Nigeria: State of Lagos.
STATE FINANCIAL ACCOUNTABILITY ASSESSMENT

March 2004

Financial Management
Operational Quality and Knowledge
Africa Region

Document of the World Bank
FICAL YEAR OF BUDGET
January 1 – December 31

Currency Equivalents
Currency unit: Naira (N)
USD = 133 (Exchange rate as of march 31, 2004)

WEIGHTS AND MEASURES
Metric System

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<th>Role</th>
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<td>Vice President</td>
<td>Callisto Madavo</td>
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<td>Country Director</td>
<td>Mark Tomlinson</td>
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<td>Sector Manager</td>
<td>Tony Hegarty</td>
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<td>Task Manager</td>
<td>Ed Olowo-Okere</td>
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Preface

1. This report was prepared in April 2003, following the Lagos State Financial Accountability Assessment (LSFAA) Team’s missions to Lagos State in October 2002 and March 2003.

Purpose of the SFAA

2. A State Financial Accountability Assessment (SFAA) is a diagnostic tool designed to assess public sector financial accountability in states served by the World Bank. It is identical to a Country Financial Accountability Assessment (CFAA) except that it applies to a State, not to the country as a whole. The Bank carries out SFAAs in countries with federal government structures in which the Bank wishes to do business with individual states—several of these states are larger than some countries.

3. The LSFAA helps the Bank understand the FM risks of lending money to Lagos State by identifying strengths and weaknesses in FM in the State’s public sector. At the same time, it helps the State of Lagos by making preliminary recommendations on how to improve its financial accountability. The SFAA is not an audit and therefore does not provide assurance on the specific uses to which State funds have been applied. The LSFAA has been carried out in accordance with the CFAA Guidelines for Bank staff issued by the Financial Management Sector Board in May 2003. It was prepared jointly with a State Procurement Assessment Report (SPAR).

Role of the Government


5. The TF reports to the Commissioner for Finance. Members of the Task Force arranged interviews and made other necessary arrangements for data collection. Additionally, they attended most interviews during the fieldwork phase and participated actively in discussions. The data collected during the fieldwork together with the analyses were validated through discussion with the Task Force. For example, the Task Force reviewed the first SFAA draft report.

Other Cosponsors/Contributors

6. The Bank made available all the resources required for the study, including hiring of foreign and local consultants. Other donors such as AFDB, DFID, EU, and USAID have been approached with the aim of securing their participation from the Stakeholders’ Workshop to implementation of the recommended reforms. DFID began cooperating with its participation in the review of the draft report by the Team and Task Force in June 2003, and it is expected to contribute to the Stakeholders Workshop.

World Bank Team
7. The LSFAA Team includes Edward Olowo-Okere, AFTFM (team leader); Nike Mustafa, AFTFM; Gregory Nzekwu, AFP3; Peter Dean (Public Financial Management expert and former Bank staff–foreign consultant); Phillip Omeregie (local consultant); Adebayo Munis (local consultant); and Rufus Akintoye (local consultant).

8. The Country Director, Mark Tomlison, and the Manager, Regional Financial Management, Anthony Hegarty, ensured that appropriate procedures were followed in carrying out the assessment and that adequate arrangements for quality assurance were maintained.

9. The peer reviewers include the following Bank staff: John Nyaga (AFTFM); Brighton Musungwa (AFTFM); Sanja Vani (ECA); Pazhayannur K. Subramanian (SAR); Ladipo Adamolekun (PREM Public Sector); Mozammal Hoque (OPCFM), and Blanshard Marke (LOAG2). The Concept Note and the draft SFAA were reviewed by the peer reviewers; the Manager, Financial Management; AFTFM staff; and members of the Nigeria country team.

Acknowledgements

10. The LSFAA Team thanks for their cooperation the Lagos State Government and all its ministries and agencies that were visited. In particular, the Team would like to thank the former Honorable Commissioner for Finance, Wale Edun; the Honorable Commissioner for Finance, Adebayo Adewusi; and the Permanent Secretary, Ministry of Finance, Y.A. Balogun, for their keen interest in the Assessment and all the support they gave to the Team. In addition, the team is grateful to the Commissioner for Economic Planning and Budget, Yemi Cardoso, for his support. The roles played by the Government Task Force are very worthy of commendation. The Team also wishes to acknowledge the valuable inputs of peer reviewers and members of the Nigeria country team.
# Acronyms and Abbreviations

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<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>ABC</td>
<td>Alpha Beta Consulting Ltd</td>
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<td>AccGen</td>
<td>Accountant General</td>
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<td>AFDB</td>
<td>African Development Bank</td>
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<td>AudGen</td>
<td>Auditor-General</td>
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<td>AudGen (State)</td>
<td>Auditor-General for the State</td>
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<td>AudGen (LG)</td>
<td>Auditor-General of Local Governments</td>
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<td>BIR</td>
<td>Board of Internal Revenue</td>
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<td>CAMA</td>
<td>Companies and Allied Matters Act 1990</td>
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<td>CFAA</td>
<td>Country Financial Accountability Assessment</td>
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<td>CPCU</td>
<td>Central Project Coordinating Unit (of MEPB)</td>
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<td>CRF</td>
<td>Consolidated Revenue Fund</td>
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<td>CSC</td>
<td>Civil Service Commission</td>
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<td>DA</td>
<td>Director of Accounts</td>
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<td>DBLS</td>
<td>Direct Bank Lodgment System</td>
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<td>DFA</td>
<td>Director of Finance and Administration</td>
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<td>DFID</td>
<td>Department For International Development</td>
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<td>EBF</td>
<td>Extra Budgetary Fund</td>
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<td>EBS-RCM</td>
<td>Electronic Banking System of Revenue Collection and Monitoring</td>
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<td>EMCAP</td>
<td>Economic Management and Capacity Building Project</td>
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<td>ERP</td>
<td>Enterprise Resource Planning (Oracle software)</td>
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<td>EU</td>
<td>European Union</td>
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<td>FAC</td>
<td>Federation Account Committee</td>
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<td>FGN</td>
<td>Federal Government of Nigeria</td>
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<td>FM</td>
<td>Financial Management</td>
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<td>FMemo</td>
<td>Financial Memoranda</td>
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<td>FRs</td>
<td>Financial Regulations</td>
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<td>GAAP</td>
<td>Generally Accepted Accounting Principles</td>
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<td>GCP</td>
<td>Global Computerisation Project</td>
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<td>GL</td>
<td>General Ledger</td>
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<td>HND/OND</td>
<td>Higher National Diploma/Ordinary National Diploma</td>
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<td>ICAN</td>
<td>Institute of Chartered Accountants of Nigeria</td>
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<td>ICPC</td>
<td>Independent Corrupt Practices Commission</td>
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<td>IDA</td>
<td>International Development Agency</td>
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<td>IGR</td>
<td>Internally Generated Revenues</td>
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<td>JISU</td>
<td>Joint Interim Strategy Update (of World Bank)</td>
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<td>LAHA</td>
<td>Lagos State House of Assembly</td>
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<td>LASWC</td>
<td>Lagos State Water Corporation</td>
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<td>LSDPC</td>
<td>Lagos State Development and Property Corporation</td>
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<td>LSPC</td>
<td>Lagos State Printing Corporation</td>
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<td>LSPSDC</td>
<td>Lagos State Public Service Staff Development Center</td>
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<td>MEPB</td>
<td>Ministry of Economic Planning and Budgeting</td>
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<td>MTEF</td>
<td>Medium Term Expenditure Framework</td>
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<td>METP</td>
<td>Ministry of Establishments, Training and Pensions</td>
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<td>MOF</td>
<td>Ministry of Finance</td>
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<td>N</td>
<td>Naira (Unit of Nigerian currency)</td>
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<td>NASB</td>
<td>Nigerian Accounting Standards Board</td>
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<td>OAG</td>
<td>Office of Auditor-General</td>
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<td>p.a.</td>
<td>per annum</td>
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<tr>
<td>Abbreviation</td>
<td>Description</td>
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<td>PAC</td>
<td>Public Accounts Committee</td>
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<td>PC</td>
<td>Personal Computers</td>
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<td>PIU</td>
<td>Project Implementation Unit</td>
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<td>PMO</td>
<td>Parastatals Monitoring Office</td>
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<td>SFAA</td>
<td>State Financial Accountability Assessment</td>
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<td>SPAR</td>
<td>State Procurement Assessment Report</td>
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<td>SOE</td>
<td>State-Owned Enterprise</td>
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<td>STO</td>
<td>State Treasury Office</td>
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<td>TF</td>
<td>Task Force for SFAA</td>
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<td>UN</td>
<td>United Nations</td>
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<td>USAID</td>
<td>United States Agency for International Development</td>
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State of Lagos: Financial Accountability Assessment

Executive Summary

1. The main elements of government financial management systems are present in Lagos State. They include budgeting, internal control, accounting, Treasury management, financial reporting, and auditing arrangements. The current Lagos State Government is reform-oriented. In keeping with this orientation, it already has taken some giant steps to improve FM systems in the State. An Oracle-based financial management system has been procured and is being installed. It will improve the State’s budgeting, accounting, and financial reporting arrangements. The computerized system will put the State of Lagos clearly ahead of most, if not all, State Governments in Nigeria in FM system modernization. The State Government has developed and implemented procedures to improve the effectiveness of tax revenue collection and monitoring. These efforts have begun to show marked results. Additional financial management staff have been recruited; many of them are professionally qualified. In addition, accounts that were in arrears for several years under the Military have been brought up to date.

2. However, some critical aspects of financial management still need to be addressed. Financial accountability is weak, and significant risks of misuse of funds and waste remain. There are also risks that financial records do not present accurate records of transactions. The risk arising from the outside environment also is assessed as high. Given such an environment, strong controls are necessary to prevent wrongful use of public funds; but, in reality, controls are weak, leaving dangerous gaps in FM and accountability systems. The overall risk to public funds therefore is assessed as high.

3. The legal framework for financial management in Lagos includes the Financial Control and Management Law (1973), the Audit Law (1968), and the Federal Financial Regulations (1976), which were never intended to apply to State financial management. Public finance legislation and financial regulations therefore are not up to date, resulting in imprecision regarding the applicable rules. The lack of relevant, up-to-date financial laws and regulations means that staff lack adequate guidance and that financial management systems are built on poor foundations.

4. The budget calendar leaves inadequate time for the House of Assembly to consider the proposed budget before the fiscal year begins. Delayed enactment of the budget is followed by delayed release of funds. This delay adversely impacts budget implementation. The Government of Lagos does not present its fiscal information in a way that clearly identifies the budget surplus or deficit, nor does it present the borrowing needed to fund deficit.

5. Budgeted revenue greatly exceeds actual receipts. In some ministries, expenditure budgets are unrealistically low compared with actual expenditures. In addition, large unauthorized (excess) spending occurs. The budget therefore is both unrealistic as a guide to action and ineffective as a means of financial control. The financial discipline of keeping expenditures within the appropriations authorized by the House of Assembly has not been maintained.

6. The budgetary control systems appear defective. Separate procedures exist for incurring expenditure on personnel, overheads, and capital items. Some ministries incurred significant excess expenditures for which they were not censured. The audit report of the
State Auditor-General identifies several weaknesses in budgetary control in some ministries and departments. They include spending without a vote (that is, illegal expenditure); expenditures not supported with proper documents; unretired advances; and high mobilization fees paid to contractors (often approximately 70 percent) coupled with slow execution of the related projects.

7. The State Government obtains loans primarily to fund capital expenditure/projects. Due to lack of adequate information, the prudential limits for borrowing are not formally expressed and cannot be tested against the record of borrowing and service charges. It is probable that State of Lagos may have exceeded desirable levels from time to time. Beside tighter legislative control over borrowing, the issue of loan guarantees to parastatals must be addressed. The information system for debt management is manual and inadequate.

8. Cash management is complicated by a large number of bank accounts and the absence of a single Treasury account. The system is inefficient and difficult to control. The State is exposed to risk of fraud that may arise due to difficulty in maintaining up-to-date cashbooks and carry out prompt bank reconciliations. Without a single Treasury account, it is difficult to properly integrate debt and cash management; thus, there is a danger of borrowing unnecessarily. It does not appear that there are clear-cut principles or policies regarding deposits with banks. Compared with the ruling market rate, the interest received on some deposits is abnormally low. Management of funds in overseas bank accounts appears inadequate.

9. A large part of revenue management is in the hands of a contractor. This arrangement has considerably increased the flow of revenues but at high cost: it is estimated that about 15 percent of IGR is paid out in fees/reimbursable to revenue consultants. Although a large number of revenue staff is still maintained by the government, there is no formal plan to transfer skills and responsibilities to the revenue staff. The revenue management arrangements need to be reviewed for cost-effectiveness and sustainability.

10. Many records management procedures are lacking, and access to past records is often difficult and sometimes impossible. The government accounting system is unable to track budget implementation effectively. The system exhibits other weaknesses. In some ministries, cashbooks are not kept up to date or not written up at all; bank reconciliations are in arrears; and the accounting staffing and skills required for the task sometimes are inadequate. The books of accounts have attracted significant audit criticisms. For instance, there are references to the existence of stagnant fund balances in the main ledger—suggesting that the figures may not be up to date—and irreconcilable differences between consolidated fund balances and the relevant bank accounts, among others. The failure to render required financial statements on a timely basis, as was noted in several AudGen’s audit reports, indicates a weak accounting system.

11. The government accounting system is being computerized, providing the likelihood of more adequate accounts and financial reports in future. However, at present, financial statements contain unexplained historical figures. The basis of financial statements is not explained, and reference is not made to applicable accounting standards nor to accounting policies actually adopted. The meaning of some items in the published financial statements is obscure. The statements cannot be relied on to provide reliable information on budget execution or to demonstrate compliance with the expenditures authorized by the State Legislature. The annual financial statements supposedly are produced for public
accountability purposes; however, it is doubtful whether members of the House of Assembly can use them for their intended purpose, because the statements are not well adapted to the needs of readers.

12. Ostensibly, the present system has elaborate controls, but their effective operation is often in doubt. Managers (and internal auditors) do not regularly consider the strength of their internal control systems or make amendments when weaknesses are found. Key tasks, such as writing up accounting records and performing bank reconciliations, sometimes are neglected. Internal audit currently focuses largely on prepayment processes. The modern functions of internal audit, which include evaluating risk management, internal control, and governance processes, are not given attention. Thus, internal audit currently is a policing function and not really adding value. It is difficult to secure good quality staff to perform modern audit functions at current pay levels. Internal auditors lack adequate independence from the entities they audit, and the extent of remedial action taken on their findings is limited. Current auditors are not adequately trained.

13. The Federal Constitution guarantees the independence of the Auditor-General, but in some respects the audit office itself lacks independence. There is insufficient means to prevent the Executive from rendering the AudGen ineffective by limiting its funding. Insufficient funding reduces the effectiveness of an audit office. The approved budget of the AudGen is often approximately 50 percent of the original request; furthermore, in recent times, only three-quarters of the approved budget is released during the year. The AudGen also lacks freedom in recruiting staff. There is no comprehensive capacity development program, including professional training, for staff. Links between the findings of the AudGen and necessary corrective actions are weak. Significant audit findings (for example, regarding accounting deficiencies and lack of controls) have been ignored.

14. Some aspects of the legislative review of the State’s accounts are suboptimal. Given the current legislative strength of the ruling party, it is inevitable that a single party dominates the Public Accounts Committee. The committee has limited technical support for the task. There is no formal mechanism for determining the extent to which the Executive has implemented the recommendations of the Committee. PAC’s reviews have been delayed by the late submission of audited accounts, thereby reducing the relevance of the committee’s recommendations. Follow-up of PAC and AudGen findings/recommendations is inadequate.

15. Fiscal transparency aims to make public the essential financial management data so that informed opinion can play its part in shaping decisions and actions. In the State of Lagos, it is true that documents such as the annual estimates and the Auditor-General’s reports are available publicly once they have been laid before The State House of Assembly, but no procedure has been established to ensure that key fiscal documents are disseminated so that they reach as wide an audience as possible. The State of Lagos does not publish a list of the key fiscal documents with indicative contents and expected publication dates. Fiscal information is often released late. The State makes no attempt to ensure that the information placed in the public domain is comprehensible and self-explanatory.

16. There are weaknesses in the management of State-owned enterprises. Most are unprofitable and dependent on State Government financing. Without a vigorous program of privatization and commercialization, the resultant drain on State funds will continue. SOE governance arrangements are weak; they do not have working boards and government
intervention is high. The Parastatals Monitoring Office is not effectively monitoring SOEs, because it does not report on their performance and results. SOEs have been supported with State guarantees; which disguises the extent of State funding and encourages dependency.

17. The financial management arrangements in Local Governments exhibit several weaknesses. Budgetary control is poor and weakened by poor recordkeeping. Internal controls are weak because of poor segregation of duties and lack of internal checks. Revenue collection is poorly supervised, thereby offering opportunities for diversion of revenues. There is a dearth of relevant qualified financial management personnel, especially internal auditors and Treasury staff. These issues are compounded by significant weaknesses in the external audit arrangements. Audit reports typically are delayed by as much as five years, in some cases longer. In early 2003, the available audited financial statements were for 1997. Audit queries are often ignored. The Office of the Auditor-General of Local Governments is both under-funded and under-staffed.

18. Undoubtedly, the global computerization project that the State Government is implementing on its own initiative will provide a good basis for addressing some of the issues described above. It should not be taken for granted, however, that computerization will by itself address all financial management issues identified in this report.

19. An assessment of the risks is given in Chapter IX, recommendations are included at the end of each chapter, and a full list of recommendations is presented in appendix 1. The main recommendation is that State of Lagos should strengthen its public financial management arrangements. Actions to be taken include the following:

- **Reform Implementation Arrangements.** Set up a financial management reform steering committee to oversee implementation of recommendations.
- **Legal Framework.** Enact modern financial management laws, including Financial Management and Control and Audit Laws; and prepare new financial regulations.
- **Budgeting.** Announce and implement an improved budget preparation calendar resulting in the budget being enacted before the start of the financial year; make budgeting more realistic by amending budget preparation procedures so that spending agencies receive early notification of spending "envelopes" within which they must prepare their budgets; and introduce a Medium Term Expenditure Framework (MTEF).
- **Budgetary Control.** Enforce budgetary control via appropriate rewards, inducements, and penalties so that those involved in making expenditure decisions follow budgetary procedure and respect budgetary limits.
- **Debt Management.** Create, disseminate, and implement policies regarding borrowing and the issue of guarantees to ensure transparency on these issues and to promote fiscal sustainability; and develop and implement debt management information system.
- **Financial Reporting and Fiscal Transparency.** Adopt and comply with financial reporting guidelines including accounting standards, transparency criteria, and actions to make accountability more effective.
- **Internal Control.** Improve internal control, including internal audit.
- **External Audit.** Strengthen the external audit arrangements by, among others, providing greater staffing and funding independence for the Office of the Auditor-General.
• *Parliamentary Oversight*. Strengthen Parliamentary oversight and make it more effective.

