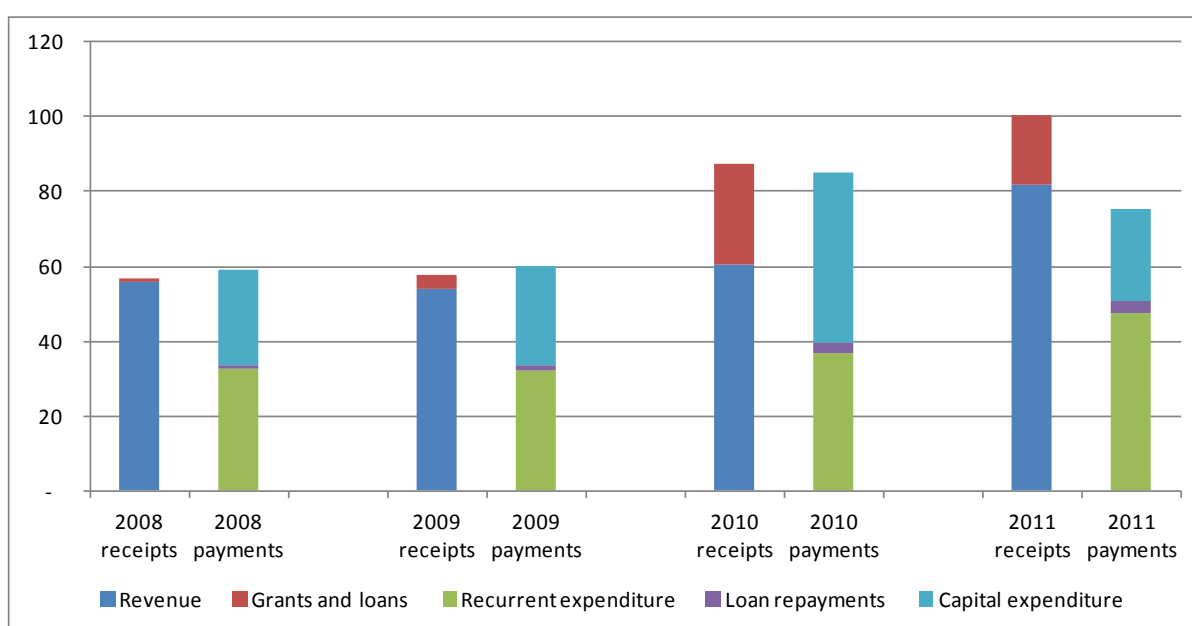
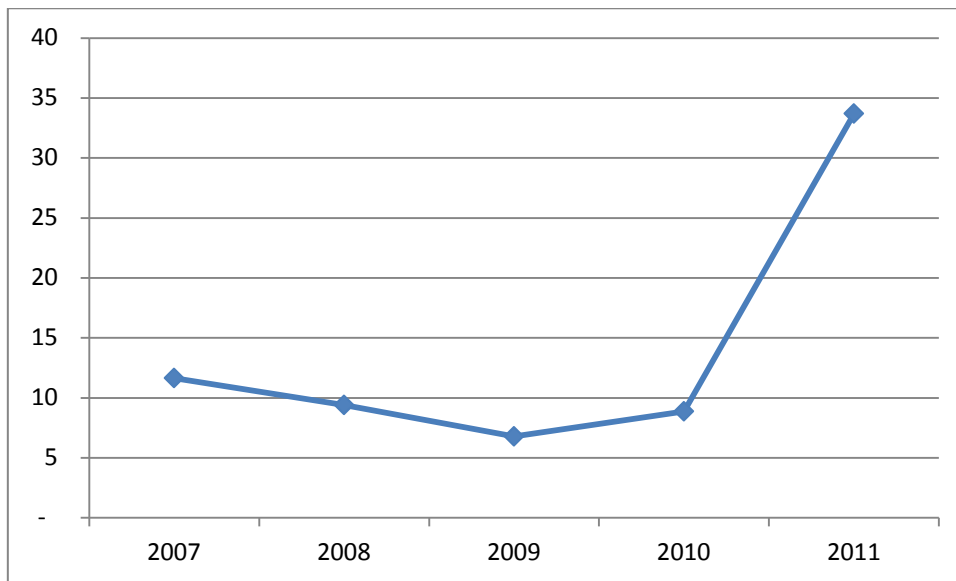


Figure 2: KDSG changes in end-of-year cash balance 2007 to 2011 (N billion)



2.4. Fiscal performance – Receipts

For the purposes of analysis, total receipts can be subdivided into (i) revenue and (ii) loans and grants, as shown in Figure 1 above. This subdivision is particularly useful for Kaduna because, as described later, budget estimates of total revenue have been considerably more accurate than those for loans and grants.

As will be seen, there are inconsistencies of reporting policies for grants, including local government contributions, over the period 2008-11, and these need to be clarified (see recommendation 2 below).

Components of revenue

Kaduna State's revenue comes from (i) Federal Government and (ii) the State's internally generated revenue collections.

- (i) From Federal Government: As for most states in Nigeria, the bulk of Kaduna State's revenue comes from money supplied through the Federation Account. This comprises:
 - The Statutory Allocation: This is the state's share of the resource pool of Federal taxes (petroleum tax, company tax, customs and excise, etc.) collected centrally by Federal Government.
 - Value Added Tax (VAT): VAT collected in all states by the Federal Inland Revenue Service is paid into a common pool. A share is then assigned to the state and should be used to fund capital projects.
 - Other receipts including the 'Excess Crude Oil Account' (now defunct): Revenue from sale of crude oil in the international market above the benchmark price assumed in the preparation of the annual budget.

The total pool is shared vertically among the three tiers of government (Federal, States and Local Governments) and horizontally among the 36 States according to predetermined formulae.

- (ii) State internally generated revenue (IGR) collections:

- IGR comes from State taxes (mainly PAYE), fines and fees, licenses, rent, earnings and sales.

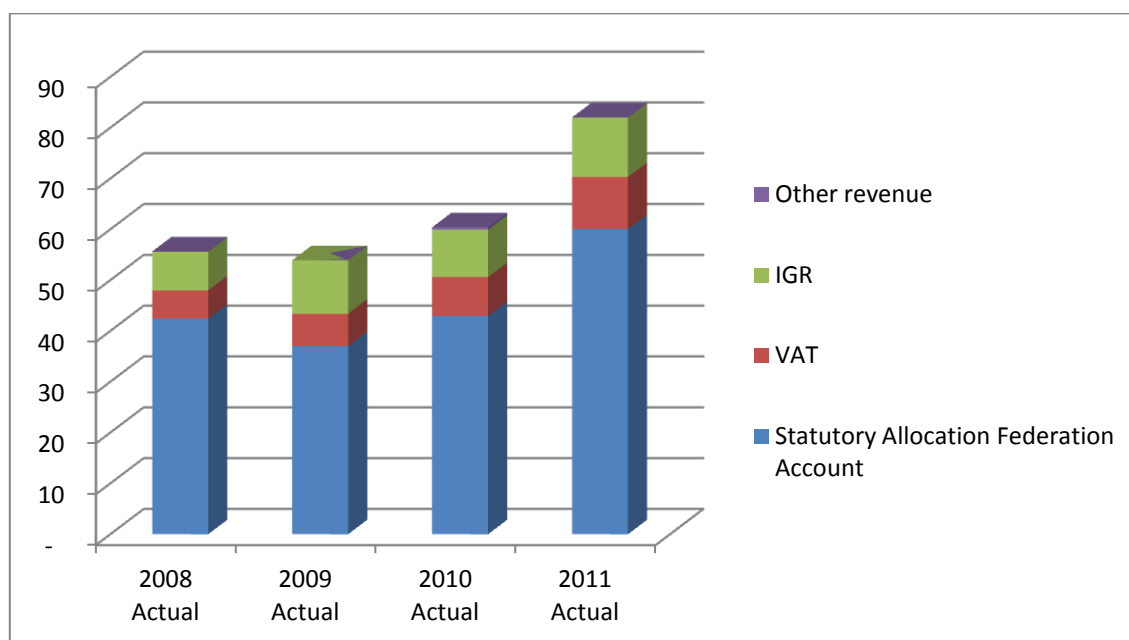
Relative size of revenue components

An analysis of total revenue (Table 4) shows that between 2008 and 2011, the Statutory Allocation supplied between 72% of the State's revenue; VAT 12%; and IGR 16%.

Table 4: Analysis of total revenue 2008 – 2011 (N million)

RECEIPTS - Revenue	2008 Actual	2009 Actual	2010 Actual	2011 Actual	Total
Statutory Allocation Federation Account	42,414	37,029	42,936	60,070	182,449
VAT	5,569	6,366	7,663	10,222	29,820
IGR	7,615	10,520	9,327	11,705	39,167
Other revenue	59	-	471	28	558
Total revenue	55,657	53,915	60,397	82,025	251,994
Statutory Allocation Federation Account	76%	69%	71%	73%	72%
VAT	10%	12%	13%	12%	12%
IGR	14%	20%	15%	14%	16%
Other revenue	0%	0%	1%	0%	0%
Total revenue	100%	100%	100%	100%	100%

Figure 3: Revenue of Kaduna State 2008 – 2011 (N billion)



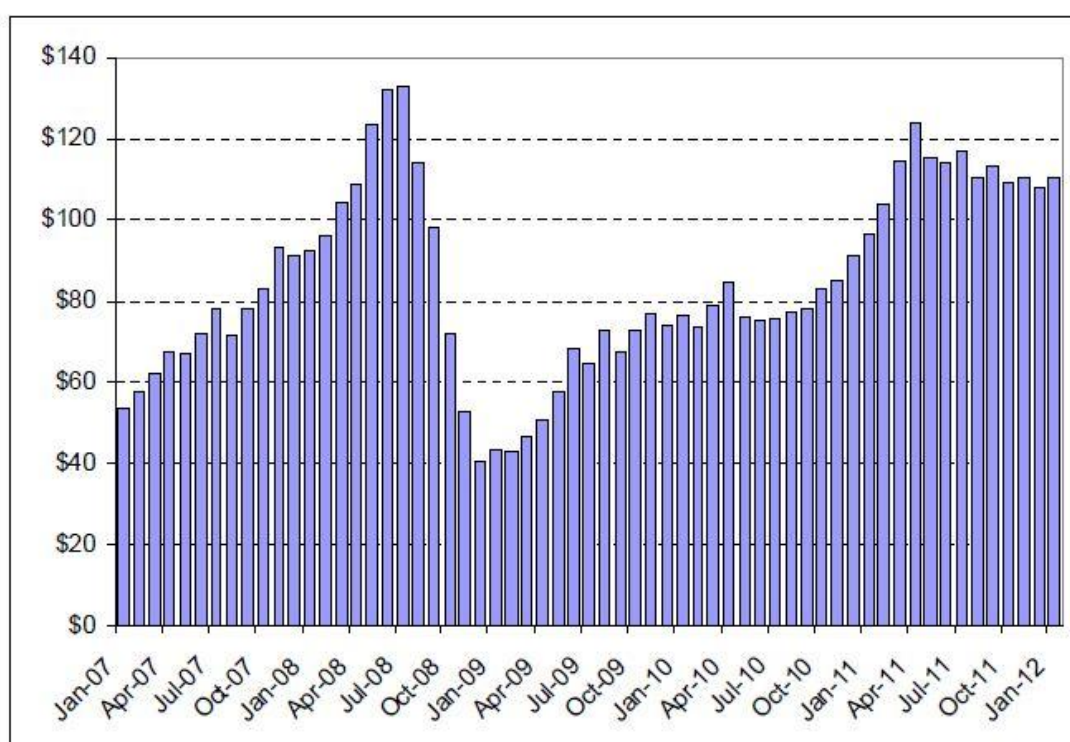
Statutory allocation – the oil price shock

Oil prices had climbed to a peak of about \$135 per barrel by mid 2008, but then suffered a sharp fall to \$40 by the end of the year. Since then the price has steadily recovered and remained stable.

The revenue from Statutory Allocation should be seen against this background. Even after adding distributions from the Excess Crude Account in 2009 and 2010, the Statutory Allocation received by Nigerian states was significantly lower in 2009 than 2008 and had only just recovered by 2010.

Statutory Allocation was unexpectedly high in 2011 (requires verification), rescuing KDSG from a potentially risky cost structure following large increases to the salary bill and incurrence of significant arrears to contractual expenditure (see section 2.5 below).

Figure 4: Oil prices 2007 – 2011 (\$ per barrel)



Revenue in real terms

Over the period 2008 to 2011, the Nigerian retail price index has risen by about 42%. Although retail prices are a crude measure of inflation for government revenue, they can be used to provide an estimate of the 'spending power' of KDSG revenue at 2011 prices, as shown in Table 5.

From this table it is clear that in real term (i.e. after allowing for inflation):

- The trend of Statutory Allocation revenue has been static, even allowing for the greater than expected revenue in 2011;
- VAT has increased steadily and significantly by 29.5%;
- A surge in IGR in 2009 has not been maintained, but overall there has been 8.5% growth in IGR over the period.

Table 5: Analysis of total revenue at 2011 prices (N million)

RECEIPTS - Revenue	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2011 compared with 2008
Statutory Allocation Federation Account	60,114	47,026	48,904	60,070	99.9%
VAT	7,893	8,085	8,728	10,222	129.5%
IGR	10,793	13,360	10,623	11,705	108.5%
Other revenue	84	-	536	28	33.5%
Total revenue	78,883	68,471	68,792	82,025	104.0%

State IGR

As can be seen from the above, State IGR is a relatively small part of total revenue, averaging 16% of revenue over the period 2008 to 2011, and it has shown considerable fluctuations over that period, showing overall 8.5% growth in real terms.

Within the IGR figure the largest component continues to be PAYE. Direct assessment (business tax on unincorporated entities) is currently insignificant. Fees and charges from the education and health sectors are significant, but land rent remains largely un-assessed and uncollected. IGR is analysed in some detail in the SPARC publication "KDSG PFM Fact Sheets".

Throughout the entire period 2008 to present it has been the avowed intent of Kaduna State Government to become less dependent on statutory allocation and to emulate Lagos State by raising higher amounts of IGR.

Significant improvements have been made by Board of Internal Revenue (see indicators PI-13 to PI-15). Considerable arrears were collected in 2009, which accounts for the high growth in that year. The number of people on the tax database has grown from 30,000 to 100,000, yet this is only 1.7% of the population of the state. The numbers who fall outside the state tax 'net' are reputed to include some very wealthy individuals.

Plans to raise other elements of IGR in recent years have included improved collection of education and health fees, which has been reasonably successful. Other initiatives have included plans to charge for plots of land in the Millennium City and improved collection of rentals on government property, but these have not been realised and, overall, IGR growth has not matched expectations.

Against this background, the 2012 budget has set a target of collecting N35.74 billion of IGR. This is 3 times higher than the actual IGR for 2011, and considerable planning by the Estimates Committee went into formulating the plans and justifications behind this figure.

Since there is a huge potential well of uncollected tax in Kaduna State, the estimates can be considered *reasonable in the medium term*. If positive action is taken to implement all the assessment and collection plans that have been discussed. On the other hand, the chances of all plans being action and the target being collected in 2012 must be regarded as extremely optimistic.

Nevertheless, if Kaduna State Government focuses on the mountain top, it is more likely to reach the foothills than if it continues with an incremental approach, so KDSG should be commended for the courage of its plans.

Receipts: grants and loans

Internal grants are receivable from Federal Government. Many of these, though budgeted each year, are not recorded in the report of the KDSG Accountant General. This is either because the grant moneys are not received or because they are received into off-budget bank accounts under the control of line agencies which do not report the revenues and expenditures to the Accountant General. Off-budget bank accounts are considered under indicator PI-7 of the PEFA framework.

The large internal grant figure for 2010 was nearly all due to receipts from the Education Trust Fund (ETF), matched by the same amount of expenditure from the fund. This has been explained as an example of a fund that is normally off-budget but where the receipts and payments for 2010 were included in the accounts. No equivalent amounts were included in any other year.

This therefore represents an inconsistent accounting policy that needs to be followed up. It is discussed under PI-7.

External grants are receivable from development partners based outside Nigeria. These grants are estimated in the KDSG budget but they are mainly received in kind as opposed to cash and none have been recorded in the report of the Accountant General over the period.

Again the accounting policy needs to be clarified, because of this inconsistency between the budget and accounts. See PI-7.

Local government contributions represent amounts received by local governments from the Federation Account which are paid to state government to help finance joint projects, the largest of which is the annual purchase of fertiliser. The large figure in 2011 needs further explanation.

Internal loans are loans from within Nigeria. In the period up to 2008 all internal loans had been repaid and there was a zero balance. In 2010, following a satisfactory report by Fitch Credit Rating Agency, the first tranche (N8.5 billion) of the N15 billion Kaduna State Bond was issued on the Nigerian bond market. This is discussed under indicator PI-17. The state has decided not to draw down the second tranche, preferring to use bank loans.

No bank loans were included in the 2011 financial statements, but there have been drawdown in early 2012 which are stated to be N20 billion. This further increases the amount of cash in the bank in early 2012.

Table 6: KDSG grants and loan drawdown recorded 2008 – 2011 (N million)

RECEIPTS - Grants and loans	2008 Actual	2009 Actual	2010 Actual	2011 Actual
Internal grants	-	301	12,720	-
External grants	-	-	-	-
Local government contributions	-	-	1,916	13,427
Internal loans	-	8	8,500	-
External loans	1,312	3,344	3,732	4,895
Total grants and loans	1,312	3,653	26,868	18,322

External loans are loans provided by agencies outside Nigeria, mainly concessionary loans from the World Bank. There has been a steady increase in drawdown of this type of loan over the period.

2.5. Fiscal performance - Payments

Note: Arrears of expenditure

The sudden drop in oil prices in 2008 and the uncertainty of revenue that followed it caused cash shortages and a significant increase in arrears of expenditure, especially of capital releases. KSDG had no processes in place to prevent contractual commitments because cash availability was not considered at the time that contracts were signed. Furthermore, releases for payment of contract instalments could be signed by Ministry of Economic Planning (MOEP) when no cash was available to pay them. This caused a large queue of releases awaiting payment in the Treasury. Though better procedures are now in place, there are still at February 2012 an estimated N4 billion of outstanding liabilities that need paying (see PI-4).

