



JIGAWA STATE GOVERNMENT

PUBLIC FINANCIAL MANAGEMENT STEERING COMMITTEE

**PUBLIC FINANCIAL MANAGEMENT PERFORMANCE REPORT
AND PERFORMANCE INDICATORS**

July 2007

Acknowledgements

The PFM Steering Committee wishes to thank all those who provided the information for assessing the indicators in this report. Further, we would like to extend our gratitude to all the stakeholders who attended the Orientation Workshop and the PEFA Retreat. Their discussions and evaluations have formed the basis of this report.

Public Financial Management Steering Committee

Abdulaziz Abdulhamid	Permanent Secretary, Ministry of Salary and Pension Administration
Adamu Garingabas	Permanent Secretary, Ministry of Budget and Planning
Yusuf Kazaure	Permanent Secretary, Office of the Head of Service
Dahiru Abdulkadir	Permanent Secretary, Ministry for Higher Education
Iliya Ado	Permanent Secretary, Ministry for Local Govt.
Salisu A. Sani	Director Final Accounts, Ministry Treasury Operations
Lawan Garba	Auditor General, State Audit Directorate
Aliyu Mohammed	Executive Chairman, Board of Int. Revenue
Mark Walker	Programme Manager, SLGP
Roseline Daudu	Deputy State Co-ordinator, SRIP Programme

PEFA Orientation Workshop Attendance

Abdulaziz Abdulhamid	Permanent Secretary, Ministry of Salary and Pension Administration
Adamu Garingabas	Permanent Secretary, Ministry of Budget and Planning
Iliya Ado	Permanent Secretary, Ministry for Local Govt.
Dahiru Abdulkadir	Permanent Secretary, Ministry for Higher Education
Salisu A. Sani	Director Final Accounts, Ministry Treasury Operations
Lawan Garba	Auditor General, State Audit Directorate
Aliyu Mohammed	Executive Chairman, Board of Int. Revenue
Bala Ibrahim Abubakar	Ministry of Budget and Planning
Roseline Daudu	Deputy State Co-ordinator, SRIP Programme
Auwalu Hamza	SLGP

PEFA Retreat Attendance

Abdulaziz Abdulhamid	Permanent Secretary, Ministry of Salary and Pension Administration
Adamu Garingabas	Permanent Secretary, Ministry of Budget and Planning
Iliya Ado	Permanent Secretary, Ministry for Local Govt.
Dahiru Abdulkadir	Permanent Secretary, Ministry for Higher Education
Salisu A. Sani	Director Final Accounts, Ministry Treasury Operations
Lawan Garba	Auditor General, State Audit Directorate
Aliyu Mohammed	Executive Chairman, Board of Int. Revenue
Bala Ibrahim Abubakar	Ministry of Budget and Planning
Yusuf Kazaure	Permanent Secretary, Office of the Head of Service
Roseline Daudu	Deputy State Co-ordinator, SRIP Programme

SLGP Consultants

Abubakai A. Badawi
Stewart Maugham
Ichoku Hyacinth

Consultant
Consultant
Consultant

Acronyms and Abbreviations

AGA	Autonomous Government Agencies
BIR	Board of Internal Revenue
BSLGR	Bureau for State and Local Government Reform
COFOG	Classification of Functions of Government
CPBS	Computerised Planning and Budget System
DFID	Department for International Development (UK)
DMD	Debt Management Department
EXCO	Executive Council of the State House of Representatives (the Cabinet)
GDP	Gross Domestic Product
GFS	Government Financial Statistics
ICAN	Institute of Chartered Accountants of Nigeria
IFMIS	Integrated Financial Management Information System
IGR	Internally Generated Revenue
IPSAS	International Public Sector Accounting Standards
JSG	Jigawa State Government
J-SDSD	Jigawa State Development Strategy Document
J-SEEDS	Jigawa State Economic Empowerment and Development Strategy
MDAs	Ministries, Departments and Agencies
MDGs	Millennium Development Goals
MPB	Ministry of State Joint Planning, Budget and Expenditure Control
MSP	Ministry of Salaries and Pensions
MTEF	Medium Term Expenditure Framework
MTO	Ministry of Treasury Operations
OAG	Office of the Auditor General
PAC	Public Accounts Committee
PAYE	Pay As You Earn
PE	Public Enterprises
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFM-PR	Public Financial Management Performance Report
SEEDS	State Economic Empowerment and Development Strategy
SLGP	State and Local Government Programme
SHA	State House of Assembly
SSG	Secretary to the State Government

Table of Contents

Summary Assessment	6
1. Introduction.....	14
1.1. Jigawa State background.....	14
1.2. Economic and social reform policies	14
1.3. Public financial management reforms.....	15
1.4. Purpose of the Public Financial Management Performance Assessment.....	15
1.5. The PEFA indicators	16
1.6. Methodology.....	16
1.7. Scope of the assessment.....	17
2. PFM systems in Jigawa State	18
2.1. Institutional and regulatory framework.....	18
2.2. Outline of the financial management system	19
2.3. Fiscal Performance	20
3. Assessment of the PFM systems, processes and institutions	28
3.1. PFM Out-Turns: Credibility of the Budget.....	28
3.2. Key cross-cutting issues: comprehensiveness and transparency	33
3.3. Budget Cycle (I): Policy based budgeting.....	40
3.4. Budget Cycle (II): Predictability and control in budget execution	42
3.5. Budget Cycle (III): Accounting, recording and reporting	53
3.6. Budget Cycle (IV): External scrutiny and audit	57
3.7. Donor practices	60
4. State Government Reform Process	Error! Bookmark not defined.
4.1. Public Sector Reforms	Error! Bookmark not defined.
4.2. Policy Reform Framework.....	Error! Bookmark not defined.
Annex 1: JSG Officers who provided information	62
Annex 2: Documentary information	63

Summary Assessment

Introduction

Jigawa State, which was part of the old State of Kano, was created in 1991. It is located in the far north of Nigeria, bordering the Republic of Niger. After the adoption of the new constitution in 1999, which replaced military rule with the current presidential style political system, Governor Ibrahim Saminu Turaki was elected for two four-year terms, followed this year (May 2007) by Governor Sule Lamido. As a result of the change in government, there are now substantial numbers of the executive and legislature who are new to their jobs and there is an increased desire for reform.

This Public Expenditure and Financial Accountability (PEFA) assessment took place in May 2007, just before the new Government was sworn in. Further comments have been added in July 2007, following feedback from stakeholders.

Economic and social reform policies

Since 1999, Nigeria has embarked on a programme of political and economic restructuring and social reforms. In response to the 2003 National Economic Empowerment and Development Strategy (NEEDS), Jigawa State Government (JSG) developed the Jigawa State Economic Empowerment and Development Strategy (J-SEEDS) which aimed at improving the standard of living of the people through pro-poor economic growth and social development.

J-SEEDS included a costed plan for 2004 to 2007 which gave priority to improved agricultural production, support for small and medium sized enterprises, development of institutions and infrastructure to encourage investment in the state, improved education and provision of effective health, water and sanitation services.

By way of comparison, actual expenditure in 2003 to 2005 (the last year for which audited figures are available) shows that approximately 35% of the money was spent on roads, with about 15% going to general public services (administration), 10% each to education and water, 4% to health and 3% to agriculture.

Public financial management reform

In recent years the JSG has undertaken a number of activities aimed at improving its Public Financial Management (PFM). These have included process reforms, computerisation of selected systems, and capacity building for the executive and legislature, and have been enabled by a combination of locally and donor funded projects.

JSG now recognises the need to develop a clearly defined PFM reform programme and, as a pre-cursor to this, in May 2007 an evaluation of the current status of PFM in the State was carried out using the internationally agreed Public Expenditure and Financial Accountability (PEFA) performance indicators. The JSG scores on these PEFA indicators form the backbone to this report.

Governance structure relevant to PFM

The Executive arm of government comprises the Governor and the Commissioners for the various Ministries of the State, who collectively form the State Executive Council (EXCO), also known as the Cabinet. The Secretary to the State Government (SSG) is the secretary of EXCO, and the Head of Service (i.e. the Head of the Civil Service) is also in attendance.

The Legislature consists of elected members of the State House of Assembly (SHA) who approve the Annual Budget Law and supplementary budgets and have responsibility for oversight of the budget execution process.

How the Jigawa PFM system works

At the time this assessment was carried out (May 2007) there were two central financial agencies: The Ministry of State Joint Planning, Budget and Expenditure Control (MPB) and the Ministry of Treasury Operations (MTO), each under the leadership of a separate commissioner. Under the new government, MTO has been renamed the Ministry of Finance and Economic Planning and MPB has become the Directorate of Planning and Budgeting. The two have now been united under a single commissioner. This report describes the institutions under their old names.

Budget preparation: 95% of the recurrent revenue of Jigawa State comes from the Federation Account (i.e. from Federal Government), which provides a reasonably predictable source of income. MPB makes revenue forecasts and proposes expenditure ceilings for recurrent and capital expenditure for each Ministry, Department and Agency (MDA) in a budget call circular. The ceilings are approved by the Executive Council (EXCO). MDAs submit separate budget estimates for recurrent and capital expenditure and after a period of negotiation with MPB the consolidated budget is submitted to EXCO. The Governor then presents the proposals to the SHA as the Appropriation Bill. SHA debates the Bill, which has three readings, and passes the Appropriation Act, which the Governor signs into law.

One 'supplementary budget' per year is normal for Jigawa. This is usually as much a re-allocation budget as a supplementary budget, because only the SHA is allowed to approve budget transfers between MDAs and between capital and recurrent budgets.

Budget execution: Each MDA has separate bank accounts for salary expenditure, overhead expenditure and (where relevant) internally generated revenue (IGR). All capital expenditure is paid for centrally from the MTO bank account. Salaries are computed centrally by the Ministry of Salaries and Pensions (computerised) and cash is transferred to MDA bank accounts for onward transfer to employees' bank accounts.

A small proportion of recurrent overhead budgets (approx. 30%) are paid as monthly standing orders to MDAs' overhead bank accounts. Requests for approval of the remaining overheads are made by MDAs to the office of the Head of Service. Once approval is given, the requests 'queue up' in MTO until specific funds are released to the MDA's overhead bank account, with an instruction to make the payment.

There is a hierarchy of authorisation levels for entering into capital expenditure contracts. Permission to spend money against a signed contract is given by the Governor via the SSG. Once this permission is granted, the requests 'queue up' in MTO until MTO makes the payment from its central bank account.

All MDAs are responsible for reconciling their bank accounts monthly and submitting a monthly return to MTO, which uses them to prepare the financial statements.

Assessment of PFM performance using the PEFA indicators

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

A summary of the PEFA performance indicators (PI) for Jigawa State Government is shown in Table 1 on page 13. Each indicator is scored on the scale A (strong) to D (weak). The following commentary explains their significance.

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

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

Actual results compared with budget (PI 1 to 3)

Differences between JSG annual budgets and actual out-turns are so great as to question confidence in the budget as a financial statement of the State's plans (score 'D' for indicators PI-1, 2 and 3). Therefore these differences need investigating and explaining.

Some of them may be caused by arithmetical errors, miscoded results or the subdivision of ministries into agencies within the financial year. These can be ignored as technical errors which will be corrected as improvements to the accuracy of the system are introduced.

Other differences might be caused by uncertainty over cash inflows (e.g. from state revenue or from lenders). For example JSG has highlighted the need to be able to raise long term finance for long term projects, in order to reduce the risk of refinancing when short term loans expire. However, the Federation Account, which is the source of 95% of recurrent revenue, is reasonably predictable and, in general, inflows are not the main cause of JSG's budget problems.

The key problem causing the poor scores for budget credibility is that execution has usually proceeded without much reference to the approved budget. There are two related factors at work here.

Firstly, the approved budget is never translated into a month-by month plan for matching expenditure against cash inflows. In the absence of proper cash planning, approved requests for expenditure queue up in Treasury, which performs the role of expenditure prioritisation. In effect, regardless of what the approved budget says, Treasury prioritisations are the real cash budget for capital expenditure and most overhead expenditure.

Secondly, expenditures for some agencies, especially those related to the Governor's office, have regularly been allowed to proceed at a rate that would exceed their annual budget, while approval for expenditures from other agencies (for which the Governor's approval is needed) has been held back. Over-expenditure by central agencies has been partially assisted by lack of commitment controls.

At a suitable stage in the year, over-expenditures by these agencies have been agreed by the Executive Council (EXCO) and ratified by the State House of Assembly in the

supplementary budget, at the expense of other agencies for whom the budget is reduced. Thus the supplementary budget has effectively been used as a legal method of making virements from line ministries to central ministries.

The State House of Assembly is the only authority allowed to reallocate expenditure between ministries or sectors or to vote supplementary budgets. If it approves major reallocations between ministries and sectors this can undermine the ability of those bodies to execute meaningful plans.

This is a fundamental political problem that cannot be solved by improving the efficiency of budget preparation and can only be partially rectified by budget execution procedures. Target activities for making the budget more credible are:

- Joining MPB and MTO under one Commissioner (already done by the new government in July 2007)
- Awareness training for the Executive and the Legislature on the underlying causes of the problems.
- Improved management over cash balances, bank reconciliations and monthly reporting (PI-17, 22, 24)
- Establishment of profiled annual budgets and a cash management system to allow prioritisation and sequencing of capital expenditure and non-uniform overheads (PI-16).

Arrears of expenditure (PI-4)

Indicator PI-4 is concerned with arrears of payments (including unrecorded liabilities) of JSG. This is one of the matters currently being investigated by the incoming government. There are fears that these amounts may be substantial. Until matters are clarified, this score is being recorded as D. The new government has targeted the establishment of a Debt Management Department, one of whose roles will be to establish outstanding liabilities at all MDAs.