• *Global Computerization Project*. Ensure the success of the Global Computerization Project by continuing funding and political support.

• *Management of SOEs*. Improve the governance climate for parastatals by subjecting them to uniform requirements; and enhance performance monitoring of parastatals.

• *Local Governments Financial Management*. Improve external audit and oversight arrangements for Local Governments, review Financial Memoranda (Fmemo), and make financial transfers to Local Governments transparent.
STATE OF LAGOS: FINANCIAL ACCOUNTABILITY ASSESSMENT

Main Report

Chapter I. Background

Lagos State
1. Lagos State occupies 3,577 square kilometers of coastal wetland in the extreme south of Nigeria. After the move of the Federal Capital to Abuja in 1991, Lagos has continued to be the country’s principal urban center. It is the (i) largest and most concentrated urban area in Nigeria, (ii) center of the country’s financial services industry, (iii) source of approximately 60 percent of the country’s industrial output, (iv) home to the country’s largest ports and principal international airport, and (v) the country’s commercial hub and principal trading center.

2. Economic development has been a mixed blessing. Population has grown rapidly, exerting pressure on infrastructure (water, power, transport) and social services (education, health, environment). In 1991 the population of Lagos State was estimated at 5.7 million, or 6.4 percent of that of the country (89 million). Since then, it is estimated that the State population has been growing at 4 percent to 5 percent p.a., giving a national population today of over 13 million (75 percent of whom are living in urban areas). Thus, in 13 years, the State's population has nearly tripled. A UN study estimates that the population of Lagos will grow to 25 million by the year 2015.

3. Already the result is a mega-city with extremely high concentrations of population averaging 20,000 per square kilometer in urban areas. On the one hand, there are problems of poverty, homelessness, and deprivation (clean water, drainage, hygiene, and basic social services). On the other, the viability of Lagos as a business and trading center has to be maintained and improved (communications, transport, security, access to skills, ease of doing business, quality of life). Such issues represent multiple challenges for the State of Lagos.

4. Fortunately, in addressing these issues, Lagos State has the advantages of availability of modern skills, a large tax base, a strong business community, and a democratically elected government.

5. The main policy thrusts of State of Lagos are in the fields of poverty alleviation, sustainable growth and private sector participation. To establish partnerships between the public and private sectors, a State Economic Summit is held each year in the run-up to budget preparation. The summit has strong representation from the business, political, and public service communities, enabling all sides to express their needs and to share their plans and aspirations.

6. The State of Lagos operates in a seemingly risky financial management environment. A

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1 In his overview of Lagos State Economic Policy for the First Lagos State Economic Summit, Olayemi Cardoso (Commissioner, Economic Planning and Budgeting) quoted statistics such as number of children per class: 100–150; percentage of stunted children under 5: 17%; access to pipe-borne water: 54%.

2 Government accords high priority to (a) improvement of educational facilities; (b) sustainable primary health care delivery; (c) security of lives and property; (d) road construction and rehabilitation; (e) well-funded staff welfare packages; (f) environmental sanitation; (g) water supply; and (h) energy.
CFAA that was completed for Nigeria in September 2000 describes this environment. It revealed serious weaknesses in government financial management systems. The overall conclusion of the assessment was summarized as follows:

“The Federal Government of Nigeria retains the vestiges of good systems for planning, budgeting, managing and controlling public resources. But their performance has deteriorated to such an extent that they provide negligible assurance that moneys are used entirely for their intended purpose. The same is true at the State level. To return to an acceptable level of financial accountability will require sustained action over several years. In the interim, risks of waste, diversion and misuse of funds are assessed as high.”

To operate efficiently in such an environment would require particularly strong financial controls.

**World Bank Lending to Lagos State**

8. The Bank’s 2002 Joint Interim Strategy Update (JISU) for Nigeria states that Lagos “is essential to rejuvenating the Nigeria private sector” and that the Bank group intends to provide assistance to the state in several critical areas. Lagos State, therefore, is a focal State for the World Bank and has received a wide range of support in fields such as urban development, management of transport sector, urban water management, health systems development, and basic education. It is worth noting that the Federal Government on-lent to Lagos State approximately 50 percent of the $230m IDA credits approved for Nigeria in FY03.

**Fiduciary arrangements**

9. In the last 16 years, the World Bank has disbursed over US$300 million to Lagos State (table 1.2). While some reliance is placed on government accounting and reporting systems, it is normal to set up Project Implementing Units (PIUs) with their own FM systems, and professionally qualified accountants. The projects' bank accounts are held in commercial banks. These are made up of Special Accounts in dollars; Project Counterpart Funds accounts in Naira (N); and Draw-down Accounts in Naira. Internal auditors are posted from the Central Internal Audit Unit of the Ministry of Finance. Experienced independent private audit firms are employed to carry out external audits of projects on terms of reference acceptable to IDA. Audit opinions are issued on the financial statements, Special Accounts and statements of expenditure (SOEs). Management letters are also issued to highlight internal control issues.

10. In recent years, fiduciary compliance in the portfolio has improved significantly. For instance, 100 percent audit compliance was achieved in FY 02. Notable fiduciary issues in the portfolio include:

- **Delays in new projects becoming effective:** Delay is partly caused by the inability of implementing agencies to establish satisfactory FM systems or to make necessary improvements in existing arrangements.
- **Slow disbursements:** This is a problem affecting the entire country portfolio. Replenishment applications are required each month but many projects take several months to submit an application. This reflects lack of capacity, including

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unfamiliarity with Bank procedures.

- **Inadequate and irregular counterpart funds:** Delays have occurred in the implementation of project components not financed 100 percent by the Bank.

**Relationship of LSFAA to CAS and CFAA**

11. In February 2002, the Bank discussed a JISU for Nigeria. It was noted in the JISU that Lagos “is essential to rejuvenating the Nigerian private sector” and that the Bank Group intends to provide assistance to Lagos State in several critical areas. It therefore is not surprising that a significant proportion of Bank lending to Nigeria (approximately 50 percent in FY03) is being on-lent by the Federal Government of Nigeria to the Lagos State Government.

12. The JISU described the Bank’s strategic engagement in Nigeria as follows:

   “…a basic principle that guides the overall design of our strategy is that, by and large, Nigeria has sufficient resources of its own to achieve sustainable development and that the resources brought by the donor community including the World Bank are always going to be relatively small compared to the resources which Nigeria has available to it. Therefore, the major role of the Bank will be to help Nigerians build their capacity to manage their own resources effectively, and this theme will inform all of the Bank’s activities in Nigeria.”

13. In light of the above, the Bank responded to Lagos State Governor’s request for World Bank assistance in diagnosing and reforming the State’s public financial management and procurement systems. Besides, the Government of Lagos State professed a high priority to fighting corruption and improving governance. It is believed that reforming the public financial management and procurement systems will reduce corruption, enhance accountability, and obtain value for public money. Furthermore, sound financial management, accountability, and procurement practices are core elements of good governance.

14. In a similar vein, the Bank completed a CFAA for the Federal Government of Nigeria (FGN) in September 2001. FGN is implementing some of the CFAA recommendations under an IDA-supported Economic Management and Capacity Building Project (EMCAP). However, under the Nigeria Federal Constitution, States are not obliged to adopt the CFAA recommendations. In addition, conditions at the State level are not exactly the same as at the Federal level.

15. Lagos State Government recently carried out a Public Expenditure Review, and this SFAA was carried out jointly with a State Procurement Assessment Report (SPAR). It is envisaged that the State Government will embark on a program of reforms based on the recommendations of these two assessments.

**Assessment Methodology**

16. This SFAA began with a desk review of government publications and status reports from key departments and ministries. Questionnaires then were developed and distributed to ministries, agencies, and Local Governments jointly identified by government and Bank staff. The completed questionnaires were reviewed before interviews were begun. Interviews were arranged to reconcile identified differences among the responses received, clarify obviously incorrect responses, obtain missing information, and fill the remaining gap in the
Bank’s knowledge of practices in Lagos State. Interviews were usually with top government officials (often several in each department at the same time). The interviews were arranged and facilitated by the Government Task Force (TF)—detailed information on TF members is provided in appendix 2.

17. Published and nonpublished documents were perused. Triangulation between the various information sources ensured that only properly reconciled data were used for the assessment. Fieldwork was followed by assessment including comparison of the current system and ongoing reforms with best practices, analysis of the risk to public funds, and identification of actions to improve/reform the system.

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4 A “triangulation” approach, that is, use of multiple classes and sources of information, was adopted to develop convergence regarding the validity and reliability of the information used.
Chapter II. Public Finance Framework

Overview of Fiscal Arrangements

1. The three-tiered structure of Nigerian government (Federal, State, and Local) derives from the 1999 Constitution of the Federal Republic of Nigeria. Legislative lists define the roles of Federal and State Governments. An Exclusive Legislative List establishes the areas in which only the Federal Government may legislate. A Concurrent Legislative List establishes areas in which both Federal and State Governments may legislate. Finally, the functions of Local Government Councils are established. It should be noted that there are inevitable disagreements about responsibility for matters on this concurrent list and a consequent blurring of accountability.

2. The Constitution provides for the establishment and working of State institutions:
   - House of Assembly of a State (composition, staffing, sittings, procedures, elections, and power and control over public funds)
   - State Executive (governor's office, election and discharge of functions; establishment of State executive bodies; the public service of a State)
   - State Courts (high court, appointment of judges).

3. The Constitution also provides for a revenue sharing mechanism. The Federal Government is to maintain a “Federation Account” into which all Federal revenues (with certain small exceptions) are to be paid. On the advice of the Revenue Mobilization Allocation and Fiscal Commission, the President tables before the National Assembly proposals for revenue allocation from the Federation Account. Recent revenue allocations expressed as percentages are shown in table 1.

4. The Constitution also establishes the criteria to be used by the National Assembly in distributing the Federation Account among States: equality of States, internal revenue generation, land mass, type of terrain and population density. In addition, the derivation principle is to be applied, ensuring that part of the revenue from natural resources (principally, oil revenues) is returned to the States from which it originated. Thirteen percent of the sums standing in the Federation Account are to be allocated according to this principle.

<table>
<thead>
<tr>
<th>Table 2.1 Revenue allocation formula (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
</tr>
<tr>
<td>Federal Government</td>
</tr>
<tr>
<td>State Governments</td>
</tr>
<tr>
<td>Local Governments</td>
</tr>
<tr>
<td>Ecological disaster fund</td>
</tr>
<tr>
<td>Fund for oil-producing areas</td>
</tr>
<tr>
<td>Special fund</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

5. In addition, each State is to set up a State Joint Local Government Account into which

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*Second Schedule to the Constitution.*
*Fourth Schedule to the Constitution.*
*As this applies to all the Nigerian states, no further analysis is given here.*
*Chapter Five, part II of the Constitution.*
*Paragraph 162 of the Constitution.*
all allocations from the Federation Account to Local Governments are paid. The amount in this account is to be distributed among the Local Governments of the State as prescribed by the State House of Assembly. The Constitution does not explain the criteria that States should use to allocate sums in their State Joint Local Government Accounts to their Local Governments.

6. The constitutional principles for revenue sharing have been established, but their actual working is complicated by the struggle for resources. The National Assembly would like to maximize the Federal share and so would States with respect to their own Local Governments. There have been intense negotiations on revenue-sharing percentages, distribution criteria, and revenue-sharing formulae. In addition, there have been significant failures to make public full information on actual sums distributed and to ensure by audit that the correct sums have been transferred. There have also been attempts to establish prior charges on sums to be distributed, for instance, distributing the amounts due to States after deducting sums due from States to the Federal Government.

7. Value-Added Tax (not mentioned in the Constitution) is collected by the Federal Government and distributed as follows: State Governments (50 percent); Local Governments (30 percent); Federal Government (20 percent).

8. The Lagos State Government allocates N600 million annually to its 20 Local Governments. In addition, the State Government provides statutory services such as health services, environmental sanitation, and street lighting in Local Government areas.

Legal Framework

9. Lagos State derives its legal framework for public FM and accountability from the following sources:
   - The 1999 Constitution (in particular, paragraphs 120–29, which deal with power and control of public funds at the State level)
   - Financial Control and Management Act, CAP 41 of the Laws of Lagos, 1973
   - Audit Law, CAP 12 of the Laws of Lagos, 1968
   - Federal Financial Regulations, 1976
   - Treasury Circulars issued by the AccGen from time to time.

The Constitution

10. Besides defining the respective roles of the State executive, legislature, and judiciary, the Constitution addresses in some detail the States' powers and controls over public funds. Paragraphs 120–129 specifically provide for:
   - All State revenues to be paid into a consolidated revenue fund; no money to be issued from the fund unless the expenditure is (a) charged on the fund by the Constitution, or (b) authorized by an appropriation act or by other law by the State House of Assembly.
   - Governor to lay before the House of Assembly before the beginning of each financial year estimates of revenue and expenditure. The appropriations bill is to be organized under heads of expenditure. If amounts so provided are insufficient, there

10 The Jack Committee provides a monthly publication to Local Governments of the distribution to Local Governments and retention by the State Government. However, given the important constitutional provisions regarding this account, it is surprising that the Annual Financial Statements of Lagos State do not include details of the amount paid into the account and the amounts paid out to Local Governments.
is a provision for supplementary estimates.

• In the event that the appropriation act is not passed in time, the Governor has the power to authorize expenditure for the first six months of the year up to the proportionate amount appropriated for the previous year.

• Power is given to establish a contingencies fund.

• The remuneration of certain officials such as the Governor, Deputy Governor, and Auditor-General (AudGen) for the State and the chairmen and members of commissions dealing with judicial matters and elections, is to be charged on the consolidated revenue fund.

11. The Constitution establishes more detailed rules for government audit. These include:

• Provision for an Auditor-General to audit the accounts of the State and its offices and courts and reports to the House of Assembly.

• The AudGen (State) is given access to relevant records.

• The AudGen (State) is not authorized to audit government statutory corporations or commissions but draws up a list of suitable auditors and publishes a guideline on appropriate audit fees to be charged; however, the AudGen (State) may conduct periodic checks of these bodies.

• Within 90 days of receiving the financial statements from the AccGen, the AudGen (State) is to send an audit report to the House of Assembly to be considered by a committee on public accounts.

• The AudGen (State) is to be appointed by the Governor on the recommendation of the State Civil Service Commission. The decision must be confirmed by the legislature. Removal from office arises only from inability to discharge the functions of the office, and the decision must be supported by two-thirds of the members of the legislature. Otherwise, an Auditor-General cannot be removed from office before reaching retirement age.

12. Finally, paragraph 129 of the Constitution confers on the House of Assembly the power to direct enquiry or to conduct investigations into matters falling within its competence. In exercising this power, the House or its investigation committee can procure all types of evidence and compel attendance of any person. The exposure of corruption, inefficiency, and waste are specifically mentioned as possible subjects.

Earlier Lagos Statutes

13. The Financial Control and Management Edict of 1973 and the Audit Law of 1968 are still applicable, as they have not been revised or repealed. Given their age, limited contents, and, in places, obsolete provisions, requirements, and terminology, they constitute valid but unsatisfactory legal authority. A new law or laws are urgently needed.

Financial Regulations

14. The financial regulations in use in Lagos State are the Federal Financial Regulations of 1976. This reality exists despite the fact that new Federal Financial Regulations were issued in 2000. Besides being out-dated, the old regulations relate to the Federal Government and, therefore, do not entirely respond to State requirements. New financial regulations are needed. They could be based on the new financial regulations of the Federal Government, or Lagos State could collaborate with the other States to produce a State model based on the new Federal regulations.
Main Issues
15. There is the consensus that the 1976 financial regulations no longer can meet the needs of the public service. Although financial instructions are issued from time to time, the absence of complete, up-to-date sources of authority and consequent reliance on obsolete guidance jeopardizes uniform application of known rules to FM. As a consequence, diversity of practice is bound to develop. Convenient, but often incorrect, actions will occur, and it will become increasingly difficult to define what is required, let alone know what is going wrong. The current situation is simply unsatisfactory. Risks of diversion of funds, incomplete documentation, and erroneous actions are increased. The possibility of adverse results is complicated by the lack of ready access to copies of financial regulations. Besides the need for new financial regulations, there is a need for new legislation. The fact that the government accounting system is subject to fundamental change only adds to the urgent need for revised financial guidance.

Institutional Relationships
16. The public sector of Lagos State comprises the State Government and its parastatals (state-owned enterprises and other boards) plus the Local Governments. The State Government comprises the Executive, Legislative, and Judicial arms of government. As already indicated, the State Government acts within a legislative framework established by the Constitution.

17. The Executive comprises 47 ministries and departments, which employ over 45,000 staff. It is responsible for formulating government policies and implementing the laws passed by the House. The Judiciary consists of the courts and magistrates and has a total workforce of 1,500. They are responsible for interpreting laws and making judgments. The Legislature comprises 40 elected members. They are supported by 409 administrative staff. The legislative arm makes laws and oversees the actions of the Executive. There are 20 Local Governments and 47 parastatals as listed in appendix 5. Parastatals were created with a range of objectives: economic, educational, social, and cultural.

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11 The State Auditor-General wrote in the 2001 audit report, "Financial regulation practices have broken down totally within the civil service system. The financial regulations rules presently available are old and outdated leaving room for unscrupulous practices within the system." She also wrote, "It was generally observed that the financial regulations which are out-dated and need urgent review are no longer being operated by ministries, offices and bureaus. This is technically a breakdown of financial law and order...."

12 The Financial Control and Management Edict of 1973 and the Audit Law of 1968 should be modernized to reflect, among other things, the need for greater transparency, greater accountability from accounting officers, and a strengthened role for MOF.

13 This is attributable to the implementation of the Global Computerization Project.
18. The key institutional players in public FM in the State are the executive arm of government; the Lagos House of Assembly (LAHA); the Ministry of Finance (MOF), including the Accountant General (AccGen); the Ministry of Economic Planning and Budgeting (MEPB); the sector ministries and departments; and the State Auditor-General (AudGen).

19. MOF is responsible for the supervision of government finances, issuing financial instructions, harnessing revenues and other sources of government financing, cash management, and accounting for public funds. These functions are carried out by the AccGen, the Board of Internal Revenues (BIR) and MOF HQ. MOF HQ has State-wide roles as follows: Computer Services, Public Finance, Central Internal Audit, Revenue Research and Monitoring and Global Computerization Program. As chief accounting officer the AccGen manages the Treasury, controls disbursements, maintains government accounting records, and prepares government financial statements. She also is responsible for posting accountants to State Treasury offices in ministries/agencies to maintain the required accounting records.

20. The MEPB has responsibility for economic planning and preparation of the State budget. It issues instructions to government ministries concerning the preparation of budget, conducts bilateral discussions with ministries/agencies, and consolidates the budget submissions of ministries/agencies. In addition, MEPB approves overhead and capital expenditures of ministries within certain limits. The main departments of MEPB are:

- Budget Department, which oversees recurrent budgets
- Planning Department which handles capital budgets and the preparation of the State’s contributions to the federally controlled 3-year rolling plans

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Figure 2.1 Institutional players in Lagos State Financial Management process
• Central Project Coordinating Unit, which is responsible for monitoring capital projects.