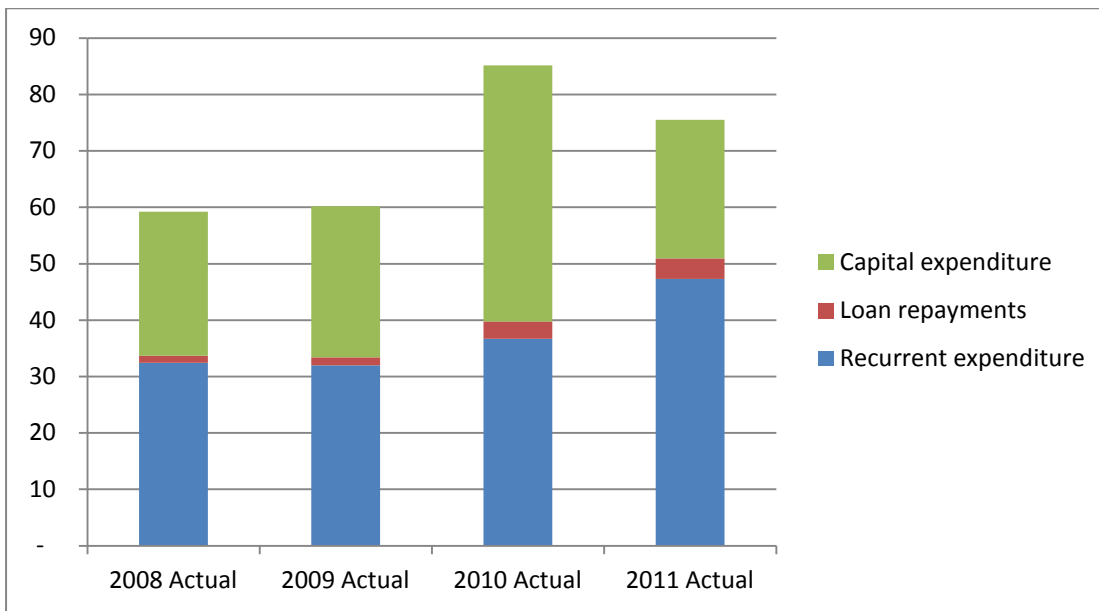
Consequently, the analysis of capital cash payments in the accounts, and summarised in this report, gives a delayed picture of the real expenditure incurred. There were also arrears of pension costs and some overheads.

Summary of payments made

Between 2008 and 2011, total payments grew from N59 billion to N85 billion, but fell back in 2011 to N76 billion.

Capital expenditure accounted for between 43% and 45% of total payments in 2008 and 2009, a percentage which had been normal for some years. In 2010 the proportion jumped to 53% because of inclusion of the Education Trust Fund Expenditure. In 2011 it fell to only 33%, as the government built up a large unspent cash balance of N33 billion.

Figure 5: Actual expenditure payments of Kaduna State 2008 – 2011 (N billion)



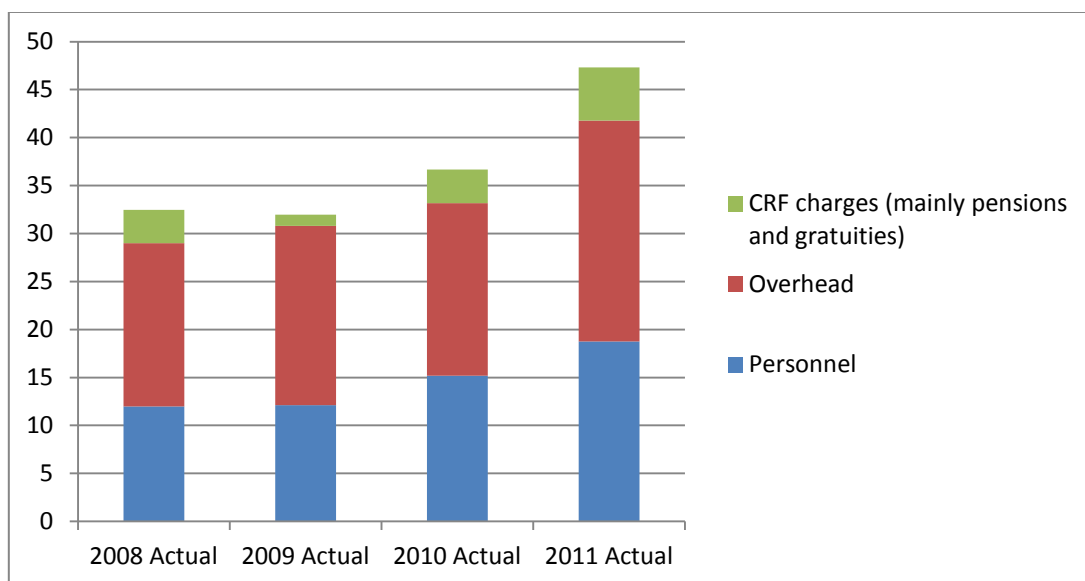
Recurrent expenditure

Personnel costs were controlled during the period of low oil prices in 2008-9 but have risen significantly since then as a result of new wage agreements. Overheads have risen steadily. Arrears of pension and gratuity costs were incurred in 2009 but have since been paid.

Table 7: KDSG recurrent expenditure payments 2008 – 2011 (N million)

	2008 Actual	2009 Actual	2010 Actual	2011 Actual
Personnel	11,991	12,121	15,172	18,768
Overhead	16,997	18,695	18,011	22,998
CRF charges (mainly pensions and gratuities)	3,471	1,161	3,501	5,559
Total	32,459	31,977	36,684	47,325

Figure 6: Recurrent expenditure of Kaduna State 2008 – 2011 (N billion)



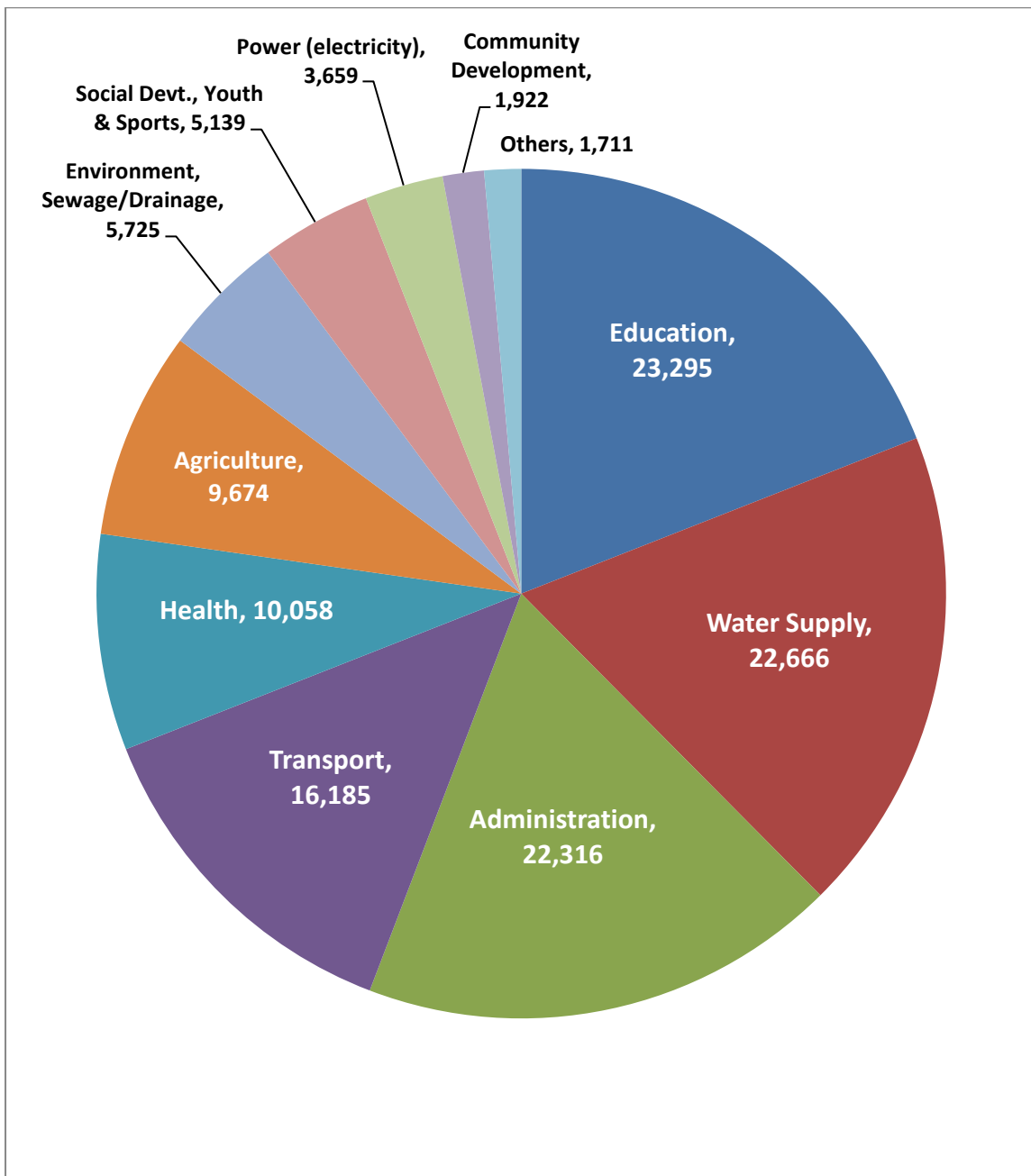
Capital expenditure

An analysis of the N122 billion total capital expenditure payments between 2008 and 2011 shows that education; water supply and general administration were the main beneficiaries.

Table 8: KDSG capital expenditure payments 2008 – 2011 (N million)

	2008 Actual	2009 Actual	2010 Actual	2011 Actual	Total
Agriculture	1,904	946	5327	1497	9,674
Livestock	1	9	-	5	15
Forestry	68	-	-	58	126
Fisheries	5	-	-	41	46
Manufacturing	-	-	13	1	14
Power (electricity)	907	1,461	1,058	233	3,659
Commerce and Finance	323	301	246	-	870
Transport	4,384	3,412	2,286	6,103	16,185
Education	2,331	3,245	14,783	2,936	23,295
Health	2,107	3,337	2,667	1,947	10,058
Information	111	99	4	19	233
Social Devt., Youth & Sports	2,612	1,680	789	58	5,139
Water Supply	5,440	4,616	8,272	4,338	22,666
Environment, Sewage/Drainage	734	1,165	1,587	2,239	5,725
Housing	-	-	-	-	-
Urban Development	322	18	67	0	407
Community Development	-	981	786	155	1,922
Administration	4,262	5,521	7,558	4,975	22,316
Total capital expenditure	25,511	26,791	45,443	24,605	122,350

Figure 7: Total capital expenditure 2008 to 2010 (N million)



3. Assessment of the PFM systems, processes and institutions

This section of the report examines each of the PEFA indicators in turn, explaining the basis of the scores, and recording the evidence for each of the scores awarded.

3.1. PFM Out-Turns: Credibility of the Budget Performance Indicators 1 to 4

In order for the budget to be a tool for policy implementation, it is necessary that the budget is realistic and implemented as passed.

Indicators PI-1 to PI-3 is concerned with how close the actual results (expenditure and income) are to the original approved budget. Figures are taken from the last three years for which actual outcomes are available. As at February 2012, these are the years 2008 to 2010 (the 2011 results can also be discussed, but are in draft only at the moment). For each year, the original budget has been taken from the Approved Estimates (the budget book) and the actual results from the Report of the Auditor General, which reproduces the Accountant General's final figures. Detailed data for PI-2 is shown in Annex 3.

PI-1: Aggregate expenditure out-turn compared to original approved budget

As can be seen in the table below, actual expenditure was lower than the original budget by more than 15% in all three years.

Table 9: Comparison of budget and actual total expenditure (N million)

	2008 Budget	2008 Actual	2009 Budget	2009 Actual	2010 Budget	2010 Actual	2011 Budget	2011 Actual
Personnel	15,092	11,991	15,829	12,121	18,748	15,172	21,329	18,768
Overhead	21,505	16,997	14,088	18,695	21,022	18,011	22,381	22,998
CRF charges	4,328	3,471	3,591	1,161	4,502	3,501	5,975	5,559
Loan repayment/transfer to sinking fund	800	1,243	1,430	1,419	1,508	3,049	8,328	3,593
Total capital expenditure	52,354	25,511	118,757	26,791	119,935	45,443	78,551	24,605
	94,079	59,213	153,695	60,187	165,715	85,176	136,564	75,523

To allow for the fact that (i) debt payments and (ii) donor funded project expenditure are not easily controllable by KDSG, the methodology for PI-1 suggests that these two payment categories should be excluded from the indicator.

A workable assumption is that the figures for external loans and grants are equal to the maximum amount of donor funded capital expenditure included in the books. If these figures are removed from total expenditure, the variances generally become smaller, but are still greater than 15% in two of the three years, indicating a D.

Table 10: PI-1: Comparison of primary budget and actual expenditure

	2008 Budget	2008 Actual	2009 Budget	2009 Actual	2010 Budget	2010 Actual	2011 Budget	2011 Actual
Total expenditure	94.1	59.2	153.7	60.2	165.7	85.2	136.6	75.5
Less: external grants & loans	15.3	1.3	34.1	3.3	28.8	3.7	6.4	4.9
Less: debt repayments	0.8	1.2	1.4	1.4	1.5	3.0	8.3	3.6
Primary expenditure	78.0	56.7	118.2	55.4	135.5	78.4	121.9	67.0
% deviation: actual – bud:		-27%		-53%		-42%		-45%

Summary of PI-1:

No.	Performance Indicator	Score	Brief Explanation
PI-1	Aggregate expenditure out-turn compared to original approved budget	D	The percentage deviations between actual and budgeted primary expenditures as a proportion of the original approved budget were: 2008: -27% 2009: -53% 2010: -42% In all 3 years, the expenditure variance was more than 15% of budget, which scores D.

PI-2: Composition of expenditure out-turn compared to original approved budget

This PEFA indicator measures the effect of differences between original budgeted allocations and actual out-turns for individual expenditure heads. It takes the view that where the composition of expenditure varies considerably from the original budget, the budget will not be a useful statement of policy intent.

In fact this indicator is only really of use if indicator PI-1 is good, which is not the case for Kaduna, where total expenditure is well below budget. When indicator PI-1 is bad there is no logical case for assuming that the proportions in which money is spent should be the same as in the original budget. In fact there are clear logical reasons why this may well *not* be the best course of action, for example where there are clear priorities which need to be executed before others are considered.

Nevertheless, indicator PI-2 has been computed, as described in Annex 3, (in order to keep the 'PEFARistas' happy) and the result is a clear 'D'.

For some useful information on expenditure variances, see the SPARC Kaduna PFM fact sheets.

Summary of PI-2:

No.	Performance Indicator	Score	Brief Explanation
PI-2	Composition of expenditure out-turn compared to original approved budget	D	The variance in the <i>composition</i> of expenditures as a proportion of total actual expenditure was: 2008: 41% 2009: 74% 2010: 67% In all of the three years this was greater than 15%, giving a D.

PI-3: Aggregate revenue out-turn compared to original approved budget

The PEFA interpretation of this indicator for a state government is revenue controllable revenue by the state, that is State Internally Generated Revenue (IGR), and not including shared revenue like Statutory Allocation. Since IGR is a priority for KDSG, in order to reduce reliance on the Federation Account, there is much merit in scoring the actual results compared with budget.

Table 11: State IGR and miscellaneous revenue (N billion)

	2008 Budget	2008 Actual	2009 Budget	2009 Actual	2010 Budget	2010 Actual	2011 Budget	2011 Actual
IGR & miscellaneous state revenue	11.7	7.7 65%	13.4	10.5 79%	14.2	9.8 69%	25.1	11.7 47%

This is a clear D score.

Summary of PI-3:

No.	Performance Indicator	Score	Brief Explanation
PI-3	Aggregate revenue out-turn compared to original approved budget	D	State total income as a percentage of budget was: 2008: 65%; 2009: 79%; 2010: 47% The score is a D (actual income was below 92% of budgeted estimates in all of the last three years).

Discussion and plans – PI-3

There was considerable discussion at the PEFA workshop on how IGR must be increased. To a greater extent, this repeated suggestions that have been made every year. Most discussion was centred on:

- The need to greatly expand the list of registered taxpayers and include the informal sector.
- The need for the Governor to act as a role model by publicly declaring all tax liabilities
- The poor performance of non-tax revenue
- The need for BOIR to expand its role into collection of other revenues. But it has no legal power to do this at present, or even to inspect other agencies. Yet it could maintain a closer relationship with those agencies.
- Development of a centralized collection agency, Lagos style
- Out-sourcing of tax collection and use of agents.

As pointed out at the start of this report, these discussions have been going on for at least six years and there has been some progress, but no big 'break-through' in generation of IGR. Neither were any clear recommendations made in the PEFA meeting.

In order to recognise the importance of this issue, the following recommendation is suggested:

Recommendation 1: The PFM Reform Programme team should formulate a request for technical assistance on mobilisation of IGR in Kaduna State.

PI-4: Stock and monitoring of expenditure payment arrears

Under the cash basis of accounting, expenditure figures in the financial statements can be understated if there are unpaid claims which have not been recorded in the books or which are overdue beyond acceptable settlement periods. These can include arrears of salaries and pensions, payments owing on contracts and to other suppliers of goods and services, and unpaid legal liabilities (e.g. unpaid court awards against the government).

Discussion

When the previous PEFA assessment was carried out in 2008, it was acknowledged that there was no system for recording arrears, and no one could to make an estimate. This was a clear 'D' score.

As noted earlier in this report, the sudden drop in oil prices in 2008 and the uncertainty of revenue that followed it caused cash shortages and a significant increase in arrears of expenditure, especially of capital releases. KSDG had no processes in place to prevent contractual commitments because cash availability was not considered at the time that contracts were signed.

Furthermore, releases for payment of contract instalments could be signed by MOEP without confirmation from MOF of cash availability, so a large pile of releases began to queue up in the Treasury, waiting for 'cash backing'.