B: Comprehensiveness and Transparency (PI 5 to 10)

Comprehensiveness of budget is necessary to ensure that all activities and operations of governments are taking place within the government fiscal policy framework and are subject to adequate budget management and reporting arrangements. Transparency is an important institution that enables external scrutiny of government policies and programs and their implementation.

The budget classification (PI-5) determines the extent to which income and expenditure information can be analysed and used for decision making and performance measurement. The existing (traditional Nigerian) budget classification is relatively weak (score 'C') and does not allow integration of recurrent and capital budgets. However an upgrade which moves significantly towards international standards has been designed and will be used for the 2008 budget. The score for PI-5 is C[↑], where the 'up-arrow' shows that improvements are in the pipeline.

Although much comprehensive information behind the annual budget is available at MPB, not enough of it is included in the official budget documentation which is presented to the State House of Assembly (PI-6). The current score awarded is C but it would be relatively easy to include some additional information which already exists to improve the score.

Not all government operations are reflected in the budget. In particular most grant funded donor projects are omitted from the books entirely (PI-7, score 'C'). This omission makes it more difficult to analyse and prioritise government operations on a sector-wide basis. Donors should be eventually be encouraged to supply summary financial information on the activities which they finance. Some other government operations may be shown as 'one-line' items in the budget and accounts. Although not 'off-budget' these expenditures are not transparent. Hopefully the new budget classification will increase transparency in these areas.

PI-8 is concerned with the transparency of the relationship between JSG and local governments (LGs) as regards public financial management. There are clear rules for distribution of Federal and State money to LGs. However a significant part of Federal money intended for LGs is initially passed to LGs but then returned to JSG, which does not organise its use in a transparent fashion. Also there have been delays in remitting the share of JSG IGR to LGs. Overall the score for this indicator is 'D'. Until LGs acquire the skills and infrastructure to support controlled execution of their own budgets, their money may best be controlled by JSG, but there could be greater transparency in reporting its use.

The risk of LGs or parastatals or public enterprises incurring liabilities which would need to be underwritten by the state, for example by borrowing or making unauthorised commitments is regarded as high, and there is currently no risk assessment procedure. Also JSG has lent a total of N1.8 billion to parastatals and public enterprises (December 2005 figure) and this shows as the largest asset in its balance sheet. There is clearly a high risk that these amounts are non-recoverable (PI-9, score 'D').

The level of fiscal information which can be made available to the public is generally good, resulting in a 'B' score for PI-10. However, thought is needed on how to make it accessible at low cost, and to simplify its presentation for a wider audience. Before too much effort is put into this however, JSG needs to be much more confident that (a) the budget represents a plan that it genuinely wishes to execute; and (b) the actual results are recorded with sufficient accuracy.

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

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

Indicator PI-11 is concerned with orderliness and participation in the annual budget process and scores a 'C'. The JSG workplans for budget preparation are comprehensive and achievable, and have been greatly assisted by the introduction of the Computerised Planning and Budgeting System, as was proved when the 2005 budget was approved before the start of the fiscal year. However, since then there have been some slippages in the budget calendar. The key needs are to ensure that MDAs have sufficient time to prepare and negotiate their detailed budget submissions, and that the legislature have sufficient time to approve the plans (ceilings and detailed budgets) - see also PI-27.

For budgets to reflect strategic policies it is essential that the annual budget is closely linked to medium term costed plans. Although JSG has made some major steps towards adopting a multi-year perspective in fiscal planning, expenditure policy and budgeting (PI-12), it is difficult to score highly on this important indicator unless strategies and medium term expenditure plans are systematically updated and linked to medium term financing plans. JSG has a 'D+' score at present.

C(ii) Predictability and Control in Budget Execution

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

On the tax side, JSG scores a 'D' for transparency of taxpayer obligations and liabilities. The laws and rates are clearly laid down, the same as elsewhere in Nigeria but, under political pressure, significant discretion has been made for some taxpayers. Also, a proper independent appeals mechanism is lacking.

Leakages can be significantly reduced by ensuring that all taxpayers are registered on a single database with links to other financial databases (PI-14, score 'D+') and by tightening up on collections of tax assessments, records for which are weak at the moment (PI-15, score 'C').

On the expenditure side, with the exception of payroll and pensions payments, JSG's budget execution systems can be significantly improved, making the work easier yet more controlled and accurate. Some of this can be achieved by computerisation, and proposals for a new Integrated Financial Management Information system are currently being developed. However no amount of computerisation can 'force' control into a system: it is essential to examine the underlying systems and the roles that human beings play in them.

The processes for releasing cash for expenditure on capital investment and overheads are described above and are evaluated under indicator PI-16, which scores 'D+'. The lack of a mechanism for translating the approved budget into a cash execution plan is a major weakness in the JSG system and should be tackled as a top priority.

An even more urgent priority is to bring all cash and debt balances under control (PI-17, score 'D'). Treasury should be able to tell how much cash is available on a daily basis, but the current information is produced monthly, 4 weeks after date and is almost certainly incomplete. There is great concern over the level of JSG's unrecorded debts. The new government has targeted the setting up of a Debt Management Department within the new MOF.

The reform and computerisation of the personnel, payroll and pensions system (PI-18, score 'A') has been an outstanding success and gives an indication of the potential for improvement in other systems.

The procurement system in JSG is weak (PI-19, score 'D'). Not only does this create the opportunity for corrupt practices, leakages and patronage, but it also limits the efficiency of programmes by increasing costs or leading to supply of goods of inadequate quality.

Recording of commitments, which were originally in the State's accounting system, needs to be reinstated (PI-20, score 'D+'). Without proper commitment controls there is danger of accumulating unrecorded arrears of expenditure (PI-4). Other internal controls follow traditional government accounting rules, with the common anomaly that internal auditors (PI-21, score 'D') do not have time to carry out any audit work because they spend their time pre-auditing vouchers prior to payment. A re-think on staff roles will eventually be needed.

In the light of current investigations into possible malpractice at a high level, it is necessary to recognise that budget execution system controls can always be broken by collusion and pressure put on clerks and accounting staff by those in authority. Such risks are reduced by institutional strengthening of the Auditor General's department, the Public Accounts Committee, the Executive Council and the State House of Assembly (see C (iv) below).

C(iii) Accounting, Recording and Reporting

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

With the exception of payroll, the accounting processes are currently manual. Whereas this has a detrimental effect on the timeliness of account reconciliations (PI-22, score 'C'), it does not cause an undue delay in the production of the annual financial statements. However these annual statements are weakened by the existence of numerical errors and omissions and, though these errors not necessarily significant, they serve to undermine the credibility of what should be JSG's key statement of budgetary outcomes (PI-25, score 'D+').

Production of quarterly budget reports (PI-24, score 'D+') has temporarily ceased, but this important reporting function will be reinstated now that the new government has taken office (May 2007).

A common requirement for accounting systems is that they should track expenditure and resources (e.g. medicines, books) right down to front line service delivery units, such as schools or hospitals (PI-23, score 'D'). Until this is possible through a more detailed and extensive system, JSG could only ascertain this information by carrying out special surveys, which have not been done and are likely to be expensive.

C(iv) External Scrutiny and Audit

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

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

Follow up on the recommendations in the audit report is generally weak, both by the legislature (PI-28, score 'D') and by agencies on whose accounts queries have been raised. As far as can be seen, the Auditor General has no right to make his comments outside the State. Thus his effectiveness depends on the ability of the State House of Assembly to follow up on his report. As previously suggested SHA needs training in the responsibilities it is required to carry out.

Review of the annual budget by the legislature (PI-27, score 'C+') would score quite highly except for the late date at which the detailed budget has generally been made available (see also PI-11).

Table 1: Summary of PFM Performance Scores

No	Performance Indicator	Score
A	PFM OUT-TURNS: Credibility of the budget	
1	Aggregate expenditure out-turn compared to original approved budget	D
2	Composition of expenditure out-turn compared to original approved budget	D
3	Aggregate revenue out-turn compared to original approved budget	D
4	Stock and monitoring of expenditure payment arrears	D
B	KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency	
5	Classification of the budget	C↑
6	Comprehensiveness of information included in budget documentation	C
7	Extent of unreported government operations	C
8	Transparency of inter-governmental fiscal relations	D
9	Oversight of aggregate fiscal risk from other public sector entities	D+
10	Public access to key fiscal information	B
C	BUDGET CYCLE	
C(i)	Policy-based Budgeting	
11	Orderliness and participation in the annual budget process	C+
12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+
C(ii)	Predictability and Control in Budget Execution	
13	Transparency of taxpayer obligations and liabilities	D+
14	Effectiveness of measures for taxpayer registration and tax assessment	D+
15	Effectiveness in collection of tax payments (<i>information subject to verification</i>)	C
16	Predictability in the availability of funds for commitment of expenditures	D+
17	Recording and management of cash balances, debt and guarantees	D
18	Effectiveness of payroll controls	A
19	Competition, value for money and controls in procurement	D
20	Effectiveness of internal controls for non-salary expenditure	D+
21	Effectiveness of internal audit	D
C(iii)	Accounting, Recording and Reporting	
22	Timeliness and regularity of accounts reconciliation	C
23	Availability of information on resources received by service delivery units	D
24	Quality and timeliness of in-year budget reports	D+
25	Quality and timeliness of annual financial statements	D+
C(iv)	External Scrutiny and Audit	
26	Scope, nature and follow-up of external audit	C+
27	Legislative scrutiny of the annual budget law	C+
28	Legislative scrutiny of external audit reports	D
D	DONOR PRACTICES	
D1	Predictability of direct budget support	N/A
D2	Financial information provided by donors for budgeting and reporting on project and program aid	D
D3	Proportion of aid that is managed by use of national procedures	D

1. Introduction

1.1. Jigawa State background

Background statistics

Jigawa State is one of the thirty-six states of Nigeria. It was created out of the old Kano state in 1991 and is located in the far north of the country, on the border with Niger Republic. The state has a population of about 4 million as at 2006 with a lower than national average population density of about 180/km². The climatic condition in Jigawa state is characterized by high temperatures of about 40°C (between March and September) and about 11°C between October and February. Although the state has vast areas of fertile land, the rapid depletion of natural vegetation, due largely to human activities and natural phenomena, has exposed much of the state to desertification. Approximately 90% of the population lives in rural areas with over 80% engaged in subsistence farming. More than half the population is poor even by national standards.

Recent change in State Government

As with other Nigerian States there were elections in April 2007 for the State Governor and also for the legislature, known as the State House of Assembly (SHA). In Jigawa this resulted in a change of Governor and more than 50% new members in the SHA. The governance structure of the State is covered in section 2.1 below.

This PEFA assessment was carried out in May-June 2007 and revised in response to stakeholder comments in July 2007. It is important to note that the performance evaluation relates to the plans and work of the former government. In particular many of the financial evaluations relate to the period 2003 to 2005, audited accounts not yet being available beyond that period. Where reforms have been started by the new government (e.g. the re-institution of a Parliamentary Accounts Committee) these are noted but not included in the evaluation scores.

1.2. Economic and social reform policies

Since the return of civil rule to Nigeria in 1999, the country has embarked on a programme of political and economic restructuring and social reforms. At the national level, the National Economic Empowerment and Development Strategy (NEEDS), inaugurated in 2003, aims at wealth creation, employment generation, poverty reduction and value re-orientation. Since then the country's 36 states have developed local versions of this strategy.

In Jigawa, the previous state government developed the Jigawa State Economic Empowerment and Development Strategy (J-SEEDS). J-SEEDS was developed as a costed medium term development plan for three years from 2004 to 2007 and aimed at the integrated economic and social development of Jigawa state. The vision was to improve the standard of living of the people through pro-poor economic growth and social development. Priorities of J-SEEDS are:

- Poverty reduction through improved agricultural production and support for small and medium sized enterprises (SMEs).
- Provision of conducive investment climate in the state through the development appropriate institutions and infrastructure.
- Development of the human resource base of the state through formal and non-formal education, provision of effective health, water and sanitation services in the state.

1.3. Public financial management reforms

In order to achieve and sustain the gains of economic and social reforms in the State it is necessary to continuously improve the institutions and systems of public financial management (PFM). Because funds are limited, it is essential that: (i) finance is directed towards priority areas, by means of annual budgets and forward financial plans; (ii) actual spending occurs in the areas which have been targeted; (iii) cash and assets are properly protected, and liabilities incurred in a controlled way; and (iv) spending is effective and efficient, in other words achieves value for money. Thus while effective financial management will never be one of the ultimate goals of a reform programme, it provides essential underpinning for all of them.

In recent years, Jigawa State Government (JSG) has exhibited interest in improving the State's PFM. Particularly since the inception of the Bureau for State and Local Government Reform (BSLGR) in 2001, a number of steps have been taken towards reforming and developing specific PFM processes and building PFM capacity. These have been a combination of locally funded initiatives and improvements supported by the State and Local Government Programme (SLGP), financed by the UK's Department for International Development (DFID).

The improvements include (i) major reforms to the systems for salaries and pensions, including development of an integrated computerised personnel and salaries database; (ii) enhancements to planning and budgeting, including computerisation of the budget preparation process and preparation of medium term revenue and expenditure projections, set within the context of the Jigawa State Economic Empowerment and Development Strategy (J-SEEDS); (iii) training for the Jigawa State House of Assembly on their budget oversight responsibilities ; and (iv) training for more than 100 accounts staff.

While revenue management and non-payroll budget execution and accounting still rely on manual systems, designs have now been prepared for (i) a new budget classification and chart of accounts that meets international standards; and (ii) a computerised integrated financial management information system (IFMIS) which will link budget preparation, budget execution, accounting and reporting at all JSG Ministries, Departments and Agencies (MDAs). This year (2007) it is also intended to carry out a diagnostic study for a debt management department (DMD) and to provide further support to the incoming House of Assembly, post elections, on their budget oversight responsibilities.