Main Issues
21. The institutions described above perform the main government FM functions. The central financial management and control functions have been split between MOF and MEPB. Therefore, there is a need for better coordination of the activities performed by these two ministries to ensure effective central control.

Financial Management Staffing
22. Two offices—the Civil Service Commission (CSC) and the Ministry of Establishments, Training and Pensions (METP)—have core responsibilities for recruitment, training, and discipline of staff.¹⁴ CSC carries out the recruitment of all accounting and auditing officers from grade level 07 upwards. These officers are holders of HND in Accounting, B.Sc. in Accounts, ICAN, and other recognized accounting qualifications. The entry point for newly qualified ICAN members has been adjusted upward to level 10 (previously level 09). For junior grades (below grade level 06), ministries and offices carry out their own recruitment with representation from the METP. The FM Staff strength is shown in table 2.2.

<table>
<thead>
<tr>
<th>Table 2.2 Financial management staff strength</th>
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<tbody>
<tr>
<td>ICAN</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>Accountant General</td>
</tr>
<tr>
<td>Auditor-General</td>
</tr>
<tr>
<td>Central Internal Audit</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

23. METP is primarily responsible for training of accounts and audit staff at level 13 and above. Training of officers on levels 07–12 and on levels 01–06 is carried out at the Lagos State Public Service Staff Development Center (LSPSDC) at Magodo. The LSPSDC plans a total of 92 courses this year, but only 6 relate to auditing and accounting. Additional courses are organized with the help of consultants. There are also opportunities for Accountants and Auditors to attend conferences and seminars. The funds for training are controlled by the Ministry of Establishment, while the AccGen and AudGen also have smaller funds available for training. However, specialized training of FM staff needs be strengthened.

24. The AccGen is responsible for the deployment of all senior accounts officers (grade levels 07–16). The AudGen (State) is responsible for the deployment of Auditors. The Director of Internal Audit is responsible for the deployment of all Internal Audit Officers in the State.

Main Issues
25. Although specialist staff are deployed by the AccGen and Director of Internal Audit, once they are posted to ministries, they exercise little control over their officers. Officers tend to be loyal to the accounting officer of the ministries to which they have been posted. Besides, professional training and development of the specialist staff are inadequate and weak: the ministries in which the specialists are posted and the Ministry of Establishment and Training are left to determine their training needs.

Recommendations
26. The government should:

¹⁴ See appendix 3 for additional information on FM staffing.
• Enact modern financial management laws, including Financial Management and Control and Audit Laws
• Prepare and issue new financial regulations specific to the needs of Lagos State.15
• Provide extensive staff training on how to operate under the new law and regulations.
• Enhance central coordination and supervision of accounting and internal audit staff, by providing professional leadership, issuing standards, training, and disciplining staff.
• Develop and implement capacity building programs for the various cadres of financial management staff.
• Ensure better coordination of the activities performed by MOF and MEPB.

15 It was noted at the Stakeholders Workshop that the State Government has began reviewing the FRs with specific reference to the needs of Lagos State and its computerized financial management system.
Chapter III. Revenue and Debt Management

1. Lagos State has several sources of funds, including revenues, reimbursements, grants, and internal and external loans. This chapter focuses on the management of revenues, and internal and external loans.

Revenue Management

2. The revenue-sharing principles provided in the Constitution have already been discussed. Currently, Lagos State has three main sources of revenue:
   - Statutory allocation from the Federation Account
   - Statutory share of Value Added Tax
   - Internally generated revenues (IGRs).

3. IGRs comprise revenue from tax, plus nontax sources such as fees, licenses, interest received, and charges (figure 3.1). They have increased significantly in the recent years. The largest source of IGRs is the personal income tax.

4. Revenue budgets are prepared annually together with expenditure budgets. The process of preparing revenue budgets starts with a call circular from the Commissioner for Economic Planning and Budgeting. It is similar in all respects to the process of preparing expenditure budgets, which is discussed fully in chapter IV. Monitoring of budget implementation is undertaken by the relevant key ministries: the executing ministry, Ministry of Economic Planning and Budget, and MOF.

5. Revenue budgets are often unrealistic. In the past, there has been a tendency to significantly over-budget IGRs; actual performance has often been less than 50 percent.

Figure 3.1 Revenue performance: Internally generated revenues

![Internally Generated Revenue (N million)](image)

Even revenues from the Federal Government have been difficult to predict (figure 3.2).
6. Tax assessments are based on self-assessment returns, questionnaires, personal interviews, and review of reports and other publications assembled by the Board of Internal Revenue, and other collecting agencies. Usually, they are based on past data updated in the light of investigations and tip-offs. Using “best of judgment,” assessments are calculated on the high side leaving the taxpayer to submit additional evidence and, if necessary, appeal. Compliance is achieved via regular visits by revenue staff and consultants, together with reminders, threats of litigation, and physical action, for example, impounding of vehicles whose motor vehicle licenses are unpaid. The need for taxpayers to produce tax clearance certificates prior to the award of contracts or before conducting official business with State institutions is an inducement to pay tax. Tax tables are used to calculate liabilities. In some cases, flat rates are used (for example, vehicle and other licenses). After calculation, assessments are issued and hand-delivered to taxpayers. They either agree and pay or disagree and appeal. Taxes and levies are collected by the Board of Internal Revenue (BIR). Smaller forms of nontax revenue are collected by ministries and parastatals. Changes in tax legislation must be proposed to, and authorized by, the House of Assembly.

7. Thirty-two (32) banks have been designated Lagos State bankers for the purposes of revenue collection. All revenue collections of N2000 and above are paid directly to the banks. Miscellaneous receipts below N2000 are received in cash offices and (in principle) banked daily. Additionally, computerized records of revenues are maintained by Alpha-Beta Consulting, Ltd. (ABC), a consulting firm hired by the State Government in November 2000, to establish and run an Electronic Banking System of Revenue Collection and Monitoring (EBS-RCM). An overview of the procedures developed and used by ABC is presented in appendix 4. Revenue records and subsequent accounting entries at the State Treasury Office are carried out manually. Currently, test runs of the Oracle computerized system are being carried out in parallel with the manual system. At present, the computer system captures only daily totals of manifests collected from banks.

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16 The contract extends for 5 years in the first instance, renewable for another 3 years and thereafter by the agreement of both parties from time to time.

17 See below under Global Computerization Project
8. For direct collections (under N2000), receipts are issued immediately. Direct collections are summarized in the cashier’s revenue cashbook daily and forwarded to a designated bank. Duplicate copies of receipts and summary sheets are batched and sent to the State Treasury Office (STO) for necessary recording, which is done by ABC on behalf of STO.

9. For indirect collections (over N2000) via designated banks, receipts are issued later. As a control device, customized deposit slips (designed by MOF) are obtained by revenue payers and used for making deposits into the revenue bank accounts. These tellers are in 5 copies. Distribution includes a copy for the customer, and a copy for the AccGen, which is dropped by the taxpayer in a box located in the bank. The banks send data, including the amount collected, revenue codes, agency codes, and payers' names, to Alpha Beta electronically. The data is input into the EBS-RCM software used by ABC. The EBS-RCM software is used by ABC in generating a manifest for BIR staff resident in Alpha Beta for confirmation of transactions through comparison with tellers and issuing of the official government receipt. The receipts are returned to the bank for delivery to the taxpayers. In total, the turn-around time between receipt of tax payments and issue of receipts is approximately 48 hours. An important feature is that officers responsible for collection must obtain confirmation that tax collected has been deposited into the Government bank accounts before receipts are issued to the taxpayer.

10. The collection system minimizes manipulation and diversion of State funds by banks. It also ensures that banks report promptly all revenues collected. The system automatically generates interest payable notices and makes charges if revenues are not paid into government bank accounts on time. The system has resulted in an extremely significant increase in the State's internally generated revenues from N600 million a month in 1999 to more than N2 billion a month in early 2003. The monthly projection is approximately N3 billion before the end of year 2003.

11. After the issuance of receipts, the Internal Audit Department can carry out a review or reconciliation of the issued receipts, confirm the figures, and raise an audit alarm in appropriate cases, but this function is not currently performed. The Monitoring Unit in the STO reconciles bank statements with returns from ABC. However, the cashbooks that should be used by STO to monitor the revenue receipts are not kept; the manifests received from ABC seem to have become a substitute cashbook. Furthermore, bank statements are not readily available. All of these complicate the performance of bank reconciliations. Finally, the source document used by ABC to prepare the manifest, and hence the basis of information used by STO to monitor receipts, is the information on the diskette that is passed to ABC from the banks used. It seems, therefore, that STO’s control over the collection system managed by ABC is inadequate.

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18 An accounts receivable module is being introduced by the State as part of the Oracle-based Global Computerization Project. A link is planned with the EBS-RCM for online report generation.

19 Under the EBS-RCM arrangements, the following reports are generated: (a) daily manifest of payments received by Alpha Beta to BIR; (b) daily Agency reports for collection in previous day from banks to Alpha Beta; (c) weekly cash position from Alpha Beta to the Commissioner of Finance and AccGen every Tuesday showing balances on revenue call accounts at the end of the previous week; (d) monthly comprehensive reports on revenue collections from Alpha Beta to the AccGen and Commissioner of Finance, and (e) monthly tax statement of compliance to companies to show amounts remitted and refunds, including certificate of payment for withholding taxes for individuals from which taxes have been withheld.
Main Issues
11. In summary, there has been great success in improving the State’s IGRs by the use of consultants. State finances have been greatly strengthened but at very high cost; it is estimated that about 15 percent of IGR is paid out in fees/reimbursables to revenue consultants, including ABC, other revenue consultants and BIR staff. Although the State continues to keep in its employment a large number of revenue staff, there is no arrangement for effective transfer of the system and skills from revenue consultants to State of Lagos personnel. These arrangements are in need of review to determine whether they are cost effective and sustainable.

12. Reliance on manual systems still exists in some aspects of revenue management with associated inaccuracies and possible irregularities. Accounting records are not frequently and reliably reconciled and, to date, the Global Computerization Project has scarcely touched revenue collection.

Debt Management
13. Both the State Government and its parastatals obtain loans. For external loans, the approval of the Federal Government is required. For parastatals to borrow money, they require permission from the State Government.

14. **Internal Loans.** The normal reason for borrowing is to fund capital expenditure. In theory, provision must be made in the annual budget approved by the House of Assembly. However, the specific projects to be funded by loans are not indicated in the budget. During budget implementation, the agency responsible for executing a project for which a loan is required raises a memorandum justifying the need and passes this to the MOF. On the receipt of the request, the Commissioner of Finance raises a memo to the Executive Council specifying the terms of the loan. The Executive Council considers the memo, and approves the loan.

15. **External Loans.** In the case of a foreign loan, the State Government presents the proposal to the Federal Government (FG). When the loan is approved, the disbursement comes either through the FG or directly from source to the State Government, depending on the financing agreement. Most foreign loans are project specific. The approval of the House of Assembly is always sought for every loan.

16. The Federal Government normally deducts service charges on external loans from the State’s statutory allocation. Provision is made in the budget for debt servicing under public debt charges. To obtain payment, the Director of Public Finance raises a memo through the Permanent Secretary of Finance to the Commissioner for Finance. The memo is sent to the Governor for approval, and the AcceGen pays. Cash flow issues hamper the debt servicing process.

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20 During the Stakeholders’ Workshop, it was explained that: (a) the fees/reimbursables have been revised to 15 percent of IGR in excess of N700m per month; and (b) ABC takes 50% per cent of the fees while the other revenue consultants and BIR staff shares the remainder.

21 Over 1,400 staff are on the nominal roll of Board of Internal Revenue. Thirteen have professional accounting qualifications and six are chartered tax practitioners. Others possess diploma, graduate, post-graduate qualifications.

22 For example, manual systems are used in government ministries/departments involved in revenue collection and control.

23 Normally, this is in respect of internal loans.
17. Prudential limits for borrowing were mentioned: limit to borrowing via bonds—50 percent of the previous year's revenues; and limit to loan service charges (principal and interest)—30 percent of revenues. However, the limits are not formally expressed and cannot be tested against the record of borrowing and service charges due to lack of information. It is possible that State of Lagos may have exceeded these levels from time to time.

18. Loans and debt servicing are documented as follows:

- A file is kept for each loan.
- Particular officers are assigned to a group of loans. These officers prompt the Director of Public Finance at least 2 weeks before payment/repayment is due.
- A memo is raised for the approval of the Governor to make payment. This is usually based on a demand note from the lender and in accordance with the terms of the loan.

19. The State usually guarantees parastatal borrowing. A number of such guarantees have been issued. If the parastatal is unable to service the loan, the guarantee crystallizes, and the State Government is obliged to pick up the bill. Discussion to determine the level of guarantee is among the management, the supervising commissioner, and the Governor. Usually, the State Executive Council approves the guarantee. In terms of accountability, the guarantee is simply noted with a copy in the file and a copy to the AccGen. The AccGen and the Permanent Secretary, MOF, sign the guarantee after approval by the Executive Council. If the guarantee crystallizes, the Director of Public Finance is notified, and a memorandum is sent to the Executive Council requesting for approval of payment. Upon approval, the AccGen executes the payment. It is understood that guarantees for loans of LSDPC and the Land Revenue Consortium in the sums of N3 billion and N200 million (out of N1.3 billion), respectively, have crystallized. However, there is no public disclosure of outstanding guarantees.

Main Issues
20. The weak points of the above systems are:

- Inadequate legislative control on borrowing and issue of guarantees.
- Lack of disclosure of outstanding guarantees.
- SOEs unable to service loans, allowing guarantees to be invoked, thus passing their liabilities to the State Government.
- Poor information on debt, and poor information system for debt management. Audited debt figures are not available.

Recommendations
27. Improve debt management by:

- Developing a robust borrowing strategy, including limits to annual borrowing and the amount of guarantees given to parastatals. The borrowing strategy should be framed in relation to criteria of fiscal sustainability and take into account planned and actual figures of revenues, expenditures, budget surpluses/deficits, existing borrowings and debt service levels.

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24 The commissioner in charge of the parent ministry.
25 The revenue budget reads “10e” for internal and external loans, meaning “not determinable.” For loans to be under control, they would first have to be accurately and comprehensively reported.
• Acquiring and installing specialized debt management software.
• Developing and implementing a capacity building program for the staff of public finance directorate.
• Improving public reporting of debts and guarantees.
• Reporting annually to LAHA on guarantees invoked and on the estimated risk inherent in guarantees outstanding.

27. Address the issues relating to revenue management by:
• Strengthening internal control arrangements by addressing issues, such as inadequate separation of duties.
• Reviewing the incentive arrangements for Government revenue staff, and developing and implementing a reward system to motivate them.
• Mandating the internal audit unit to audit the receipts and returns from ABC as an internal control check of returns from ABC.
• Revisiting/reviewing the contract agreement with ABC.
• Reviewing the revenue management arrangements to determine whether and how the cost can be reduced. The issue of sustainability needs to be addressed: the State of Lagos should determine whether and how the systems developed by ABC should be internalized. If it is desirable to internalize the systems, the Government should set up a committee to review the contract between the State and ABC, and to develop and implement a smooth process for:
  o Internalizing the revenue monitoring process developed by ABC
  o Transferring skills to staff
  o Ensuring that there is no disturbance/discontinuity in revenue collection and monitoring arrangements.
Chapter IV. Expenditure Management

Budget Preparation

1. As already mentioned, the Lagos Economic Summit precedes budget preparation allowing interaction between policymakers from the public and private sectors. The formal process of budget preparation starts with a call circular from the Commissioner for Economic Planning and Budgeting.\(^\text{26}\) In principle, this establishes the budget stance, the budget calendar, parameters to be used (for example, prices of inputs, policies regarding specific budget heads), forms to be completed, and their formats. In practice, there is no standardized complete budget calendar: only the dates of budget discussions are given. The calendar for budget preparation appears to be:

Table 4.1. Calendar for budget preparation for 2003

<table>
<thead>
<tr>
<th>Approximate date</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>June</td>
<td>Issue of call circular</td>
</tr>
<tr>
<td>End of June</td>
<td>Ministries submit budgets</td>
</tr>
<tr>
<td>July/August</td>
<td>Bilateral discussions with line ministries</td>
</tr>
<tr>
<td>1st week in Sept</td>
<td>MEPB/internal discussions</td>
</tr>
<tr>
<td>September</td>
<td>Submission of draft budget to State Treasury Board</td>
</tr>
<tr>
<td>Beginning Oct</td>
<td>Presentation to Executive Council</td>
</tr>
<tr>
<td>December (2nd half)</td>
<td>Presentation by Governor to Lagos House of Assembly</td>
</tr>
<tr>
<td>December</td>
<td>Defense before House of Assembly</td>
</tr>
<tr>
<td>January(^\text{iii})</td>
<td>Legislative approval</td>
</tr>
</tbody>
</table>

2. The call circular is sent to ministries, departments, extraministerial departments, and parastatals. Normally, the first 7–8 lines of the budget are standard items common to all ministries. Additional lines are given for items specific to particular ministries. The circular indicates the budget stance. For instance, the 2003 budget circular mentions the following:

- Continued government policies regarding poverty alleviation and sustainable development.
- Revenue outlook (moderate but with room for improvement).
- Need for capital expenditure to be tailored to complete ongoing projects. Criteria to be met by new projects are given.
- Requirement to justify expenditure commitments carried forward to the next year.
- The need to use virement rules judiciously.\(^\text{27}\)
- Announcement that the public sector budgeting module\(^\text{28}\) is to be used for budget preparation.

3. The budget is prepared in four parts: revenues, personnel expenditures, overhead expenditures (nonpersonnel recurrent expenditures) and capital expenditures. Thus, ministries and departments prepare their estimates in four parts and submit them to the

\(^{26}\) In most countries, the annual budget process is managed by the Ministry of Finance. In the State of Lagos, it is managed by MEPB. Budgets might be more realistic if the process were managed by MOF.

\(^{27}\) This refers to transfers of unused funds on one head to another head, for which more funds are needed.

\(^{28}\) Part of the Global Computerization Project.
relevant coordinating ministries—the 2003 estimates were prepared and submitted using the public sector budgeting module. The Ministry of Establishments oversees the preparation of personnel budgets. The other parts are the responsibilities of the Ministry of Economic Planning and Budget.

Figure 4.1 Budget components

4. Estimates for all the ministries and departments are sent by MEPB to the State Treasury Board. After consolidation, the estimates are sent to the Executive Council for consideration. The Executive can only spend to the extent that money is appropriated by the House of Assembly. The Governor normally, presents the budget proposal to the House before the beginning of the year by means of a budget address.