A number of reforms took place:

- In 2010 a revised system was put in place preventing the signing of budget releases unless cash backing was available.
- In 2010, DMO (Abuja) carried out a debt reconstruction exercise with the new Kaduna DMD and this included estimating outstanding liabilities. This system was repeated regularly by DMD, sometimes with SPARC assistance.
- [The problem with this system was that there was no clear distinction between outstanding contractual commitments (where work may not yet have started and there may be no liability) and real contractual liabilities (where Due Process Office has certified a liability, either as a mobilization fee or a stage payment after work has been certified).]
- In 2011, decisions were taken to clarify the distinction between contractual commitments (recorded at MDAs) and contractual liabilities (certified by Due Process Office and registered at MOEP). DMD now takes its information on contractual liabilities from MOEP.
- In 2011, a new system was started to 'set aside' cash funds for implementing a contract when the contract is signed. More time is needed to see how well this is working.

Estimated contractual liabilities rose to about N12 billion in 2010, since when they have been reduced to an estimated N4 billion at the start of 2012.

As regards outstanding contractual commitments, the current administration is deciding whether to continue with them or terminate them, on a case by case basis.

It is stated that there are currently no arrears of salaries. Information on possible arrears of pensions and gratuities is not so easy to obtain. Looking at the trend of payments over the years, it is clear that KDSG delays payments of pensions and/or gratuities when cash is in short supply.

Recommendation 2: A system should be developed for producing clear and regular information on arrears of pensions and gratuities.

Scoring PI-4

(i) *Stock of arrears*: The total stock of arrears is at least N4 billion (documented) but may be as high as, say, N8 billion. The budget size (total actual receipts in 2011) is approximately N100 billion. The maximum arrears are therefore probably 8% of budget size. This has been reduced by at least 30% in the last two years. Score = B.

(ii) *Arrears monitoring data*: There is now good data for monitoring contractual arrears and salary arrears, should they arise. Data for arrears of pensions and gratuities is lacking. Score = B.

This represents a significant improvement from the situation in 2008.

Summary of PI-4:

No.	Performance Indicator	Score M1	Brief Explanation
PI-4	Stock and monitoring of expenditure payment arrears	B	
(i)	Stock of expenditure payment arrears (as a percentage of total annual expenditure) and any recent change in the stock	B	Stock of arrears is estimated at maximum 8% of budget size, and has reduced by at least 30% over the last two years.

No.	Performance Indicator	Score M1	Brief Explanation
(ii)	Availability of data for monitoring the stock of arrears expenditure	B	There is now good data for monitoring contractual arrears and salary arrears, should they arise. Data for arrears of pensions and gratuities is lacking

3.2. Key cross-cutting issues: comprehensiveness and transparency Performance Indicators 5 to 10

Comprehensiveness of the budget is necessary to ensure that all activities and operations of governments are taking place within the government's fiscal policy framework and are subject to adequate budget management and reporting arrangements.

Transparency enables external scrutiny of government policies and programs and their implementation.

PI-5: Classification of the budget

A robust budget classification system should enable the tracking of expenditure and revenues against administrative unit, economic, and functional (sub-sector) dimensions. If program budgeting is in use, programme classification will be needed, preferably embedded within the administrative structure to prevent ambiguity of responsibility and accountability. KDSG does not use programme classification, but uses versions of the other dimensions.

Discussion

In common with other Nigerian states, KDSG produces separate recurrent and capital budgets which use related but separately organised budget classifications.

In the period up to 2008, KDSG developed an improved budget classification. The principal improvements were (i) a better defined administrative classification, based on organisations and sub-organisations; (ii) a more detailed economic classification (mappable to GFS), applicable to revenue, recurrent expenditure and capital expenditure; (iii) a classification for source of funds, to enable tracking of expenditure by source of finance; (iv) a set of location codes; and (v) a set of 'targets', to allow tracking of expenditures by Millennium Development Goals. The 2008 budget classification retained the traditional Nigerian sector analysis and did not introduce COFOG.

Since then the use of the budget classification in the budget and accounting statements has remained fairly constant, though (i) more overheads have become centralised, under the accountant general; and (ii) economic item codes have changed because of IT-based budgeting and accounting improvements (Mold 'Pastel' and BATMIS 'Navision' programs). The budget classification is used as follows:

- Recurrent revenue and expenditure: Recorded by type of revenue/expenditure (economic item) and collecting/spending agency (administrative – organisation and sub-organisation). Sector is not recorded, but can be tracked (at a basic level) from the sub-organisation.
- Capital expenditure: The capital budget remains a 'development budget' rather than a true capital budget, because many of the items are of a recurrent nature. The capital budget is a set of projects within which contracts can be awarded. Each project is recorded by sector, administrative unit, project number (within the administrative unit) sources of funds, economic item, location code, and MDG target. The printed budget 'loses' half of this information, retaining only the organisation by sector, administrative classification and project number, in that order. Nevertheless, the information is there if it is needed, and has been used in some reports (e.g. see the report of the Accountant General 2010 for some interesting charts).

The budget classification has always been a subset of the chart of accounts, and this has not been allowed to slip, which means that good budgetary control reporting has been possible for the whole of the period, as reflected in the reports of the Accountant General (see PI-25). However, the state has moved no nearer to a system of in-year budgetary control reports (see PI-24).

Scoring PI-5

Economic classification: The budget classification records all items in sufficient detail to enable GFS-compatible reports. Economic items are used to track all items of recurrent revenue and recurrent expenditure. However, the capital budget' is in practice only organised by sector and administrative unit (i.e. the economic items are not used).

Administrative classification: A consistent administrative classification is used for revenue, recurrent expenditure and capital expenditure, but the opportunity is not taken to consolidate expenditure by administrative unit.

Recommendation 3: Reports on budget and actual capital expenditure summarised by administrative unit and economic item should be developed.

Functional classification: KDSG does not use the COFOG classification. Until a directive is given from Federal Government to do so, there is probably little to be gained. But even the existing sectoral classification is not used to analyse recurrent expenditure. A lot of information would be more easily obtainable if it were.

Recommendation 4: Reports on budget and actual recurrent expenditure summarised by sub-sector should be developed.

In summary, the use of the existing budget classification warrants a C, no improvement over the 2008 score, because there has been no movement in compatibility of reporting between recurrent expenditure (administrative and economic) and capital expenditure (sector and administrative), even though the classification would easily allow such uniformity of reporting.

Summary of PI-5:

No.	Performance Indicator	Score	Brief Explanation
PI-5	Classification of the budget	C	A uniform classification system is currently used, based on an administrative and economic classification (mappable to GFS).

PI-6: Comprehensiveness of information included in budget documentation

Annual budget documentation (the annual budget and budget supporting documents), as submitted to the legislature for scrutiny and approval, should provide a complete picture of the state government's fiscal forecasts, budget proposals and outturn for the previous year(s).

In addition to the detailed information on revenues and expenditures, and in order to be considered complete, the annual budget documentation should include information on the following elements:

Element	In draft budget to SHOA?	Information available at present?
1. Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate	No	Some available: basic estimates are assumed but not documented.
2. Fiscal deficit, defined according to GFS or other internationally recognized standard	No	Yes
3. Deficit financing, describing anticipated composition	Yes	
4. Debt stock, including details at least for the beginning of the current year	No	Yes, DMD have the information.
5. Financial Assets, including details at least for the	Yes	

Element	In draft budget to SHOA?	Information available at present?
beginning of the current year.		
6. Prior year's budget outturn, presented in the same format as the budget proposal	No	Yes
7. Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal.	Yes	No, would need estimating
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year.	Yes	
9. Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs.	No	No, would need considerable work.

Four of the nine items are submitted, scoring a C, no change from 2008.

Recommendation 5: The following additional information should be included with the draft budget submitted to SHOA: (i) the projected rate(s) of inflation; (ii) fiscal deficit; (iii) summaries of debt stock (balances); (iv) prior year's actual outturn.

The above information could be supplied with almost no effort and would lift the score from C to A.

Summary of PI-6:

No.	Performance Indicator	Score	Brief Explanation
PI-6	Comprehensiveness of information included in budget documentation	C	<ul style="list-style-type: none"> Recent budget documentation fulfils 4 of the information benchmarks

PI-7: Extent of unreported government operations

Annual budget estimates, in-year execution reports, year-end financial statements and other fiscal reports for the public, should cover all budgetary and extra-budgetary activities of the state government to allow a complete picture of state government revenue, expenditures across all categories and financing.

This indicator is therefore concerned with (i) government money that is executed through off-budget funds; and (ii) donor project moneys which do not pass through the government books.

Discussion

(i) Government money that is executed through off-budget funds

This falls into two main categories: (a) revenue collected and spent by certain agencies (e.g. schools); and (b) internal grant funds received and executed through agency bank accounts that are either not included in the budget or in the Accountant General's report or both.

- (a) As regards 'collect-and-spend' agencies, previously the revenue and equivalent expenditure was substantially missing from both the budget and the actual expenditure reports. From 2012, the state budget classification/chart of accounts now has sufficient detail codes to capture schools revenue and expenditure separately. The final version of 2012 budget has not been released as at the time of this report to enable confirmation that these have been entered into the budget for

schools. It remains to be seen whether data will be captured properly in the accounts. It is not certain how many other agencies fall into this category, but the *total value of these funds is very small*.

- (b) The method of accounting for internal grants from Federal government, such as the Education Trust Fund (ETF), is not consistent or subject to clear rules. The amounts involved are highly significant. For example, revenues and expenditure from ETF are always included in the annual budget but not usually included in the Accountant General's report.

In 2010, a total of N11.87 billion in receipts and payments for the ETF were included in the Accountant General's report, but no amounts were included in any previous year, and none in 2011. This represents 14% of total actual expenditure in 2010. The stated reason is that fund is normally executed off-budget but in 2010 the receipts and payments were correctly included in the accounts. Clearly there needs to be an accounting policy of including the amounts in the annual accounts.

Recommendation 6: An accounting policy should be introduced that all revenue and expenditure from all funds and grants received in cash from other levels of Nigerian government should be fully and consistently recorded in the budget and financial statements of KDSG.

The above is the same type of problem as is encountered with the incomplete results of local government (see PI-8).

(ii) Donor project moneys which do not pass through the government books

Loans: Work by the debt management department has verified that all expenditure from external donor-funded loans is realistically budgeted for and properly included in the accounts. (In the past, receipts from fully drawdown loans had also been included in the budget estimates because no reconciliation of loan balances had been made.)

Grants: Development partners supply grants in cash or in kind. All development partners should register with the Department for International Cooperation in MOEP, but this is not happening in all cases. KDSG's annual budgets include estimates for all grants that MOEP knows about, but no distinction is made between grants in cash and grants in kind. The annual financial statements contain no records of any external grant receipts or expenditure. Clearly this whole system needs to be 'tightened up' to ensure consistency between budget and accounting reporting.

Recommendation 7: MOEP Department of Donor Aid Coordination should devise a system for ensuring that all donors register with them, that a clear and up-to-date register of donor programs and projects is kept.

Recommendation 8: MOEP Planning Department should develop a system for distinguishing between donor amounts received in cash and those received in kind. In the annual budget estimates, donor amounts receivable in cash should be clearly distinguished from those to be received in kind. Amounts to be received in kind should be dealt with in a separate 'non-cash' section of the budget statement, or included in a note that lists and totals non-cash grants and expenditures.

Recommendation 9: Receipts and payments from all KDSG bank accounts that handle donor cash grants should be included in the annual financial statements. For grants in kind, each donor should be asked to provide at least a broad estimate of the actual value of grant executed in KDSG's financial year, for inclusion in the annual financial statements as part of a non-cash section or note.

Summary of PI-7:

No.	Performance Indicator	Score M1	Brief Explanation
PI-7	Extent of unreported government operations	D+	
(i)	Level of unreported expenditure other than donor projects	D	The existing reporting practices for more than 10% of KDSG expenditure allow it to be excluded from the annual financial statements, even when included in the budget.
(ii)	Income / expenditure on donor funded projects	C	There is complete information on all loan funded donor projects, but no information in the annual financial statements on grant funded donor operations.

PI-8: Transparency of Inter-Governmental Fiscal Relations

The PEFA performance report focuses mainly on the State's activities. However, a significant part of the total expenditure in Kaduna state is executed through local governments (LGs). This constituted about 53%, 44% and 40% of state expenditure in 2008, 2009 and 2010 respectively. This indicator examines the transparency and timeliness of the transfer of moneys from the State to LGs and the reporting of LGs' results back to the State.

Allocation of Federal money to local governments

Allocations from Federal to local governments are split between individual LGs on the same (or a similar) basis to the way that the Federation Allocation Account Formula divides money between States: equally 40%; population 30%; social development factor 10%; land mass and terrain 10%; and effectiveness at raising internally generated revenue 10%.

The disbursement of money from Federal government to local governments is via KDSG, which receives a monthly statement showing how much money is owed to each LG. Transfers are made to LGs regularly on receipt of Federal disbursements.

The KDSG Accountant General receives a receipt from every LG for the full amount of the LG revenue transferred.

Allocation of Kaduna State money to local governments

The Constitution gives the National Assembly power to determine how much of a State's internally generated revenue (IGR) should go to local governments. Currently this figure is set at 10%.

However, KDSG interprets this figure as 10% of State Taxes, which is significantly less than 10% of total IGR. Draft results for 2011 show total IGR as N11,705 million, and share given to LGs as N928 million (7.9%).

The justification for ignoring fees, charges and other IGR is that local governments raise their own version of these fees. The potential and actual duplication between federal, state and local government charges is a problem that needs to be addressed in all Nigerian states.

Allocation of the state's money *between* local governments is carried out in a fair way in accordance with the documented sharing formula.

Discussion on allocation of federal and state money to local governments and on local government accounts

As regards this State PEFA Assessment, the state has documentary evidence that it accounts for all the federal and state moneys transferrable to local governments. The following faults in the system are therefore only partially reflected in this State level PEFA and should be followed up in a PEFA-style assessment for the combined operations of the 23 local governments of Kaduna State. They are:

- The vast proportion, about 70%, of local government moneys are executed by decisions made at meetings led by the KDSG Ministry of Local Government. Although LG Chairmen attend these meetings and authorize all expenditure, it is believed that they often do not have a mandate from their local councils to make this authorization. These amounts are deducted by KDSG from money transferred to the local government treasuries.
- The latest audited accounts for LGs in Kaduna state are for 2006. This delay is unacceptable.
- The LG accounts for 2006 are prepared on inconsistent bases. Some of them include their total revenue while others report only the cash they have received after deductions have been made. In the latter case it implies that **most of the local government's revenue and expenditure is not accounted for by either state or local government**, but is confined to records at the state Ministry of Local Government, acting in its role as agent for the local governments. This is unacceptable.

Recommendation 10: A separate PEFA style assessment should be carried out for the combined operations of the 23 Local Governments in Kaduna State. This should include evaluation of best options for accounting for local government money managed by KDSG (acting as agent) and also practical suggestions for speeding up the preparation of LG accounts.

A radical approach to this solution would suggest that LGs are in practical control of only a small fraction of their budget. Using the principle of economic substance over legal form, this implies that *local governments in Kaduna State do not exist as economic entities*. Taking this view, the best solution would be to regard LGs as outposts of KDSG and for KDSG to include all their revenue and expenditure in its own budget and accounts.

It is recognised, however, that the political problems of taking this approach would probably be insuperable at present.

Information given to LGs about the income they will receive

KDSG receives an indication of the amount of Federal money it will receive for its own purposes in time to plan its own budget. In the same way KDSG receives information about how much Federal money is likely to be available for LGs and should be able to forecast the amount of IGR that it will allocate to LGs.

Information of the next year's federal and state allocations is not available to LGs during their budget preparation process. LG estimates are usually based on the current year's allocations with an estimated uplift.

Monthly "in-year" sharing committees are held to determine and notify LGs of BIR allocations.

Summary of PI-8:

No.	Performance Indicator	Score M2	Brief Explanation
PI-8	Transparency of inter-governmental fiscal relations	D+	
(i)	Transparent rules based systems	C	The horizontal rule for dividing the State IGR between LGs is clear and transparent. [However, there appears to be some uncertainty or possible dispute over the vertical arrangements i.e. exactly how much of the State's IGR should go to LGs in total].
(ii)	Timeliness of reliable information to LGs on their allocations	D	Reliable information is not provided to LGs to support their budget preparation process. Indeed information relating to LG on allocations tends to be provided "in-year" month by month based on Federal

No.	Performance Indicator	Score M2	Brief Explanation
			allocation notifications or BIR Sharing Committee outcomes.
(ii)	Extent to which consolidated fiscal data from LGs is collected and reported according to sectoral categories	D	There is no collection or consolidation of LG fiscal data, or sector analysis reporting.

PI-9: Oversight of aggregate fiscal risk from other public sector entities

KDSG should monitor and manage fiscal risks with state implications arising from activities of autonomous government agencies (AGA) and public enterprises or parastatals (PE) for which it may have to underwrite liabilities or be responsible for debt service defaulting (with or without guarantees issued by state government), operational losses caused by unfunded quasi-fiscal operations, expenditure payment arrears and unfunded pension obligations.

In order to perform such risk assessment the government should require and receive quarterly financial statements and audited year-end statements from AGAs and PEs, and monitor performance against financial targets. AGAs and PEs may often report to parent line ministries, but consolidation of information is important for overview and reporting of the total fiscal risk for the State government.

Local governments may also generate fiscal liabilities for KDSG and as such their fiscal position should be monitored, at least on an annual basis, again with consolidation of essential fiscal information.

Parastatals

Reports on revenue, capital and recurrent expenditure are received by the Auditor General from Parastatals but these are not detailed. There is no identification, consolidation, analysis or assessment of fiscal risk.

Local governments

There is currently no consolidation or review of State fiscal risk arising from LG activities. As noted in PI-8, reporting of LG accounts is at four years behind schedule.

Summary of PI-9:

No.	Performance Indicator	Score M1	Brief Explanation
PI-9	Oversight of aggregate fiscal risk from other public sector entities	D	
(i)	Extent of government monitoring of AGAs and PEs (Parastatals)	D	Reports are received from Parastatals but are not detailed. Monitoring is significantly incomplete.
(ii)	Extent of government monitoring of LGs fiscal position	D	There is no monitoring of local government fiscal position.