1.4. Purpose of the Public Financial Management Performance Assessment

J-SEEDS emphasises the importance of reforms to promote good governance and, in this context, the stakeholders agreed that there was a need to develop a clearly defined PFM reform programme. However, before this could be done, it was important to evaluate and document the current status of PFM in the State. It was decided to carry out this evaluation using the internationally agreed performance indicators developed under the Public Expenditure and Financial Accountability (PEFA) initiative. These PEFA indicators form the backbone to this report.

It is important to emphasise that the purpose of this evaluation has not been to evaluate and score different institutions or responsible individuals in the Government. The focus is on the PFM system as such, and the results of the evaluation should serve not only as a baseline for future evaluations but also as an important input in the development of a PFM Reform Programme and prioritisation of activities within it.

1.5. The PEFA indicators

Public Expenditure and Financial Accountability (PEFA) is a multi-agency partnership program with a secretariat based at the World Bank. After wide consultation, PEFA has developed a set of indicators for Public Financial Management known as the PEFA-PFM Performance Measurement Framework.

This framework is designed to facilitate comparison of PFM performance over time and between countries / states using indicators on a scale from A to D. The PFM objectives assessed are shown in Table 2 below.

Table 2: Dimensions of Public Financial Management Performance

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

In addition there are three indicators (D 1 - 3) that assess donor practices in the country.

1.6. Methodology

Organisation

The evaluation was carried out during the period 21 May and 8 June 2007. A JSG Public Financial Management Steering Committee was formed comprising representatives from central and line ministries and agencies (see Annex 1). This committee led the evaluation process and was assisted in completing the evaluation by independent monitoring consultants appointed by SLGP.

The evaluation involved:

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

Two stakeholder workshops were conducted. The first was a one-day initiating workshop to discuss the methodology, whilst the second was a two day 'retreat' to discuss each indicator in detail in the context of the evidence that had been collected.

The draft report was presented and discussed at a meeting of the JSG Public Financial Management Steering Committee on 7 June 2007 and this report is the outcome.

Scoring methodology

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

1. Each performance indicator (PI) may have several dimensions. For each of these dimensions the minimum requirements for scoring A, B, C or D is clearly described in the PEFA PFM manual.
2. *Scoring method M1*: For PIs where poor performance on one dimension is likely to undermine good performance on another, the score is based on the weakest link. Thus, for example, in assessing 'multi-year perspective in fiscal planning, expenditure policy and budgeting' (PI-12), sector strategies are relatively strong (scoring B) but debt sustainability analysis is weak (scoring D). The weakest link determines that the overall score will be a D, with a '+' added to indicate that some dimensions are better. Hence the overall score is D+.
3. *Scoring method M2*: For PIs where the dimensions are essentially independent, the overall score is determined by averaging. For example see PI-14 or PI-17.

1.7. Scope of the assessment

The PEFA methodology was originally designed for assessing PFM performance at national government level. It has therefore been adapted to assess the performance of JSG. Thus, for example, where the PEFA methodology refers to sub-national governments, this evaluation has examined sub-state governments i.e. local governments. However local governments are financed mainly by allocations from federal government and the State has only a limited influence on their financing.

Apart from some selected indicators (e.g. oversight of fiscal risk) this evaluation has been concerned exclusively with the PFM performance of JSG and (in line with the PEFA methodology) has not considered the details of PFM at local governments or parastatals.

2. PFM systems in Jigawa State

2.1. Institutional and regulatory framework

Governance structure

The 1999 constitution of the Federal Republic of Nigeria makes provision for the presidential system of government both at the federal and state levels. In line with this provision, the governance structure of Jigawa comprises:

- *The Executive arm of government:* This is controlled by the Executive Governor of the State, who has the responsibility for executing the policies of the State. He is assisted in this task by the State Executive Council (EXCO), also known as the Cabinet, which is made up of the State Commissioners who preside over the affairs of the Ministries assigned to them by the Governor. The Secretary to the State Government (SSG) is the secretary of EXCO, and the Head of Service (i.e. the Head of the Civil Service) is also in attendance.
- *The Legislature:* There are 24 elected members of the State House of Assembly (SHA), with approximately one constituency for each local government area. They are empowered by the constitution to make laws for the orderly governance and management of the State.
- *The Judiciary* - not covered by this report, as they have no role in the financial management system.

Elections for the Governor and the Legislature are held every four years. Following the April 2007 elections, a new Governor took office and more than 50% of the members of the State House of assembly are new. Commissioners have not yet been selected but there are likely to be many new commissioners as well.

Regulatory framework

The regulatory framework for Public Financial Management in Jigawa includes the following documents to which reference has been made:

- The Public Finances (Control and Management) Law (1990): The legal framework for financial management in old Kano state, which now applies to both Kano and Jigawa.
- The Kano State Audit Law (1990): This makes provisions for the preparation and audit of the Public Accounts and public offices of the old Kano state, in accordance with section 125 of the Constitution of the Federal Republic of Nigeria 1999. This now applies to the modern states of Kano and Jigawa.
- The Personal Income Tax Act (1993) guides the assessment and collection of income taxes for all states.
- Financial Instructions (updated 2006): instructions and guidelines for budget execution and accounting in Jigawa State.
- Stores Regulations (updated 2006): regulations for procurements, contract awards, contract records, stores management in Jigawa State.

2.2. Outline of the financial management system

This system briefly outlines the way the system *is intended to run* at present. Section 3 assesses the actual system (which does not always follow the intended system) against the PEFA performance indicators.

At the time of the PEFA assessment (May/June 2007) the central financial Ministries were the Ministry of State Joint Planning, Budget and Expenditure Control (MPB); and the Ministry of Treasury Operations (MTO). There was a Commissioner in charge of each of these Ministries.

As at July 2007, the new structure is for there to be just one Commissioner, in charge of the Ministry of Finance and Economic Planning (MOFEP), and there is a Budget and Economic Planning Directorate. Because the new structure is still being developed and the PEFA was carried out when the old structure was in force, the description below refers to the old Ministry names.

Budget

1. MPB sends out a budget revenue call circular, asking Ministries, Departments and Agencies (MDAs) to forecast their internally generated revenues (IGR).
2. Using estimates of Federal revenue and IGR, MPB estimates total resources available and is able to propose expenditure ceilings for the following year (the budget year), in aggregate and for each MDA.
3. These ceilings are presented to EXCO, who make amendments and authorise them.
4. MPB sends out the budget expenditure call circular, stating ceilings for each MDA and asking for their detailed budget estimates. The budgets for recurrent and capital expenditure are separate.
5. MPB negotiates and amends plans with MDAs.
6. MPB delivers the detailed budget proposals to EXCO, which makes amendments. The Governor then presents the proposals to the SHA as the Appropriation Bill.
7. The Appropriation Bill goes through the first reading in the Committee of the Whole House, after which the House breaks into committees to consider details of the appropriation. The Appropriation Committee critically considers the details of resource allocation and makes alterations as it considers fit.
8. After agreeing amendments, and a second and third reading of the Bill, the SHA passes the Appropriation Act and the Governor signs it into law.
9. A similar procedure is supposed to be used for agreeing supplementary budgets. The approval of SHA, through a supplementary budget, is needed to make any virement of funds between MDAs and/or between recurrent and capital budgets.

Budget execution and accounting

1. Each MDA has separate bank accounts for IGR (where relevant), recurrent salary expenditure and recurrent overhead expenditure.
2. Salaries are centralised on a computer system and controlled by the Ministry of Salaries and Pensions (MSP). Nearly all employees are paid through their bank account. Each month the computer generates payroll control totals for the MTO, which releases net salary funds to each MDA and pays PAYE and other deductions to the appropriate institutions. MDAs then make net salary payments to the designated bank accounts of the employees.

3. Treasury Department makes monthly releases to each MDA for a small proportion of its monthly recurrent budget overhead cost. Payments up to this limit can be executed under the authority of the accountable officer of the MDA (Permanent Secretary, PS). For overhead expenditure above this amount (known as special releases) authority must be obtained from the office of the Head of Service for each individual item. Once obtained, MTO will release the funds to the MDA if available. If not, the funds request is queued up at Treasury. When funds become available, payment cheques are written at the MDA.
4. For capital expenditure, each Ministry should have a Ministerial Tenders Board (MTB), and all capital expenditure must be on contracts which have been approved at the appropriate level (e.g. larger contracts by the MTB, with lesser amounts approvable by the PS or the Commissioner). In addition, the Governor's approval should be required for contracts above a certain level, and EXCO's approval for amounts above that (e.g. above N10 million). Permission to make payments on approved contracts must be obtained from the Governor, via the SSG. The exception to this is that, for contracts above N10 million, EXCO may approve the initial payment to the contractor directly, but subsequent payments must be approved by the Governor.
5. Once approval for capital expenditure is obtained, the MTO will queue the approvals until funds are available and then make payments direct to the contractor from the Treasury bank account.
6. Payments and accounting source documents are kept at MDAs, which are responsible for reconciling their bank accounts and sending monthly cash summaries to MTO.
7. MTO use the cash summaries to prepare the annual accounts.

External audit and scrutiny by the SHA

1. Auditing of MDAs and the annual accounts of KSG is carried out by the Office of the Auditor General. Parastatals and Local Governments appoint their own auditors, who are private audit firms, chosen from a list provided by the Auditor General.
2. The oversight function of the various committees of the KSHA includes the responsibility to monitor, review and report on the execution of the budget as passed into law by the assembly. The reports of the Auditor General and private auditors should be examined by the Public Accounts Committee of the SHA.

2.3. Fiscal Performance

As at July 2007, the last year for which actual financial results are available is 2005, and the analysis of PEFA indicators therefore starts with a review of budgeted and actual results for the period 2003 to 2005 (see indicators PI-1 to 3, starting on page 28).

The following pages summarise the overall fiscal performance of the government, as shown in the annual financial statements. Note that these are *actual results* and in most cases are quite different from the budgeted plans, as will be seen. It is also important to note that although most of the figures in the financial statements are easy to follow, these are prepared manually and quite often suffer from common errors such as inaccuracies in control totals, non-alignment of typing, and schedules that do not cross-reference to the summary. There are likely therefore to be significant errors in the summary information shown in this report.

Table 3 shows movements in the balance sheet of JSG, i.e. movements in the year-end balances of JSG's total funds, which equal its total assets. The totals increased from N2.353 billion in 2003 to N3.733 billion in 2005. The main funds are:

- the Consolidated Revenue Fund (CRF), which receives income from the Federation Account (i.e. Federal government) and internally generated revenue (IGR - i.e. local taxes, fees and charges raised by Jigawa State), and which pays recurrent expenses and makes a transfer to the Capital Development Fund; and
- the Capital Development Fund (CDF), which receives capital receipts and transfers from the CRF and makes capital expenditures.

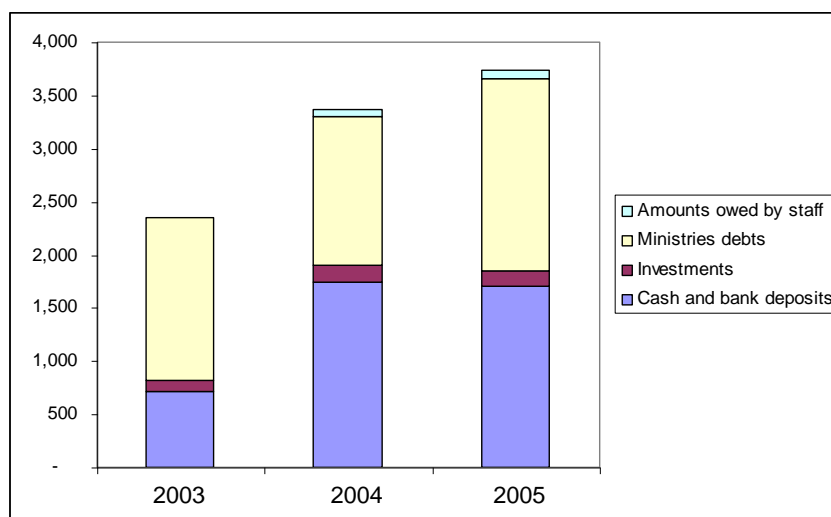
Table 3: Movement in JSG Funds and Assets 2003-2005

Figures in N million

	2003	2004	2005
Consolidated Revenue Fund	1,439	-	1,727
Capital Development Fund	90	3,190	1,481
Retention Account	-	132	486
Contingencies Fund	797	-	-
Special funds (for loans to staff)	27	40	39
	<u>2,353</u>	<u>3,362</u>	<u>3,733</u>
Cash and bank deposits	711	1,746	1,697
Investments (in private companies)	102	151	151
Ministries debts	1,536	1,407	1,807
Amounts owed by staff	4	58	78
	<u>2,353</u>	<u>3,362</u>	<u>3,733</u>

As can be seen from Table 3 and Figure 1, approximately half of JSG's assets at any time are 'Ministries Debts'. These are loans made to State Corporations and parastatals.

Figure 1: Movement in JSG assets 2003 - 2005



Note that because JSG has a cash system of accounting, borrowings and other liabilities are not included in the balance sheet. Although records of outstanding debts are attached to the financial statements and information on large debt payments is included under recurrent expenditure, the information is insufficient to distinguish debt service payments from debt repayment (amortization). The 2005 statements show that external loans are N122 million (must be incomplete) and amounts outstanding on contracts are N1.511 billion.

Table 4 on the following page shows a summary of the receipts and payments that have passed through the CRF and the CDF between 2003 and 2005.