5. The Governor’s presentation is taken as the first reading of the appropriation bill. After the second reading of the bill, the proposals are referred to the Joint Appropriation Committee of the House, comprising the Finance, and Economic Planning and Budget Committees, for discussion. In addition to the Estimates, the Committee has additional information on the budget of each ministry in the form of a Budget Monitor. The commissioner for each ministry (or the head of each agency) appears before the joint committee with her/his top officials to defend the budget proposal. The committee asks questions on previous year performance, fulfillment of the government’s manifestoes and promises and the adequacy of budget funding. On the conclusion of budget defense, which could take up to a month, the committee presents its report to the committee of supply, that is, the committee of the whole house. A third reading of the budget bill is then made by the chair of the joint committee. The bill is then passed by the House, and a clean copy is sent to the Governor for his assent.

6. The MEPB conducts a post-budget meeting and publishes the budget. The passage of the Appropriation Act constitutes the legal authority for the Executive to spend in accordance with the approved budget. Supplementary budgets follow the same procedure. The approved budget does not cover the income and expenditure of revolving funds, trust funds, and donations for emergencies and other specially created funds.

7. The State contributes to the three-year rolling plans for Nigeria, which are prepared by a Federal Government agency, the National Planning Commission. Up to 80 percent of the annual State capital budget is derived from the Lagos State’s inputs to the rolling plans.

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29 This committee comprises the Governor, Commissioners for Finance, Works, Economic Planning and Budget (MEPB), Environment, Permanent Secretaries of the Ministries of Finance and MEPB, the Chief of Staff, Secretary to the State Government, the Head of Service, the AccGen, and the AudGen (State).
30 A Budget Monitor contains explanatory notes to the figures presented in the Estimates. It contains detailed information on and/or specification of the object of expenditures.
8. Extrabudgetary funds (EBFs) exist (Housing Fund, Pension Fund, Staff Vehicle Refurbishment Revolving Fund). Each EBF has a Board approved by the Governor and the guidelines for administering the fund. However, the size of these funds is not known, nor is the efficacy of controls over them. For instance, the AudGen made the following comments on EBFs in her 2000 audit report: “These highly abused accounts seemed to have gone totally out of control as the balances both debit and credit as per the attached schedule to the financial statements are quite different from the figures reflected on the financial statements.” The EBFs presents significant risks.

9. The weaknesses of the budget preparation process are:
   • Tendency to fund incremental increases based on the previous year’s budget rather than to move funds from lower to higher priorities.\(^ {31}\)
   • Separate budgets for capital and recurrent expenditures and failure to draw them into a closer relationship via multiyear budgeting, for example, a medium-year expenditure framework.
   • Concentration on financial inputs; weak consideration of the budget outcomes to be achieved.
   • Submission of budget to the legislature too late in the calendar year to enable the legislature to consider the budget properly before the beginning of the next fiscal year.
   • A budget preparation calendar that slips and is completed after the start of the financial year.
   • Lack of hard budget constraints for ministries and departments when they prepare their estimates.
   • Lack of realism in amounts budgeted.
   • Absence of strong MOF involvement in managing the budget.
   • Lack of relevant skills in ministries, resulting in inadequate planning and budgeting.

10. The first three bullet points refer to weaknesses often found in government budgets. The last six are more specific to Lagos State. The budget preparation exercise should start with a review of current revenues and expenditures, a forecast of the end-of-year outcome for the current year, an evaluation of the revenue outlook for the next year, and a full consideration of government policies. Major outcomes of this exercise are an indication of the likely envelope available for spending for the next year and any associated borrowing requirement.

**Budget Execution and Control**

11. Budget execution starts when the Commissioner for Finance issues a general warrant to the AccGen.\(^ {32}\) The AccGen then informs the spending agencies of their budget allocations, which empowers them to incur expenditure in compliance with the terms of the Appropriation Act. Spending agencies incur expenditure subject to guidelines issued by the MEPB. The AccGen controls disbursements and maintains government accounting records.

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\(^ {31}\) This is driven by the fact that the estimates submitted by ministries and departments are unrealistic. The budget circular normally requires that the increase in a department’s budget proposal may not exceed 10% of prior year’s budget. Many ministries and departments often ignore this rule.

\(^ {32}\) In the case that a provisional (temporary) budget operates, only a provisional warrant is issued.
12. Permanent Secretaries in spending agencies are designated accounting officers, implying that, besides their other administrative duties, ultimately they are responsible for the management of public funds and financial control within their own agencies. They may delegate these responsibilities to appropriately qualified staff, but ultimately they are accountable for these matters to the Public Accounts Committee of LAHA. They, therefore, are responsible for ensuring that suitable internal controls operate and that ministry staff comply with the law and with government procedures and regulations regarding the administration of public funds.

13. Vouchers are necessary for all government transactions. The Director/Head of Accounts in each ministry/agency ensures the preparation of payment vouchers, after which they are checked by internal auditors. If the vouchers are incomplete or contain discrepancies, they may be returned for correction. Otherwise, they are approved and passed as the basis of payment to the payee. Each month, ministries send their returns of expenditure to the AccGen, who aggregates them for government as a whole. In this way, annual statements are produced. The annual statement of accounts is forwarded to the AudGen (State), who audits and reports on the accounts and presents the audit report to the House of Assembly. The annual accounts then are published.

14. Expenditure control processes are adapted to the three major components of expenditure: personnel, overheads, and capital expenditure (figure 4.2).

**Figure 4.2. Components of expenditure controls**

**Personnel Cost Controls**
15. The Ministry of Establishments implements the personnel budgets. Salaries are prepared centrally at the state computer center. Instructions come from each ministry or department. Variations cover assumption of duty of new staff, approval of leave bonus, approval of allowances, promotions, and removal of staff from payroll. To be valid, the Director of Accounts (DA), the Director of Finance and Administration (DFA), Internal Auditors, and the Permanent Secretary of an agency must approve variation control forms. For instance, to be added to the payroll the following are needed: the letter of appointment—from the Civil Service Commission for grade level 7 and above, and from Establishment for grade level 01–06; the letter of assumption of duty authenticated by the chief accounting
officer; and the payroll input card. From these, a variation control form is prepared allowing data to be entered in the computer system.

16. The whole process is pre-audited. Staff numbers are assigned or issued by the computer center. The printouts, together with the pay-slips from the computer center, are sent to the Director of Accounts in the relevant department for verification. Next, the STO sends a check to cover the payroll. In turn, spending ministries issue payroll checks to their staff. Unclaimed wages are paid back to the STO. STO, the DA of the relevant department, and the Internal Auditor carry out payroll reconciliations at the end of the exercise. The payroll is currently prepared using a microfocus-COBOL software referred to as Legacy. A parallel run of the legacy and Oracle payroll system is in progress.33

17. Extraministerial departments such as the Post-Primary Teaching Commission and the Hospital Management Board’s payrolls are voluminous, and salaries often are paid late. The existence of significant amounts of unclaimed wages indicates a weakness in the system. Some unclaimed wages are due to leave, maternity, and similar events while some are attributable to gaps between resignations/terminations and stoppages of salaries.

**Overhead Controls**

18. Each ministry is self-accounting and has an Accounts Department with a DA posted from STO. The department is organized into three units—funds, central pay office, and final accounts—to ensure internal control. The department maintains two bank accounts on behalf of the ministry one for overheads and the other for salaries. Payment vouchers are raised, pre-audited, and sent to the State Treasury Office. The STO issues checks to the ministries. The ministry in turn issues checks to vendors. Payments to contractors in excess of N500,000 are made centrally by the AccGen’s Office.

19. The allocation of funds for the use of the ministries and departments for overheads is made using a procedure called Running Cost System, which was introduced in 1991 during the military period. Under the procedure, MEPB determines the standard items of expenditure common to all the ministries and allocates funds for them. The funds allocated usually are calculated as a fraction of the total budget figure shown in the approved budget. It is then the business of the accounting officers in each ministry or department to allocate available funds to items of expenditure. Main accounts—cash and vote books—are kept in the ministries and departments.

20. There are nine standard lines of recurrent needs, including transport, utility services, and stationeries. MEPB issues circulars establishing the levels at which authorization to incur expenses can be exercised.34 Apart from running costs, ministries make submissions to MEPB for authorization for procurement of services outside the standard lines.

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33 In May 2003, wages were being paid using the Oracle payroll module, while Legacy was still being used to pay pensions.
34 (a) ₦50,000 for all permanent secretaries and heads of extraministerial offices except Permanent Secretary, Ministry of Works, which has a limit of ₦100,000.
(b) ₦100,000 for all commissioners except Ministry of Works, which has a limit of ₦200,000.
(c) Sums over ₦100,000 (or ₦200,000 in case of Ministry of Works) are approved by the Governor subject to a limit of ₦5million in case of recurrent expenditure and ₦10million in case of capital expenditure.
(d) Over ₦5million and ₦10million, respectively, for the consideration of MTB and the State Tenders Board on the recommendation of the Governor. Once a global approval has been obtained from the Governor, any single contract above ₦100,000.00 is expected to be considered by the MTB before award is
Capital Expenditure Controls

21. The usual procedure for capital expenditure is for the initiating ministry to ask for the governor's approval to incur expenditure as stated in the budget. Once approval is given and the contract awards are made, payments are made by the Treasury subject to certification of jobs completed and the payment terms in the contract agreement. Payments actually made depend on the cash available at the time; weekly cash position is prepared for management use.

22. The Central Project Coordinating Unit (CPCU) of the MEPB is responsible for monitoring projects. Staff of this unit inspect projects from a buyer's perspective. For larger projects, the unit carries out physical verification of progress (along with staff of the implementing agency) before payments are made. Monitoring at each stage of payment allows reliable certificates of completion to be issued. The CPCU also monitors projects to ensure that money has been judiciously used. CPCU’s monitoring is in addition to the impact assessment of the project carried out with the assistance of professionals in the implementing agency by staff of MEPB.

23. Asset registers are kept in the ministries and departments for capitalized expenditures. Furthermore, there is a tally board in each office listing the items of furniture. All assets are expensed for in the year of purchase. The assets of each department are under the direct supervision of the chief accounting officer. Assets are disposed of after the sitting of a Board of Survey. The disposal of assets is the responsibility of the Ministry of Works on the recommendation of the relevant agency. The Permanent Secretary of the Ministry of Works chairs the Board of Survey, with representatives of the Ministries of Finance, Justice, and Public Service Office as members. The proceeds of sale are paid into the government account. The Oracle system, which is being implemented under the Global Computerisation Project, contains an asset management module. As part of the preparation of the module for implementation, draft asset management guidelines for the State have been developed for government’s consideration and approval. The guidelines are adequate. Inventory of assets also is in progress. The module has a potential to provide adequate information for a robust asset management in the State.

Main Issues

24. The system of budgetary control appears to be seriously defective. Expenditure can be incurred greatly in excess of what was approved despite the elaborate controls reviewed above. In the year 2000, excess expenditure was N2.64 billion. The worst offenders reported in the 2001 AudGen's report are shown in table 4.2.

<table>
<thead>
<tr>
<th>Ministry (or head)</th>
<th>Budget ($ million)</th>
<th>Actual ($ million)</th>
<th>Excess expenditure ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury</td>
<td>232.8</td>
<td>2791.4</td>
<td>1099</td>
</tr>
<tr>
<td>Housing</td>
<td>68.9</td>
<td>390.9</td>
<td>467</td>
</tr>
</tbody>
</table>

made. In addition, any single contract award above $5 million for recurrent expenditure must be considered and awarded by the STB. Direct labor jobs fall within tender board procedures.

35 The Global Computerisation Project will create new modules dealing with accounts payable and purchasing.

36 This means that there are no ledger accounts for assets, and they do not appear in annual financial statements.
24. The causes of the breakdown of the system of budgetary control appear to be:

- Inadequate accounting, which prevents accurate tracking of budget execution.
- Ineffective controls at the level of spending agencies, resulting in excess expenditures and failure to penalize those who transgress.
- Lack of appropriate action during budget execution (for example, lack of supplementary budgets to authorize excess expenditure).
- Divided responsibility for budgetary control (MOF, MEPB, Ministry of Establishments, and line ministries), which requires better coordination.

26. The AudGen's Audit Reports refer to several signs of weaknesses in the overall budgetary control systems in some ministries and departments, including spending without a vote (that is, illegal expenditure); expenditures not supported with proper documents; payment vouchers not presented for audit; unretired payment vouchers; payment vouchers not stamped "PAID" as required by the FRs; cashbook not kept up to date or not written up at all; high mobilization fees paid to contractors (often approximately 70 percent) coupled with slow execution of the related projects – resulting in government funds being tied up unnecessarily; and failure to ensure that contractual fees/taxes are paid by the contractors or remitted to the appropriate government agencies.

27. The expenditure management process does not include arrangements for reporting performance and for rewarding departments for their performance. Departments are not required to produce regular progress reports comparing their inputs with outputs, and they are not rewarded for poor or good performance.

**Recommendations**

28. The following actions should be implemented:

- Develop a medium-term expenditure framework (MTEF).
- Prepare and publicly disclose an official budget calendar (recommended period: July to November).
- Sensitize LAHA members on new budget calendar and early passage of appropriation bills.
- Enact the appropriation act before the year-end, and distribute budget allocations to spending agencies no later than 31 December.
- Enact timely supplementary budgets to obtain the necessary approval for excess expenditures.
- Ensure that disciplinary actions are taken against those responsible for large excess expenditures.
- Review the expenditure approval process with the aim of ensuring that transaction-processing activities do not unduly affect top public officials’ attention to strategic issues.
- Introduce departmental performance measures and regular performance reporting, and institute a system for rewarding poor and good performance.
29. Additionally, the Government should review the three-part expenditure budget (personnel, overheads, and capital expenditures) and the divided responsibilities for budget coordination to assess its advantages and disadvantages, and rationalize it, as appropriate.\textsuperscript{37} 

\textsuperscript{37} The Government has indicated that it wishes to retain the current arrangements. However, it will review the roles and how they are performed to ensure better coordination, especially between MOF and MEPB.
Chapter V. Treasury Operations, Accounting, and Reporting

Treasury Operations
1. The AccGen is the Chief Accounting Officer of the receipts and payments of the government. The State Treasury Office (under the AccGen) is responsible for cash management. The State keeps its funds in many bank accounts. Thirty-six (36) banks are being used, and at each bank several accounts are maintained. Accounts for expenditures and revenues are maintained in 14 banks while only revenue accounts are kept in the other banks. In her 2001 audit report, the AudGen (State) reported problems arising from delayed completion of cash books and bank reconciliations—sometimes handwritten, unsigned, and in arrears for as much as six months.

2. The State also maintains some bank accounts overseas. The accounts are held on behalf of the government by the Crown Agents, UK. Balances in these bank accounts have remained the same over the years suggesting that there were no deposits, withdrawals, interests, or charges on these accounts. The AudGen (State) has mentioned in the 2000 audit report, for instance, that she is not able to authenticate the balances on the accounts.

Main Issues
3. While using several banks may respond to issues of geographical convenience, it also creates the following difficulties:
   • Need to maintain many cashbooks and carry out many bank reconciliations. The failure to carry out these tasks properly leaves government open to the possibility of fraud.
   • Difficulty of ascertaining the exact cash position of government and of effective management of the totality of its cash resources because balances are held in so many accounts. This problem is mitigated by using an external consultant to obtain the information on a relatively timely basis.
   • Problems of integrating debt and cash management (without a single State Treasury account, there is always a danger of borrowing unnecessarily).
   • Reliance on many banks some of which cannot provide a service of the standard needed by government (raising issues of financial integrity and control).
   • Risk of loss of public funds if some of the banks become distressed.
   • Excess bank charges paid to banks.

4. The other weaknesses in the Treasury management system include:
   • Low interest received on some special deposits. The AudGen observes in her report that there seem to be no clear-cut principles or policies on deposits with banks.
   • Lack of proper up-to-date records of overseas bank accounts.38

Accounting systems and procedures
5. A cash accounting system is used. This is supplemented by vote books, which

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38 The accounts need to be updated for bank charges, interests, etc.
spending ministries use for budgetary control purposes. The main accounting records are the cashbook, check register, Treasury receipts register, and vote book. Spending ministries maintain their own bank accounts. The Treasury makes monthly transfers to two main bank accounts: running costs and salaries. Ministries draw checks on these accounts and send expenditure transcripts to Treasury each month. Treasury brings these transcripts together in order to report monthly, quarterly, and annual expenditure. The Treasury, therefore is, responsible for periodic reporting and for the main government accounting processes.

6. Under the Global Computerisation Project (GCP), the government acquired Oracle Enterprise Resource Planning (ERP) software in 2000 and began implementing it to automate its business processes. The ERP has 9 modules namely: General Ledger, Accounts Receivable, Accounts Payable, Cash Management, Public Sector Budgeting, Human Resources, Payroll, Fixed Assets, and Purchasing. Two additional oracle modules, namely, Treasury management and inventory management, were acquired by the State in 2003 under phase II. A business manager is appointed for each module. In addition, there are project champions who are graduates of computer science or engineering. Selected staff of various ministries and agencies were deployed to the GCP in March 2001 as business managers to receive training and to form part of the Oracle Implementation Team in each module, as appropriate. They since have been receiving extensive training. All ministries and departments also are receiving user training.

7. The General Ledger and Public Sector Budgeting modules already are being used while the other modules are expected to be operational soon. Currently, actual transactions are entered directly into the General Ledger Module. However, as soon as all the modules become operational, the General Ledger module will accept data from the Accounts Receivable, Accounts Payable, and Purchasing modules.

8. The General Ledger is based on a chart of accounts with 7 segments and 27 characters. It is designed to enhance the reporting capability. The chart covers funds, ministries, directorates, sections, locations, programme/objectives, and accounts list. The chart of accounts is constructed as follows:

<table>
<thead>
<tr>
<th>Table 5.1 Oracle-based Chart of Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of characters</strong></td>
</tr>
<tr>
<td>Fund</td>
</tr>
<tr>
<td>Legal entity</td>
</tr>
<tr>
<td>Directorate</td>
</tr>
<tr>
<td>Cost center</td>
</tr>
<tr>
<td>Location</td>
</tr>
<tr>
<td>Objective/program</td>
</tr>
<tr>
<td>Accounts list</td>
</tr>
</tbody>
</table>

9. The general ledger module is now operating. The public sector budgeting module was used for preparation of the 2003 budget. The new system is primarily cash-based, but it logs commitments against budgets. It is a web-based system in which the main ministries are cabled to network servers. At the time of the assessment, nine ministries are connected but

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39 Transfers with respect to running costs are based on vouchers received by the Treasury from the spending ministries. The vouchers are checked before transfers are made.

40 This is a global system only in the sense that it applies to the whole of Lagos State Government operations. Implementation of the project is being supported by Transnational Computer Technology.
the number of active terminals is quite limited. The remaining 38 ministries/entities are to be connected in the second phase. Ministries currently unconnected are expected to enter their data at computer centers. The system is expected to generate the 2002 financial statements within the statutory time period.