Further notes on payments to Parastatals and LGs

The Water Board has been given N30 million monthly to enable it pay its wages, because the public have refused to pay their water bills. This amount has been reduced to N20 million from January 2012.

N1 million is given to districts monthly to support diesel purchase because of inadequate power supply.

There is believed to be a significant incidence of 'ghost workers' on local government payrolls. Once biometric data capture is concluded for KDSG, it will be extended to the local government level.

PI-10: Public access to key fiscal information

Transparency depends on whether information on fiscal plans, positions and performance of the government is easily accessible to the general public, or at least the relevant interest groups.

Elements of information to which public access is essential include:

Element	Available to public?	Comment
Complete annual budget documentation when it is submitted to the legislature.	No	The draft budget submitted to SHOA is not published but it is made available to interest groups. The approved budget is published on the website, copies are sent to all MDAs and other States, and are available on application.
In-year budget execution reports within one month of their completion	No	They do not exist. See PI-24.
Year-end financial statements within six months of completed audit.	Yes	Summary is published in newspapers and copies available from MOF/ Auditor General. See PI-25 and 26.
External audit reports within six months of completed audit.	Yes	It is, however, a matter of serious concern that despite the speed of production of these reports, they get almost no coverage from journalists, compared with the numerous amateurish press reports which discuss the budget. See recommendation.
Contract awards above defined limits published at least quarterly	No	List of contract awards are made available only to interested parties at the state level, and these lists are not complete.
Resources available to primary service units publicised at least annually, or available upon request, for primary service units with state coverage in at least two sectors (such as primary education or primary health care).	No	The information is not available (see PI-23).
Fees and charges for major services posted at the service delivery site and other appropriate locations/media.	Substantially Yes	BOIR, Ministry of Lands And Survey, Courts, Ministry of Education have fines and fees published for the public on their premises.

It is indicated that the main sources of public information would require the purchase of published budget and accounting documents/reports from the government bookshop/ printer, or knowledge of when notices will be published in local newspapers. Half yearly and annual Accountant General Reports are published in four national newspapers ("This Day", "The Daily Trust", "New Nigeria" and the "Financial Standard") and the northern Nigeria circulated "Nigeria Leadership" newspaper.

Recommendation 11: SPARC/SAVI should consider promoting further explanations for the general public, explaining the importance of the reports of the Accountant General and Auditor General (as distinct from the budget estimates).

Summary of PI-10:

No.	Performance Indicator	Score	Brief Explanation
PI-10	Public access to key fiscal information	C	3 of the 7 types of information are realistically available.

3.3. Budget Cycle (I): Policy based budgeting

Performance Indicators 11 and 12

A policy-based budgeting process enables the government to plan the use of resources in line with its fiscal policy and national strategy.

PI-11: Orderliness and participation in the annual budget process

Best practice should ensure that effective participation in the budget formulation process by other ministries, departments and agencies (MDAs) as well as the political leadership (EXCO), determines the extent to which the budget will reflect macro-economic, fiscal and sector policies. Full participation requires an integrated top down and bottom-up budgeting process, involving all parties in an orderly and timely manner, in accordance with a pre-determined budget formulation calendar.

The budget calendar should allow for the passing of the budget law before the start of the fiscal year as well as for sufficient time for the MDAs to meaningfully prepare their detailed budget proposals. Delays in passing the budget may create uncertainty about the level of approved expenditures and delays in some government activities, including major contracts. Clear guidance on the budget process should be provided in the budget circular and budget formulation manual, including indicative budgetary ceilings for administrative units or functional areas.

In order to avoid last minute changes to budget proposals, it is also important that the political leadership is actively involved in the setting of aggregate allocations (particularly for sectors or functions) from an early stage of the budget preparation process. This should be initiated through review and approval of the allocation ceilings in the budget circular, either by approving the budget circular or by approving a preceding proposal for aggregate allocations (e.g. in a budget outlook paper).

Discussion

In KDSG the Ministry of Economic Planning is the driver of the annual budget formulation process. Within each MDA, the Planning, Statistics and Research department is responsible for preparing budget submissions, working with the Finance department which is responsible for keeping the ministry's accounts.

Within MOEP, over the period concerned, the Budget Directorate has been responsible for compiling and monitoring the recurrent budget, whilst the Project Monitoring and Evaluation (PME) Directorate have been responsible for the capital budget. From 2012 onwards, the Budget Directorate will take over the responsibility for compiling the whole budget (recurrent and capital) and the PME Directorate has been split into three parts: State Planning, LG Planning and Monitoring and Evaluation (M&E).

(i) The budget calendar and time allowed for MDAs to make budget submissions

A comprehensive budget calendar was introduced in 2009 and has been continuously refined through to 2011 (preparation of 2012 budget).

In 2010 and 2011 the budget calendar included a period for preparation of early year indicative revenue forecasts and an advance budget circular, accompanied by indicative sector/MDA ceilings, to allow early work to take place on Medium Term Sector Strategies. This was then followed by the annual budget call circular and the subsequent processes of budget negotiation and approval (see Annex 4 for the first draft of the budget calendar for 2011).

The ability to forecast revenue at an early stage is invaluable, as it is not possible to wait for firm forecasts of Statutory Allocation from the Federation Account before starting budget planning.

Unfortunately, despite the effort that has gone in to making the budget calendar more disciplined, there have been some delays at most stages along the chain. Nevertheless, MDAs have, during the last four years, been allowed at least 4 weeks to prepare their submissions following the issue of the annual budget call circular (score = B). This is a major improvement on the procedures at the time of the last PEFA assessment.

Table 12: Submission deadlines for MDA budgets

Budget year	2010	2011	2012
Call circular with ceilings	July 2009	7 th July 2010	25 th August 2011
MDA submission deadline	August 2009	6 th August 2010	4 th October 2011
Days allowed for submission	31 days	33 days	41 days

(ii) Guidance on the preparation of budget submissions

The approach to budget preparation has generally improved over the period.

Positive factors:

- In 2009, three year revenue estimates were made with the assistance of SPARC and these were used to generate budget ceilings (based on revenue funds only, omitting loans and grants) for MDAs covering a three year period.
- A presentation by MOEP to the Governor elicited the policy that henceforward budgets should contain estimates for three years. The first three-year budget was for 2010-12.
- The budget call circulars are clear and reasonably comprehensive.
- The call circulars for the 2010, 2011 and 2012 budgets have all been accompanied by MDA ceilings issued by MOEP.
- For the 2012 budget, EXCO provided assent to budget ceilings, after the call circular had been sent out but before MDAs had made their submissions.
- The technique by which EXCO increased the budget size at the last minute by introducing unsubstantiated sources of funds (internal loans and 'other revenue') has been discontinued by the current administration.

Negative factors:

- The ceilings approved by EXCO for the 2012 budget were prepared on an incremental basis and had no clear derivation from the original revenue forecast (see PI-12). Nevertheless, the principle of EXCO approval of ceilings was established.
- The agreed revenue for the 2012 budget contains (in the opinion of the SPARC consultants) an impossibly high forecast for IGR. Although logical reasons have been advanced for the components of this forecast, it is not accompanied by action plans to ensure its achievement.

Thus the 2012 budget can be seen to be over-optimistic again, though not to the same extent as those for 2009 and 2010.

Summary:

- Despite significant progress in the issuing of budget ceilings in the call circular, there is now a 'disconnect' between the original revenue forecast made by MOEP and the revenue forecast made by the estimates committee. Ceilings agreed by EXCO have been prepared on an incremental basis and not linked to the revenue forecast. This effectively amounts to poor guidance on the preparation of budget submissions, resulting from EXCO involvement too late in the budget cycle. Overall, a C score is warranted for this dimension.

(iii) Timely budget approval by the legislature

The dates of approval by SHOA for the 2010, 2011 and 2012 budgets were: 22 February 2010, 25 February 2011, and 16 February 2012 (score = C).

Summary of PI-11:

No.	Performance Indicator	Scores M2	Brief Explanation
PI-11	Orderliness and participation in the annual budget process	C+	
(i)	Existence of and adherence to a fixed budget calendar	B	A clear annual budget calendar exists, but some delays are often experienced in its implementation. The calendar allows MDAs at least 4 weeks from receipt of the budget circular, so that most can meaningfully complete their estimates on time.
(ii)	Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions	C	Despite significant progress in the issuing of budget ceilings in the call circular, there is now a 'disconnect' between the original revenue forecast made by MOEP and the revenue forecast made by the estimates committee. Ceilings agreed by EXCO have been prepared on an incremental basis and not linked to the revenue forecast. This effectively amounts to poor guidance on the preparation of budget submissions, resulting from EXCO involvement too late in the budget cycle.
(iii)	Timely budget approval by legislature in the last 3 years	C	The budget has been approved late (in February) for each of the last three years.

In order to reduce the 'disconnect' referred to in dimension (ii), the following recommendation is made:

Recommendation 12: MOEP should build on its experience of advance revenue forecasting, by focusing on monthly revenue collection results and using these to continuously update revenue forecasts. These updates should be presented to EXCO monthly and should provide the baseline for decisions made by the Revenue Estimates Committee.

PI-12: Multi-year perspective in fiscal planning, expenditure policy and budgeting

Expenditure policy decisions have multi-year implications, and must be aligned with the availability of resources in the medium-term perspective. Therefore, multi-year fiscal forecasts of revenue, medium term expenditure aggregates for mandatory expenditure and potential deficit financing (including reviews of debt sustainability involving both external and domestic debt) must be the foundation for policy changes.

Expenditure policy decisions or options should be described in sector strategy documents, which are fully costed in terms of estimates of forward expenditures (including expenditures both of a recurring nature as well as those involving investment commitments and their recurrent cost implications) to determine whether current and new policies are affordable within aggregate fiscal targets. On this basis, policy choices should be made and indicative, medium-term sector allocations be established. The extent to which forward estimates include explicit costing of the implication of new policy initiatives, involve clear, strategy-linked selection criteria for investments and are integrated into the annual budget formulation process will then complete the policy-budget link.

Discussion

(i) Preparation of multi-year fiscal forecasts and functional allocations

At the time of the previous PEFA assessment in 2008, no multi-year budget approaches were in place.

In 2009, SPARC assisted MOEP to make three-year revenue estimates for KDSG, using the SPARC revenue forecasting model. The model used forecasts of basic parameters (oil price, sharing formula, GDP, inflation) to estimate revenue at three levels of optimism: high, medium and low.

For each of these possible revenue levels, SPARC assisted MOEP to estimate cash available for recurrent and capital expenditure, using a simple but realistic model: recurrent expenditure would increase with inflation, and the balance of funds would be available for capital expenditure. Receipts from grants and loans were ignored in this model, on the basis that they are all ring-fenced funds that can only be spent on specific projects. (The issue of the need for counterpart funds was ignored at this stage in the interests of simplicity.)

The main purpose of the three-state model (high, medium, low) was to demonstrate the 'operational leverage' effect of changes in revenue on cash available for capital expenditure: a small drop in revenue below forecast produces a large drop in funds available for capital, and shows the need to postpone some capital expenditure until future years.

A presentation by MOEP to the Governor and EXCO elicited the policy that henceforward budgets should contain estimates for three years.

In the absence of clear policy statements, forecasts of funds for recurrent and capital (at the 'low' level of optimism) were divided between MDAs using a simple model based on the proportions of existing allocations. Three-year expenditure ceilings based on the model were issued with the call circular and the first three-year budget was produced for 2010-12.

The main strength of this approach was that it produced expenditure ceilings for MDAs that summed to a realistically available total, and clearly distinguished between recurrent expenditure (effectively the priority) and capital expenditure (the balance of available funds). The weakness was that no clear priorities had been set by EXCO for allocation of funds between sectors; hence historical expenditure had to be used as a guide.

The same approach, with some refinements, including the production of Fiscal Strategy Papers, has been used to make advance forecasts for revenues and generate expenditure ceilings each year since then. The approach has had a highly beneficial effect on the medium term sector strategies (MTSS) produced by pilot sectors (see (iii) below), having forced them to plan within realistic funding levels.

Unfortunately the work done in this area has had no effect on the realism of the annual budget, because of late additions to the budget made especially by EXCO but also by the SHOA.

The previous administration added unsubstantiated estimates of financing ('N35 billion of 'other loans', not linked to specific capital projects) in order to budget a hugely over-optimistic level of capital expenditure, presumably for political reasons.

For the 2012 budget, the current administration has removed non-existent sources of finance and has brought the budget down to a more realistic level, but has instead budgeted for a threefold increase in IGR over the 2011 actual revenue received (see commentary on state IGR, page 24). This is a trifle daring.

A further disappointment relating to the 2012 budget is that the forward capital ceilings eventually agreed by EXCO did not derive from the MOEP/SPARC model, but were forecasted incrementally, indicating that some institutional memory may have been lost by MOEP.

In general, good work has been achieved in this area by MOEP, but the extent to which the political administrations have embraced the techniques is low. It is now time for a strategic discussion on the way forward.

Recommendation 13: The PFM Reform Programme Team, assisted by SPARC, should formulate a practical plan for how to engage EXCO in the agreement of realistic expenditure ceilings before the call circular for the 2013 budget is issued. One suggestion is to have a high level retreat.

Score: C, because there is no clear link between the multi-year forecasts and the eventual approved budget.

(ii) Scope and frequency of debt sustainability analysis

(For more detailed information on debt and the KDSG Debt Management Department, see indicator PI-17).

No debt sustainability analyses had been conducted at the time of the previous PEFA assessment in 2008.

In 2010 the Debt Management Office (Abuja) (DMO) assisted KDSG's new Debt Management Department (DMD) to carry out a reconstruction of its external and internal debt, including contractual and other liabilities. As part of this exercise, DMO carried out a short Debt Sustainability Analysis (DSA) for KDSG, based on sustainability ratios in the DMO guidelines. At that time internal borrowings were low, but contractual liabilities had risen out of control. Nevertheless, the DSA was favourable.

In 2011 SPARC carried out a further DSA, in the context of the issue of the new Kaduna State Bond, falling contractual liabilities, a rapidly rising salary bill and the desire to explore bank loans as a source of medium term finance, both to pay off existing liabilities and to finance new projects. Again the DMO ratios indicated that Kaduna was in a safe position (as reinforced by a rating from Fitch), but the DSA took the opportunity of stating that the cost structure of KDSG had become more risky, as exhibited by a significantly increased projected ratio of salaries to revenue. This risk has been reduced by the publication of the 2011 draft financial statements, in which Statutory Allocation was considerably higher than budgeted.

Score = B (two DSAs in the last three years).

The DSAs that have been carried out have not so far attempted to quantify pension liabilities for KDSG, or the possibility that the pension funds for state civil servants or local government officers may not be sufficiently capitalised to meet their liabilities. It is suggested that this should be included in the next DSA.

Recommendation 14: The next DSA to be carried out should include an assessment of pension liabilities.

(iii) Existence of costed sector strategies

At the time of the 2008 PEFA assessment, KDSG's main published strategy document was Kaduna State Economic Empowerment and Development Strategy (KADSEEDS), prepared a few years earlier. This contained multi-year cost estimates but they had not been updated, and were not clearly related to budget allocations.

In 2009, the Kaduna education sector (assisted by the DFID education programme ESSPIN) prepared a costed medium term sector strategy. This first attempt was not prepared within the context of top-down funding ceilings and contained cost estimates that were significantly higher than realistically available funds.

In 2010, three MTSSs were prepared, this time with the benefit of indicative ceilings generated by MOEP/SPARC (see (i) above). These were for education (assisted by ESSPIN), health (assisted by PATHS2, the DFID health sector programme) and agriculture (assisted by SPARC. These plans, together with broad estimates for other sectors, were eventually combined by MOEP (with SPARC assistance) into a costed Kaduna State Development Plan, which had its origins in attempts to identify actionable plans from the Governor's '11-point Agenda'.

A financial analysis showed that the MTSSs for agriculture and health were formulated within the budget ceilings and, though the education MTSS was higher, it was significantly more realistic in size than the previous years. The Agriculture MTSS was the only one that took a quantified account of existing liabilities and contractual commitments. The Health MTSS was the only one that clearly related activities to economic items and capital projects in the budget classification.

In 2011, similar MTSSs were produced by the education, health, agriculture and water sectors using the template originally developed for the health MTSS in 2010. Difficulty was experienced in knowing how to account for existing contractual liabilities and commitments, and this generated some discussion at the PEFA workshop in February 2012.

Basis of budgeting and accounting for existing contractual liabilities and commitments

At the PEFA workshop, the following was agreed:

- KDSG uses the cash basis of budgeting and accounting and will continue to do so until a national directive states otherwise.
- All commitments and liabilities that have not been settled in cash by Treasury by the end of the year must be 'rolled forward' and included in the MDA's budget for the following year.
- An alternative suggestion that these amounts can be excluded from the MDAs' budgets and included under the Accountant General's budget was rejected, because this would result in an incorrect analysis of the administrative and sector expenditure in the annual financial statements.
- When preparing their annual budgets and MTSSs, MDAs must therefore account for the liabilities and commitments rolled forward within their total ceiling entitlement.
- An objection that this is impossible because the ceiling is too low was answered with the harsh truth that until liabilities are paid off, there is very little money for new projects.
- Fortunately, additional amounts from statutory allocation and new borrowings should allow settlement of liabilities, and there will be greater freedom for planning in 2012.

Recommendation 15: Budgeting for existing liabilities and commitments will take place within MDAs' budget allocations, not from a separate MOF fund.

Recommendation 16: A one day workshop is held for MDAs explaining how to budget when they are likely to have unpaid liabilities and commitments at the start of the budget year.

Score for the above dimension = C. Substantial statements of sector strategies exist for 4 major sectors, but the overall plans for KDSG are inconsistent with aggregate fiscal forecasts.

(iv). Linkages between investment budgets and forward expenditure estimates

The work on MTSSs has provided the opportunity to cost the impact of increased capital expenditure on ongoing recurrent costs, and this has been done in some cases.

In most cases, however, there is no real linkage between the recurrent budget and the 'capital budget'. The latter is in effect an investment budget, not a pure capital budget, and consists of a set of 'one-line' projects which are given a simple one-code economic analysis.

There is no real point at present in requiring MDAs to analyse their capital projects in more detail, as there are more pressing problems concerned with budget credibility. However, those MDAs which are able to analyse capital projects by economic item are encouraged to do so.