Table 4: Movements in CRF and CDF 2003 - 2005

Figures in N'000

Year Fund	2003 CRF	2003 CDF	2003 Total	2004 CRF	2004 CDF	2004 Total	2005 CRF	2005 CDF	2005 Total
<i>Receipts:</i>									
Statutory allocation	13,526,007		13,526,007	19,331,501		19,331,501	21,416,824		21,416,824
State IGR	506,131		506,131	1,210,894		1,210,894	1,035,260		1,035,260
Transfer from CRF		3,370,952			9,660,330			5,847,886	
Other capital receipts		1,005,127	1,005,127		3,649,135	3,649,135		13,423,096	13,423,096
Total receipts	14,032,138	4,376,079	15,037,265	20,542,395	13,309,465	24,191,530	22,452,084	19,270,982	35,875,180
<i>Payments:</i>									
CRF charge	2,882,686		2,882,686	4,793,644		4,793,644	6,783,275		6,783,275
Personnel cost	4,380,662		4,380,662	4,304,584		4,304,584	4,375,380		4,375,380
Overhead cost	2,528,018		2,528,018	3,222,522		3,222,522	3,718,149		3,718,149
Total capital expenditure		4,348,552	4,348,552		10,309,313	10,309,313		20,980,095	20,980,095
Transfer to CDF	3,370,952			9,660,330			5,847,886		
Total payments	13,162,318	4,348,552	14,139,918	21,981,080	10,309,313	22,630,063	20,724,690	20,980,095	35,856,899
Surplus / deficit	869,820	27,527	897,347	- 1,438,685	3,000,152	1,561,467	1,727,394	- 1,709,113	18,281
Balance b/f	568,894	162,586	731,480	1,438,714	190,113	1,628,827	29	3,190,265	3,190,294
Balance c/f	1,438,714	190,113	1,628,827	29	3,190,265	3,190,294	1,727,423	1,481,152	3,208,575
Surplus / deficit	869,820	27,527	897,347	- 1,438,685	3,000,152	1,561,467	1,727,394	- 1,709,113	18,281

Notes:

Statutory allocation is revenue received from federal government (the Federation account). IGR is internally generated revenue of the State.

In the three year period there were surpluses of receipts over payments totalling N2.478 billion (N3.209 bn - N0.731 bn).

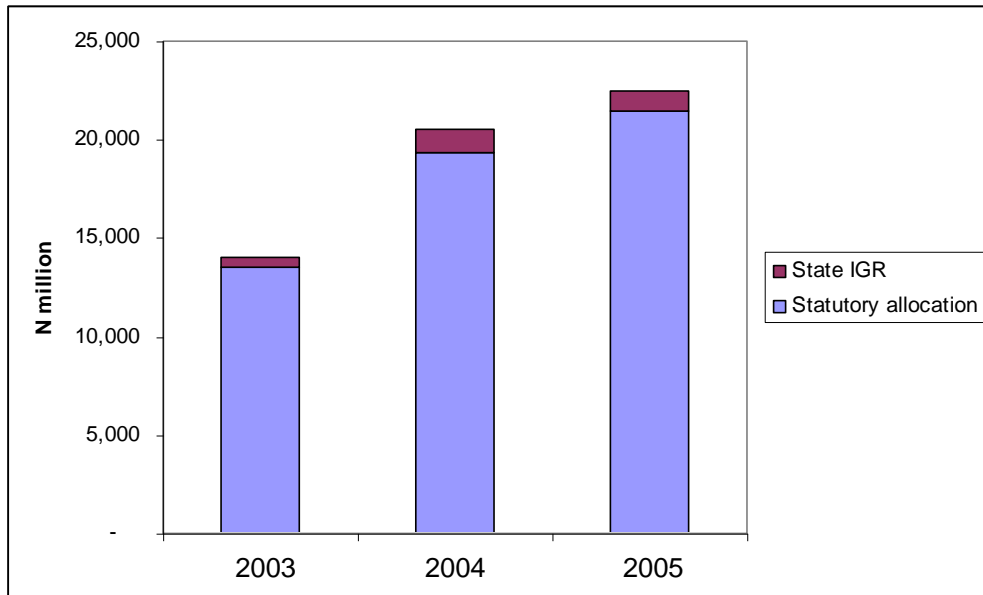
In 2004 a large deficit on CRF of N1.439 bn was more than offset by a surplus on CDF of N1.561 bn, indicating financing of recurrent expenditure by capital receipts.

In 2005 the situation was reversed, with a surplus of N1.727 bn on CRF financing a deficit of N 1.709 bn on CDF.

Revenues and receipts

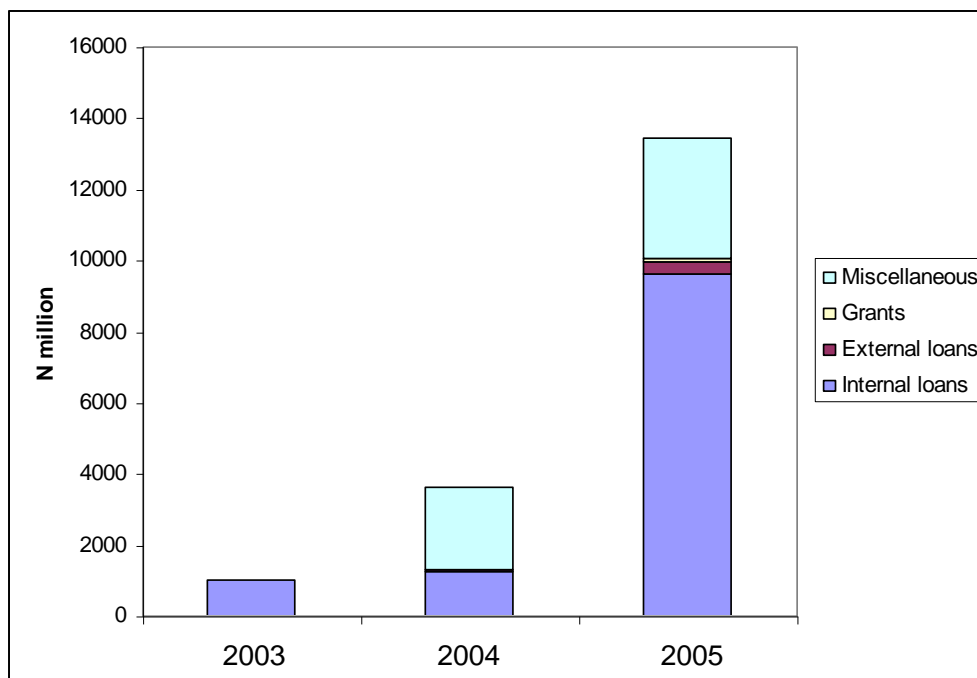
Figure 2 below illustrates that actual recurrent revenues over the period 2003 to 2005 rose from N14 billion to N22 billion. 95% of this revenue came from the Federation account.

Figure 2: Total actual recurrent revenues of JSG: 2003 - 2005



Capital receipts were relatively low in 2003 and 2004 (N1,005 million and N3,649 million) but rose significantly in 2005 to N13,423 million, this figure being mainly internal (Naira) loans, as seen in Figure 3.

Figure 3: Capital receipts 2003 - 2005



Payments

Table 5 and Figure 4 show that in the same period actual expenditure rose from N14 billion to N36 billion. Included in the recurrent expenditure are large public debt payments but, as indicated previously, there is no analysis of service payments and amortization within these figures.

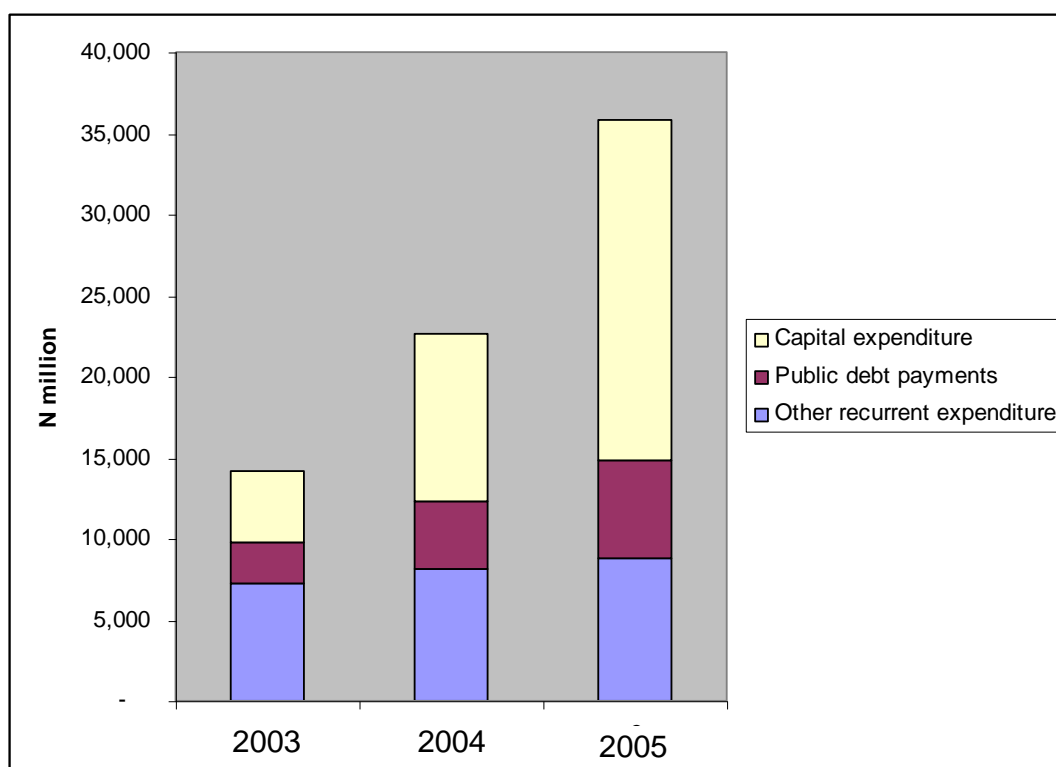
Whereas other recurrent expenditure rose slowly, capital expenditure rose significantly in 2005, having fallen well below budget, and hence been delayed, in the previous two years (see PI-1, page 28). Note, however, that under the existing budget classification capital expenditure includes some recurrent cost items.

Table 5: Total actual expenditure JSG - 2005

Figures in N million

Year	2003	2004	2005
Public debt payments	2,502	4,147	6,116
Other recurrent expenditure	7,289	8,174	8,761
Capital expenditure	4,349	10,309	20,980
	14,140	22,630	35,857

Figure 4: Total actual expenditure of JSG: 2003 - 2005



Fiscal performance in Jigawa state during this period is characterized by a poor record of achieving budgeted targets. The wide divergence between budgeted and actual expenditures is a major concern of this PEFA evaluation and is explored in detail under performance indicators PI-1 and PI-2

Table 6 shows an analysis of capital expenditure over the period by sub-sector, referenced using the Classifications of Functions of Government (COFOG). This is further illustrated in

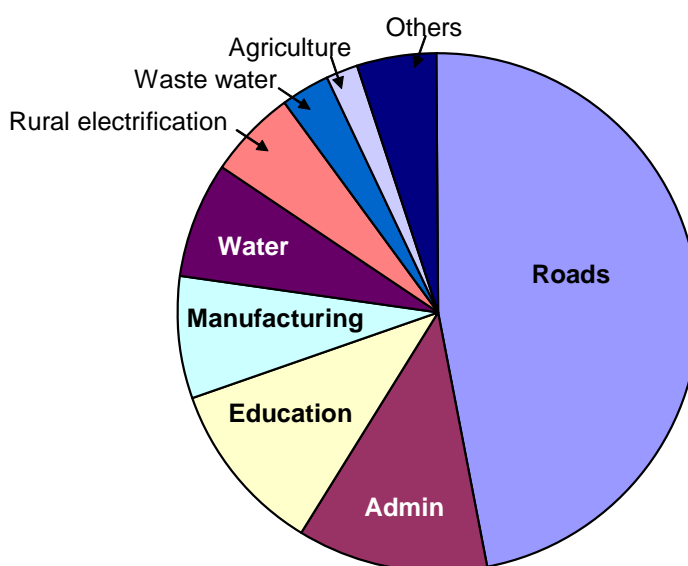
Figure 5. Nearly half the expenditure was on roads, followed by administration, education, manufacturing, water supply and rural electrification.

Table 6: Capital expenditure by sub-sector 2003 - 2005

Figures in N million

Subsector	COFOG code	2003	2004	2005	Total
Administration	1.0	1,630	1,256	1,264	4,150
Commercial affairs	4.1	128	162	54	344
Agriculture & Forestry	4.2	211	158	302	671
Fuel and energy (rural electrification)	4.3	100	2	1,906	2,008
Manufacturing	4.4	19	301	2,453	2,773
Transport (Roads)	4.5	1,538	4,740	10,454	16,732
Information	4.6	27	20	333	380
Waste water management	5.2	390	355	415	1,160
Housing	6.1	21	333	33	387
Water supply	6.3	37	119	2,404	2,560
Town and Country Planning	6.5	50	9	203	262
Health	7.0	93	130	164	387
Education	9.0	105	2,724	1,041	3,870
		4,349	10,309	21,026	35,684

Figure 5: Capital expenditure by sub-sector 2003 - 2005



An analysis of total expenditure by sector is a very long task and can only be approximate because there are errors in the schedules of recurrent expenditure (salaries, overheads, subventions to parastatals) so that they do not always agree to the control totals. There may also be typing 'line-up' errors which cause figures to be reported against the wrong heading. Nevertheless an analysis of estimated total actual expenditure by sector for 2005 (excluding public debt payments of N6 billion) is shown in Table 7 and Figure 5.