10. This project has the potential to be of immense value to State of Lagos. To have initiated and gone so far in so little time are major achievements. However, the project is far from complete. At present, only a few ministries are networked. The number of PCs installed is very small. As a result, much data entry is still in batches weekly, that is, not in real time. Several modules are not yet operational. The following are considered vital to the success of the new systems:

- Retaining trained staff, training new staff, and additional training both local and overseas for existing staff so that they can fully unlock the potential of ERP.
- Providing all hardware requirements (an additional 2500 personal computers are said to be needed).
- Making adequate arrangements to maintain systems and hardware to ensure that breakdowns can be addressed promptly.
- Continuing commitment by the political leadership.
- Constructing a purpose-built center for well-coordinated administration of the computer system.
- Establishing an organizational and management structure for the system, which adequately reflect the Government-wide nature of its operations.

Main Issues
11. The accounting system exhibits some weaknesses. In some ministries, cash books are not kept up to date or not written up at all, bank reconciliations are in arrears, and the accounting staff sometimes lack the required skills. Monthly reporting is intermittent, and the annual accounts are subject to significant audit criticisms. For instance, there are observations concerning stagnant fund balances in the main ledger—suggesting that the figures may not be up to date—and nonreconcilable differences between consolidated fund balances and the relevant bank accounts. Delayed submission of financial statements is a further weakness and the quality of financial record-keeping is capable of considerable improvement. The next chapter provides more detail on audit criticisms.

Financial reporting
12. The most recent financial statements are those for the year 2001. They are published as a separate volume each year and also as appendices to the annual report of the AudGen. They are produced from entries into the GL module (or from transcripts sent by ministries prior to the introduction of Oracle). The Treasury consolidates the figures. The financial statements appended to the most recent audit report have been prepared using Oracle, except for Statements 8, 9, 10, and 12. Each Statement is signed by the AccGen. They are:

(1) Assets and Liabilities.
(2) Consolidated Revenue Fund.
(3) Capital Development Fund.
(4) Recurrent Revenue.
(5) Recurrent Expenditure, including personnel and overhead costs.
(6) Consolidated Revenue Fund Charges.
(7) Capital Receipts for the period.
(8) Capital Expenditure for the period.
(9) Investment in Companies.
(10) Loans to Corporations/Parastatals.
(11) External Loans.
(12) Commercial Loans.
(13) Staff Housing Scheme.

13. Monthly information on revenues and expenditures is published in the Official Government Gazette, but not regularly. The AudGen gives an opinion on the annual financial statements. In recent years, they have been qualified: the financial statements of Lagos State give a true and fair view subject to audit observations and qualifications. Some of the required financial statements (for personnel cost, overheads and grants, and subventions) are not available. Some of the audit observations are quite serious: a technical “breakdown of financial law and order” due to the use of outdated financial regulations; cash books not written up and balanced; and bank reconciliations not carried out.

Main Issues
14. The following is an assessment of the annual financial statements against conventional criteria:

- **Reliability.** The Auditor-General’s opinion is that the financial statements represent a true and fair view, subject to audit observations. However, the audit observations are serious (box XX). The link between accounting records and financial reports appears to be weak. Given the early stages of development of the new computerized accounting system and significant adverse audit findings, it seems probable that the financial statements do not present a true and fair view.

  **Box 5.1 Auditor General’s Observations on Figures in the Financial Statements**

  The AudGen’s observations on many figures on the financial statements call into question the credibility of some of the statements. The AudGen has been critical of the incompleteness of the financial statements and incorrectness of some figures included in the statements. "The revenue cash books were not reconciled at all. There were palpable inadequacies in the main ledger and completeness of the accounts in the ledger could not be ascertained by audit" (Report of the Auditor-General on the 2001 accounts, p ii). The AudGen also noted in the 2000 audit report that the carrying figures of government investments in stocks and shares held on behalf of the Government appear inaccurate and unreconciliable with the supporting schedules. It is worth noting that dividends have not been paid on the stocks and shares held by Government for some years.

- **Standards.** Accounts are prepared on a cash basis but some statements contain reports of assets—investments, deposits, and advances—and liabilities. The basis of the financial statements should be explained and reference made to applicable accounting standards and accounting policies actually adopted.

- **Adequacy.** The financial statements are designed for general accountability purposes, but they are inadequate for these purposes. They omit much relevant information (for example, contingent liabilities, status of loans made to parastatals, make-up of capital expenditure between real and portfolio expenditure). It is not clear whether the statements of annual expenditure can be relied on as a guide to budget execution.

- **Timeliness.** There have been late submissions of financial statements to the AudGen. Lately, the situation has improved significantly. The 2000 financial
statements were submitted 6 months after the due date. Prior years were submitted years after the end of the relevant fiscal year. For the first time in recent years, the 2001 financial statements were prepared and submitted to the AudGen (State) before the due date. 41

- **Reader-Friendliness.** The meaning of most of the published financial statements is extremely obscure. The focus is on publication, not communication. They appear to contain meaningless figures inherited from the past.

- **Relevance.** The annual financial statements are produced for public accountability purposes. It is doubtful whether anyone reads them for this or any other purpose, as they are not well adapted to the needs of readers (huge figures reported to the nearest Kobo, complete lack of explanation).

15. Given the above weaknesses in the financial statements, there is an urgent need to improve their quality, reliability, and relevance, and presentation.

**Records Management**

16. Records are managed in accordance with the FRs and are kept for a minimum of seven years. Payment vouchers are generated for all financial transactions. These are sent to the Treasury as part of the payments process. However, because of payment limits, only those within ministry’s/department’s competence are returned to the spending agency. All other records are kept by the Treasury, which provides copies to the agencies concerned. Payment vouchers in the custody of the agency are filed on a monthly basis by type. The agencies hold enormous amounts of documents, and offices are littered with papers. Usually, filing starts with the use of filing cabinets. When these are full, available spaces around the office gradually are taken up. In some agencies, fireproof cabinets are available for the preservation of sensitive and very valuable documents. A Board of Survey is constituted before documents can be destroyed. It appears that many records management procedures are lacking and that access to past records is often difficult and sometimes impossible.

**Recommendations**

17. Review of banking arrangements with a view to providing answers to the following questions:

- Could State of Lagos operate more effectively using fewer commercial banks?
- Do the current banking arrangements facilitate or hamper cash management?
- What advantages would there be if a Treasury system were introduced (single Treasury account operated by Treasury; Treasury to carry out disbursement functions on behalf of spending agencies; Treasury to pay salaries)?
- Introduce electronic records management system so that records can be maintained online and in back-up CD-ROMs instead of piles of paper in filing cabinets.

The aim would be to develop a streamlined cash management system in which subsidiary bank accounts are frequently and automatically cleared to main bank accounts and in which fewer banks and bank accounts are used so that cash management and central control are facilitated.

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41 It is understood that up-to-date financial statements were necessary for Stock Exchange purposes in connection with the 2nd Lagos State Floating Rate Redeemable Bond and that the 1997, 1998, 1999, 2000, and 2001 accounts were published in a short time before issue.
18. Implement the following measures to make accountability more effective:
   • Present fiscal information in a manner that clearly identifies the planned and actual budget surplus or deficit.
   • Clean up the book of accounts by writing off all stale balances that have been carried in the books for years.
   • Revise the format of financial statements so that they are:
     o Clear (for example, apply and disclose relevant accounting standards, and explain individual statements)
     o Up to date (for example, bring historical figures up to date).
     o Comprehensive (for example, include up to date information on personnel costs, overheads and grants, loans and guarantees).
   • Publish a list of the key fiscal documents with indicative contents and expected publication dates. The documents include financial statements, budget, AudGen’s report, LAHA’s report on budget.
   • Release fiscal information on time on the expected publication dates.
   • Ensure that information placed in the public domain is comprehensible and self-explanatory and made available to the public by whatever means available (both via the web and in hard copy).
   • Build the capacity of PAC and its staff.

19. With respect to computerization and records management, carry out the following actions:
   • Review the global computerization project to ensure that it will within the shortest time make it possible to track the expenditures of spending agencies against figures approved by the State House of Assembly.
   • Support the global computerization project through:
     o Training staff (ongoing under the Oracle Users’ Learning Adoption);
     o Providing hardware (an additional 2500 PCs to be procured) and other infrastructure.
     o Implementing adequate procedures to maintain systems and hardware.
   • Establish a warehouse for archiving documents.
Chapter VI. Audit, Public Accountability, and Fiscal Transparency

Internal Audit and Control
1. A central internal audit unit is located in MOF. It is responsible for posting internal auditors to ministries. It reviews internal audit reports and issues internal audit guidelines in the form of circulars. The financial regulations determine the scope of internal audit. Each internal auditor is responsible to the Accounting Officer of the agency in which s/he serves. In larger agencies, there are internal audit units headed by chief internal auditors. In others, there are senior internal auditors. In all, there are as many as 100 internal auditors located in 47 agencies. Most internal auditors are on grade levels 8–9. The nature of work done by the auditor varies with the type of agency. It includes prepayment audit, and verification of revenues and fixed assets. The guidelines issued by the central internal audit unit require internal auditors to carry out both pre- and post-audits. Difficulty is experienced securing good quality staff to perform these duties at current pay levels.

2. All payment vouchers are pre-audited before payments are made. The purpose of this audit is to ensure that proper approval is given and that funds are available for the expenditure. Payment vouchers that have been prepared without adherence to procedures are queried, and they remain unpaid until the queries are cleared. Copies of queries go to the accounting officer of the department and the Director of Audit at MOF. Audit reports are sent to both the accounting officer and the Director of Audit.

3. The present system has elaborate controls, at least in principle. In spending agencies, the accounting officer has nominal responsibility. For government as a whole, the AccGen has a range of responsibilities. But who owns these controls? Working within the financial regulations and carrying out one’s duties certainly provides a basis for internal control. For it to become more effective, managers (with support from internal auditors) will have to regularly consider their internal control systems and make amendments when weaknesses are found. They will have to regularly check the performance of key tasks such as bank reconciliation and ensure that correct performance takes place. At present, such tasks may or may not be carried out. Clearly, managers must take a far more active role with regard to internal controls and be accountable for their effective operation.

4. Internal control weaknesses exist primarily under circumstances in which:
   - There are no standards established or standards are obsolete, for example, the current FRs.
   - The standards are not adhered to, and/or;
   - No sanctions are imposed for noncompliance.

5. Another weakness is the shortage of FM staff. The shortage has resulted in breaches of internal controls. For instance, 1 officer may be required to perform the job of 3 officers. In this way, 3 distinct processes, which normally would be segregated, come under the control of 1 person. Even lack of adequate office accommodation may lead to the same problem. Officers who normally would perform tasks independently of one another find themselves sharing one office. Collusion and fraud may occur.

6. The Inspectorate and Compliance Directorate of STO performs an important control
function. It is responsible for (i) visiting ministries during the year to review their books to ascertain compliance with regulations and any code/rule issued by the STO; (ii) investigating frauds in ministries; (iii) appointing the boards of survey at the end of each year to ensure that each ministry closes its books on the due date. Nevertheless, many ministries are in arrears in the reconciliation of bank accounts and the closure of accounts. Although the level of compliance on closure of accounts has improved, the current level of compliance (80 percent) is still inadequate.

Main Issues
7. Internal auditors are considerably too junior to the accounting officers to whom they report. Additionally, their career progress and professional development are determined largely by the ministries to which they are posted. Consequently, internal auditors lack independence, and their effectiveness is often in doubt. Other typical problems for internal auditors are the limited nature of their training and the limited extent of remedial action on their findings. Given a large focus on prepayment by most internal auditors, the normal modern functions of internal audit, which include evaluating risk management, internal control, and governance processes, are not given attention. Thus, internal audit is largely a policing function with inadequate added value.

8. The current FRs provide obsolete control standards. Furthermore, in cases of noncompliance the sanctions prescribed in the FRs are not applied. Managers do not own the controls in ministries and departments: there is little evidence of their active interest in the review and modification of the control systems for which they have responsibility. Many ministries are not diligently performing basic control activities, such as prompt bank reconciliation and timely closure of accounts. The problem is compounded by shortage of FM staff.

9. However, the fundamental problem is that internal auditors are ignored because accounting officers, as vote holders, do not take their responsibilities seriously. This reality, in turn, is a reflection of the culture of financial management within the LSG, and the failure of MOF to ensure financial discipline across government: by disciplining errant accounting officers; ensuring follow-up of audit queries and end-of-year findings, and sanctioning departments that fail to produce timely annual accounts, are late with fiscal reporting, and keep their cash books poorly and do not reconcile them with bank statements. The controls exist, and the relevant posts are filled, but there is a lack of will to make the control system work. Managers do not demand control systems which work because the accounting officer at the top has not stressed the importance of financial management. This lack of a culture of accountability has resulted in a soft system.

External Audit
10. The AudGen (State) works within the constitutional and the legal framework provided by Section 125 of the 1999 Constitution and chapter 12 of the Audit Law of Lagos State. Appointment is by the Governor on the recommendation of the Civil Service Commission. The recommendation is confirmed by the State House of Assembly. Termination of office is regulated by the Constitution. Although the AudGen (State) submits her report to the State House of Assembly, she is not subject to the control of either the legislators or any other authority or person in the performance of her duties. This lack of control gives her sufficient freedom in deciding what audit work to do and how it should be done. Examination of audit

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42 Some internal auditors conduct few post-audits.
reports reveals that she is able to report audit findings objectively and independently. She has discretion to limit the audit of individual transactions when audit seems sufficient, so there is no requirement to perform audits of 100 percent of transactions when good judgment suggests otherwise.

11. The OAG receives budget call circulars from the MEPB, and participates in the budget process in similar manner as government departments and ministries. As shown in table 6.1, the approved budget of the AudGen is often approximately 50 percent of the original request; and in recent times, only three-quarters of the approved budget is released during the year.

**Figure 6.1 Funding of the OAG (State)**

![Office of the State Auditor-General: Budget vs Actual (N'000)]

12. The Civil Service Commission takes decisions about recruitment of auditors as it does for other civil servants. In 1999 the staffing situation was poor: there were only 22 auditors and none of them (save the AudGen herself) was professionally qualified. By 2003 the situation had somewhat improved: the staff strength has risen to 74 auditors, including 5 members of the Institute of Chartered Accountants of Nigeria. However, there is no comprehensive professional training program for staff.

13. Directorates and sections of the Auditor-General's Office exist for the audit of State Government Accounts, including the accounts of ministries and offices; listing auditors suitable to act as auditors of parastatals; advising on fees to be paid; receiving the reports of these auditors; project monitoring and evaluation, including visiting contract sites; determining the level of work and verifying degree of completion certificates issued by site engineers; Systems Audit; and Investigations and for the audit of Revenues and Pensions.

14. The legal requirement is for the AccGen to submit annual financial statements within 6 months of the fiscal year-end. This deadline was not met until recently. As already mentioned, up-to-date financial statements were necessary for Stock Exchange purposes in connection with the 2nd Lagos State Floating Rate Redeemable Bond. As a result, the State's annual financial statements are now timely. However, they remain inadequate for reasons already discussed.

15. Presently, the types of audit carried out are:
   - Financial/compliance audit.
• Pensions Audit (pre-payment audit).
• Project Audit (primarily financial/compliance).

16. Audit planning begins with the preparation of monthly and quarterly audit programs. The audits are carried out using a checklist. On the conclusion of audits, auditors discuss issues arising from the audit with the Accounting Officer of the ministry/department concerned. Draft audit paragraphs are submitted to the appropriate audit directorate, which vets them and passes them on to the AudGen (State) for action including possible inclusion in the annual audit report.

17. The AudGen (State) has the statutory obligation to certify the accounts of the State Government, but the contents of audit reports are at her discretion. Audit reports repeat the same points year after year, for example:
- Excess expenditure without proper authorization;
- Indifference to audit queries;
- Late submission of accounts.

18. The AudGen (State) places little or no reliance on internal audit reports, which are believed to be compromised by lack of objectivity/independence. Furthermore, internal audit reports are received infrequently. All government ministries/departments as well as 10 parastatals are audited by the AudGen (State). For the remaining parastatals, the AudGen (State) reviews financial statements (once they have been audited by private sector auditors) and includes observations on the statements in her audit report. Unanswered queries are included alongside other audit findings in the audit report and submitted to the House of Assembly each year.

Main Issues

19. The independence of the Auditor-General, that is, the head of the State Audit Office, stems from the Constitution. In some respects, however, the Office lacks independence. The AudGen does not have the freedom to recruit staff. In addition, inadequate funding of the Office seems to impact on the effectiveness of audit. For instance, the Office is not able to acquire all the facilities necessary for effective functioning.

20. The OAG lacks the capacity to audit the Oracle-based accounting systems.\footnote{Arrangements are in place to train staff from OAG. Some are being sent for computer audit training while others have been part of the Oracle team from inception.} Substantial capacity building is required.

21. If irregularities are discovered during audit, audit observations are drafted and sent to the ministry/department responsible before audit reports are finalized. In case of theft or serious misuse of funds, the perpetrators may be prosecuted. Ministries, however, frequently fail to respond to audit observations, and this has an adverse effect on remedial action.

Parliamentary Oversight

22. The House of Assembly performs oversight roles over government finances as regards budgeting, borrowing, and evaluation of government accounts and audit reports as provided in the 1999 Constitution. The Public Accounts Committee (PAC) carries out the last of these roles. It comprises 9 members, 8 of whom are from the ruling party.\footnote{The House comprises 40 members, of whom 39 (36 at the time of the field work) are from the ruling party.} It is chaired by a
member of the ruling party. The Committee examines the Auditor-General’s report on the
government accounts. The auditor's report normally is submitted directly to the Speaker of
the House, who forwards it to PAC for consideration on behalf of the House. Currently,
PAC is considering matters arising from the year 2000 accounts.

23. The Committee normally asks accounting officers to attend question-and-answer
sessions to answer questions on public accounting issues on behalf of their ministries. The
AudGen (State) also is invited to attend in the capacity of a consultant to the Committee.
Committee meetings are open to the public and the press. At the conclusion of its sittings,
PAC prepares a report and tables it before the Committee of the whole House. The report
highlights major issues arising from its hearings and includes recommended actions. The
report also is sent to the Executive for action.

Main Issues
24. Clearly, some aspects of the above arrangements are suboptimal. Normally, the PAC
Chair should be appointed from the Opposition party to enhance the accountability of the
party in power. The PAC is dominated by the ruling party—this seems inevitable given the
current legislative strength of that party. However, other correctable matters (such as the
technical capacity of the committee and the lack of a formal mechanism for determining the
extent to which the Executive has implemented the recommendations of the Committee)
adversely affect the effectiveness of PAC.

25. Another issue is the delayed nature of PAC review. To some extent, this delay reflects
the time needed to submit and audit accounts, and the time is becoming shorter. The fact
that PAC was considering accounts of several years submitted under the military era, two
years into the civilian administration, illustrates past delays in the accountability process,
which hopefully will be less serious in future. PAC currently is working on the more recent
accounts.