Recommendation 17: Those MDAs which are able to describe their capital projects by a more detailed analysis of economic items are encouraged to do so.

The score for this dimension remains at 'D'.

Summary of PI-12:

No.	Performance Indicator	Score M2	Brief Explanation
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C	
(i)	Multiyear fiscal forecasts and functional allocations	C	There is no clear link between the multi-year fiscal forecasts and the eventual approved budget.
(ii)	Scope and frequency of debt sustainability analysis	B	A DSA for external and internal debt has been undertaken twice in the last three years.
(iii)	Sector strategies / multiyear costing of recurrent and investment expenditure	C	Substantial statements of sector strategies exist for 4 major sectors, but the overall plans for KDSG are inconsistent with aggregate fiscal forecasts..
(iv)	Link between investment budgets and forward recurrent expenditure estimates	D	Budgeting for investment and recurrent expenditure are separate processes with no recurrent cost estimates being shared.

3.4. Budget Cycle (II): Predictability and control in budget execution Performance Indicators 13 to 21

Predictable and controlled budget execution is necessary to enable effective management of policy and program implementation.

Indicators PI-13 to 15 – Taxation

Note: At the PEFA Workshop in February 2012, considerable discussion was devoted to improving state IGR. These have already been summarised under Indicator PI-3.

PI-13: Transparency of taxpayer obligations and liabilities

Effective assessment of tax liability is subject to the overall control environment that exists in the revenue administration system (ref. PI-14) but is also very dependent on the direct involvement and co-operation of the taxpayers from the individual and corporate private sector. The taxpayer's contribution to ensuring overall compliance with tax policy should be encouraged and facilitated by a high degree transparency of tax liabilities, including clarity of legislation and administrative procedures, access to information in this regard, and the ability to contest administrative rulings on tax liability.

A good tax collection system should encourage compliance and limit individual negotiation of tax liability by ensuring that tax legislation is clear and comprehensive and that it limits discretionary powers (especially in decisions on tax assessments and exemptions) of the government entities involved.

The ability for taxpayers' to contest decisions and assessment made by the revenue administration requires the existence of an operational, effective and efficient complaints/ appeals mechanism that guarantees the taxpayer a fair treatment.

Discussion

The major taxes collected by the Board of Internal Revenue (BIR) are PAYE income tax for salaried employees, withholding tax on contracts and rent, and Direct Assessment Business Tax for sole traders and partnerships.

The legislation and procedures for these taxes apply to all States and are regarded as fair and clear. They are documented in the (Nigerian) Personal Income Tax Law 1993. The rates of State taxes are uniform across Nigeria and are set by the Joint Tax Board (comprising Federal Government and all States). However, it is generally accepted that in Nigeria, discretionary powers are used to settle some liabilities. The agreed score for this dimension was B.

The key problem identified is the unwillingness of the taxpayers to meet their tax obligations and avoid paying taxes. This is probably a function of a number of factors, including a historical lack of transparency, low levels of identification, inefficient tax systems, and poor taxpayer's information, an inadequate system of incentives and penalties, and unwillingness by some citizens to pay taxes to governments which have historically failed to deliver quality services.

Over the last few years BOIR has worked hard to improve public awareness of their tax liabilities, establishing taxpayer service units, producing tax guides, publishing procedures in newspapers, using public awareness programmes and generating leaflets and CDs. Nevertheless, the score awarded was C, on the basis that the information was less than comprehensive, particularly with regard to property taxes which are controlled by ministry of Lands, not BOIR.

Income tax law provides for States to appoint an independent Tax Commissioner, although states, including Kaduna, have not done so. A hierarchy of appeal mechanisms has been established. Firstly appeal can be made to the Body of Appeal Commissioners. Recourse is also possible to the Revenue Courts and other Courts (High, Magistrates etc). Objections can also be made to the Tax Board. However, none of these constitute an independent tax appeals system, as defined for this indicator. Score = D.

Summary of PI-13:

No.	Performance Indicator	Score M2	Brief Explanation
PI-13	Transparency of taxpayer obligations and liabilities	C	
(i)	Clarity and comprehensiveness of tax liabilities	B	Legislation is Federally determined, is clear and gives fairly limited discretionary powers for the government entities concerned.
(ii)	Taxpayer access to information on tax liabilities and administrative procedures	C	Local taxpayer information is available but there is a perceived lack of clarity which may be used by taxpayers as a reason to avoid payments. The key issue is an unwillingness to pay due to possible ambiguity regarding information?
(iii)	Existence and functioning of a tax appeals mechanism	D	Whilst legal facility for a tax appeals system exists, it does not exist in practice.

PI-14: Effectiveness of measures for taxpayer registration and tax assessment

Effectiveness in tax assessment is ascertained by an interaction between registration of liable taxpayers and correct assessment of tax liability for those taxpayers.

A range of control mechanisms can be introduced, including the maintenance of a taxpayer database based on a unique taxpayer identification number. This can be most effective if combined with other government registration systems that involve elements of taxable turnover and assets (such as e.g. issue of business licenses, opening of bank accounts and pension fund accounts). In addition, compliance with registration requirements through surveys of potential taxpayers, for example selective, physical inspection of business premises should be undertaken.

Ensuring that taxpayers comply with their procedural obligations of taxpayer registration and tax declaration is usually encouraged by penalties that may vary with the seriousness of the fault. Effectiveness of such penalties is determined by the extent to which penalties are sufficiently high to have the desired impact, and are consistently and fairly administered.

The ability of the revenue administration to identify, investigate and successfully prosecute major evasion and fraud cases on a regular basis is essential for ensuring that taxpayers comply with their obligations.

Discussion

(i) Registration

Support for a BOIR taxpayer database has been provided by the State Governance and Capacity Building program (SGCBP), funded by World Bank.

There is no common Tax Identification Number (TIN) in use. File and serial numbers provide the current referencing base, and do not enable linkages to other tax sources. The number of people on the BOIR tax database has risen from 30,000 to 100,000 since 2007, but this is still only 1.7% of the population of the state.

Most tax received is from PAYE taxpayers. Direct assessment is very small.

(ii) Penalties

BOIR taxpayer guides include details of penalties for non-compliance. In parts these appear outdated and insufficient. Penalties for non-compliance exist for most relevant areas, but are not always effective because of inconsistent administration. However, penalties after tax audit (mainly PAYE) can be imposed up to N100, 000. PAYE is only the area where penalties are reasonably effective. For the informal sector there is no real control.

(iii) Tax audit

Tax "audits" for PAYE are undertaken which match assessments and collections and, based on a spreadsheet analysis, identify areas for follow-up, which primarily involves the review of tax files and site visits. This is not currently based on an effective risk based programme. PAYE is relatively easy to audit, and the real challenge lies in other areas.

Summary of PI-14:

No.	Performance Indicator	Score M2	Brief Explanation
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	C	
(i)	Controls in taxpayer registration system	C	Taxpayers are registered in database systems for individual taxes, which may not be fully and consistently linked. Linkages to other registration/licensing functions are weak.
(ii)	Effectiveness of penalties for non-compliance with registration and declaration obligations	C	Penalties for non-compliance exist but need to be enforced outside the area of PAYE.
(iii)	Planning and monitoring of tax audit and fraud investigation programmes	C	Whilst there is a programme for continuous tax audit and investigations, planning and monitoring is not based on a clear risk assessment.

PI-15: Effectiveness in collection of tax payments

Accumulation of tax arrears can be a critical factor undermining high budgetary outturns, while the ability to collect tax debt lends credibility to the tax assessment process and reflects equal treatment of all taxpayers, whether they pay voluntarily and need close follow up.

(i) Collection ratio and arrears

There are currently no ratio measures of tax arrears. Current detailed records of tax assessments, collections and arrears are not readily available.

(ii) Payment into Treasury

Tax deposits are made by taxpayers or tax collecting officers directly into Treasury revenue accounts, which are operated at each of the 22 main banks and are under the control of the Treasury. Transfers are made from these accounts to the Consolidated Revenue Fund Account on a regular basis. Score = A.

Note: This indicator does not score fees and charges, for which receipts are less regular. For example, courts remit fees monthly to Treasury. Some agencies are still on a 'collect and spend' basis (e.g. schools).

(iii) Frequency of complete reconciliations between assessments, collections, arrears and Treasury receipts

Bank reconciliations are undertaken on the Treasury bank accounts, and involve the proving of bank records to deposit records. Whilst an IGR Sharing Committee identifies and "reconciles" cleared balances with collections, it would appear that reconciliations do not involve any matching of collections to tax assessment records within the BIR.

Summary of PI-15:

No.	Performance Indicator	Score M1	Brief Explanation
PI-15	Effectiveness in collection of tax payments	D+	
(i)	Collection ratio for tax arrears (last two years)	Not scored	There have been no ratio measurements of tax arrears during the PEFA period under review.
(ii)	Effectiveness of transfer of tax collections to the Treasury by the BIR	A	Tax deposits directly into treasury bank accounts, by either taxpayer or tax collecting officers.
(iii)	Frequency of complete accounts reconciliations between tax assessments, collections, arrears, records and receipts by Treasury.	D	Monthly committee" reconciles" cleared balances against collections, rather than collections against tax assessments.

PI-16: Predictability in the availability of funds for commitment of expenditures

The objective of this measure is to assess whether spending MDAs can rely on their budget plans and the information they receive from Treasury concerning the availability of funds to enable proper planning and management of their expenditure throughout the year.

To achieve this: (i) there needs to be reliable cash forecasting by Treasury and MDAs, regularly updated on a monthly basis; (ii) expenditure commitments should be underpinned by guaranteed availability of cash to allow payment; (iii) information on cash availability communicated to MDAs should enable them to plan at least six months in advance; and (iv) changes made to budget allocations above the level of MDAs should be infrequent and subject to transparent rules that protect priority expenditure.

Discussion

KDSG's payments are made by three main processes:

- Salaries, which are paid centrally through the monthly payroll;
- 'Recurrent' overheads, for which MDAs are given a monthly cash advance, based on pro-rated annual entitlement; and
- Capital and 'special' overheads for which payments are decided on a month by month basis.

There is no problem with funds for the first two processes. It is the last process which is uncertain, and is the real subject of this indicator.

Throughout the period 2009 to 2011, indicator PI-16 has been fairly meaningless because KDSG has been in a distress situation of cash rationing resulting from financially imprudent contractual commitments at a time of uncertain revenue. The state has been slowly paying off a flood of liabilities that have queued up in Treasury.

While 2009-2011 has been more difficult than usual, the root causes of the problem were always present in the system. They are (i) the budget is set at an unrealistically high level, resulting in cash shortages compared with the budget; and (ii) expenditure commitments have been made without reference to the actual availability of cash. The inevitable result of this is that contracts have been signed for which there is no prospect of payment, resulting in outstanding commitments and, where work has been done but cash is not yet available, outstanding liabilities (arrears – see PI-4).

Since 2010 KDSG has made steady progress in measuring the scale of the problem. It now has clear definitions for outstanding commitments and for contractual liabilities and can identify where and when these arise in the system.

KDSG has also made progress in paying its outstanding liabilities (see PI-4). An unexpectedly high level of Statutory Allocation has provided sufficient cash in the bank to pay off most or all contractual liabilities. Also, political/financial/legal decisions are being made concerning which commitments need to be honoured and which can be terminated.

KDSG is now approaching a situation where the questions raised by indicator PI-16 can be examined. The Accountant General has confirmed that new commitments cannot be made without evidence of cash availability and that when new commitments are made, these funds will be set aside in the monthly cash plans, preventing other commitments being made for the same funds. This should mean that when a short term contractual commitment is made by Government House, that contract is guaranteed funds. It remains to be tested how well this system will work for longer term contracts, but the procedures are to be welcomed.

Note: This will not solve the problem of the 'inflated budget' which contains too many projects to be afforded, but it will make it more transparent as to which budget requests have been accepted and which have had to be rejected. Whether this accept/reject information is effectively communicated to MDAs remains to be seen.

Scoring of PI-16

No.	Performance Indicator	Score M1	Brief Explanation
PI-16	Predictability in the availability of funds for commitment of expenditures	D+	
(i)	Extent to which cash flows are forecast and monitored	D	There is no annual cash flow plan except for salaries and 'regular overheads' (pro-rated over the year). Cash planning for irregular overheads and capital contracts is undertaken on a month by month basis.
(ii)	Reliability and time horizon of information to MDAs on budget releases	D	Payroll releases are made centrally via payments directly to banks and are based on MDA approved payrolls. 'Recurrent' overheads are released based on pro-rata allocations following MDA submissions of previous month's returns. Capital and 'special' overhead releases are approved by government house on a month by month basis approval and are not reliable or predictable for MDAs.
(iii)	Frequency and transparency of adjustments to budget allocations decided above the level of management of MDAs	B	Significant in-year budget adjustments that move budget entitlements from one MDA to another are rare, taking place at most once per year, are documented as revised budgets in a fairly transparent way, and approved by the State House of Assembly.

PI-17: Recording and management of cash balances, debt and guarantees

The maintenance of a debt data system and regular reporting on main features of the debt portfolio and its development are critical for ensuring data integrity and related benefits such as accurate debt service budgeting, timely service payments, and well planned debt roll-over.

An important requirement for avoiding unnecessary borrowing and interest costs is that cash balances in all government bank accounts are identified and consolidated (including those for extra-budgetary funds and government controlled project accounts).

Critical to debt management performance is also the proper recording and reporting of government issued guarantees and the approval of all guarantees by a single government entity (e.g. the ministry of finance or a debt management commission) against adequate and transparent criteria.

Discussion

(i) Quality of debt data recording and reporting

Since the last PEFA assessment in 2008, the Debt Management Department (DMD) has been established and has been assisted by DMO and by SPARC to maintain improved debt records.

DMD maintains these debt records on spreadsheets for external loans (derived from DMO records) and internal loans (own records). The records show opening balances, drawdown, interest and charges, repayments and closing balances for each loan.

Reconciliation and reporting is carried out monthly for internal debt and quarterly for external debt, and good annual reports are prepared. There are some unexplained old balances still in the system and some queries in reconciliation with DMO, but the system is otherwise comprehensive and accurate. Score = B.

In 2012, DMD will move its data to the CS-DRMS system, with the assistance of Crown Agents.

During the PEFA workshop it was reported that sometimes loans are drawn down into MDA project bank accounts but MOF get no notice of this until there is some expenditure from the account. In particular this applies to KADP and PFMU. In order to record debt liabilities properly, The AG and DMD should be notified as soon as the drawdown is made.

Recommendation 18: KADP and PFMU must report all loan draw downs to the AG and DMD as soon as they happen.

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

Reconciliation and consolidation of the major accounts (Accountant General and BOIR) take place monthly. These account for N32.9 billion of the N33.7 billion total end of year cash balance in the draft financial statements for 2011 (98% of the total).

Other accounts at MDAs are reconciled monthly but are not consolidated with the total, and extra budgetary accounts are not reconciled or consolidated.

Score = C.

(iii) Systems for contracting loans and issuing guarantees

The system for approval of external loans is controlled by DMO Abuja. The Federal Government provides the guidelines for contracting of external loans. Acceptance of the on-lending requires the approval of the Governor of Kaduna State, as advised by Kaduna MOF.

All internal loans must be approved by the Governor. Again, the advice of MOF is sought.

Kaduna had no internal borrowings for some years, but in 2010 it issued the first tranche of the Kaduna State Bond. It is clear that this decision was taken without an effective enough examination of cash flows, issue costs, repayment procedures (sinking fund) and conditions of use. Computations by KDSG DMD confirmed that the bond was considerably more expensive than its coupon rate of 12.5% implied. The second tranche will not be drawn down.

The system for contracting internal loans has now been tightened up. In 2011 DMD was consulted about new borrowing alternatives for bank loans, and its advice has been valued. Debt sustainability calculations have been taken into account when making borrowing decisions. However there are no defined ceilings for borrowing.

Any guarantees would require the approval of the Governor; however guarantees are rarely issued by the government.

Summary of PI-17:

No.	Performance Indicator	Score M2	Brief Explanation
PI-17	Recording and management of cash balances, debt and guarantees	C+	
(i)	Quality of debt data recording and reporting	B	Domestic and foreign debt records are complete, updated and reconciled quarterly. Data is considered of fairly high standard, but minor reconciliation problems occur. Comprehensive management and statistical reports (covering debt service, stock and operations) are produced annually, and on demand.
(ii)	Extent of consolidation of cash balances	C	Calculation, reconciliation and consolidation of most government cash balances takes place monthly, but other balances are not consolidated into the total.
(iii)	Systems for contracting loans and issuance of guarantees	C	Contracting loans and guarantee will be approved by the Governor. These are now made within limits defined by the debt sustainability analysis. However, there are no defined ceilings for debt or guarantees.

PI-18: Effectiveness of payroll controls

The payroll represents a significant item of government expenditure and as such is susceptible to weak control and corruption. This indicator is concerned with the payroll for public servants only.

Ideally, the payroll should be integrated with a personnel database to enable verification and validation of employees against the establishment and individual payroll records. The link between the personnel database and the payroll should provide a key control.

Any amendments required to the personnel database should be processed in a timely manner through a change report, and result in an audit trail.

Payroll audits should be undertaken regularly to identify ghost workers, fill data gaps and identify control weaknesses.

Discussion

Developments in payroll processing

The Computer Centre within the Accountant Generals Department operates a payroll package which is used to process the payroll for most MDAs and Parastatals with the exception of the State Water Board and the Board of Internal Revenue, which represents some 24,000 employees. The system generates payroll reports by MDA and also by bank/branch to effect direct salary payments through each bank branch holding employees accounts.

In addition the payroll system runs the payrolls for all 23 LGs (some 41,000 LG employees), although payments in relation to LG payrolls are made by the LGs themselves.

The Civil Service Commission (CSC) maintains manual files and records of employees, and the Office of the Head of Service is supervising the installation of a new 'HRMIS package' (part of the BATMIS project, funded by the WB funded SGCBP). The nominal roll has been loaded onto this system and biometric data is in the process of being added for each employee. When this process is complete, the payroll system will be transferred to HRMIS, and there will be integration between the HR and payroll systems. Jigawa State is being used as a case study.

However, at present this integration does not exist, so the payroll system scores the same as in the original PEFA in 2008.