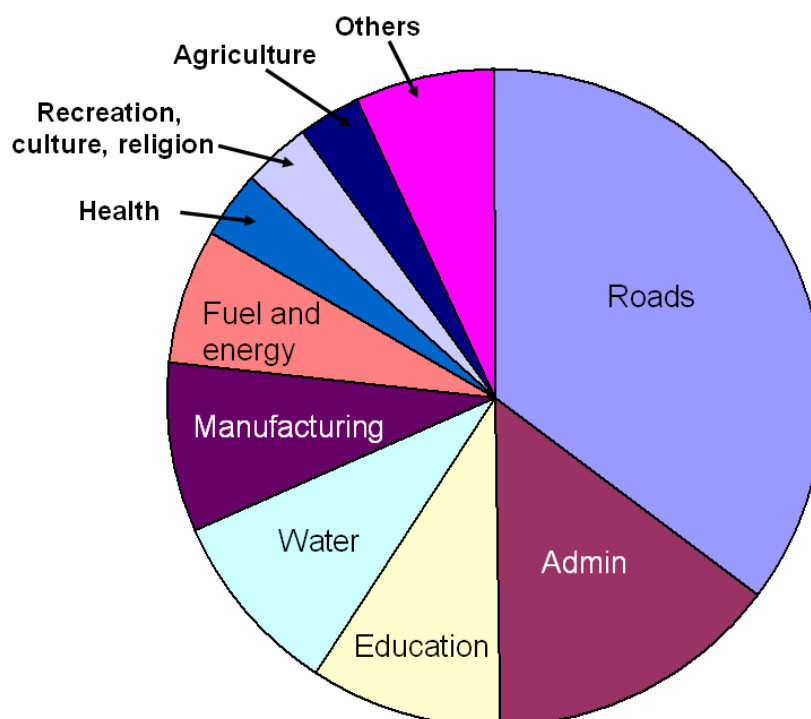
Table 7: Sectoral analysis of total JSG actual expenditure 2005

Ignoring public debt payments

Figures in N million

Subsector	COFOG code	Recurrent expenditure	Capital expenditure	Total
Transport (Roads)	4.5	61	10,454	10,515
General public services (administration)	1.0	3,066	1,264	4,330
Education	9.0	1,750	1,041	2,791
Water supply	6.3	315	2,404	2,719
Manufacturing	4.4	27	2,453	2,480
Fuel and energy	4.3	51	1,906	1,957
Health	7.0	887	164	1,051
Recreation, culture and religion	8.0	1,004	-	1,004
Agriculture & forestry	4.2	540	302	842
Information	4.6	196	333	529
Environmental protection	5.0	24	415	439
Public order and safety	3.0	407	-	407
Social protection	10.0	327	-	327
Housing and community amenities	6.0	37	236	273
Commercial affairs	4.1	68	54	122
Total		8,760	21,026	29,786

Figure 6: Sectoral analysis of total JSG actual expenditure 2005



3. Assessment of the PFM systems, processes and institutions

3.1. PFM Out-Turns: Credibility of the Budget

For indicators PI-1 to PI-3, figures are taken from the last three years for which actual outcomes are available. As at June 2007, these are the years 2003 to 2005. Figures for budget and actual have been taken from the report of the Auditor General, which contains the official audited results¹.

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

The aim of this indicator is to compare aggregate expenditure in the original budget against the actual out-turn, excluding debt service payments². Figures are shown in Naira million.

Annual expenditure	2003		2004		2005	
	Budget	Actual	Budget	Actual	Budget	Actual
Consolidated Revenue Fund Charge (less debt service pymts)	898	381	676	647	806	713
Recurrent: Personnel cost	5,040	4,381	4,865	4,305	9,079	4,375
Recurrent: Overhead cost	3,482	2,528	3,097	3,222	3,021	3,718
Total recurrent expenditure	9,420	7,290	8,638	8,174	12,906	8,806
Capital Expenditure (all)	19,200	4,349	23,812	10,309	23,904	20,980
Total	28,620	11,639	32,450	18,483	36,810	29,786

Variance %: (actual - budget) / budget:

Recurrent	-23%	-5%	-32%
Capital	-77%	-57%	-12%
Total	-59%	-43%	-19%

Note: The high figure of N 9,079 million for personnel cost in 2005 was because additional salaries for staff of local education authorities were going to be included in the JSG accounts. In the event these were not included. If this figure is treated as an extraordinary item (a one-off incorrect budgetary assumption), the overall variance would fall to -7%, a much better performance. However, this would not affect the score for this indicator.

A comparison of outturns against the original budget over the past three years indicates that, in aggregate over the period 2003 to 2005, the budget was an inaccurate measure of actual expenditures and a score 'D' has been awarded.

In particular, in 2003 and 2004 capital expenditure was much lower than budget. This shortfall is matched by similar shortfalls in capital receipts (see PI-3) but it is unclear why the budgeted capital expenditure was not enacted.

¹ For a comment on the accuracy of the figures in the final accounts see PI-25, page 52.

² Note: As required by the PEFA-PFM Performance Measurement Framework, the figures exclude debt service payments, on the basis that these are not controllable by the government. Donor expenditure should also be excluded on the same basis. Grant funded donor expenditure is automatically excluded, as it does not go through the government's books. However, it is impossible to easily exclude loan funded donor expenditure, as this is not easily identifiable from the figures provided. This is not believed to alter the score.

Summary of PI-1:

No.	Performance Indicator	Score	Brief Explanation
PI-1	Aggregate expenditure out-turn compared to original approved budget	D	The percentage deviations between actual and budgeted primary expenditures as a proportion of the original approved budget were: 2003: -59% 2004: -43% 2005: -19% (or -7% if extraordinary item recognised) In at least 2 of the 3 years expenditure was more than 15% different from budget. Therefore a D.

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

Differences between budgeted allocations to MDAs and actual out-turns have been very high. Undoubtedly some of these figures are mistakes in the accounts, caused by incorrect expenditure classification. Other differences may be caused by sub-division or aggregation of MDAs during the budget year, resulting in a lack of comparability between budget and actual agencies. However, even if these effects are considered, it is clear that in-year changes of budget allocation to MDAs have been very high. Example figures are shown for 2005 in Table 8 below. Similar variances were present in 2003 and 2004.

Table 8: Some major variances in the 2005 accounts

Figures in Naira million

Recurrent budget	Budget	Actual	Variance
Subventions	1,670.22	2,535.50	865.28
Director Protocol	35.56	573.73	538.17
Youth Development Dept	13.15	121.32	108.17
Ministry of Information	33.50	124.46	90.96
Dir Local Govt Affairs	27.30	106.79	79.49
Government House	354.00	89.08	(264.92)
Miscellaneous	590.00	440.29	(149.71)
Ministry of Health	889.70	779.95	(109.75)
State House of Assembly	429.50	320.37	(109.13)
Special Service	149.56	88.77	(60.79)
Capital budget	Budget	Actual	Variance
Water Supply	647.50	2,402.73	1,755.23
Rural Electrifications	590.00	1,906.61	1,316.61
Transport (Road Development)	9,280.00	10,453.60	1,173.60
Education	5,030.00	1,021.33	(4,008.67)
Agriculture and Rural Dev.	1,266.00	276.45	(989.55)
Housing	785.50	30.00	(755.50)
Commerce Coop and Supply	617.00	54.16	(562.84)
Health	662.00	163.80	(498.20)

Indicator PI-2 shows the variance of the composition of expenditures i.e. the extent to which *reallocations* between expenditure heads are greater than the total budget variance shown in PI-1.

To calculate the composition variance in accordance with the PEFA manual, data has been taken for the 20 largest expenditure heads (which cover at least 80% of the expenditure) and the remaining expenditure has been treated as one figure. The sum of the absolute deviations of actual from budgeted primary expenditure has been expressed as a percentage of the budgeted figures and the overall percentage deviation in PI-1 above deducted.

The result shows that expenditure to individual heads varies substantially more than the overall variance of total expenditure, indicating very large reallocations from one head to another during all of the financial years 2003 to 2005, and resulting in a score of D.

Summary of PI-2:

No.	Performance Indicator	Score	Brief Explanation
PI-2	Composition of expenditure out-turn compared to original approved budget	D	The variance in the <i>composition</i> of expenditures across budget heads as an excess over the total cost variance in PI-1 was: 2003: 38% 2004: 14% 2005: 30% In at least two of the last three years this was greater than 15%, giving a D.

Commentary on indicator PI-2

As noted above it is clear that in-year changes of budget allocation to MDAs have been very high. Typically this arises because expenditures to some agencies (especially central agencies related to the Governor’s office) were allowed to proceed at a rate that would exceed their annual budget, while approval for expenditures from other agencies (for which the Governor’s approval is needed, see indicator PI-16) was held back. Over-expenditure by central agencies was partially assisted by lack of commitment controls (see indicator PI-20).

At a suitable stage in the year, virements between agencies were agreed by the Executive Council (EXCO) and ratified (as part of a supplementary budget) by the State House of Assembly. This process was subject to the weakness that EXCO was dominated by the Governor.

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

More than 95% of JSG’s revenues come from the statutory allocation from Federal Government (the Federation account). In the years 2003 to 2005 this revenue exceeded expectations in every year, leading to total revenue being higher than budget in two of the three years (2004 and 2005) which is an A score.

However, because the statutory allocation from the Federation Account is outside of the State’s control, indicator PI-3 for a State should really concerned with the State Internally Generated Revenue (IGR). This has been so far below budget as to score a D. It is this interpretation of indicator PI-3 that we have adopted, even though IGR is immaterial when considering the total budget revenue.

Figures in Naira million.

Annual Revenue	<i>2003</i>		<i>2004</i>		<i>2005</i>	
	<i>Budget</i>	<i>Actual</i>	<i>Budget</i>	<i>Actual</i>	<i>Budget</i>	<i>Actual</i>
Statutory allocation	13,500	13,528	14,972	19,332	24,580	26,920
State IGR	750	504	1,500	1,211	1,220	1,035
Total recurrent revenue	14,250	14,032	16,472	20,543	25,800	27,955

	<i>2003</i>	<i>2004</i>	<i>2005</i>
Actual as percentage of budget:			
Statutory allocation	100%	129%	110%
State IGR	67%	81%	85%
Total recurrent revenue	98%	125%	108%

Summary of PI-3:

No.	Performance Indicator	Score	Brief Explanation
PI-3	Aggregate revenue out-turn compared to original approved budget	D	State recurrent revenue as a percentage of budget was: 2003: 67% 2004: 81% 2005: 85% This scores a D (actual revenue was less than 92% of budget in every year).

PI-4: Stock and monitoring of expenditure payment arrears

There is a partial system for measuring arrears of expenditure but there are opportunities for substantial liabilities to remain unidentified.

Payroll and pensions

Since the installation of the new pensions and payroll systems in 2003 - 2005 (see PI-18 on page 48) the arrears of pensions and salaries have been significantly reduced. Arrears would now constitute possible delays in payments to new pensioners and to employees who have been promoted or otherwise changed their position. These delays are no more than two months in each case for a small number of people, but are potentially unquantified.

Contractual commitments

At the end of each financial year the Accountant General obtains data on the progress of all registered contracts from the MDAs concerned and calculates the amount outstanding on each, and these figures are summarised in the annual accounts³. It is stated that some of these amounts are not arrears but future payments on longer term contracts where the contract has been signed but work not yet carried out. Nevertheless they are all termed Certified Contractual Obligations in the annual accounts, implying that work has been certified. The total contractual amounts owing in the schedules in the 2004 and 2005 accounts are shown in Table 9 below (2003 figures are incomplete and not totalled).

³ The method of presenting this data was improved in 2005 but there is still inconsistency in the presentation of different contractual amounts owing.

The system for registering commitments when local purchase orders are issued has fallen into disuse (see PI-20 on page 51). Hence calculating arrears on this type of expenditure is difficult and nobody estimates their value at the year end. There are also outstanding claims from staff members (for medical expenses, travel expenses, motor vehicle expenses, etc.) and there can be arrears of utility costs, none of which are quantified.

Table 9: Outstanding certified contractual obligations

Figures in N million

<i>Year end</i>	<i>2004</i>	<i>2005</i>
Outstanding certified contractual obligations	1,038	4,055
Total expenditure	22,630	35,857
Percentage o/s obligations / expenditure	4.6%	11.3%
Total fund balance (CRF + CDF)	3,190	3,209

The reasons why the arrears of contractual obligations were not paid by the year end need investigation. From the table it can be seen that there were sufficient funds to pay the obligations at 31 December 2004 but not at 31 December 2005.

At the moment there is a fear that substantial additional unrecorded liabilities may have been incurred during the last year (2006), and this possibility is being investigated by the incoming government. Accordingly this indicator has been given a D score because of uncertainty of the amount of arrears and because there is no comprehensive system to identify them.

There are also large amounts owing by parastatals to their external auditors (private firms of accountants/auditors). These are not technically liabilities of JSG but the parastatals themselves. They therefore have not been included in this indicator, but are covered by PI-9 on page 38).

Summary of PI-4:

No.	Performance Indicator	Score M1	Brief Explanation
PI-4	Stock and monitoring of expenditure payment arrears	D	
(i)	Stock of expenditure payment arrears (as a percentage of total annual expenditure) and any recent change in the stock	D	The stock of arrears exceeded 10% of expenditure in 2005, and is likely to have increased substantially in 2006, following possible uncontrolled commitments over the past year.
(ii)	Availability of data for monitoring the stock of arrears expenditure	D	There is no comprehensive system for generating figures on the stock of arrears.

3.2. Key cross-cutting issues: comprehensiveness and transparency

PI-5: Classification of the budget

There are separate recurrent and capital budgets which use different classifications. Recurrent expenditures are classified by administrative unit and economic purpose under 14 heads (personnel cost and 13 categories of overhead) whereas capital expenditures are classified at an aggregate programme level without any detailed breakdown by economic purpose (e.g. 'Improvement of General Hospitals'). Only in the remarks related to each capital project is there any description of the use of the expenditure and this is not quantified in all cases.

Nevertheless, by making appropriate assumptions, information that is approximately compatible with the GFS/COFOG standards for economic and functional classifications can be produced as a special report, but not as a routine output from the system.

Of greater concern is the fact that the lack of consistency between the recurrent and capital budget classifications has hindered the production of a uniform MTEF and budget which can transparently relate capital and recurrent expenditures on projects.

Also the current classification does not break down debt payments into debt interest and debt amortization and does not allow for a proper definition of budget deficit.

The current classification warrants a C score.