26. There is lack of adequate follow-up on the findings and recommendations of PAC.
The Government does not have a systematic arrangement for ensuring that PAC findings
and recommendations are acted on by the ministries/agencies. In addition, there is no
feedback to PAC on actions that have been taken on its recommendations.

Fiscal Transparency
27. Fiscal transparency aims to make public the essentials of FM so that informed public
opinion can play its part in shaping government decisions and actions. Without this, there is
the danger of managing public finances behind closed doors and without recourse to
relevant information. There also is the possibility of misuse of funds and waste.

Main Issues
28. To be transparent is not a natural occurrence but is the result of implementing chosen
policies. In the case of State of Lagos, it is true that documents such as the annual estimates
and the AudGen (State)'s report are available to the public once they have been laid before
The State House of Assembly. However, the underlying question is: Do policies exist to
ensure that the messages contained in key fiscal documents are disseminated so that they
reach as wide an audience as possible? On this criterion, State of Lagos is relatively
nontransparent given that:

- It does not publish a list of the key fiscal documents with indicative contents and
  expected publication dates.
- It often releases fiscal information late.
• It makes insufficient effort to ensure that the information made public is comprehensible and self-explanatory.
• It relies on dissemination in printed form, and many key documents are not, in a meaningful sense, available to the public.

Recommendations
29. Improve internal audit function by:
   • Developing and issuing an internal audit charter based on modern internal auditing practice.
   • Incorporate modern internal audit functions in the new FRs.
   • Recruit professionally qualified internal auditors.
   • Develop a comprehensive capacity building program for internal auditors, including training in modern systems based audit techniques and computerized systems audit.

30. Strengthen external audit arrangements in these ways:
   • Provide greater staffing and funding independence for the Office of the Auditor-General.
     o Give the AudGen powers to recruit staff directly on the basis of merit/qualification.
     o Make the salaries of staff of AudGen’s Office a direct charge on the consolidated fund in a manner similar to the Judiciary’s.
     o Establish an Audit Service Board to provide oversight on staffing and budgets of State Audit Office. The Board, which would be chaired by the AudGen, should have the following members: a former Auditor-General, a former Accountant-General, a former justice of the State high court, the most senior director from the AudGen’s Office, and a representative of the accounting profession, preferably a partner of one of the top four accounting firms. The Board should sit for no more than four times in a year. The compositions and detailed functions of the Board should be specified in the new audit law.
   • Require the AudGen to report separately on the accounts of parastatals.
   • Streamline the format and contents of the AudGen reports and ensure that they focus more on systemic weaknesses in control and performance issues.
   • Establish formal procedures for disciplining those responsible for major irregularities, late submission of accounts, and failures to answer audit queries; sanctions should be recommended either in the new audit law or in the new financial regulations.
   • Establish stronger links between the findings of the AudGen and the necessary corrective actions to be taken by revenue collection and spending agencies, and institute a strong coordinating and reporting role for MOF.
   • Establishing an Audit Committee in each ministry or agency to review AudGen and internal audit observations, coordinate timely and appropriate responses, and plan and oversee implementation of required actions.

31. Strengthen and Parliamentary oversight and make it more effective in these ways:
   • Ensure that PAC carries out its work in a timely way.
• Appoint the Chair of PAC from a member of the Opposition.\textsuperscript{45}
• Charge MOF and Ministry of Justice with the responsibility for acting on PAC’s findings, monitor remedial actions, and report to PAC on the progress achieved in implementing actions.
• Establish an electronic database for monitoring executive responses to findings/recommendations.
• Publish PAC’s reports on the review of audited reports and accounts.
• Introduce rewards for speedy responses to PAC findings/recommendations and penalties for delayed responses.
• Develop and implement a capacity building program for the members of PAC members with the aim of enhancing their performance.

\textsuperscript{45} The Government explained that this is not practicable under the current administration because the opposition has only one member in LAHA.
Chapter VII. Parastatals

1. There are 47 entities known as parastatals. Of these, 19 were established as state-owned enterprises (SOEs). The others are of an educational, environmental, or cultural nature:

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Educational</td>
<td>14</td>
</tr>
<tr>
<td>Environmental</td>
<td>7</td>
</tr>
<tr>
<td>Economic/Commercial</td>
<td>19</td>
</tr>
<tr>
<td>Sociocultural</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>47</strong></td>
</tr>
</tbody>
</table>

2. Those in categories A, B, and D are strictly extraministerial departments although all were brought into existence by edicts.

Governance Model

3. Most existing parastatals were established by edicts enacted during the period of military rule and published in the Official Gazette at the time these entities were formed. These edicts are assumed to have been adopted by the State House of Assembly when democratic rule was restored. The edicts provide for the governance of the enterprises through Boards of Directors, a Chief Executive Officer, and principal officers necessary for day-to-day management. The edicts require each entity to keep proper books of accounts and to undergo annual audits. These entities are required to conduct their affairs in a manner similar to private sector companies. Indeed, the pattern of governance is broadly the same except that the State replaces individual shareholders. At present, the Governor is responsible for the appointment of board members of parastatals, and his clearance is sought on important matters. Thus, the policies pursued reflect those of the party in power. Since 1999, most parastatals have had no boards. This lack of oversight has had a significant adverse effect on their governance.

4. For this assessment, three SOEs were visited (Lagos State Development and Property Corporation, or LSDPC; Lagos State Printing Corporation, or LSPC; and Lagos State Water Corporation, or LSWC). None of them has a board. One has a chair. Chief executives of two take directives directly from the Governor's office. Such governance arrangements are clearly defective. By edict, SOEs should be supervised at two levels: by the parent ministry and by the Parastatals Monitoring Office. The parent ministry is determined according to the sector in which a SOE operates. For example, the Printing Corporation operates in the general area of information; thus, the Ministry of Information is the parent ministry. In this way, the Ministry of Information can intercede for the Printing Corporation at the State Executive Council. The Governor must be able to monitor SOEs. To do this, the Parastatals Monitoring Office was established. It receives and analyses reports from these entities.

Budgets

5. State-owned enterprises receive budget call circulars from the MEPB. In response, accounts departments issue internal call circulars in respect of revenue, overheads costs, and capital expenditures. Consolidated budgets are formulated and submitted to MEPB. Subsequently, bilateral discussions are held on the proposed budgets. The process is similar to that for the State government.

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46 See appendix 4 for list.
to that which applies to ministries except that the amount appropriated for each SOE appears as one-line items in the published state budget.

6. In terms of financing, LSDPC is self-supporting. It raises its own funds for the execution of projects, but the State Government still guarantees its borrowing. However, the other two corporations receive assistance in funding capital expenditure. During budget implementation, in all matters relating to approvals, these entities use the same financial instructions as ministries. However, accounting is done on accrual basis and in accordance with Generally Accepted Accounting Principles (GAAP). Thus, the entities use the accounting standards set by the Nigerian Accounting Standards Board (NASB).

**Accounting and Financial Reporting**

7. As indicated, these entities use the accrual accounting basis, keep their books, and report their results using generally accepted accounting principles. They also conform to the Companies and Allied Matters Act (CAMA) 1990 with respect to disclosures.

8. The three selected entities have produced financial statements up to 2001. The financial statements have been audited by external auditors as required by the legislation establishing them, up to 2001. However, in the case of LSDPC, the Fixed Assets Register and bank reconciliation are in arrears and there were delays in paying receipts to bank. In the case of the Printing Corporation, there was no Fixed Assets Register and no General Ledger suggesting that accounts may have been prepared from incomplete records.

9. These entities have internal audit units that report directly to their Chief Executives. Professionally qualified accountants head these units. The main function of these units is to carry out pre- and post-payment audits, and they render monthly and annual reports to the supervising Ministries and to the Parastatals Monitoring Office. This function is taken seriously; reports are in written form.

**Financial Performance**

10. An analysis of their financial statements shows that these enterprises have not performed well. The return on capital employed would not justify their remaining in business if they had been private sector organizations. They are unable to pay dividends to the Government. Frequently, their capital expenditure is funded by the state. The entities submit their financial statements to the PMO. But PMO does not monitor their financial actions and results and does not publish an annual report on parastatal performance. Instead, it appears to be closely involved in decisions on their funding and capital expenditure programs. The financial relationships between State of Lagos and its parastatals are not transparent.

<table>
<thead>
<tr>
<th>Table 7.1 Review of the performance of selected SOEs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Latest available audited accounts</strong></td>
</tr>
<tr>
<td>LSDPC(^a)</td>
</tr>
<tr>
<td>LSPC</td>
</tr>
<tr>
<td>LASWC(^a)</td>
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</tbody>
</table>

**Main Issues**

11. The parastatal sector faces a number of serious challenges. These include inadequate funding—due to poor management, difficulty in providing needed services at reasonable

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\(^{47}\) PMO is under the deputy governor. In many countries, it is under MOF.
service levels, lack of commercial independence (from governor and from supervising ministries) and lack of profitability. In some cases the extent of computerization is very limited. The Governor has signaled the need to address these issues. A privatization scheme was planned based on a privatization report on parastatals but it has not been implemented. Of the three enterprises reported on above, LSWC is the most advanced in terms of its suitability for privatization.

12. Several weaknesses are apparent in this sector:
   - Most SOEs are unprofitable and dependent on State Government financing. Without a vigorous program of privatization and commercialization the resultant drain on State funds will continue.
   - The practice of supporting SOEs with guarantees disguises the extent of state funding and encourages dependency.
   - SOE governance arrangements are weak. SOEs should have fully manned working boards and far greater independence of Government.
   - The Parastatals Monitoring Office is not effectively monitoring SOEs as it does not report on their financial results and parent ministries have not carried out a strong enough monitoring role.

Recommendations

13. Improve the governance climate for parastatals; and enhance performance monitoring of parastatals through the following actions:
   - Enact a new SOE governance and FM law to provide for uniform governance, financial management and audit rules for SOEs.
   - Implement the actions recommended in the privatization report on parastatals.48
   - AudGen to review the audit regime for SOEs and other parastatals with the objective of ensuring high quality audits either by private or OAG auditors.
   - Strengthen PMO in terms of human and material resources. Its role should include, amongst other things, reporting annually on the annual reports, financial statements and financial statements of parastatals.
   - Appoint Boards of parastatals of significant size from those with relevant professional experience.

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48 These include extensive privatization of SOEs.
Chapter VIII: Local Government

Legal Framework
1. The administration of Local Government is governed by the 1999 Constitution; and the Local Government (Administration) Law, 1999. In the same year, the Office of Local Government Administration published Guidelines on Administrative Procedure for Local Government. These were revised in 2001. The legal authority for Local Governments therefore is up to date. The Local Governments are also expected to use the Financial Memoranda issued by the Federal Government in 1991.

The Constitution
2. The system of Local Government by democratically elected Local Government councils is guaranteed by the Constitution. Lagos State has 20 Local Governments. Based on the constitutional arrangements, Local Governments are to collectively receive a share of the Federation Account. Additionally, they are to receive 10 percent of the State IGR. Subvention from superior levels of government is necessary because IGR sources are relatively minor (rates on property, licenses, charges etc.). They are also to receive a share of VAT revenues but this is not mandated by the Constitution.

3. The main functions of a Local Government council are set out in the constitution. There are two lists. The first list contains the basic functions of Local Government, such as:
   - Management of homes for the infirm, markets and burial grounds.
   - Registration of births, deaths, and marriages.
   - Construction of roads, drains.
   - Control and regulation of local businesses.
   - Collection of local revenues.

4. The second contains a list of functions in which Local Government will participate with the State Government (for example, primary education, development of agricultural and natural resources (but not mineral resources), and the provision and maintenance of health services. This second list is in the nature of a concurrent list.

Local Government (Administration) Law, 1999
5. This law provides legal authority in areas such as the operation of Local Government councils, qualification and disqualification of councilors, offices of chair and vice chair, exercise of executive and legislative powers, Local Government service, observance of code of conduct, and revenue and accounts. The paragraphs on revenue and accounts are quite brief. They concern:
   - The State Joint Local Government Account (the constitutional requirements are reiterated).
   - Appointment and independence of an Auditor-General for Local Governments, or “AudGen (L.G.).”
   - Annual audit of accounts. The audit report is to be submitted to the Local Council within 6 months of the fiscal year-end, and access to records is granted.

6. Before the beginning of the year, the chair of the Local Government must prepare and

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49 This is contained in the Fifth Schedule to the Constitution.
lay before the local council an annual budget comprising estimates of revenue and expenditure. The council debates and approves the budget. It also may amend it. No monies can be withdrawn from public funds unless authorized by the council. The council may set down procedures for the imposition and collection of fees and charges.

Guidelines on Administrative Procedure for Local Government, 2001
7. These guidelines are issued under paragraph 32 of the aforementioned law. They contain substantive guidance in the following areas of the Local Government FM framework: (i) FM functions of the chair; (ii) the requirement to establish a funds management committee and the functions of the committee; (iii) duties of the treasurer; (iv) controls relating to award of contracts; (v) external audit of Local Government accounts, including the powers, responsibilities, and functions of the AudGen (LG); (vi) performance of management audit; (vii) internal audit arrangements; (viii) provision for the establishment of audit alarm committee and functions of the committee; and (ix) operational guidelines for accounting. Detailed information on this FM framework is provided in appendix 6.

Financial memoranda
8. There also is a 368-page manual known as Financial Memoranda, 1991.\(^{50}\) This also is in use where the above sources lack sufficient detail. It is understood that the financial memoranda (FMemo) are widely used in State Government. It is not clear whether they have been formally adopted by State of Lagos. Therefore, their precise status is unclear.

Interim arrangements
9. The above law and guidelines are not fully operational at the moment because in June 2002 Lagos State Government appointed transitional committees to oversee the affairs of Local Governments pending the election of political officeholders. A committee, established at the level of each Local Government, has 4 members, namely, Executive Secretary and 4 others. The purpose of the committee is to ensure that salaries and allowances are paid promptly, that other overhead costs are reduced to the barest minimum (not more than 10 percent of total revenue), and that no new capital project is embarked upon, although payment of verifiable debts can be made.

10. The Head of Personnel is to act as Accounting Officer. The Executive Secretary is to constitute a Finance and General Purpose Committee for the financial activities of the Local Government. Apparently, adherence by Local Government councils to the Local Government (Administration) Law, 1999 and related guidelines are at an early stage, with impacts yet to be demonstrated.

Governance
11. Normally, there is an elected Chairperson, a Vice Chair, and a Legislature. To enable the Chair to perform his/her duties, a number of Supervising Officers are selected from the political party that produces the Chair. The Chair, Vice Chair, Supervising Officers and the Council Secretary constitute the Executive Council. The Council conducts official business through a number of departments such as Personnel Management, Treasury, Planning, Budget and Statistics, Engineering, Agriculture, and Internal Audit. At the time of preparing this report, however, the Local Governments were run by caretaker committees appointed by the Governor.

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\(^{50}\) The Financial Memoranda were prepared in 1991 by a committee under the chairmanship of Professor J. B. Adewumi.
Budgeting
12. Normally, in September of every year, the Head of Planning, Budget and Statistics sends out a budget call circular to all heads of departments. The circular is copied to the Supervising Officers, as the budget proposals have to reflect political issues enunciated by the Chair of the Local Government. On receipt of proposals from the departments, the Head of Planning, Budget and Statistics collates the figures and invites each Head of Department to defend his/her proposals. After the defense, the budget proposal is presented to management under the Chairmanship of Head of Personnel Management for rationalization. The proposed budget is then presented to the Executive Committee for consideration and approval, and then for presentation to the Legislative Council. The Council chair then assents the bill that becomes the Appropriation Bye-Law. It is worthy of note that, in the last 10 months, there has been no elected Local Government. The Local Government budget for the year 2003 has had to be passed by the State House of Assembly.

Financial Control and Budget Monitoring
13. Arrangements for the control of the finances of the Local Government can be found in the Financial Memoranda 1991 (FMemo) and Administrative Guidelines for Local Government Transitional Committee. The FMemo provides that after the end of a financial year and before a new appropriation bye-law is passed, the council can spend up to 25 percent of the previous year’s expenditure budget to run its affairs. No capital project can be undertaken before the budget is passed. To ensure control, expenditure approval limits and approving authority are set as follows:

<table>
<thead>
<tr>
<th>Amount</th>
<th>Approval Authority</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to N50,000</td>
<td>Executive Secretary (interim arrangement) in the absence of an elected Chairman</td>
</tr>
<tr>
<td>Above N50,000</td>
<td>Finance and General Purposes Committee</td>
</tr>
<tr>
<td>Above N500,000</td>
<td>Referred to State Government.</td>
</tr>
</tbody>
</table>

14. On the revenue side, each Local Government receives allocations from the Federation Account through the State Government. The State Government makes some deductions that are difficult to explain before transferring funds to the Local Government. The nominal allocation from the Federal Government is noted as a memorandum by the Local Government. Only the actual receipts from the State Government are entered in the accounts. All revenues with the exception of small amounts are paid directly to the bank. Each payer is given a receipt when the bank accounts of the Local Government have been credited for the monies paid. The Councils normally collect Tenement Rates on residential properties. It is, however, noteworthy that this important source of revenue for Local Government has been taken over by the State Government.

15. The responsibility for monitoring the budget rests with the Head of Planning, Budget and Statistics. He checks all payment vouchers raised by heads of departments and confirms budget provision and proper authorization before passing such vouchers to the internal auditor for pre-payment check. He also ensures that a Departmental Expenditure vote book is kept. With respect to capital projects and supplies, the Head of Planning Budget and Statistics is the chair of the Pre-payment Inspection Committee while the actual award of contract is made by the Tenders’ Board under the chairmanship of the Chair of the Local Government.

Accounting
16. The basis of accounting in Local Government councils is cash. Typically, three main cashbooks are kept: payments, receipts, and combined. The last combines receipts and
payments. Its current balance is the most important indication of the Council’s liquid resources. The combined cashbook is to be reconciled with bank statements. In addition, a revenue cashbook is used to record the deposits to bank of revenue collectors working in the field. For transactions not involving the movement of cash, journals are used (for example, for correction of errors, transfers, and other adjustments). A ledger is used to summarize transactions under suitable heads. In addition the following books are kept:

- Departmental Votes Revenue Accounts Book
- Departmental Votes Expenditure Accounts Book
- Individual Advances Account
- Individual Deposits Account
- Individual Suspense Account
- Individual Register.

17. The accounting system, which is primarily manual, is used to produce monthly and annual statements of receipts and payments. The vote books are used specifically for budgetary control purposes. The books of accounts are in place, but they sometimes are not kept up to date. In the vast majority of Local Governments, monthly reporting is well established. Annual financial statements are required to be available by the end of the first quarter of the succeeding calendar year. In practice, few Local Governments comply with this deadline. Bank reconciliation is not up to date in many Councils. Most of the Councils have submitted their financial statements for the year 2002 to the AudGen (LG) although they have not been audited. In summary, there is some evidence of poor record-keeping, delayed bank reconciliations, and late reporting. Staffing problems (specifically lack of well-trained staff) are a likely cause.