Changes to payroll data

Appointments and posting changes are approved by the Civil Service Commission (CSC), and are supported by formal letters. Additions and changes to payroll records are effected by variation orders, which are raised by the MDA and which must be supported where appropriate by the formal letter from the PSC together with a covering letter from the MDA. Any payroll additions or changes require authorisation and approval by the Accountant General before being processed on the payroll system.

Payment of payroll and reporting

The payment of salaries and wages is based on the approval by each MDA of its "dummy" payroll, requiring verification and certification that the details contained on the payroll are correct. Certified corrections and adjustments are made at this stage.

Ghost workers

Some payroll checks have been performed by the Office of the Head of Service which required employees to collect cash salaries based on the production of appointment letters and other identification documentation. However, this has not been a regular exercise.

Pensions

Pensions are managed by the Pensions Board, which receives pension contributions deducted through the payroll.

Summary of PI-18:

No.	Performance Indicator	Score M1	Brief Explanation
PI-18	Effectiveness of payroll controls	D+	
(i)	Integration between personnel and payroll records	D	There is no integration between HR and Payroll systems. There are on-going preparatory works to harmonise the personnel and payroll records.
(ii)	Timeliness of changes to personnel records and payroll	D	Variation orders notify changes to the payroll system, and require approvals through the MOF which may result in delays. Delays of up to 5 months have been experienced.
(iii)	Internal controls over changes to personnel records and payroll	B	Internal controls are primarily manual controls but there is limited internal check due to the lack of HR/ Payroll integration.
(iv)	Existence of payroll audits to identify control weaknesses and/or ghost workers	B	A payroll verification exercise has been undertaken once during the last 3 years.

PI-19: Transparency, competition and complaints mechanisms in procurement

Significant public spending takes place through the public procurement system. A well functioning procurement system ensures that money is used effectively for achieving efficiency in acquiring inputs for, and value for money in, delivery of programs and services by the government. The principles of a well functioning system need to be stated in a well defined and transparent legal framework that clearly establishes appropriate policy, procedures, accountability and controls. One of the key principles established by the legal framework is the use of transparency and competition as a means to obtain fair and reasonable prices and overall value for money.

While the procurement system operates within its own framework, it benefits from the overall control environment that exists in the PFM system, including public access to information, internal controls operated by implementing agencies, and external audit. The procurement system also contributes to many aspects of the PFM system, providing information that enables realistic budget formulation, providing access to information to stakeholders that contribute to public awareness and transparency, and supporting efficiency and accountability in delivery of government programs. (The following indicators impact on or are influenced by procurement: PI-4, PI-10, PI-12, P-20, PI-21, PI-24, PI-26 and PI-28).

However, unique to the public procurement process is the involvement of participants from the private sector and the civil society who are key stakeholders in the outcome of the procurement process. A good procurement system uses the participation of these stakeholders as part of the control system in the process for submission and resolution of complaints in a fair, transparent, independent and timely manner. The timely resolution of complaints is necessary to allow contract awards to be reversed if necessary and limit remedies tied to profit loss and costs associated with bid or proposal preparation after contract signatures. A good process also includes the ability to refer the resolution of the complaints to an external higher authority for appeals.

Public dissemination of information through appropriate means (e.g. government or agency level websites, procurement journals, national or regional newspapers, on demand from procurement bodies) on procurement processes and its outcomes are key elements of transparency. In order to generate timely and reliable data, a good information system will capture data on procurement transactions and be secure.

Discussion

Procurement procedures are set out in the Financial Regulations (2005), Stores Regulations (2005) and also in Due Process Guidelines (July 2007).

However, legislative enforcement of the guidelines has yet to be enacted through the Public Procurement Bill. The Draft Bill has prepared, modelled in line with the Federal law, and is with the Ministry of Justice for input. The Draft Bill is comprehensive: it makes open competition the default procurement method, and includes necessary sanctions.

The hierarchy of authorisations for approving and awarding contracts in the Due Process Guidelines is as follows:

Naira value	Authority to approve and award contracts
Below 1,000,000	Ministry, Parastatals or Agency Permanent Secretary or Chief Executive
1,000,001 – 5,000,000	Ministry, Parastatals or Agency "Resident Due Process Team" (formerly the Ministerial Tender Board)
5,000,001 – 20,000,000	State Tenders Board
20,000,001 and above	EXCO

The Guidelines include procedures in relation to the advertisement, pre-qualification, invitation to tender, tender opening, bid evaluation and determination of winning bids together with due process review and certification processes.

Emergency Procurements

Hidden away on page 19 of the Due Process Guidelines, the section on Emergency Procurements describes the main method of procurement in Nigeria. Selective tendering is used 'if the project is to be accelerated'. No guidelines are offered on how selective tendering should be justified. It is used 'if the project is to be accelerated' (with no 'why' or 'because' anywhere in the explanation).

For selective tendering, no fewer than 5 competent contractors/suppliers are recommended by the PS of the Ministry, and approved by the people shown in the approval thresholds above. The main effect of this section is to undermine real competition in procurement.

There is no reference within the guidelines relating to the publication of contract outcomes or policies relating to complaint mechanisms.

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

The legal and regulatory framework for procurement should:	KDSG
(i) be organized hierarchically and precedence is clearly established;	No, Procurement Law is not passed.
(ii) be freely and easily accessible to the public through appropriate means;	Yes, Due Process Guidelines easily available.
(iii) apply to all procurement undertaken using government funds;	Yes, Due Process Guidelines apply to all procurement
(iv) 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;	No, selective tendering is the de facto default method.
(v) 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;	No, information not available easily
(vi) Provide for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature.	No independent procurement review process

Score = C. 2 items

Dimension (ii): Use of competitive procurement methods

The Due Process Guidelines do not require any justification for the use of selective tendering. Score = D.

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

Summary of PI-19:

No.	Performance Indicator	Score M2	Brief Explanation
PI-19	Competition, value for money and controls in procurement	D	
(i)	Transparency, comprehensiveness and competition in the legal and regulatory framework	C	KDSG has two of the six items in this score (see above).
(ii)	Use of competitive procurement methods	D	When contracts are awarded by methods other than open competition, they are never justified. The Due Process Guidelines do not require any justification for the use of selective tendering.
(iii)	Public access to complete, reliable and timely procurement information	D	The government lacks a system to generate substantial and reliable coverage of key procurement information.
(iii)	Existence of an independent administrative procurement complaints system	D	There is no independent procurement complaints review body.

There was a suggestion at the PEFA workshop that:

Recommendation 19: The State House of Assembly should be sensitized on the principles, contents and importance of the Procurement Bill.

PI-20: Effectiveness of internal controls for non-salary expenditure

This indicator covers the control of expenditure commitments and payment for goods and services, casual labour wages and discretionary staff allowances.

The effectiveness of expenditure commitment controls is singled out as a separate dimension of this indicator, emphasising the importance of such controls for ensuring that the government's payment obligations remain within the limits of projected cash availability, thereby avoiding creation of expenditure arrears (ref. indicator PI-4).

An effective internal control system should be (a) relevant (i.e. based on an assessment of risks and the controls required to manage the risks), (b) incorporate a comprehensive and cost effective set of controls (which address compliance with rules in procurement and other expenditure processes, prevention and detection of mistakes and fraud, safeguard of information and assets, and quality and timeliness of accounting and reporting), (c) widely understood and complied with, and (d) circumvented only for genuine emergency reasons.

Dimension (i) Commitment controls

All commitments should be recorded in vote ledgers at MDAs. The maintenance of vote ledgers is a requirement of the Financial Instructions (Chapter 6) and is a vital part of the record keeping system. However a report in 2009 showed that only 40% of MDAs keep up-to-date vote ledgers.

The system agreed in 2011 to enhance recording of contractual commitments and liabilities is shown at Annex 5. When contracts are signed by MDAs, copies should be sent to the Due Process Office, MOEP, Ministry of Justice, MOF Accountant General and DMD. MOEP should now be able to collate commitments and issue budget releases against these commitments when work is certified. MOF should now be able to ensure that committed funds are 'set aside' in its cash flow computations, so that budget releases cannot be awarded for which there is no cash backing.

This system is new and there is not enough evidence yet to say whether it is working or not. (Previously commitments were not properly controlled and substantial arrears were accumulated, as described under PI-4, PI-16 and other places in this report).

Even with improved system mechanisms, adequate control over commitments depends on the discipline of the state governor to ensure that contracts cannot be signed outside the system.

The best evidence that commitment controls are working is when the government is able to provide monthly reports that show commitments and payments against budget heads (as required under indicator PI-24). These reports are not being produced yet; hence there is a lack of up-to-date information on whether commitment controls are working.

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

Controls over non-salary expenditure are primarily manual controls as documented in the KDSG Stores Regulations 2005 and Financial Instructions 2005. These operations are largely decentralised at MDAs with specified instructions relating to the maintenance of records, reports and returns for submission to MOF and MOEP. There are also Treasury Circulars.

Authorisation and payment - recurrent overheads: All releases for recurrent payroll and overheads (standing order) are based on the approved payroll and approved budget respectively. One twelfth of the annual budget of standing order overheads is released each month by the AGD-DTO to each MDA, subject to the MDA having submitting complete monthly returns.

Authorisation and payment – special overheads and capital: All requests for capital expenditure must be submitted to the Office of the State Governor for approval. Approvals are then passed to the

MOEP (Budget Directorate) for verification against budget allocations and release approval. The release warrant is signed by the Commissioner Economic Planning and passed to Accountant General Department – DTO for fund release, subject to availability of cash funds.

Monthly return from MDAs to Treasury, Budget and Final Accounts and Debt Management: MDAs are required to submit monthly returns to the MOF Treasury and also the Department of Final Accounts (DFA) in order to receive the next month's overhead release. Required returns include expenditure statements by sub-head, bank reconciliation, copy bank statements, copy cash book and payment/revenue vouchers (the latter two provide the source documents for posting into the accounting system by the DFA).

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

The State Internal Audit Department within MOF provide a high degree of internal control through the checking of payment and revenue vouchers and voucher processing compliance with Financial Instructions and Stores Regulations etc.

The report of the Auditor General on the 2010 financial statements shows that there were significantly few documented audit queries (e.g. payments without proper documentation) than in previous years, signifying improved compliance with regulations, though this is partly due to the fact that many queries were discussed verbally.

Summary of PI-20:

No.	Performance Indicator	Score M1	Brief Explanation
PI-20	Effectiveness of internal controls for non-salary expenditure	C	
(i)	Effectiveness of expenditure commitment controls	C	Expenditure commitment controls exist but until recently they have been only partially effective. There is still evidence that some MDAs do not use their vote legers properly. A new system to control contractual commitments has been developed, dependent on tight control over records kept at MOEP and MOF. It is too early to say whether this system is working yet. No regular reports on commitments are made. Though DMD ask MDAs for reports on outstanding commitments, there is no guarantee that all MDAs have up to date comprehensive information.
(ii)	Comprehensiveness, relevance and understanding of other internal control rules / procedures	C	Comprehensive control rules and procedures have been developed and are set out in Financial Instructions and Stores Regulations. Internal Audit performs a high level of internal control and "compliance" audit as part of the approval process. However, some rules and procedures may be excessive, while controls may be deficient in areas of minor importance.
(iii)	Degree of compliance with rules for processing and recording transactions	C	The report of the Auditor General for 2010 shows that there were 57 significant audit queries, fewer than in previous years. The rules are complied with in a significant majority of transactions, but lack of compliance is still an important concern.

PI-21: Effectiveness of internal audit

Internal audit should be an independent and objective appraisal function within an MDA which provides an independent and objective opinion to the Accounting Officer (Permanent Secretary) on risk management, control and governance, by measuring and evaluating the MDA's effectiveness in achieving its agreed objectives.

In addition, internal audit's findings and recommendations are beneficial to line management in the audited areas, to MOF as evidence of degree of compliance with internal control, and also to the Auditor General, who needs to assess the systems of internal control of the MDA when forming his external audit opinion (see indicator PI-26).

The Kaduna State Internal Audit Department is a Directorate within the Office of the Accountant General. Internal Audit staff are posted within MDAs and primarily undertake pre-audit of expenditure vouchers and post-audit of revenue transactions. The activities during the period 2008-2011 were almost entirely of this nature. As such, this is not an internal audit function, but rather part of the authorisation system, and has been reported under indicator PI-20.

The Internal Audit Department also monitor monthly MDA expenditure and revenue returns for classification and performance against budget, and also follows up on outstanding queries raised by the Auditor General.

Summary of PI-21:

No.	Performance Indicator	Score M1	Brief Explanation
PI-21	Effectiveness of internal audit	D	
(i)	Coverage and quality of the internal audit function	D	Internal Audit activity is largely pre-audit and part of the approval process. As such it is not an independent appraisal. Systems based auditing is not undertaken.
(ii)	Frequency and distribution of reports	D	Reporting is by the Head of State Internal Audit to the Accountant General and the Auditor General, and informally to MDA Accounting Officers. Reporting has not been regular.
(iii)	Extent of management response to internal audit findings	D	Formal reports and recommendation are not made on findings which can be followed up by management

At the PEFA retreat, the position of the Internal Audit Service in KDSG was discussed in some detail. It is felt that this department should have a separate cadre and be turned into a more modern internal audit service, enabling the recruitment of high calibre staff.

A report by Deloitte (2008) prepared under SGCBP, has already made these recommendations.

Recommendation 20: A one-day workshop should be held to discuss the Deloitte report on internal audit, to decide which elements should be endorsed, and to produce a series of actionable steps for implementation, including the identification of pilot ministries.

3.5. Budget Cycle (III): Accounting, recording and reporting Performance Indicators 22 to 25

Timely, relevant and reliable financial information is required to support all fiscal and budget management and decision-making processes.

PI-22: Timeliness and regularity of accounts reconciliation

(i) Bank reconciliations

As noted under indicator PI-17, 98% of the recorded cash at bank for KDSG is in accounts under the control of the Accountant General or BOIR. These bank accounts are reconciled monthly. However, the total number of bank accounts listed in the Accountant General's annual financial statements is approximately 180. It has already been questioned that some accounts for Federal grants may operate off-budget.

MDAs have bank accounts for their 'recurrent overheads' and some also have accounts for their internally generated revenue. These bank accounts should be reconciled monthly and the reconciliation statement is supposed to be sent to Treasury by the 10th of the following month, although delays may result due to problems in obtaining bank statements from some banks. If not received, the release of the following months funds will not be granted, which may include payroll releases. In practice the reconciliations are usually received by Treasury within 4 weeks. There is been improvement in submission of returns by MDAs due to tighter measures put in place by the Accountant General.

It was pointed out at the PEFA workshop that, whereas bank reconciliations are performed regularly, some bank reconciliations have old un-presented cheques (e.g. more than a year old), the position on which should be clarified by follow-up.

The BATMIS has a facility for electronic bank reconciliation. The eight pilot MDAs who currently post their transactions online to BATMIS will eventually be able to use this facility. It was pointed out that this will not solve the human problem of lack of follow-up of outstanding items.

(ii) Regularity of reconciliation and clearance of suspense accounts and advances

Suspense account reconciliations and clearances are not undertaken regularly. These accounts are however reconciled as part of the process to produce the annual financial statements. For the 2011 financial statements, this was within 2 months of the end of the financial year. There are significant numbers of un-cleared balances, however.

Recommendation 21: The Accountant General's reconciliation unit should extend its work on suspense accounts and 'below the line items' to MDAs.

Summary of PI-22:

No.	Performance Indicator	Score M2	Brief Explanation
PI-22	Timeliness and regularity of accounts reconciliation	C+	
(i)	Regularity of bank reconciliations	B	Bank reconciliation for all Treasury managed bank accounts take place monthly, usually within 4 weeks from the end of the month.
(ii)	Regularity of reconciliation and clearance of suspense accounts and advances	C	Reconciliation and clearance of suspense accounts and advances takes place annually or within two months of the year end. There are significant numbers of un-cleared balances, however.

PI-23: Availability of information on resources received by service delivery units

There is no routine collection of information dealing with delivery of front-line services to the community. No special surveys have been carried out to assess such service delivery.

Both Health and Education have information systems which record some of the elements of service delivery but the information is not yet comprehensive. The Health Management Information System has been introduced by the Partnership for Transforming Health Systems (PATHS2), and the Education Management Information System by the Education Sector Support Programme in Nigeria (ESSPIN).

Summary of PI-23:

No.	Performance Indicator	Score	Brief Explanation
PI-23	Availability of information on resources received by service delivery units	D	No comprehensive data collection on resources to service delivery units in any major sector has been collected and processed within the last 3 years.

Discussion in the PEFA workshop emphasised that reporting of sector based financial expenditure is of little use unless combined with some information about the outputs delivered from that expenditure. Tracking outputs would automatically answer the intermediate question of whether resources had been received by service delivery units. At present, KDSG has very little information in this area.

It is acknowledged that to carry out public expenditure tracking is expensive but it is possible that such surveys could be partially financed by private sector organisations (e.g. cell phone companies) in the same way as opinion polls. Personnel involved in these surveys should include MDA inspectorates and internal auditors.

Recommendation 22: Methods for financing and conducting a survey of a random sample of schools and/or clinics are discussed and proposals put to potential funds providers.

PI-24: Quality and timeliness of in-year budget reports

The indicator focuses on the ability to produce comprehensive monthly or quarterly reports from the accounting system on all aspects of the budget.

Timely and regular information on actual performance against budget should be available to MDAs, the Ministries of Finance and Economic Planning, EXCO and stakeholders (see PI-10) to enable good financial management in terms of expenditure and revenue control, performance monitoring, corrective action and accountability.

Discussion

Although MOF (through the Directorate of Final Accounts) operates an efficient accounting system, quarterly in-year budget v actual reports are not, and have never, been produced. The system has, however, enabled the production of the Accountant General's mid-year report. Since the minimum requirement for this indicator is quarterly reports, PI-24 scores a D.

In the past, monthly reports have been produced by the Director of Final Accounts using a spreadsheet, and it was suggested at the PEFA meeting that MDAs could similarly produce reports on their own ministries, on the basis that imperfect information is better than no information. However, the degree of central control and lack of real financial management discretion within MDAs means that there is little perceived requirement for such reports within the MDAs.