Future developments

A totally new budget classification is to be progressively adopted, starting with the preparation of the 2008 budget. This will be implemented in stages but will eventually be fully compatible with international standards (GFS/COFOG), will relate capital and recurrent expenditure on the same classification, and will be able to report directly on the basis of administrative, economic, programme and source of funds classifications. It will identify COFOG functions by relating them to the administrative classification and can also report on local government area in which the expenditure is to be made. When fully developed, the classification will also be compatible with International Public Sector Accounting Standards (IPSAS). These developments warrant an 'up-arrow' being placed beside the C score, to show that improvements are imminent.

Summary of PI-5:

No.	Performance Indicator	Score	Brief Explanation
PI-5	Classification of the budget	C ↑	The budget formulation and execution is based on administrative and economic classification that can be used to produce special reports that are approximately GFS compatible. The proposed new classification, to be used for the 2008 budget, will eventually be compatible with international standards. Hence an 'up-arrow' is included beside this score.

PI-6: Comprehensiveness of information included in budget documentation

The annual budget is presented in a single book of approximately 570 pages, the bulk of which gives detailed estimates of (i) recurrent revenues (from the State and received through the Federation Account); (ii) recurrent expenditures and CRF charges, by MDA and economic item; (iii) capital receipts (loans and grants); and (iv) capital expenditure, by sector, sub-sector and project.

Summaries included are: (i) recurrent revenue by MDA; (ii) recurrent revenue by head (taxes, fines, licenses etc); (iii) recurrent expenditure summary by MDA; (iv) personnel cost summary by ministry; (v) overhead cost summary by ministry; (vi) capital receipt summary by ministry; (vii) capital receipt summary by head; (viii) capital expenditure summary by MDAs; (ix) capital expenditure summary by head (sector and sub-sector).

For all details and summaries the information presented is (i) approved estimates for the current year; (ii) estimated out-turn for the current year; and (iii) approved estimates for the budget year.

The Governor's budget speech is included in the budget book for 2006, though not prior to this. This statement is largely a report on the activities of the previous year, but also contains an account of policies behind the budget including priorities for capital investment, with budgeted costs attached, though these are incomplete, being estimates for only one year. These policies cite SEEDS as a commitment for the provision of a conducive policy implementation environment and the pursuit of good governance.

The PEFA score could be relatively easily improved by inclusion of the prior year's budget outturn as well as the current year's estimated out-turn - i.e. the 2008 budget could show actual outturn for 2006, estimated out-turn for 2007 and budget for 2008. Further improvements will come as the new chart of accounts is introduced. An inclusion of macro-economic assumptions behind the budget would also improve the score.

Summary of PI-6:

The PEFA manual provides a checklist of 9 elements for information included in budget documentation. These are included in the JSG budget book to the following extent, the score being a C.

	PEFA requirement	JSG Budget book 2006
1	Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate.	Not included
2	Fiscal deficit, defined according to GFS or other internationally recognized standard	Not properly included. The budget balances - total receipts always equal total payments. New planned debt is included but debt interest and amortization are not distinguished, and fiscal deficit cannot be calculated.
3	Deficit financing, describing anticipated composition.	
4	Debt stock, including details at least for the beginning of the current year.	Not included
5	Financial Assets, including details at least for the beginning of the current year.	Not included

	PEFA requirement	JSG Budget book 2006
6	Prior year's budget outturn, presented in the same format as the budget proposal.	Not included
7	Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal.	Included
8	Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year.	Included
9	Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs.	Not fully included. Multi-year costs for the planned new initiatives are not included. Implications of these projects on future recurrent costs are not included.

No.	Performance Indicator	Score	Brief Explanation
PI-6	Comprehensiveness of information included in budget documentation	C	The PEFA manual provides a checklist of 9 elements for information included in budget documentation. 2 of these items are included in the budget book for 2006 (numbers 7 and 8) and numbers 2, 3 and 9 are partially included, the total warranting a C score.

PI-7: Extent of unreported government operations

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

As regards government money, there are no official off-budget funds in operation, though it is likely that agencies keep fees and charges rather than paying cash into the appropriate revenue bank accounts maintained by the accountant general. There are three such revenue accounts (further information is needed on why there are three accounts and if there are any differences between them). The amounts of fees and charges retained and used to pay expenses are not known. Further investigation is needed in this area. The PEFA score would be B if the amount is less than 5% of total expenditure and C if it is less than 10%. It is estimated that C is an appropriate score. An investigation into the practices of different Ministries is required.

As regards donor financed projects, for those which are financed by loans, all expenditure is included in the government's records. Projects which are financed by donor grants are nearly all off-budget. This corresponds to a PEFA score of C.

Summary of PI-7:

No.	Performance Indicator	Score	Brief Explanation
		M1	
PI-7	Extent of unreported government operations	C	

No.	Performance Indicator	Score M1	Brief Explanation
(i)	Level of unreported expenditure other than donor projects	C	It is estimated that off-budget expenditure by MDAs, in the form of revenue used to pay expenses without being paid into the appropriate revenue account, is between 5% and 10% of total expenditure, but there is no documentary evidence to back up this estimate.
(ii)	Income / expenditure on donor funded projects	C	Complete income / expenditure information for all loan financed projects is included in fiscal reports. Most grant financed projects are off-budget.

PI-8: Transparency of Inter-Governmental Fiscal Relations

While this PEFA performance report focuses mainly on the State's activities, a large part of the total expenditure in Jigawa state is executed through local governments (LGs). LGs receive most of their money from the Federal Government but also receive some State money. The rules for transfers from Federal and State governments to LGs precipitated much discussion.

This indicator examines the transparency and timeliness of the transfer of moneys from the State to LGs and the reporting of LGs' results back to the State.

1. Allocation account formula

The Federation Allocation Account Formula shows how money from the Federation Account is to be divided between States: equally between states 40%; population 30%; social development factor 10%; land mass and terrain 10%; and effectiveness at raising internally generated venue 10%. As an extension of this formula, allocations from Federal to local governments are decided on the same (or similar) basis.

2. Disbursement of Federation Account money to LGs

The disbursement of money from the Federation Account to local governments is via State Governments. In Jigawa the money is received into the State Local Government Joint Account and JSG is then allowed to make some legal deductions before passing it on to LGs. Net federal money is disbursed monthly by JSG to the local governments in the presence of the Joint Allocation Committee. This part of the process is transparent.

3. Disbursement of JSG internally generated revenue to LGs

The Constitution gives the National House of Assembly power to determine how much of a State's internally generated revenue (IGR - i.e. local taxes, fees and charges) should be passed to local governments. Currently this figure is set at 10% of State IGR, to be divided equally between LGs and distributed on a quarterly basis. Though the money is normally paid quarterly, in June 2007 the transfer of 10% of JSG IGR was for the previous 5 months, so the system is not always rigorously followed. This part of the system is fairly transparent.

4. Funding of State/LG joint projects

When Federation account money is paid into local government bank accounts monthly (2 above) the LGs use the money to pay their salaries and overheads. (In a reform soon to be introduced, all LG salaries will be paid directly by the State Ministry of Salaries and Pensions).

The balance of the LGs' federation account money (i.e. the total balance left in their bank accounts) is then paid back to JSG monthly. This part of the system is not transparent. The money should be retained by LGs and should only be given to JSG if it is a contribution to the Joint Project Bank Accounts which finance joint JSG/LG projects. However the money is treated by JSG as funds for its own use which may or may not be used to fund JSG/LG projects.

The lack of transparency in this part of the systems results in a D score in dimension (i) of PI-8. The system needs further investigation and documentation.

5. Information to LGs on the amount of allocation they will receive

JSG receives an indication of the amount of Federal money it will receive before the start of the fiscal year, and LGs who attend the monthly local government allocation committee meetings should be able to ascertain the amount of federal money they will receive for their budget. The same information is not available for the State's money passed to LGs, but this is relatively immaterial.

However, because of 4 above, the information given to LGs on funds they will receive is not indicative of the actual amounts that will be spent on projects that they may plan. This results in a D score for dimension (ii) of PI-8.

6. Fiscal data produced by LGs

JSG has outsourced the preparation of final accounts and audit of LGs to a private firm of accountants/auditors. Annual audited accounts (showing expenditure by economic item only) are received from 100% of local governments and are consolidated by high level economic items (salaries and goods and services) but they cannot be analysed by sector. As no sectoral information is available, this scores a D in dimension (iii) of PI-8. Also it is unclear whether this consolidation of LG data will be continued in future years.

Dimension (iii) is an area where significant improvements could be made if information was analysed by sector. Note that this analysis by sector in local government accounts is now required by a Federation account directive but will take some time to implement.

No.	Performance Indicator	Score M2	Brief Explanation
PI-8	Transparency of inter-governmental fiscal relations	D	
(i)	Transparent rules based systems	D	<p>There are clear rules for distribution of Federal and State money to LGs. However:</p> <ul style="list-style-type: none"> • A significant part of Federal money intended for local governments is initially passed to LGs but returned to JSG, which does not organise its use in a transparent fashion. • Also there have been delays in remitting the 10% share of JSG IGR to LGs. indicator scores the distribution of <i>State</i> money to LGs.

No.	Performance Indicator	Score M2	Brief Explanation
(ii)	Timeliness of reliable information to LGs on their allocations	D	Information given to LGs about how much they will receive is given just before the start of the budget year (which would score a C) but because the information does not reflect the amount they can rely on using (dimension (i) above) the score is reduced to D.
(ii)	Extent to which consolidated fiscal data from LGs is collected and reported according to sectoral categories	D	100% of audited reports are received from LGs and are consolidated but cannot be analysed by sector.

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

Parastatals

In the accounts for 2005 there are 37 parastatals that receive grants from JSG and 6 state enterprises. Loans totalling N1.808 billion at 31 December 2005 have been made to parastatals, public enterprises and other corporations (e.g. Galaxy Information Technology and Telecom, which supplies internet services, had an outstanding loan of N286 million at 31 December 2005). Some of these bodies are able to borrow from third parties, provided that a guarantee is given by JSG.

The Auditor General is not empowered to audit parastatals. They appoint their own auditors from a list provided by the Auditor General, who also gives guidelines on fees. Despite grants received from JSG, some of the parastatals have large debts owing to private audit firms that they have not paid. JSG intends to clear up this issue as it creates a potential liability for the debts of the parastatals and there is a need to maintain also a continuing audit service for these organisations. Although the Auditor General receives annual audited accounts from some parastatals, some are missing (e.g. because of the non-payment issue) and no annual consolidation of annual results or fiscal risk position is carried out.

Local governments

In theory, local governments can enter into significant contracts (up to N 10 million) without State government approval. However, the process by which LGs return surplus federation account cash to JSG (see PI-8) is designed to restrict this autonomy. Authority for LGs to incur supplementary expenditures is given by the State Ministry of Local Government.

LGs are not allowed to borrow, some have incurred overdrafts and there is a recent reported case of bank fraud involving two councils. Audited accounts for all LGs are received annually (see PI-8 above) but there is no consolidated overview of fiscal risk.

Summary of PI-9:

No.	Performance Indicator	Score M1	Brief Explanation
PI-9	Oversight of aggregate fiscal risk from other public sector entities	D+	

No.	Performance Indicator	Score M1	Brief Explanation
(i)	Extent of government monitoring of AGAs and PEs (parastatals)	D	Some parastatals have not submitted audited reports. There is no consolidated overview of their fiscal risk position. Some loans to parastatals are likely to be unrecoverable.
(ii)	Extent of government monitoring of LGs fiscal position	C	The net fiscal position of LGs is monitored annually from their annual financial statements, but there is no consolidated overview.

PI-10: Public access to key fiscal information

In principle, the budget document and all summary financial statements concerning its execution are all available to the public. This includes in year execution reports as well as the annual financial statements and the external audit report.

JSG has a website (www.jigawabudget.org) with links to the state budget summaries and some quarterly budget reports. However, most residents of Jigawa would be unable to access this website. Fees are required for printed documents which, in practice, means that members of the public will not request bulky information. The Governor's budget speech is reported in the local newspapers, and stronger coverage of budget issues by the press would help the accountability process. The Auditor General's report and the annual financial statements are printed in the local newspaper.

The Bureau for State and Local Government Reform has run regular radio programs which help local people to understand the extent to which services are carried out in their areas. More work of this type is needed to expand the coverage.

Despite Stores Regulation 1026, which requires that disclosure notices of contracts won should be published in the Official Gazette, details of contracts awarded to suppliers are not available to the public. The procurement system is covered in more detail under PI-19 on page 50.

Summary of PI-10:

No.	Performance Indicator	Score	Brief Explanation
PI-10	Public access to key fiscal information	B	<p>The PEFA manual gives a list of 6 elements of information which contribute to public access to fiscal information. JSG provides 4 of these items: the budget, in-year budget execution reports, annual accounts and auditor general's report are available, which scores a B.</p> <p>Missing elements are</p> <ul style="list-style-type: none"> • details of major contracts awarded; and • comprehensive information on resources available to service units (with state-wide coverage in at least two sectors).

3.3. Budget Cycle (I): Policy based budgeting

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

Some strong improvements in the budget preparation process have taken place in recent years and the Computerised Planning and Budget System has enabled the budget timetable to be speeded up. In 2005 the budget was approved by the State House of Assembly before the start of the fiscal year for the first time.

However some lapses in timeliness have created delays in budget preparation in 2006 and 2007. The 2006 budget was approved in February 2006 and the 2007 budget was available for approval by January 2007 but, because of election campaigning resulting in a change of government, it still has not been approved, as at May 2007.

By law, if the budget has not yet been approved, JSG may make budget releases up to 50% of last year's budget in the period up to 30 June. This effectively gives a final deadline of 30 June for the approval of the budget. However, such a late approval date severely restricts the planning ability of MDAs, particularly for capital projects.

The budget calendar requires the revenue call circular to be issued in the third week of June with estimates returned by the end of June. Budget ceilings for capital and recurrent (personnel and overhead) expenditure are then developed by Ministry of Planning and Budget and included in the budget call circular (expenditure).