External Audit

18. What is currently known as the Office of the AudGen (LG) initially was a department of the Lagos State Directorate of Audit. In 1989 Local Government Audit was carved out and became a separate entity. In essence, the external audit of Local Government is regulated by Lagos State Audit Edict 12, of 1968 and the statutes and memoranda listed in paragraph 1.

19. The responsibilities of the AudGen (LG) parallel those prescribed for the AudGen (State). The AudGen (LG):

- Has power to carry out audits of Local Government accounts.
- Has power to sanction and surcharge officers as stipulated in the guidelines governing offences and sanctions. Appeals against such decisions lie with the Finance and Appropriation Committee of the State House of Assembly.
- Is the Chair of the Local Government Audit Alarm Committee.
- Has access to the State Governor through the Governor’s representative on the Audit Alarm Committee.
- Notifies the Finance and Appropriation Committee of the State House of Assembly of audit alarms of significant importance.

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51 A notable exception is Ikeja Local Government, whose financial statements are timely and informative.

52 The Edict separates the responsibilities for the audit of State Government accounts from the audit of Local Government accounts. It provides for the appointment of an AudGen (LG). It defines the appointment, removal, retirement, powers, and responsibilities of the AudGen for Local Government. It contains similar provisions for the AudGen (State).
Nigeria: Lagos SFAA

20. The audit of Local Government accounts is several years in arrears. Audit reports usually include several pages of accounting reports. It would be preferable to omit this information, to restrict the report to audit findings, and to attach the auditor’s certificate (opinion) to the annual financial statements of each Local Government. It was noted that the AudGen (LG) has only two qualified accountants on his staff. There also is evidence of under-funding (for example, lack of resources with which to print audit reports). It is noteworthy that in 2002 the Office of the AudGen (LG) prepared a guide to its audit programs.

Main Issues
21. The notable findings are:

- Vote books sometimes are kept inadequately (for example, lateness in making entries, wrong coding of expenditure, lack of attention to available balances, lack of supervisory checks). This inadequate record-keeping leads to poor budgetary control. Keeping vote books current and accurate is a necessary tool to prevent overspending.

- Sometimes banking revenues (below N2000) also is delayed. Therefore, the rule regarding the immediate banking of revenues of over N2000 limits the extent of loss. Revenue collections are poorly supervised, thereby offering opportunities for diversion of revenues. Cashbooks sometimes are in arrears and unreconciled with bank statements. Revenues should be well controlled and deposited in bank accounts in their entirety without delay.

- The approval system and the authority limits for expenditures normally are followed. Monitoring by the Ministry of Local Government and Chieftaincy Affairs is effective, but abuses may occur (for example, splitting contracts).

- In Local Governments in which Treasurers hold relevant professional qualifications, sound internal control systems are possible and more likely. The same pattern holds true for internal audit units, but relevantly qualified internal auditors are scarce in Local Governments.

- In some Local Governments, Treasury staff were seen to handle financial functions that normally should be separated, leading to the possibility of inadequate internal controls.

- Internal auditors tend to rely on oral questions and answers, which leave inadequate records of their work.

- New internal audit guidelines were issued in January 2002 with beneficial results showing in more comprehensive and uniform internal audits.

- Most supporting staff in Treasury departments do not hold relevant qualifications.

22. The above issues are compounded by the weaknesses in the external audit arrangements, such as:

i. Audit queries often remain unanswered. Ordinarily, responses to inspection reports and audit queries are to be made within eight weeks of submission of the financial statements.

ii. Audit reports typically are delayed by as much as five years, in some cases, longer. In early 2003, the available audited financial statements were for 1997.

iii. The OAG (Local Governments) is under-funded and inadequately staffed.
Recommendations

23. Strengthen the financial management and accountability of Local Governments by:
   • Reviewing and amending, as necessary, the "Financial Memoranda" applicable to Local Governments, and adopting them as the financial regulations for Local Governments in Lagos State.
   • Making financial transfers to Local Governments transparent. The amounts to be transferred and the amounts actually transferred via the State Joint Local Government Account to Local Governments should be publicly disclosed and audited by Auditor-General and reflected in the statement of accounts at end of the monthly Local Government allocation meeting. Details of disbursements to each Local Government should be made public in the same manner as done at the Federal level, after Federal Allocation Committee (FAC) meetings.
   • Improving the External Audit Arrangements for Local Governments
     o Clear audit arrears and submit audited accounts to PAC
     o Put in place necessary staffing and funding to ensure regular and timely audit of LG accounts.
     o Establish a formal process for ensuring that the recommendations of AudGen (LG) and PAC are implemented by Local Governments.
   • Improving financial management staffing in Local Governments.

24. Additionally, the Government should review the two offices of the Auditor-General to provide answers to the following questions:
   • Is it really necessary to divide the external audit resources into two offices? Do the current arrangements lead to suboptimal use of audit resources?
   • Can synergies be obtained from merging the Office of the AudGen (LG) with the Office of the AudGen (State), and a department charged with the audit of Local Government accounts in a new Lagos State Audit Office?
   • Can the accountability arrangements for Local Governments be improved by merging the Office of the AudGen (LG) with the Office of the AudGen (State)?
Chapter IX. Summary of Risk Assessment

1. Risk is unavoidable and ubiquitous. Risk is the uncertainty that surrounds future events and outcomes that can potentially impact on an entity. In the case of the State of Lagos, the risk arising from the outside environment is assessed as high.\textsuperscript{53} Given such an environment, strong controls are necessary to prevent wrongful use of public funds. In reality, controls are quite weak, leaving dangerous gaps in FM and accountability systems. Therefore, the overall risk to public funds is assessed as high. An attempt is made below to identify specific financial risks and to express their likelihood and impacts.

Table 9.1 Risk Assessment

<table>
<thead>
<tr>
<th>Risk</th>
<th>Source</th>
<th>Effects</th>
<th>Impact</th>
<th>Likelihood</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incomplete documentation, and erroneous</td>
<td>• Lack of up-to-date public finance legislation and FRs.</td>
<td>• Staff lack knowledge of official financial procedures.</td>
<td>Significant</td>
<td>High</td>
</tr>
<tr>
<td>financial actions</td>
<td>• Scarcity of copies of FRs.</td>
<td>• Rules applied inconsistently.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Inadequate guidance to staff.</td>
<td>• Use of improper procedures and/or poor compliance.</td>
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<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Funds misused.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delayed enactment of budget</td>
<td>• Absence of a robust budget calendar.</td>
<td>• Delayed release of funds with an adverse impact on budget implementation.</td>
<td>Moderate</td>
<td>High</td>
</tr>
<tr>
<td>Lack of recognition of principles of</td>
<td>• Absence of an explicit borrowing strategy/limits.</td>
<td>• Unsustainable public finances.</td>
<td>Moderate</td>
<td>High</td>
</tr>
<tr>
<td>fiscal sustainability</td>
<td>• Presentation of fiscal information without clear identification of budget surplus or deficit.</td>
<td>• Excessive borrowing costs.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Inadequate legislative control on borrowing.</td>
<td></td>
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<tr>
<td></td>
<td>• Issue of guarantees and lack of public reporting on these items.</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>• Poor coordination between capital and recurrent budgets.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss of vital information</td>
<td>• Poor records management.</td>
<td>• Poor management of assets.</td>
<td>Moderate</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Poor decision making.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unauthorized expenditures</td>
<td>• Absence of reliable tracking system capable of comparing the budgeted expenditures of spending agencies with their actual expenditures.</td>
<td>• Large unauthorized spending.</td>
<td>Significant</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>• A breakdown in financial control with respect to budget compliance.</td>
<td>• Poor compliance with legislative appropriations.</td>
<td></td>
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</tr>
<tr>
<td></td>
<td></td>
<td>• Inability to prepare financial statements and track budget implementation.</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>• Inaccurate and/or incomplete financial reporting.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of fiscal transparency</td>
<td>• General lack of commitment to fiscal transparency.</td>
<td>• Financial statements lacking authority, reliability, meaning.</td>
<td>Significant</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>• Absence of a list of publication dates for fiscal documents.</td>
<td>• Financial statements contain unexplained historical figures, omit vital information (for example, on loans and</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Incomprehensible fiscal information.</td>
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</tbody>
</table>

\textsuperscript{53}See chap. I, paras. 6–7.
Poor financial accountability

- Audit findings not taken as the basis for remedial action.
- PAC chaired by the ruling party.
- PAC working in arrears.

- Poor compliance and breakdown Significant High in public accountability.
- Loss of public funds.
- Operational inefficiencies.

Inefficient SOEs

- No uniform legal framework for SOE governance and financial management
- Parastatals Monitoring Office does not monitor effectively parastatal performance.
- SOEs of significant size lack fully functioning boards.

- Poor financial performance of SOEs.
- Reliance by SOEs on State for funding.
- Poor return of Government investments in SOEs.
- Poor service delivery by SOEs.

Poor financial accountability at LG level

- Inadequate FM staffing.
- Inadequate record-keeping.
- Poor external audit arrangements.
- Financial transfers to Local Governments not transparent.
- Applicability of FMemo to LG unclear.

- Inefficient operations.
- Loss of public funds.
- Misuse of public funds.

Loss of revenues

- A large part of revenue management in the hands of a contractor without transferring skills and responsibilities to revenue staff.
- Poor control over revenues.

- Unmotivated revenue staff.
- Unsustainability of revenue collection control mechanism.

Poor budget performance

- Lack of realism in budget expenditures.

- Revenue targets not achieved.
- Budgeted expenditures not realized.
- Budget implemented poorly.

Suboptimal cash management

- A cash management system complicated by a large number of bank accounts and the absence of a Treasury single account.
- Absence of clear principles relating to deposits

- Loss of interest revenues.
- Incurrence of excess bank charges.

Loss of public funds

- Use of many banks and accounts
- Arrears Bank reconciliation
- Cashbooks and main ledgers not kept up to date.

- Possible bank fraud
- Poor financial reporting

Lack of economy and efficiency

- Weaknesses in public procurement.
- Payment for projects not fully executed.

- Operational inefficiencies.
- Tying down public funds with contractors.

2. It worth noting that the SPAR, which was carried out jointly with this assessment, identified major weakness in Lagos State’s procurement system. These weaknesses include (i) lack of appropriate, up-to-date and comprehensive legal framework; (ii) inadequate organization and human resources for procurement; (iii) lack of provision of administrative
review mechanism; and (iv) nonexistent enforcement regime: procurement Audit or ex-post procurement review are not done. The LSPAR assessed the environment for conducting procurement in Lagos State as of high risk.

3. Given the assessed fiduciary risks, the World Bank needs to continue incorporating appropriate risk mitigation measures into each operation in Lagos State until these SFAA recommendations have been implemented. It is worth stressing that this is the normal practice in all Bank operations in Nigeria. The CFAA conducted in CY2000 states that "the Bank needs to build explicit risk minimization actions into all its operations in Nigeria."
Selected Bibliography

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____. “Monthly Statement of Receipt and Payment.” 2002 (Nov/Dec) and 2003 (Jan).
____. “Approved Budget for 1999–2002.”
____. Civil Service Rules, Revised to 1st January 1982.
____. “Staff Grade Level and Strength.”
____. “2003 Budget Monitors for Capital and Recurrent Costs.”
State Treasury Office. “Global Computerisation Project.”
Appendixes
Appendix 1. Full List of Recommendations

1. The full list of recommendations are presented in the following order:
   - List A Recommendations: Those made with reasonable certainty based on the assessment. (These recommendations should be implemented in phases. An indication of the phase in which each recommendation might be implemented is given in table A1.1.)
   - List B Recommendations: Those that appear desirable but require further work by the Government to confirm their validity.

2. List A recommendations are classified in the following categories: (a) Reform Implementation Arrangements; (b) Legal Framework; (c) Budget Preparation; (d) Debt Management; (e) Revenue Management; (f) Budgetary Control; (g) Records Management; (h) Fiscal Transparency; (i) Internal Audit; (j) External Audit; (k) Parliamentary Oversight; (l) Global Computerization Project; (m) Management of SOEs; and (n) Local Governments.

Table A1.1 List A Recommendations

<table>
<thead>
<tr>
<th>Components of FM Reform Program</th>
<th>Phases</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td>(a) Reform Implementation Arrangements</td>
<td></td>
</tr>
<tr>
<td>Set up financial management reform steering committee to oversee implementation of recommendations.</td>
<td></td>
</tr>
<tr>
<td>Steering committee to draw up FM reform program, develop criteria for evaluating implementation success, and secure funding for reforms.</td>
<td></td>
</tr>
<tr>
<td>Legal Framework</td>
<td></td>
</tr>
<tr>
<td>Enact modern financial management laws o Financial Management and Control Law o Audit Law.</td>
<td></td>
</tr>
<tr>
<td>Prepare and issue new financial regulations specific to the needs of Lagos State.</td>
<td></td>
</tr>
<tr>
<td>Begin extensive staff training in how to operate under the new law and regulations.</td>
<td></td>
</tr>
<tr>
<td>Budgeting</td>
<td></td>
</tr>
<tr>
<td>Prepare and publicly disclose an official budget calendar (recommended period: July to November).</td>
<td></td>
</tr>
<tr>
<td>Sensitize LAHA members on new budget calendar and early passage of appropriation bills.</td>
<td></td>
</tr>
<tr>
<td>Enact appropriation act before year-end, and distribute budget allocations to spending agencies no later than 31 December.</td>
<td></td>
</tr>
<tr>
<td>Revenue Management</td>
<td></td>
</tr>
<tr>
<td>Introduce online facility for STO to check revenue collections. This will complement weekly reports that ABC provides to STO.</td>
<td></td>
</tr>
<tr>
<td>Mandate internal audit unit to audit the receipts and returns from ABC, as an internal control check of returns from ABC.</td>
<td></td>
</tr>
<tr>
<td>Debt</td>
<td></td>
</tr>
<tr>
<td>Improve public reporting of</td>
<td></td>
</tr>
<tr>
<td>Develop robust borrowing</td>
<td></td>
</tr>
<tr>
<td>Acquire and install</td>
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</tbody>
</table>
### Management
- Government reports annually to LAHA on guarantees invoked and on estimated risk inherent in guarantees outstanding.
- Develop and implement a capacity building program for the staff of public finance department.
- Strategy, including limits to annual borrowing and amount of guarantees given to parastatals. Frame borrowing strategy in relation to criteria of fiscal sustainability, taking into account planned and actual figures of revenues, expenditures, budget surpluses/deficits, existing borrowings, and debt service levels.
- Specialized debt management software.

### Budgetary Control
- Enact timely supplementary budgets to obtain necessary approval for excess expenditures.
- Take disciplinary actions against those responsible for large excess expenditures.
- Review specific roles of the key players in the expenditure approval process.
- Introduce departmental performance measures and regular performance reporting, and institute a system to reward poor performance.

### Records Management
- Establish warehouse for archiving documents

### Financial Reporting and Fiscal Transparency
- Present fiscal information that clearly identifies the planned and actual budget surplus or deficit.
- Revise financial statements so that they are clear, up to date, and comprehensive.
- Publish a list of the key fiscal documents with indicative contents and expected publication dates.
- Release fiscal information at expected publication dates.
- Ensure that information is made public by whatever means available and is comprehensible and self-explanatory.

### Internal Audit
- Develop a program to modernize and strengthen internal audit.
- Train and maintain a staff development program for internal auditors.
- Develop and issue internal audit charter based on modern internal auditing practice.
- Incorporate modern internal audit functions in the new FRs.

### External Audit
- AudGen reports separately on accounts of parastatals.
- Establish formal procedures to discipline those responsible for major irregularities, late submission of accounts, and failures to answer audit queries; sanctions should be recommended either in the new audit law or in the new financial regulations.
- Establish stronger links between findings of AudGen and necessary corrective actions to be taken by revenue collection and AudGen to be given powers to recruit staff directly on the basis of
- Establish Audit Committee in each ministry or agency to review AudGen and internal audit observations, coordinate timely and appropriate response, and plan and oversee implementation of required actions.
- Strengthen external audit by financial and staffing independence
- Streamline AudGen reports format and contents by focusing more on systemic weaknesses in control and performance issues.
<table>
<thead>
<tr>
<th>Nigeria: Lagos SFAA</th>
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<table>
<thead>
<tr>
<th><strong>Parliamentary Oversight</strong></th>
<th><strong>Global Computerization Project</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>PAC carries out its work in a timely way.</td>
<td>Review Global Computerization Project to ensure that, within the shortest time, it will enable tracking expenditures of spending agencies against figures approved by the State House of Assembly.</td>
</tr>
<tr>
<td>Appoint PAC Chair from the Opposition, when possible.</td>
<td>Support Global Computerization Project through:</td>
</tr>
<tr>
<td>Charge MOF and Ministry of Justice with acting on PAC's findings, monitoring remedial actions, and reporting to PAC on the progress achieved in implementing actions.</td>
<td>- Training of staff (ongoing under the Oracle Users’ Learning Adoption);</td>
</tr>
<tr>
<td>Publish PAC's reports on the review of audited reports and accounts.</td>
<td>- Provision of hardware (additional 2500 PC to be procured) and other infrastructure.</td>
</tr>
<tr>
<td>Develop a capacity building program for PAC members.</td>
<td>- Adequate procedures for maintenance of systems and hardware.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Management of SOEs</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>AudGen to review the audit regime for SOEs and other parastatals to ensure high-quality audits by either private or OAG auditors.</td>
</tr>
<tr>
<td>Boards of parastatals of significant size to be appointed</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Nigeria: Lagos SFAA</strong></th>
</tr>
</thead>
</table>

- Salaries of staff of AudGen's Office to be charged on the consolidated fund in a manner similar to the Judiciary.
- Create an Audit Service Board to oversee staffing and budgets of AudGen's office—functions and compositions of the Commission to be included in the new audit law.
- Introduce penalties for delayed responses to PAC findings/recommendations.
- Implement a capacity building program for PAC members.
- Establish an electronic database for monitoring executive responses to findings/recommendations.
Table A1.2 List B Recommendations

<table>
<thead>
<tr>
<th>Action</th>
<th>Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Cash Management</td>
<td></td>
</tr>
<tr>
<td>Review banking arrangements to gain answers to the following questions:</td>
<td></td>
</tr>
<tr>
<td>i. Could State of Lagos operate more effectively using fewer commercial banks?</td>
<td></td>
</tr>
<tr>
<td>ii. Do current banking arrangements facilitate or hamper cash management?</td>
<td></td>
</tr>
<tr>
<td>iii. What advantages would there be if a Treasury system were introduced (single Treasury account operated by Treasury, Treasury to carry out disbursement functions on behalf of spending agencies, Treasury to pay salaries)?</td>
<td></td>
</tr>
<tr>
<td>The aim is to develop a streamlined cash management system in which subsidiary bank accounts are frequently and automatically cleared to main bank accounts and in which fewer banks and bank accounts are used to facilitate cash management and central control.</td>
<td></td>
</tr>
<tr>
<td>(b) Budgeting</td>
<td></td>
</tr>
<tr>
<td>i. Review of the three-part expenditure budget (personnel, overheads, and capital expenditures) and the divided responsibilities to assess its advantages and disadvantages.</td>
<td>Office of the Governor/MOF/MLGA/AudGen (LG)/AidGen (State)</td>
</tr>
<tr>
<td>ii. Review the roles of key actors in budget preparation and expenditure management processes (including MOF, MEPB and other agencies) with the aim of ensuring better coordination of their activities.</td>
<td></td>
</tr>
<tr>
<td>(c) Office of the Auditor-General (Local Governments)</td>
<td></td>
</tr>
<tr>
<td>Review the two offices of the Auditor-General to gain answers to the following questions:</td>
<td></td>
</tr>
<tr>
<td>i. Is it really necessary to divide the external audit resources into two offices? Do the current arrangements lead to suboptimal use of audit resources?</td>
<td></td>
</tr>
<tr>
<td>ii. Can synergies be obtained from merging the office of the AudGen (LG) with the Office of the AudGen (State), and creating a department charged with the audit of Local Government accounts in a new Lagos State Audit Office?</td>
<td></td>
</tr>
<tr>
<td>iii. Can LGs’ accountability arrangements be improved by the arrangement described in (c)i)?</td>
<td></td>
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</tbody>
</table>
(d) Revenue Management

i. Review/revisit the contract agreement with ABC.

ii. Review the incentive arrangements for Government revenue staff, and develop and implement a reward system to motivate them.

iii. Set up a Committee to review the revenue management arrangements to:

- Determine whether and how the cost can be reduced.