Reporting tends to be more on an "as requested" basis rather than as a routine. In particular, there appears to be no reliable routine system for keeping the Governor informed.

Computerised records do not hold commitments, only actual expenditure and revenue details captured from payment and revenue vouchers. It has already been indicated under PI-4, PI-16 and PI-20 that up-to-date information about commitments is vital for controlling PFM, especially during periods of uncertain cash flow.

There are now two computerised accounting systems running in parallel in KDSG, the original Pastel system, which continues to produce excellent annual financial statements (see PI-25) and the new BATMIS system. KDSG will compare the two and decide which is more effective. The requirements of this indicator, PI-24 should be included when this decision is made.

Recommendation 23: A meeting should be held to discuss a progressive strategy for generating in-year budget performance reports, using the improved information availability from the accounting and BATMIS systems. The meeting should include Final Accounts Department, MOEP, and representative from MDAs, as well as representatives from the information systems.

Recommendation 24: The decision on which accounting system is adopted by KDSG should take into account the requirements of PEFA indicator PI-24 (regular in-year reports) as well as the ability to produce annual financial statements.

Summary of PI-24:

No.	Performance Indicator	Score M1	Brief Explanation
PI-24	Quality and timeliness of in-year budget reports	D	
(i)	Scope of reports in terms of coverage and compatibility with budget estimates	D	No quarterly reports are produced by the accounting system. If they were, they could cover budget and actual payments, but not commitments.
(ii)	Timeliness of the issue of reports	N/A	No quarterly reports are produced by the accounting system.
(iii)	Quality of information	N/A	No quarterly reports are produced by the accounting system.

PI-25: Quality and timeliness of financial statements

KDSG should be commended on the quality and comprehensiveness of the annual financial statements. However, it is impossible to score higher than C+ for this dimension unless full information on financial liabilities is included. There is also insufficient analysis of expenditure under capital projects, which are shown as 'one-line' items.

(i) Completeness

The annual financial statements of KDSG cover the activities of all government MDAs (organisations and sub-organisations). Results for some lower level cost centres are not separately identified but are included in the totals for MDAs. Other cost centres are treated as capital projects, and their expenditure can be separately identified.

Within the definition of 'completeness' there are some uncertainties where new accounting policies are needed.

Off-budget funds: The inconsistency of accounting treatment for some Federal grant aided operations needs to be clarified. All such operations should be included within the annual financial statements, and accounting policy is needed to confirm this. See Recommendation 6, page 36.

Local government results: A similar argument can be made for the financial results of local governments i.e. that local governments have no real autonomy over most of their expenditure, effectively function as branches of the state government, and therefore their results should be consolidated in the results of KDSG in order to give a true and fair view. See discussion under PI-8.

Nevertheless, it is understood that under existing Nigerian accounting policies, the financial statements of KDSG are substantially complete.

For this PEFA indicator, it is however only possible to award a 'C' for this dimension, because to get a B, full information on revenue, expenditure, financial assets and liabilities needs to be shown. The KDSG financial statements are deficient in not disclosing contractual liabilities (as a note) and not disclosing full details of expenditure under capital contracts (these are shown as 'one-line' items).

Recommendation 25: Details of year end contractual liabilities (analysed by project) should be included as a note to the financial statements.

(ii) Timeliness

The annual financial statements are prepared by the Accountant General using reports generated by the Pastel accounting system operated by Department of Final Accounts. Consultancy assistance (Mold Computers) is required to produce these reports.

The draft accounts for 2011 were completed by mid February 2012, which is a new record.

In previous years, the accounts have been consistently available within 6 months of the year end, which is an 'A' score for this dimension.

(iii) Accounting Standards

The KDSG annual financial statements are presented according to the FAAC Standard. In terms of presentation, this standard is at least as good as the cash-based IPSAS standard. However, the IPSAS standard also requires consideration of the definition of the 'boundary' of KDSG, which means that the accounting polices noted under 'Completeness' above need to be carefully considered. Score = A.

The PEFA retreat considered the basis of accounting that should be used by KDSG. Use of the modified cash approach, which is now allowed by IPSAS would be an advantage, as it would enable automatic recording of contractual liabilities in the accounts. However, it was decided that any change of this nature should be dependent on directives issued by Federal government. Until then, those involved in an accounting function are encouraged to engage in formal accounting studies, to gain background knowledge of different bases of accounting.

Accounts of individual MDAs are not published, although the detailed information is presented with the financial statements.

Summary of PI-25:

No.	Performance Indicator	Score M1	Brief Explanation
PI-25	Quality and timeliness of annual financial statements	C+	
(i)	Completeness of the financial statements	C	A consolidated government statement is prepared annually. Information on revenue, expenditure and bank account balances may not always be complete, but the omissions are not significant.
(ii)	Timeliness of submission of the financial statements	A	The accounts are always submitted for audit within 6 months of the year end.
(iii)	Accounting standards used	A	Nigerian National Standards, regarded as equivalent to IPSAS Cash based standard, are used for the presentation of the accounts.

3.6. Budget Cycle (IV): External scrutiny and audit Performance Indicators 26 to 28

Effective scrutiny by the legislature and through external audit is an enabling factor in the government being held to account for its fiscal and expenditures policies and their implementation.

PI-26: Scope, nature and follow-up of external audit

A high quality external audit is an essential requirement for creating transparency in the use of public funds. Key elements of the quality of actual external audit comprise the scope/ coverage of the audit, adherence to appropriate auditing standards including independence of the external audit institution (ref. INTOSAI and IFAC/IAASB), focus on significant and systemic PFM issues in its reports, and performance of the full range of financial audit such as reliability of financial statements, regularity of transactions and functioning of internal control and procurement systems. Inclusion of some aspects of performance audit, such as for example value for money in major infrastructure contracts, should also be expected of a high quality audit function.

The Office of the Auditor General directly undertakes the external audit of KDSG accounts.

The Office of the Auditor General – Local Government is responsible for the external audit of local authorities.

In Kaduna, as with other Nigerian States, the Auditor General is not completely independent as required by international best practice. The Auditor General is appointed by the Governor, subject to recommendation by the Civil Service Commission, and subject to the ratification of the House of Assembly. The budget for the office is held under State Government.

Audit of KDSG annual financial statements and MDAs

The Office of the Auditor General directly undertakes the external audit of KDSG accounts. Audit is undertaken in year as well as on final accounts. Staff of the OAG is "resident" in each MDA.

External audits are required to be completed six month after the end of the financial year, and the Report of the Auditor General submitted to the SHOA within 3 months of completion of the audit. These requirements are complied with, but scores a 'C' for the timeliness dimension of this indicator.

Audit of Parastatals

The Parastatals Directorate of the OAG manage the external audit of 44 Parastatals through the use of private firms. Constitutionally Parastatals have the power to appoint their own auditors from a list of between three and five firms provided by the Auditor General.

The Director Parastatals Audit should receive the draft audit report within sixty days from the commencement of the audit; however a number of Parastatals audits relating to financial years 2005 to 2010 are yet to commence as at February 2012.

For the 44 Parastatals, the Auditor General's Report 2010 (April 2011) identified:

- 19 Parastatals with 2009 audited accounts discussed and finalized;
- 13 Parastatals with 2009 audit not yet completed
- 12 Parastatals whose accounts had not been audited for 2005 to 2009.

This last group was composed of: Queen Amina College, Rimi College, Al Huda Huda College, Barewa College, Government College Kaduna, Government College Zonkwa, G.S.S. F/Kaje, G.S.S Kagoro, Sardauna Memorial College, Local Government Service Board, Health System Fund, and P.F.M.U.

The Auditor General comments: 'Delay in settling arrears of audit fees, as highlighted in previous Auditor General's reports, was still evident. This greatly contributed to delaying the release of audited financial statements.'

A simple rule of thumb would say that if parastatals cannot afford to pay its own audit fee, then it is not Parastatals and should be regarded as a dependent department of government.

Recommendation 26: Suggestions for achieving the audit of non-compliant Parastatals are debated and documented. These should include the review of the organisation's legal status, if necessary.

Audit of local governments

The Office of the Auditor General – Local Government is responsible for the external audit of local authorities.

Local governments are required to submit their accounts to the Office of the Auditor General – Local Government by March 31 following the year end; however there have been significant delays in submissions as identified in PI-8. The last set of audited statements was for 2006.

Audit of local governments is not included within the scope of this PEFA report but, as indicated elsewhere, there is a strong case for bringing the reporting of local government results under state jurisdiction.

Summary of PI-26:

No.	Performance Indicator	Score M1	Brief Explanation
PI-26	Scope, nature and follow-up of external audit	C+	
(i)	Scope/ nature of audit performed (including adherence to auditing standards)	C	Central government entities representing at least 50% of total expenditures are audited annually. Audits predominantly comprise transaction level testing, but reports identify significant issues.
(ii)	Timeliness of submission of audit reports to legislature	C	All Constitutional requirements are met but not enough to get higher than C
(iii)	Evidence of follow-up on audit recommendations	B	When queries are raised on anomalies noticed, up to 3 reminders are sent to the MDAs and if there is no response, the matter is passed to SHoA. However, as noted in PI-28, SHOA takes no action. B score indicates that a formal response is made in a timely manner, but there is little evidence of any systematic follow up.

PI-27: Legislative scrutiny of the annual budget law

The power to give KDSG authority to spend rests with the State House of Assembly (SHOA), and is exercised through the passing of the annual budget law. To exercise its power, SHOA must, through committees and in open debate, rigorously examine the budget proposals made by the KDSG executive. This should include examination of fiscal policies and budget ceilings as well as the detailed estimates of expenditure and revenue when formally presented by the Executive.

Discussion

As is inevitable for an elected body, the Kaduna SHOA suffers a degree of loss of institutional memory when there is a change of government. As a result, some of the improvement in skills resulting from previous training by SAVI, SPARC and others has been lost.

This position is not made easier by the fact that the 'Budget Scrutiny Manual' has not been completed. The Public Accounts committee has not met for at least 4 years (see PI-28).

Recommendation 27: The Budget Scrutiny Manual for SHOA should be completed, using technical assistance. Technical assistance should be conditional on an indication that the Public Accounts Committee is prepared to meet and review reports of the Auditor General.

A suggestion was also made at the PEFA retreat that:

Recommendation 28: SHOA should employ the services of economic advisers to assist them with budget scrutiny, using the allowances they are given under the KDSG budget.

SHOA's review covers details of expenditure and revenue, but only at a stage where detailed proposals have been finalised and are formally presented by the Governor.

Nevertheless, the current SHOA has exhibited some determination to understand and scrutinise the KDSG budget, having visited MDAs in January 2012 to verify some of the relevant factors in the 2011 budget.

Summary of PI-27:

No.	Performance Indicator	Score M1	Brief Explanation
PI-27	Legislative scrutiny of the annual budget law	C+	
(i)	Scope of legislature's scrutiny	C	The legislature's review covers details of expenditure and revenue, but only at a stage where detailed proposals have been finalised.
(ii)	Extent to which the legislature's procedures are well established and respected	B	Sector Standing Committees have been established for budget defence. Simple procedures exist for the budget review, and are respected.
(iii)	Adequacy of time for legislature to provide a response to budget proposals (ceilings and detailed estimates)	B	No specific time restriction or deadlines exist, but the SHOA normally take at least one month to deliberate.
(iv)	Rules for in-year amendments to the budget without ex-ante approval by the legislature	B	In-year amendments are based on costed SHOA resolutions. Whereas SHOA approve these, it is not clear that they subject these reallocations to any formal review.

PI-28: Legislative scrutiny of external audit reports

This indicator assesses the extent of the legislative scrutiny of the external auditors' reports on KDSG annual financial statements, and on the financial statements of Parastatals and LGs.

The legislature plays a crucial role in overseeing the execution of the annual budget. This is carried out through the various committees of the legislature but should be particularly exercised through the detailed scrutiny of the Auditor General's reports by the Public Accounts Committee, in order to ensure that resources are applied as approved by the Appropriation Act.

Discussion

For the whole of the period examined by this PEFA report, although the PAC secretariat has produced reports, the PAC itself has not met. This indicator scores D for Disappointing. A significant drop on the previous PEFA scores of C+.

Summary of PI-28:

No.	Performance Indicator	Score M1	Brief Explanation
PI-28	Legislative scrutiny of external audit reports	D	

(i)	Timeliness of examination of audit reports by the legislature (last 3 years)	D	No sittings has happened in the last 4 years on findings of Auditor General, hence no report has been produced
(ii)	Extent of hearings on key findings undertaken by the legislature	D	No in depth hearing
(iii)	Issuance of recommended actions by the legislature and implemented by the executive	D	Low Capacity.

3.7. Donor practices

D-1: Predictability of direct budget support

No.	Performance Indicator	Score	Brief Explanation
D-1	Predictability of direct budget support	N/A	There is no direct budget support from donors for Kaduna State

D-2: Financial information provided by donors for budgeting and reporting on project and program aid

The predictability of disbursement of donor support for projects and programs may affect the implementation of specific line items in the budget.

Programme and Project support can be delivered in a wide range of ways, with varying degrees of government involvement in planning and management of resources. A lower degree of government involvement may leads to problems in budgeting for resources and in reporting of actual disbursement and use of funds.

MDAs should be able to budget and report on aid transferred in cash (often as extra-budgetary funding or through separate bank accounts). The government is dependent on donors for budget estimates and reporting on implementation for aid in-kind.

Donor reports on cash disbursements are also important for reconciliation between donor disbursement records and government project accounts.

KDSG receives insufficient information from donors to meet the indicators required by the PEFA. A World Bank Project Financial Management Unit provides details of draw-downs but no analysis of expenditure to enable the introduction of economic classifications into either the budget or accounts, although a new form has been introduced to enable this. In general, no information is provided by DFID on its grant funded programmes and, although some of the programmes (e.g. SLGP and PATHS) do provide summary information indirectly, this is not incorporated into KDSG's records. See earlier recommendations, under indicator PI-7.

Summary of D-2:

No.	Performance Indicator	Score M1	Brief Explanation
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D+	
(i)	Completeness and timeliness of budget estimates by donors for project support	C	Not all major donors provide budget estimates for disbursement of project aid for the coming fiscal year at least 3 months in advance.

(ii)	Frequency and coverage of reporting by donors on actual donor flows for project support	D	Generally, donors do not provide reports on actual donor flows.
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D-3: Proportion of aid that is managed by national procedures

National systems for management of funds are those established in the general legislation (and related regulations) of the country and implemented by the mainstream line management functions.

Summary of D-3:

No.	Performance Indicator	Score	Brief Explanation
D-3	Proportion of aid that is managed by use of national procedures	D	It is estimated that less than 50% of aid funds are managed using National /State procedures. This figure needs to be calculated.

Annex 1: Members of the KDSG PFM Reform Programme Team, and others who attended the PEFA Retreat, 15-17 February 2012

S/N	NAME	DESIGNATION	MINISTRY/MDA
1	Ishaku K. Shekari	Accountant General	Ministry of Finance
2	Aliyu Abdullahi	Director, Final Accounts	
3	Umaru Martin	BATMIS Manager	
4	Lawal Nuhu Datti	Director State Internal Audit	
5	Ali Abbas Abubakar	Head Debt Mgt. Department	
6	Bala Musa Adamu	Deputy Director Final Account	
7	Alhj. Dogara Ibrahim	State Auditor General	Office of the State Auditor General
8	Tijjani Habibu	Director Parastatals	Office of the Local Government Auditor General
9	Felix Bakura	LG Auditor General	
10	Prof. Mohammed Tanko	Executive Chairman, BIR	Board of Internal Revenue
11	Mahmud Waziri	Deputy Director Taxes	
12	Mrs. Bariatu Mohammed	Representing the office of the Permanent Secretary	BPSR
13	Bashir Mohammed	Director PSR	
14	Umar Lawal Kargi	H.O Account	
15	Abbas Y. Sanusi	DFA	Ministry of Education
16	Yahaya Mas'ud	DFA	Ministry of Health
17	Abigail U. Yakowa	DFA	Ministry of Water Resource
18	Lucius T. Bossan	DFA	Ministry of Works and Transport
19	Zulai Balarabe	Deputy Director Information Services	Ministry of Information
20	Mohammed Tukur	Ag. DAF	Due Process
21	Moses Gabriel	DFA	Ministry of Agriculture
22	Ladi Kokwain	Director Planning	Ministry of Local Government
23	Bashir Adamu	Sec. Public Accts Committee	SHoA
24	Aminu Lere	Director, State Planning	
25	Samson Maga	Director, Budget	
26	Zakari Mohammed	Desk Officer on Reforms	Head of Service
27	Chris Umebese	STL	SPARC
28	Olumide Jones	STO	
29	Sunday Shinkut	FAO	
30	Stewart Maugham	PFM Consultant	
31	Leke Fakayode	PFM Consultant	
32	John Usman	Ag. PC	SGCBP
33	Mohammed Okorie	SP/HFO	PATHS2

Annex 2: Documentary information

Documentary evidence has been drawn from the following PEFA related documents:

- Accountant Generals Report (2009 2010) and Draft 2011
- Budget Implementation Guide (2006)
- Budget (2009 2010 2011) and Draft 2012
- Budget Call Circulars 2009, 2010, 2011
- Database for Public Expenditure Review, World Bank 2004
- Due Process Guidelines (2007)
- Education Public Expenditure Review
- Financial Instruction (2005)
- Guide to Administrative Procedures (2005)
- Guide to PAYE and WHT Operations for Employers and Employees BIR (2003)
- Internal & External Debt Record
- KADSEEDS Abridged (2005-2007)
- Kaduna State Laws and Local Government By-Laws (enacted) on Revenue and Tax
- Kaduna State First and Second Draft Supplementary Estimates
- Kaduna State PEFA Report (2006)
- Nigerian Tax Laws and Other Financial Info base
- Public Service Rules (2005)
- Report of SEEDS Benchmarking Exercise in Kaduna
- Report of the State Auditor General of the Government of Kaduna State of Nigeria (2008 2009 2010)
- Report of the Local Government Auditor General of the Government of Kaduna State of Nigeria (2005)
- SEEDS Benchmarking Result (National)
- Stores Regulations (2005)
- Schedule of rates of fees
- External debt records/ reports
- Newspaper advertisements of Accountant Generals Financial Reports
- KADSEEDS II Guidelines Document
- Outstanding Contractual Commitments as at 19th June 2009
- External Audit Manual
- Internal Audit Manual

Annex 3: Indicator PI-2

Various approaches are possible to indicator PI-2. None of them give any useful information. Information on variances is discussed in more detail in the SPARC Kaduna PFM Fact Sheets.