In the plan for the 2006 budget preparation the ceilings should have been approved by EXCO in the second week of July 2005 and the call circular issued in the third week. In fact the call circular was issued to MDAs on August 10 2005, with a requirement for the returns to be submitted by 26 August. The ceilings were approved by EXCO after they had been sent to MDAs. However, as budget procedures continue to improve it will become easier to adhere to the budget calendar.

The call circular for the 2006 budget emphasised the importance of realistic capital expenditure planning (taking into account the phasing of investment over the year) and includes a requirement for quarterly Capital Expenditure Work Plans. Ability to complete budget forms in this short timeframe requires that MDAs should have done the bulk of their planning before the budget circular is received and should use the information about budget ceilings to fine tune and/or prioritise their plans. However, many MDAs do not do this and in practice they start budget preparation too late. The requirement for capital expenditure work plans is a useful development but MDAs do not yet have the skills to properly participate in this process. There is an ongoing need for further training on budget planning within MDAs.

EXCO and State House of Assembly generally take around four weeks to approve the detailed budget estimates so Ministry of Budget and Planning generally have about 2 months to negotiate budgets with MDAs if they are to submit the budget for approval by November 30th.

The PEFA score for dimension (i) (existence of and adherence to a fixed budget calendar) is a borderline between B and C. In theory the calendar allows sufficient time but in practice there are often delays in implementation, MDAs do not have the skills to prepare properly costed and profiled capital budgets, and too much time is spent on calculating budget figures compared with negotiations of MDAs budgets with MPB. On the basis of prudence, a C score has been selected.

Summary of PI-11:

No.	Performance Indicator	Score M2	Brief Explanation
PI-11	Orderliness and participation in the annual budget process	C+	
(i)	Existence of and adherence to a fixed budget calendar	C	<p>There is a budget calendar which in theory allows just enough time at all stages of the budget preparation process. For example, it should allow 5 to 6 weeks for MDAs to make their submissions. However,</p> <ul style="list-style-type: none"> • budget preparation has fallen behind schedule for the 2006 and 2007 budgets • MDAs do not yet have sufficient skills to prepare meaningful budgets in the timescale allowed.
(ii)	Clarity/ comprehensiveness of and political involvement in the budget circular	B	A comprehensive and clear budget circular is issued to MDAs. The budget calendar allows for EXCO to approve ceilings before the call circular (expenditure) is issued. However, ceilings are usually approved by EXCO after the call circular is sent out.
(iii)	Timely budget approval by legislature in the last 3 years	C	<p>SHA has approved the budget by the following dates:</p> <p>2005 budget: by December 2004</p> <p>2006 budget: by February 2006</p> <p>2007 budget: if this had not been election year it would have been approved by March 2007, but it is awaiting approval by the new State government.</p>

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

The annual budget needs to be related to a set of sector strategies which are quantified in a medium term financial framework covering revenues, expenditures and potential deficit financing.

J-SEEDS laid the foundation for this planning and provided some three year forecasts from 2005 to 2007 which have been used to assist the preparation of budgets in recent years. However, the actual out-turns have been significantly different (see indicators PI-1 and PI-2), due largely to the in-year budget changes that have been introduced and regularised by supplementary budgets.

It is clear that in-year budget changes of this magnitude undermine the longer term planning approach and although forecasts have been updated to 2008, further work is needed to maintain the medium term perspective. Since the current annual budget focus will be on 2008, there are effectively no quantified medium term plans at present.

Further, because the recurrent and capital budgets are prepared according to two different classifications, it is difficult to budget for the linkages between capital investments and future recurrent expenditures resulting from them. This problem will be eased when the new budget classification is adopted.

JSG does not have sufficient longer term loans on which to base plans for long term capital projects. There is always uncertainty about the availability of renewed financing when short term debt is due for repayment. Records of existing debt are basic and there is as yet no clear up-to-date information of the State's debt profile, which is a pre-requisite for a debt sustainability analysis.

Summary of PI-12:

No.	Performance Indicator	Score M2	Brief Explanation
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+	
(i)	Multi year fiscal forecasts and functional allocations	C	Three-year forecasts were prepared as part of SEEDS and have been partially updated but are falling behind schedule.
(ii)	Scope and frequency of debt sustainability analysis	D	There is uncertainty in renewed financing when debt is repaid. Need to negotiate longer term loans for capital projects (e.g. roads). This has not been done. No up to date information of the State's debt profile. No debt sustainability analysis.
(iii)	Sector strategies / multi year costings of recurrent and investment expenditure	C	Under SEEDS, sector strategies have been prepared covering major policy areas. However, these were not fully costed strategies and they have not been updated (as reflected in dimension (i)).
(iv)	Link between investment budgets and forward recurrent expenditure estimates	D	No work has been yet done on linking capital investment with forward recurrent expenditure estimates. This will be easier when the new budget classification is introduced.

3.4. Budget Cycle (II): Predictability and control in budget execution

PI-13: Transparency of taxpayer obligations and liabilities

Note on P-13, 14 and 15: BIR needs to supply evidence of statistics and activities quoted in the narrative below. The PEFA consultants have been invited to BIR to see these, but this visit has not yet been arranged.

Clarity and comprehensiveness of tax liabilities

The major taxes collected by the Board of Internal Revenue (BIR) are PAYE income tax for salaried employees and Business Tax for sole traders and partnerships. The legislation and procedures for these taxes apply to all States and are regarded as clear. They are documented in the (Nigerian) Personal Income Tax Law 1993. The rates of State taxes are uniform across Nigeria and are set by the Joint Tax Board (comprising Federal Government and all States).

Most of the State tax collected is PAYE from salaried employees, which is deducted at source. There are no significant problems reported with this system.

For business tax a self-assessment scheme is used. However, it is recognised that some large businesses and individuals do not acknowledge or pay their business tax liabilities. This has resulted from political pressure and is not necessarily the result of BIR using discretionary powers. Nevertheless, it is fair to say that, under the former administration, the system as a whole involved 'important elements of administrative discretion in assessing tax liabilities', which therefore scores a 'D' for PI-13 dimension 1.

Taxpayers' access to information on tax liabilities and administrative procedures

There is general compliance by employers with the PAYE scheme, which is well understood. A criticism here would be that details of some allowances available under PAYE are not well publicised.

For business tax a publicity campaign is carried out four times a year to encourage businesses to file their self-assessments. Up-to-date explanatory guide booklets show how to complete the assessment forms. However, because of its geographical location, BIR itself may not particularly accessible to small businesses. A survey needs to be carried out to ascertain whether small businesses have easy access to this information.

On balance a score of 'C' has been awarded to this dimension because taxpayers have access to information, but not 'easy access to information'. However, this is certainly not the key problem relating to the Jigawa tax system.

Existence and functioning of a tax appeals mechanism

The Personal Income Tax Law Part VIII allows the State Commissioner (of Finance) to establish a body of Appeal Commissioners whose role is to hear tax-payers' appeals. There are no such Appeal Commissioners in Jigawa State. A taxpayer challenging his assessment must appeal first to the Chairman of BIR, who is clearly not independent of the tax assessment process. Failing satisfaction he may pursue his appeal in the High Court. Thus there is a tax appeals system but it needs substantial redesign to be fair, transparent and effective.

Summary of PI-13:

No.	Performance Indicator	Score M2	Brief Explanation
PI-13	Transparency of taxpayer obligations and liabilities	D+	
(i)	Clarity and comprehensiveness of tax liabilities	D	Legislation for PAYE and business taxes are comprehensive and clear and apply throughout Nigeria. The BIR has strictly limited discretionary powers. Nevertheless, under the former administration, the system as a whole involved significant discretion for some taxpayers.
(ii)	Taxpayer access to information on tax liabilities and administrative procedures	C	There are booklets on how to complete self-assessment tax forms. Income tax rates for PAYE are well understood. Publicity campaigns are carried out 4 times per year through radio. The C score for this dimension is awarded on the basis that access to all this information may not be easy for many small businesses. A survey needs to be carried out.

No.	Performance Indicator	Score M2	Brief Explanation
(iii)	Existence and functioning of a tax appeals mechanism	C	The tax appeals system in Jigawa does not allow an appeal to independent Appeal Commissioners. If dissatisfied with BIR's response the only redress is High Court Action. Appeal Commissioners should be appointed.

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

Registration

Details of BIR taxpayers are kept on manual registers which identify their location and taxpayer number. There is no single taxpayer database.

Business taxpayers lists are not related to other databases such as business licenses or bank accounts. All people / firms with earnings above N75,000 are required to register but inspections of premises to ensure that registration takes place are rare. This dimension scores 'C'.

Penalties for non-compliance with registration and tax declaration

There are a number of penalties for non-registration and false declarations on tax returns. These include fines based on percentages of tax undercharged, fixed fines, and imprisonment up to five years. For individuals or businesses that have not registered, BIR is entitled to raise assessments for the previous 10 years. For non-payment of liability BIR is entitled to seize assets from the taxpayers premises.

However, BIR estimates that 40% of taxpayers make false declarations (statistics not yet provided). It is likely that 'substantial changes to the structure, levels or administration' of these penalties are needed 'to give them a real impact on compliance', thus warranting a 'C' score. Note however that false tax declarations will tend to be reduced when the entire tax system starts to be more transparent and efficient. Penalties are only one part of the system.

Tax audit

BIR believes that tax audits should be designed to target high risk taxpayers under the self-assessment scheme. However these have hardly ever been carried out.

BIR has indicated that it does not have sufficient resources to do this. However, tax audit, like many of BIR's activities, should be self-financing, in that if tax audit is efficient it will generate more revenues than the costs incurred. A cost-benefit study on making BIR's operations more efficient should be carried out.

It is more likely that tax audits have been politically unacceptable, and this is something that needs to be addressed at the highest level of government. The present position earns a 'D' score.

Summary of PI-14:

No.	Performance Indicator	Score M2	Brief Explanation
------------	------------------------------	---------------------	--------------------------

No.	Performance Indicator	Score M2	Brief Explanation
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	D+	
(i)	Controls in taxpayer registration system	C	Taxpayers details are kept on registers, but there are no links to other registration/licensing functions. Surveys of potential taxpayers are rare.
(ii)	Effectiveness of penalties for non-compliance with registration and declaration obligations	C	There are a number of quite severe penalties for non-compliance but changes to their structure or administration are required to make them effective.
(iii)	Planning and monitoring of tax audit and fraud investigation programmes	D	BIR (and JSG as a whole) have hardly ever carried out tax audits or fraud investigations.

PI-15: Effectiveness in collection of tax payments

Collection ratio for tax arrears

BIR states that tax collections are generally weak with leakage estimated at 35%, implying a debt collection ratio of 65%. Debt collection statistics have not yet been provided and it is unlikely that accurate figures can be supplied, because the system does not effectively compare total collections against assessments, distinguishing previous years' assessments from current assessments. The total amount of tax arrears is estimated as significant.

If the best estimate of debt collection ratio is taken as 65%, this is a 'C' score. Actual statistics may lower this score.

Effectiveness of transfer of tax collections to the Treasury by the BIR

BIR maintains its own revenue collection accounts. As from late 2006, the account for receipt of tax payments is separate from the account for other revenue receipts. The amount collected is transferred to Treasury monthly, which scores a 'C'.

Frequency of complete accounts reconciliations between tax assessments, collections, arrears, records and receipts by Treasury

BIR states that there is a complete reconciliation of tax assessments, collections, arrears and transfers to Treasury at the end of each year, which is completed within three months of the end of the year. This warrants a 'C' score, but documentary evidence has not yet been provided.

Summary of PI-15:

No.	Performance Indicator	Score M1	Brief Explanation
PI-15	Effectiveness in collection of tax payments	C	
(i)	Collection ratio for tax	C	BIR estimates the tax debt collection ratio as 65%. Tax arrears

	arrears (last two years)		are significant.
(ii)	Effectiveness of transfer of tax collections to the Treasury by the BIR	C	As from late last year, the account for receipt of tax payments is separate from the account for other revenue receipts. Monthly transfers are made to Treasury.
(iii)	Frequency of complete accounts reconciliations between tax assessments, collections, arrears, records and receipts by Treasury.	C	BIR states that there is a complete reconciliation of tax assessments, collections, arrears and transfers to Treasury at the end of each year.

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

The objective of this measure is to assess whether spending MDAs can rely on their budget plans and the information they receive from Treasury concerning the availability of funds, so that they can properly plan and manage their expenditure throughout the year.

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

There is scope for JSG to make large improvements in this indicator:

1. There is no annual cash flow forecast.
2. Recurrent expenditure: Although there are predictable monthly releases to MDAs for salaries and routine overhead expenditure, special expenditure releases are required for non-routine recurrent overhead expenditure. These are granted by the office of the Head of Service (which might take several months) and paid by Treasury into the MDA overheads bank account on an individual basis (which might take several more months). This is a slow process which is unnecessary if reliable budgeting is taking place.
3. Capital expenditure: Requests for the release of funds are assessed by the Secretary to the State Government, on behalf of the Governor, with approvals communicated to the Treasury Department for payment directly to the contractor. Approvals and release of payments are thus determined by the Governor's priorities and Treasury's estimate of availability of funds (in the face of very poor information about available cash in the system). This has resulted in unpredictable availability of capital funds to some MDAs. Treasury effectively operates a cash rationing system even though the audited accounts show that there have been budget surpluses in each year from 2003 to 2005.
4. The figures for actual out-turn compared with budget show that large budget transfers have been made between MDAs by way of revisions to the budget and supplementary budgets. These transfers often involve transfers from line ministries to central ministries. There is usually one supplementary budget per year, which is carried out in a transparent way, approved by EXCO and passed by the SHA. It is claimed that none of the transfers between MDAs have been made prior to the supplementary budget but in practice there is probably uncontrolled overspending by some departments (e.g. by using the contingency fund). These transfers, which are made above the level of line ministries, change budget priorities and can undermine their budget plans. See PI-2, page 29.