- Address the issue of sustainability and determine whether and how the systems developed by ABC should be internalized. If it is desirable to internalize the systems, the committee should review the contract between State Government and ABC, and develop and implement a smooth process for:
  
  - Internalizing the revenue monitoring process developed by ABC
  
  - Transferring skills to staff
  
  - Ensuring that there is no disturbance/or discontinuity in revenue collection and monitoring arrangements.

| MOF/BIR/STO | 58 |
### Appendix 2. Government Task Force Members

<table>
<thead>
<tr>
<th>S/N</th>
<th>Name</th>
<th>Title/Ministry</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>K. N. Olatunji</td>
<td>DFA, Ministry of Works</td>
</tr>
<tr>
<td>2</td>
<td>O. A. Somide</td>
<td>Asst. Director, AG and PT, Ministry of Justice</td>
</tr>
<tr>
<td>3</td>
<td>R. A. Onabamiro</td>
<td>Asst. Director, Ministry of Economic Planning and Budget</td>
</tr>
<tr>
<td>4</td>
<td>P. O. Olayiwola</td>
<td>Director, Global Computerization</td>
</tr>
<tr>
<td>5</td>
<td>A. C. Adekoya</td>
<td>Asst. Director, State Treasury office</td>
</tr>
<tr>
<td>6</td>
<td>A. Davies</td>
<td>DFA, Ministry of Local Govt./ Chieftaincy Affairs</td>
</tr>
<tr>
<td>7</td>
<td>E. O. Sekoni</td>
<td>DFA, Ministry of Finance</td>
</tr>
<tr>
<td>8</td>
<td>O. O. Arowa</td>
<td>Director, Office of the Auditor-General</td>
</tr>
<tr>
<td>9</td>
<td>J. A. Onifade</td>
<td>Ministry of Education</td>
</tr>
<tr>
<td>10</td>
<td>N. M. Salami</td>
<td>Secretary, State Tender Board</td>
</tr>
<tr>
<td>11</td>
<td>E. A. Fatade</td>
<td>Head of Service</td>
</tr>
<tr>
<td>12</td>
<td>O. Williams</td>
<td>L. S. D. P. C.</td>
</tr>
<tr>
<td>13</td>
<td>E. B. Akinrimisi</td>
<td>Director, Ministry of Health</td>
</tr>
<tr>
<td>14</td>
<td>A. M. Salako</td>
<td>Director, State Treasury Office</td>
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<tr>
<td>15</td>
<td>A. Adeyemo</td>
<td>Director, Ministry of Finance</td>
</tr>
<tr>
<td>16</td>
<td>T. A. Balogun</td>
<td>Perm. Sec. Finance</td>
</tr>
<tr>
<td>17</td>
<td>E. O. Soyinbe</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>18</td>
<td>A. O. Toyobo</td>
<td>LAHA</td>
</tr>
<tr>
<td>19</td>
<td>O. A. Ogungo</td>
<td>H. O. D. Budget, Badagry LG</td>
</tr>
<tr>
<td>20</td>
<td>O. O. Dosunmu</td>
<td>Chief Auditor, Office of the Auditor-General (LG)</td>
</tr>
<tr>
<td>21</td>
<td>O. Olusoga</td>
<td>Director, Establishment &amp; Training</td>
</tr>
<tr>
<td>23</td>
<td>A. A. Popoola</td>
<td>Chief Internal Auditor, MO Finance</td>
</tr>
<tr>
<td>24</td>
<td>C. U. Okechukwu</td>
<td>Principal Admin Officer PW Corp.</td>
</tr>
<tr>
<td>25</td>
<td>Y. O. Oriola</td>
<td>Planning Officer 1, Ikorodu Central LG</td>
</tr>
<tr>
<td>26</td>
<td>M. A. Oni</td>
<td>Asst. Director, Commerce &amp; Industry</td>
</tr>
<tr>
<td>27</td>
<td>M. A. Fabunmi</td>
<td>Asst. Director, BIR</td>
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<tr>
<td>28</td>
<td>S. O. Olufowobi</td>
<td>Registrar, Judiciary</td>
</tr>
<tr>
<td>29</td>
<td>C. L. Oke</td>
<td>Director, Post Primary Teaching Service Commission</td>
</tr>
<tr>
<td>30</td>
<td>A. O. Obansere</td>
<td>Assist. Chief Admin Officer, Governor’s Officer</td>
</tr>
<tr>
<td>31</td>
<td>G. O. Bello</td>
<td>Hospital Management Board</td>
</tr>
<tr>
<td>32</td>
<td>P. A. Bamgbose-Martins</td>
<td>Assit. Director, Works</td>
</tr>
</tbody>
</table>
Appendix 3. Financial Management Staffing

Recruitment, staffing, training, and discipline are carried out by two offices: the Civil Service Commission and the Ministry of Establishments, Training and Pensions.

Recruitment. The Civil Service Commission recruits all accounting and auditing officers from grade level 07 up. These officers are holders of HND in Accounting, B.Sc. in Accounts, ICAN, and other recognized accounting qualifications. The recruitment exercise is based on the number of vacant positions. For more junior grades (below grade level 06), ministries and offices carry out their own recruitment with representatives of Ministry of Establishments in attendance. The scheme of service for accountants and auditors is maintained in the Civil Service Commission.

Career Prospects. Accountants and auditors above grade level 08 are promoted every 3 years based on annual performance evaluation reports. Officers in grades 15–17 are promoted every 4 years. For the promotion exercise, a Personnel Management Board (PMB) is inaugurated in each ministry based on a call circular. The Board consists of five directors, who interview those eligible for promotion. A representative of the Civil Service Commission is present during promotion exercises. There is a PMB for accounts officers of which the AccGen is the Chairman. The main duties of the PMB are: confirmation of appointments, promotions, grant of study leave, and disciplinary matters.

Board decisions are forwarded to the State Civil Service Commission for implementation and the Ministry of Establishment for information.

Training. The Ministry of Establishment and Training is responsible primarily for training of accounts and audit staff at level 13 and above. Training of officers on levels 07–12 and on levels 01–06 is carried out by the Lagos State Public Service Development Center at Magodo. The LSPSDC plans 92 courses in total, but this year, only 6 relate to auditing and accounting staff. In addition, outside courses are organized with the help of consultants. There are also opportunities for accountants and auditors to attend conferences and seminars. The funds for training are controlled by the Ministry of Establishment, while the AccGen and AudGen (State) also have smaller funds available for training.

Deployment of Accountants and Auditors. The AccGen is responsible for the deployment of all senior accounts officers (grade levels 07–16). The AudGen (State) is responsible for the deployment of auditors. The Director of Internal Audit is responsible for the deployment of all Internal Audit Officers in the State.

Staff Strength. Current staff strength of the Financial Management sector is:

<table>
<thead>
<tr>
<th></th>
<th>ICAN</th>
<th>B.SC</th>
<th>H.N.D</th>
<th>OND</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountant General</td>
<td>52</td>
<td>106</td>
<td>124</td>
<td>18</td>
<td>130</td>
<td>430</td>
</tr>
<tr>
<td>Auditor-General</td>
<td>5</td>
<td>15</td>
<td>36</td>
<td>1</td>
<td>17</td>
<td>74</td>
</tr>
<tr>
<td>Central Internal Audit</td>
<td>1</td>
<td>9</td>
<td>57</td>
<td>14</td>
<td>54</td>
<td>135</td>
</tr>
<tr>
<td>Total</td>
<td>58</td>
<td>130</td>
<td>217</td>
<td>33</td>
<td>201</td>
<td>639</td>
</tr>
</tbody>
</table>

The AccGen and AudGen are now Permanent Secretaries. Their status and terminal benefits are thereby enhanced giving their roles greater influence and weight. In addition, the entry point for newly qualified ICAN members is adjusted upward to level 10 (previously level 09). Although specialist staff are deployed by the AccGen and Director of Internal Audit, the two latter are able to exercise little control over their officers once the officers are posted to ministries. Officers tend to owe their loyalty to the accounting officer of the ministries to which they have been posted. Specialized training of financial management staff could be strengthened with advantage.
Appendix 4. Electronic Banking System for Revenue Control and Monitoring (EBS-RCM)

Prior to November 2000, Lagos State used a consultant to improve revenue collection through direct banking. The consultant's staff were stationed at the different collection banks and had responsibility for issuing tellers (deposit slips) to revenue payers and issuing receipts when revenue was banked. Absence of a computerized system detracted from the efficiency of these arrangements. In November 2000, Lagos State appointed Alpha-Beta Consulting Limited (Alpha Beta, or ABC) as the sole monitoring agent for government revenues with the following specific functions: (a) establishing and implementing an electronic banking system; (b) monitoring Lagos State Government revenue deposited into various bank accounts; and (c) providing timely real-time reports to the State. 54

Alpha Beta uses an Electronic Banking System for Revenue Control and Monitoring (EBS-RCM). This information network uses a secured internet messaging system to link banks, tax stations, and revenue agencies for data communications (including lodgment of revenue to banks) and creates and maintains a database of all revenue collection activities, which allows online tracking. 55

The objectives of EBS-RCM are to (i) go online with the direct bank lodgment system (DBLS) for revenue collection; (ii) provide information for tax administration and planning and (iii) monitor and coordinate all State revenue-generating activities.

The EBS-RCM software is deployed to all banks that participate in State revenue collection. This deployment enables the banks to send data, including the amounts collected, revenue codes, agency codes, and payers names, to Alpha Beta electronically. As a control device, customized tellers (designed by Alpha Beta) are obtained by revenue payers and used for making deposits into the revenue bank accounts. These tellers are in 5 copies. Distribution includes a copy for the customer and a copy for the AccGen, which is dropped by the taxpayer in a box located in the bank.

The information from the EBS-RCM software is used by Alpha Beta to generate a manifest for BIR staff resident in Alpha Beta for confirmation of transactions through comparison with tellers and the official government receipts issued. The receipts are returned to the bank for delivery to the taxpayers. In total, the turnaround time between receipt of tax payments and issue of receipts is approximately 48 hours. An important feature is that officers responsible for collection have to obtain confirmation that tax collected has been deposited into the Government bank accounts before receipts are issued to the taxpayer. After the issuance of receipts, the Internal Audit department could carry out a review or reconciliation of the issued receipt and the confirmed figures and raise an audit alarm in appropriate cases, but this function is not currently performed. The Monitoring unit in the STO reconciles bank reconciliation statements with returns from ABC.

Under the EBS-RCM arrangements, the following reports are generated: (a) daily manifest of payments received by Alpha Beta to BIR; (b) daily agency reports for collection in previous day from banks to Alpha Beta; (c) weekly cash position from Alpha Beta to the Commissioner of Finance and AccGen every Tuesday showing balances on revenue call accounts at the end of the previous week; (d) monthly comprehensive reports on revenue collections from Alpha Beta to the AccGen and Commissioner of Finance, and (e) monthly tax statement of compliance to companies to show amounts remitted and refunds, including certificate of payment for withholding taxes for individuals from which taxes have been withheld.

This collection system minimizes manipulation and diversion of state funds by banks. It also ensures that banks report promptly all revenues collected. The system automatically generates interest-payable notices and charges fees if revenues are not paid into government bank accounts on time. The system has resulted in a significant increase in the State's internally generated revenues: from N600 million a month in 1999 to more than ₦2 billion a month in early 2003. The monthly projection is approximately ₦3 billion before the end of year 2003.

Planned Reforms
The following reforms are planned:

- An accounts receivable module is being introduced by the State as part of the Oracle-based Global Computerization Project. A link is planned with the EBS-RCM for online report generation.
- Tax identification cards and numbers are to be issued to tax payers. Details are to be stored in the database of Alpha Beta.

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54 Real-time reports are not presently prepared by the consultants
55 Reports are presently provided on diskettes because many of the banks are not online
• Certificate of payment will be issued for withholding tax.
• A website is planned enabling officials to review revenue information as it pertains to their ministry. This will enable online assessment of revenue.
• Tax clearance certificate will be automated.

Challenges
Although approximately 250,000 companies are registered, approximately only 15,000 report. However, all registered companies are in Alpha Beta’s records, and it is expected that more of these companies will report their revenues in future and thereby pay their tax obligations. This improved compliance will increase state revenues.
Appendix 5. List of Parastatals

**Educational** (14)

1. Lagos State University
2. Lagos State Polytechnic
3. Adeniran Ogunsanya College of Education
4. Lagos State College of Primary Education
5. Lagos State Examination Board
6. Lagos State Scholarship Board
7. Lagos State Primary Education Board
8. Lagos State Public Service Staff Development Center
9. Agency for Mass Education
10. Post-Primary Teaching Service Commission
11. Lagos State Library Board
12. Center for Rural Development

**Environmental** (7)

15. New Towns Development Authority
16. Lagos State Waste Management Authority
17. Lagos State Urban Renewal Board
18. Lagos State Environmental Protection Agency
19. Lagos State Water Corporation
20. Lagos State Urban Regional Planning Board
21. Lagos State Taskforce on Environmental Sanitation and Special Offences

**Economic** (19)

22. Lagos State Agricultural Development Authority
23. Lagos State Horizon Publishing Company
24. Lagos State Printing Corporation
25. Lagos State Ferry Service
26. Eko Engineering Ventures
27. Lagos State Development and Property Corporation
28. Lagos State Electricity Board
29. Lagos State Transport Corporation
30. Lagos State Bulk Purchasing Corporation
31. Lagos State Building Investment Company Ltd
32. Lagos State Agricultural Inputs Supply Authority
33. Lagos State Traffic Management Authority
34. Ibila Holdings Ltd
35. Lagos State Industrial Development Finances Ltd
36. Lagos State Direct Labour Agency
37. Lagos State Tourism Board
38. Coconut Development Authority
39. Lagos State Agricultural Land Holding Authority
40. Lagos State Valuation Office

**Sociocultural/Religious** (7)

41. Lagos State Sports Council
42. Lagos State Council for Arts and Culture
43. Lagos State Hospital Management Board
44. Board of Traditional Medicine
45. Christian Pilgrims Welfare Board
46. Muslim Pilgrims Welfare Board
47. Jubilee Rail Services (not operating)

These financial management guidelines are issued under paragraph 32 of the 1999 Local Government (Administration) law. They contain substantive guidance for the following areas of the Local Government FM framework: (i) FM functions of the chair; (ii) the requirement to establish a funds management committee and the functions of the committee; (iii) duties of the Treasurer; (iv) controls relating to award of contracts; (v) external audit of Local Government accounts, including the powers, responsibilities, and functions of the AudGen for Local Governments; (vi) performance of management audit; (vii) internal audit arrangements; (viii) provision to establish audit alarm committee and functions of the committee; and (ix) operational guidelines for accounting.

- A Local Government chair is the chief executive but s/he is accountable to the elected council and cannot sign vouchers or checks; this function is performed by the Head of Personnel Management and the Treasurer. The chair is to observe the checks and balances “spelt out in the existing guidelines and financial regulations.” As Accounting Officer, s/he is accountable to and renders accounts to the council.
- Each Local Government is to establish a funds management committee. It is concerned with all matters relating to cash flows of the council. No amount can be released without its approval. The first charge on the fund is the remuneration of LG employees.
- Duties of the LG Treasurer.
- Controls on the award of contracts. Contracts are to be made in compliance with the tender procedures of the State of Lagos. The executive committee can consider contracts up to N1 million. Contracts above N1 million are referred to the State Governor via the Ministry of Local Government and Chieftaincy Affairs.
- Local governments are to be audited annually by the Auditor-General for Local Government or by auditors appointed by this person.
- Provision for management audit. How this type of audit differs from (or relates to) audit by the Auditor-General is not specified. It appears to be a random audit of selected processes by a special team.
- Local Governments are required to render to the State Executive Council annual accounts in the required form and to publish the audited financial statements before first September of each year. In addition, the LG chair has a duty to submit reports, including audited financial statements, to the Office of the State Governor annually.
- Each Local Government is to have an internal audit unit headed by a qualified accountant who will be responsible to the Accounting Officer (that is, the chair). The internal auditor is to report monthly to the Accounting Officer and to the Auditor-General.
- The responsibilities of the LG Office of the Auditor-General are as prescribed for the State Auditor-General: carry out audits on a regular basis; sanction and surcharge officers responsible for serious irregularities; chair the Audit Alarm Committee; and give early notification of serious issues to relevant parties.
- A Local Government audit alarm committee is to be established for each LG comprising the Auditor-General for LG, the director for LG Monitoring (Ministry of Local Government and Chieftaincy Affairs) and a representative of the State AccGen’s Department. The committee is to provide early warning of serious irregularities.
- Short operational guidelines for the accounting function are given. The Accounting Officer is accountable for the accounting function, but its day-to-day operation is handled by a Treasurer. The latter discharges his/her functions in accordance with the Federal financial regulations and the Finance (Control and Management) Act 1958. Only three bank accounts are to be opened. Reputable banks are listed as recommended. The Accounting Officer is enjoined to achieve balanced budgets and to avoid “huge unpaid liabilities.”
Endnotes

1 This is 13% of mineral revenues, not 13% of the Federation Account.
2 In 2002 the call circular was issued in September.
3 The 2003 budget was actually approved in February 2003.
4 Lagos State Development and Property Corporation.
5 Lagos State Water Corporation