RECURRENT EXPENDITURE	2008 budget	2008 adjusted budget	2008 actual	2008 abs deviation	2009 budget	2009 adjusted budget	2009 actual	2009 abs deviation	2010 budget	2010 adjusted budget	2010 actual	2010 abs deviation
Education sector	9,133	5,748	7,249	1,501	10,343	4,050	7,564	3,514	11,754	6,041	9,923	3,882
Health sector	4,851	3,053	2,914	139	4,425	1,733	2,889	1,156	5,350	2,750	3,813	1,063
Agriculture sector	568	357	422	65	502	197	396	199	555	285	479	194
Security	3,074	1,935	3,072	1,137	2,525	989	2,500	1,511	3,238	1,664	3,618	1,954
Pensions	1,500	944	1,533	589	1,650	646	1,085	439	1,440	740	3,178	2,438
State contribution to LGAs	800	504	1,050	546	750	294	1,050	756	800	411	870	459
Other CRF charges	2,028	1,276	888	388	341	134	340	206	359	185	323	138
Central overheads	3,080	1,939	3,051	1,112	3,538	1,385	7,782	6,397	6,336	3,257	1,002	2,255
Other sector expenditure	15,891	10,002	12,280	2,278	9,434	3,694	8,371	4,677	14,440	7,422	13,478	6,056
Debt repayments	800	504	1,243	739	1,430	560	1,419	859	1508	775	3049	2,274
CAPITAL EXPENDITURE												
Agriculture	4,763	2,998	1,904	1,094	14,710	5,760	946	4,814	18,011	9,257	5327	3,930
Livestock	100	63	1	62	0	0	9	9	0	0	0	0
Forestry	397	250	68	182	91	36	0	36	0	0	0	0
Fisheries	26	16	5	11	0	0	0	0	0	0	0	0
Manufacturing	20	13	0	13	0	0	0	0	0	0	13	13
Power (electricity)	4,535	2,854	907	1,947	17,319	6,782	1,461	5,321	18,345	9,429	1,058	8,371
Commerce and Finance	1,144	720	323	397	1,347	527	301	226	1,802	926	246	680
Transport	10,805	6,801	4,384	2,417	6,427	2,517	3,412	895	10,907	5,606	2,286	3,320

RECURRENT EXPENDITURE	2008 budget	2008 adjusted budget	2008 actual	2008 abs deviation	2009 budget	2009 adjusted budget	2009 actual	2009 abs deviation	2010 budget	2010 adjusted budget	2010 actual	2010 abs deviation
Education	6,950	4,374	2,331	2,043	12,659	4,957	3,245	1,712	10,247	5,267	14,783	9,516
Health	3,822	2,406	2,107	299	7,839	3,070	3,337	267	16,134	8,293	2,667	5,626
Information	170	107	111	4	151	59	99	40	61	31	4	27
Social Development Youth & Sports	2,013	1,267	2,612	1,345	1,880	736	1,680	944	1,829	940	789	151
Water Supply	4,077	2,566	5,440	2,874	14,658	5,740	4,616	1,124	15,451	7,942	8,272	330
Environment, Sewage/Drainage	1,433	902	734	168	2,280	893	1,165	272	2,521	1,296	1,587	291
Housing	999	629	0	629	5,850	2,291	0	2,291	0	0	0	0
Urban Development	2,124	1,337	322	1,015	11,853	4,642	18	4,624	2,008	1,032	67	965
Community Development	1,049	660	0	660	6,160	2,412	981	1,431	6,068	3,119	786	2,333
Administration	7,927	4,989	4,262	727	15,533	6,083	5,521	562	16,551	8,507	7,558	949
Total	94,079	59,213	59,213	24,382	153,695	60,187	60,187	44,283	165,715	85,176	85,176	57,216

Abs. Dev. % of Actual

41%

74%

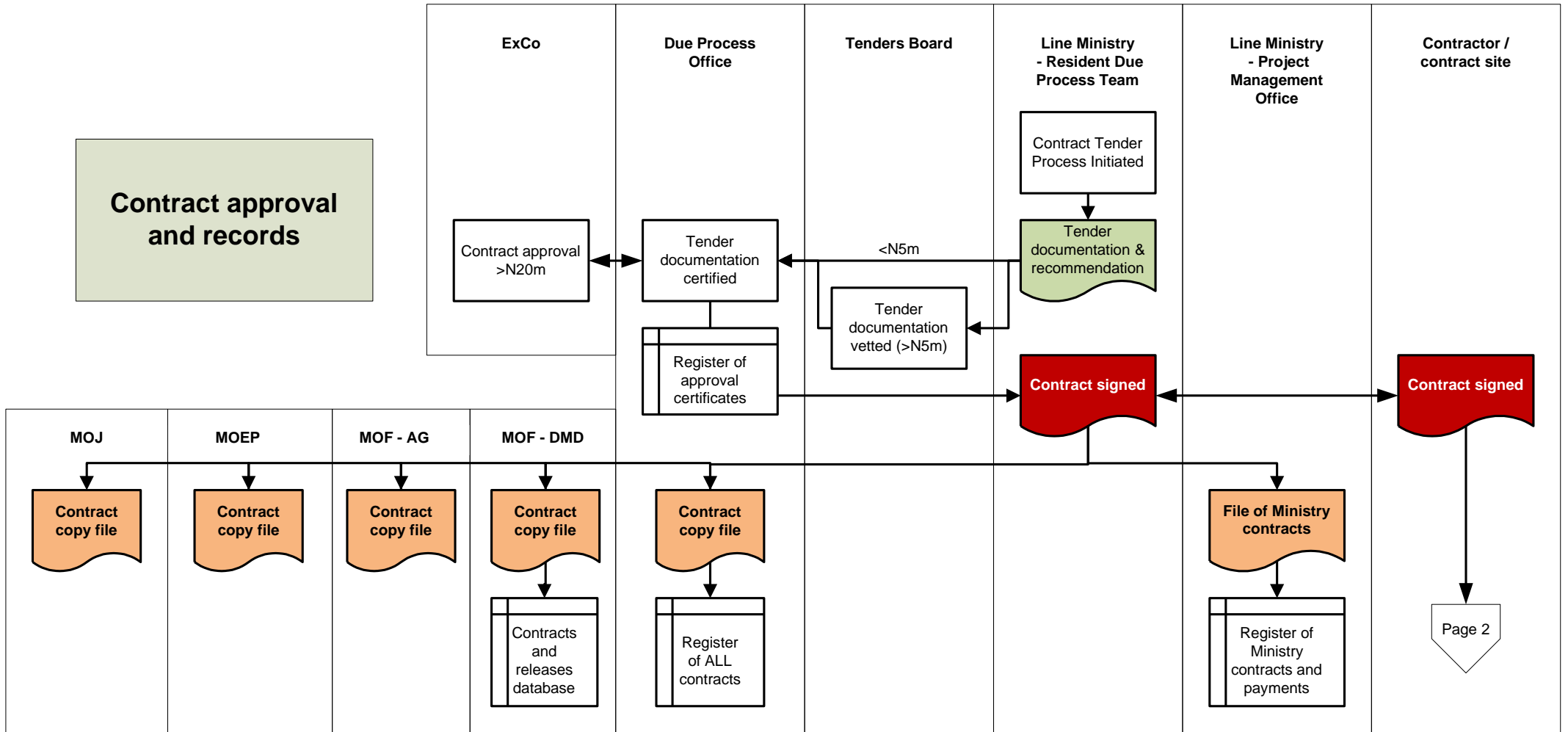
67%

Annex 4: KDSG 2011 Budget Calendar (version 1)
(To prepare estimates for 2011-2013)

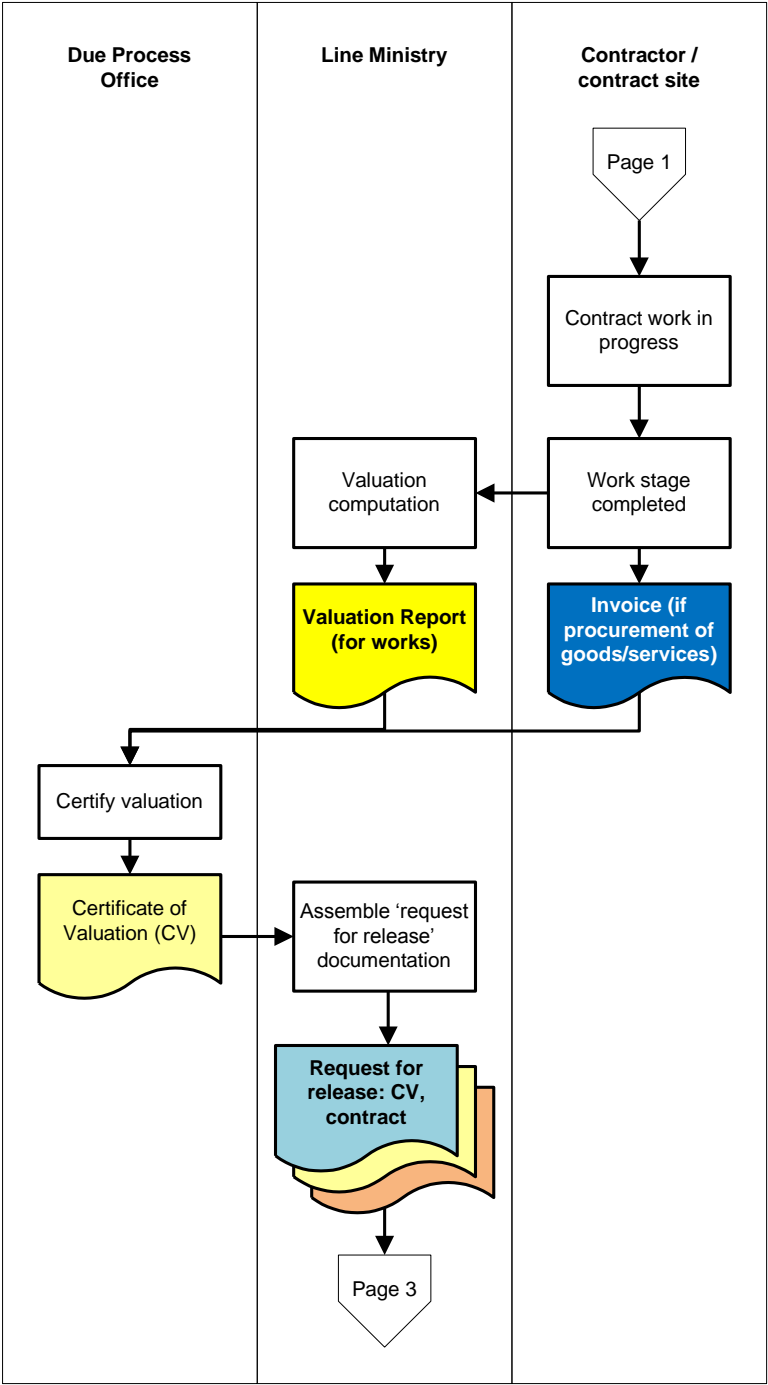
S/No.	DATE	ACTIVITY AND OR EVENT	EXECUTOR
1.	30/04/10	Review of Budget implementation (Performance Review);	MOEP
2.	03/05/10	Revenue Call Circular to MDAs;	MOEP
3.	10/05/10	First Draft Call Circular to MDAs with indicative MDA Envelopes;	MOEP
4.	17-21/05/10	Commencement/updating of MTSS (Health, Agric. & Education Sectors) and medium term strategic plans in other MDAs;	MOEP
5.	17-21/05/10	Analysis of Revenue Proposals submitted by MDAs to be used by Estimates Committee Members at Revenue defence;	MOEP
6.	24/05/10	Finalisation and Presentation of KSDP 2011 – 2013 and vision 2020 to EXCO for Approval;	MOEP
7.	31/05/10	Publishing and Dissemination of KSDP 2011 – 2013 and vision 2020;	MOEP
8.	1-7/06/10	Estimates Committee meets with Revenue Generation Agencies to defend their Revenue Proposals;	Estimates Committee
9.	09/06/10	Estimates Committee meets to draft Revenue Profile and MDAs Sectoral Expenditure Ceilings for year 2011 – 2013 Budget;	Estimates Committee
10.	10/06/10	First Draft MTSSs and Strategic Plans Produced by MDAs;	MOEP
11.	14/06/10	Revenue Profile and MDAs Sectoral Expenditure Ceilings drafted to be taken to EXCO for approval;	MOEP
12.	14/06/10	Preparation of Fiscal Strategy Paper and Presentation to EXCO;	MOEP
13.	22/06/10	Preparation of Fiscal Strategy Paper and Presentation to State House of Assembly for information;	MOEP
14.	01/07/10	Call Circular to MDAs with Final Ceilings;	MOEP
15.	23/07/10	Half Year Budget Review;	MOEP
16.	29/07/10	Refinement and completion of MTSSs and other MDAs Plans with compilation of budgets;	MOEP
17.	06/08/10	Final day for MDAs to submit detailed 2011 – 2013 Budget Proposals;	MDAs
18.	06/09/10	Final day for MOEP to finish analyzing MDAs budget Proposals;	MOEP
19.	13-23/09/10	Defence of Budget Proposals;	MDAs
20.	30/09/10	Collection and Preparation of 1 st Draft 2011 – 2013 Budget;	MOEP
21.	30/09/10	Presentation of 2011 draft budget to His Excellency for Perusal/Comments;	HC MOEP
22.	04/10/10	Effecting Corrections/amendments by MOEP vide HE's observations; Presentation of Draft memo to Council;	MOEP
23.	11/10/10	Council deliberation on 2011 – 2013 draft budget;	MOEP
24.	13/10/10		Council

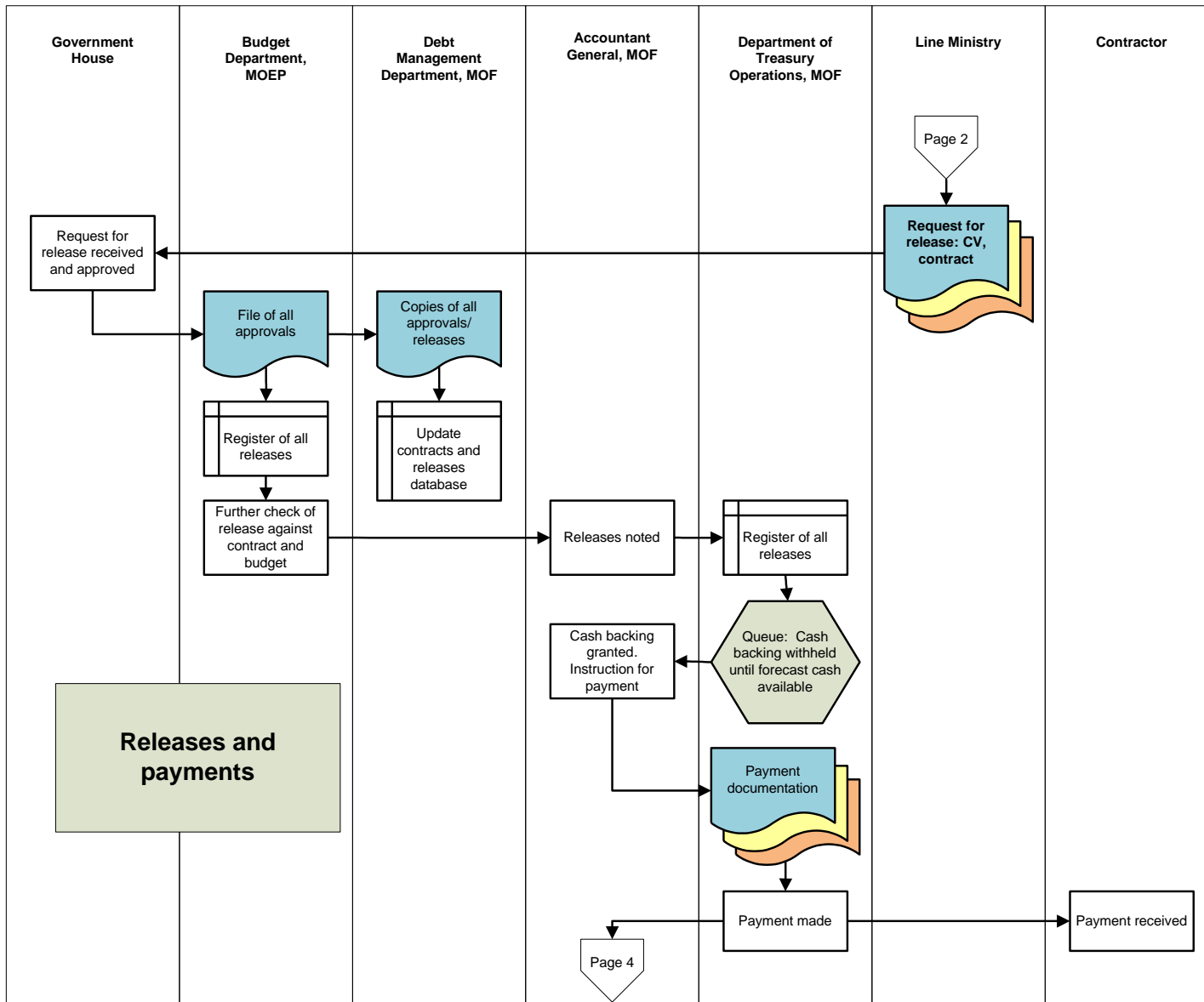
S/No.	DATE	ACTIVITY AND OR EVENT	EXECUTOR
25.	21/10/10	Presentation of Draft Budget to House of Assembly;	His Excellency
26.	30/11/10	Review and Approval by the House of Assembly;	SHoA
27.	10/12/10	Assent by the Governor;	His Excellency
28.	Jan. 2011	Public Presentation and Analysis;	MOEP
29.	Jan. 2011	Guidelines for 2011 Budget Implementation;	MOEP

Annex 5: Enhanced system for contract execution and liabilities management



Certification of contract work





Accounting and financial statements