Summary of PI-16:

No.	Performance Indicator	Score M1	Brief Explanation
PI-16	Predictability in the availability of funds for commitment of expenditures	D+	
(i)	Extent to which cash flows are forecast and monitored	D	Cash flow planning and monitoring is not undertaken.
(ii)	Reliability and time horizon of information to MDAs on budget releases	D	For salaries and a small proportion of overheads, monthly cash releases by Treasury to MDAs are predictable. For the balance of overheads and for all capital expenditure budget execution is largely unpredictable by MDAs, depending on prioritization first by the Governor and then by Treasury. Treasury attempts to prioritise using very poor information about cash availability.
(iii)	Frequency and transparency of adjustments to budget allocations decided above the level of management of MDAs	C	There are significant overspends by some ministries while others underspend. Ministries which overspend can do so using the contingency fund, with the Governor's approval. Changes in budget allocations to ministries are made in a transparent way once a year in a supplementary budget approved by EXCO and ratified by SHA. However, this is to a large extent ratifying changes to the budget after those changes have already been made.

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

Quality of debt data recording and reporting

At the time of assessment (May 2007) Ministry of Treasury Operations had no debt management office. Records of debt are managed by the Final Accounts Department on a manual basis. The records of amounts owing are unreliable and there may be omissions from the debt recorded in the annual financial statements. Also the system does not record any information about debt profile (detailed dynamics of future debt payments) or a breakdown of recent payments between debt service and amortization. This lack of information increases fiscal risk and warrants a 'D' score.

As at July 2007, the Ministry (now renamed Ministry of Finance and Economic Planning) has set up a Debt Management Department to be headed by a Director. As yet the Department is not operational.

Extent of consolidation of the government's cash balances

JSG operates a multiplicity of bank accounts, at a range of banks.

Income from the Federation account is received directly by Treasury while state taxation is received into BIR account and transferred to Treasury monthly. Many MDAs have a revenue account for fees and charges collected, which should be paid over to treasury monthly, but sometimes MDAs make payments directly from these accounts when cash in their recurrent overhead account is lacking.

For recurrent expenditure each MDA has separate bank accounts for salary and overheads. Given that the payroll has been centralised, there is no logical reason why MDAs retain salary bank accounts for salaries. The Ministry of Salaries and Pensions (MSP) makes out one cheque with instructions to its banker on how much to pay to each MDA (see PI-18, page 48). Alternatively the MSP could arrange for individuals (all of whom have bank accounts) to be paid by its banker, thus eliminating MDA salary bank accounts.

Each MDA overhead account receives a monthly standing order from Treasury equal to a small proportion of its monthly overheads, while other non-standard overheads are met by approved transfers of cash from Treasury for each item (see PI-16 above). These are known as 'special releases'.

Capital expenditure is paid for centrally by Treasury. It is a key part of Treasury's job to have up to date information on how much cash is available so that capital payments and special releases can be made without undue delay. In theory, cash balances are reconciled and aggregated on a monthly basis (which would score a 'C') but the Treasury does not have a complete list of JSG bank accounts and an overall consolidation and reconciliation of movements is not made. Cash management is one of the key weaknesses in the budget execution and control system and an appropriate score is 'D'.

Systems for contracting loans and issuance of guarantees

New loans are approved by Ministry of Treasury Operations (now MOFEP) and then by the Executive Council (EXCO), but there are no clear guidelines for how this is done and some records are missing. There are fears that loans have been contracted through improper procedures, in particular by the former Governor. This is a 'D' score.

Summary of PI-17:

No.	Performance Indicator	Score M2	Brief Explanation
PI-17	Recording and management of cash balances, debt and guarantees	D	
(i)	Quality of debt data recording and reporting	D	There may be omissions from debt records in the annual accounts. Complete reconciliation not undertaken. Debt office needed.
(ii)	Extent of consolidation of cash balances	D	Monthly
(iii)	Systems for contracting loans and issuance of guarantees	D	Treasury approves. Approved by EXCO. Not completely transparent. There may be some irregular borrowings.

PI-18: Effectiveness of payroll controls

The Ministry of Salaries and Pensions (MSP) operates an integrated computerised personnel and payroll system (based on MS-Access database) which keeps records of all civil servants and processes monthly salaries and pension payrolls. There are approximately 16,000 civil servants on the payroll and 2,000 pension payments. Personnel records include educational details, leave records, reports, training records, and medical records. The Computer Centre is headed by a Director and has three operators.

The judiciary and House of Assembly are not paid through the payroll, but directly, within personnel ceilings, by the MTO.

A standard data entry form is used to capture data and is completed through the Office of the Head of Service. Changes are notified by the Civil Service Commission (CSC) and/or the MDA as appropriate, using applicable notification forms.

The system generates an initial payroll around the 20th of each month which is collected and verified by MDAs. Corrections and adjustments identified by MDAs are referred, through the MSP Internal Audit Department, for review and correction.

A final payroll, together with a gross-to-net analysis and MDA payment schedules (which identify employees by bank and cash schedules) is produced around the 25th of each month.

The MSP receives a monthly transfer from the MTO, based on an assessment of salary and pension personnel cost ceilings.

The transfer, by cheque, is deposited in the MSP "State Salary Account" held at the Guaranty Trust Bank.

Based on the payroll, the MSP Accounting Unit prepare one cheque to the Guaranty Trust Bank together with a schedule of net amounts due to each MDA. The Guaranty Trust Bank prepares bank drafts to the notified value for each MDA, who collect the draft from the MSP Accounting Unit, together with supporting payroll schedules produced by the payroll system.

Deduction are paid by bank draft drawn in favour of the appropriate creditor (the MTO (for the repayment of car loans, housing loans, car / motor cycle loans and other loans), mortgage lenders (for mortgage repayments), BIR (PAYE deductions), Union (Union fees), NHIF dues (Health Insurance), the Pensions Board (for Contributions to Pension Scheme) and other deductions/levy's as applicable. Again drafts are collected from the Accounting Unit together with supporting schedules produced by the payroll system.

Each MDA is issued with Payroll schedules identifying relevant commercial banks for each employee (or a cash schedule for those to be paid by cash). Each MDA then issues a cheque to each relevant commercial bank, together with the payment schedule of employees (and their account details) to effect payment to identified staff. In the case of cash paid employees, a MDA will draw a cash cheque for disbursement of cash salaries.

Pensions are operated as a separate payroll. A single draft is drawn in favour of the Pensions Board, together with a pensioners schedule, for subsequent payment.

A Treasury Accountant within the MSP is responsible for drawing all cheques and issuing MDA drafts. The signatories to all payments are both the PS and Director of Salaries. The Accountant also maintains the Salaries and Pensions cash books, prepares returns and performs bank reconciliations.

Summary of PI-18:

No.	Performance Indicator	Score M1	Brief Explanation
PI-18	Effectiveness of payroll controls	A	

No.	Performance Indicator	Score M1	Brief Explanation
(i)	Integration between personnel and payroll records	A	Personnel database and payroll are fully linked to ensure data consistency and monthly reconciliation.
(ii)	Timeliness of changes to personnel records and payroll	A	Required changes to the personnel records and payroll are updated monthly. If changes are received by the 10th of the month, they can be reflected in the current month's payroll, otherwise in the following month.
(iii)	Internal controls over changes to personnel records and payroll	A	Authority to change records and payroll is restricted and results in an audit trail (record of changes).
(iv)	Existence of payroll audits to identify control weaknesses and/or ghost workers	A	Both internal and external auditors at MSP are involved in monthly checks to identify control weaknesses and any ghost workers.

PI-19: Competition, value for money and controls in procurement

Procurement rules are stated in the Stores Regulations. In addition, there is a hierarchy of authorisations for approving contracts, depending on the value. In ascending order of contract value these are:

- Ministry: Director
- Ministry: Permanent Secretary
- Ministry: Commissioner
- Ministry: Departmental Tenders Board
- Ministerial Tenders Board
- Special Ministerial Tenders Board
- Executive Council

Suppliers are not selected by open competition. At best the selective tendering method has been used and at worst the tendering process has been omitted. There is no justification given for using uncompetitive methods of selection. No complaints process is defined. This is a 'D' score in all dimensions of PI-19.

The target for the new administration is to use more selective tendering for contracts. However, this method (described in the Stores Regulations as a short list of at least four suppliers) would still score a 'D', as no justification has to be given for why suppliers are included on the 'short list'.

Summary of PI-19:

No.	Performance Indicator	Score M2	Brief Explanation
PI-19	Competition, value for money and controls in procurement	D	
(i)	Use of open competition	D	At best the Selective tendering method is used. No open

No.	Performance Indicator	Score M2	Brief Explanation
	for award of contracts		competition.
(ii)	Extent of justification for less competitive methods	D	No justification is given for use of non-competitive system.
(iii)	Existence and operation of a procurement complaints mechanism	D	No complaints process is defined in the stores regulations

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

The systems for commitment and payment of non-salary expenditure are the traditional manual ones and are governed by the stores regulations and the financial instructions.

Commitments

All approved contracts should be registered in a contracts register. It is not known whether this exists or where it is held.

Local purchase orders are raised for payments under contracts and for smaller one-off payments. These act as commitments and should be registered in the commitments registers at MDAs but this system is no longer used.

In general it may be assumed that commitments are not properly registered by MDAs, which scores a 'D'. The proposed future work of the Debt Management Department (established July 2007) will help to improve information about contracts and commitments.

Authorisation and payment - recurrent overheads

Funds are released from Treasury on a monthly basis to cover recurrent overheads. The Permanent Secretary (PS) of an MDA authorises all recurrent overhead expenditure after the invoice documentation has been prepared and pre-audited. Cheques for payment must always have two signatories (the PS or his deputy and the Chief Accountant or his deputy).

For larger unexpected amounts the MDA must apply for a special release, which may take a long time to be granted (see PI-16). After the release has been granted the funds are advanced by Treasury to the MDA and the authorisation and payment are by the MDA as above.

Authorisation for payment - capital expenditure

For capital expenditure the PS of the MDA must send all invoices and backing papers to the Treasury. Applications are expected to be accompanied by relevant documents such as confirmation/certificate from the Project Monitoring Bureau of the MBP.

Treasury collates these amounts from all MDAs and summarises for the Governor the amounts which are due for payment. The Governor prioritises and authorises releases by sector. Treasury then authorise payment of the individual invoices for capital expenditure. There is usually a substantial backlog of amounts due for payment i.e. the State is in a position of capital rationing. See PI-16.

Monthly return from MDAs to Treasury

Monthly returns from MDAs (including bank reconciliations) are required to be submitted by the 15th of the following month in relation to all expenditures that have been incurred. Funds for recurrent expenditures are withheld for any MDA that fails to submit its returns by this date. However, the preparation of monthly financial statements continues to be delayed by the late submission of returns by MDAs.

Comprehensiveness, relevance and understanding of internal control rules / procedures

The rules are laid down in the Financial Instructions, last updated in 2006. Internal control rules and procedures incorporate a comprehensive set of controls, which are widely understood, but which in some cases are excessive and lead to unnecessary delays, scoring 'B'. It is recommended that

Compliance with the rules

Rules are complied with in a significant majority of transactions but there are infringements, some of which have been at a high level and involving significant sums. Some infringements are reported in the Auditor General's report, but it is likely that others have not been detected. These are a cause of concern - resulting in a 'C' score.

Summary of PI-20:

No.	Performance Indicator	Score M1	Brief Explanation
PI-20	Effectiveness of internal controls for non-salary expenditure	D+	
(i)	Effectiveness of expenditure commitment controls	D	Commitment registers are not being used. LPOs are issued but not recorded in the books.
(ii)	Comprehensiveness, relevance and understanding of other internal control rules / procedures	B	Internal control rules and procedures incorporate a comprehensive set of controls, which are widely understood, but which in some cases are excessive and lead to unnecessary delays.
(iii)	Degree of compliance with rules for processing and recording transactions	C	Rules are complied with in a significant majority of transactions but there are infringements, some of which are reported in the Auditor General's report. These are a cause of concern.

Note on PI-20:

Although the systems themselves may be basically sound in design, if pressure is put on accounting staff by top officials, collusion can occur to allow significant frauds. The investigations currently being carried out by the new government indicate that there are significant fears that such fraudulent acts may have happened in the past.

PI-21: Effectiveness of internal audit

Internal audit should be an independent and objective appraisal service within an MDA which provides an independent and objective opinion to the Accounting Officer (Permanent Secretary) on risk management, control and governance, by measuring and evaluating the MDA's effectiveness in achieving its agreed objectives. In addition, internal audit's findings and recommendations are beneficial to line management in the audited areas and also to the Auditor General, who needs to assess the systems of internal control of the MDA when forming his external audit opinion (see indicator PI-26).

In the main, internal audit within JSG is a function which carries out 'pre-audit' checks of vouchers before they are approved by the authorised signatory. This is not an audit function. Rather it is part of the authorisation system and is thus included within indicator PI-20.

There is scope for an internal audit system to be set up within several key ministries of JSG.

Summary of PI-21:

No.	Performance Indicator	Score M1	Brief Explanation
PI-21	Effectiveness of internal audit	D	
(i)	Coverage and quality of the internal audit function	D	Internal audit in JSG does not focus on systems monitoring
(ii)	Frequency and distribution of reports	D	Reports are irregular or non-existent
(iii)	Extent of management response to internal audit findings	D	In most cases internal auditors do not make reports and recommendations, which therefore cannot be followed up.

3.5. Budget Cycle (III): Accounting, recording and reporting

PI-22: Timeliness and regularity of accounts reconciliation

Bank reconciliations

Each MDA has separate bank accounts for salaries and overhead expenditure and some have another account for revenue received (fees and charges - see PI-17). These bank accounts are reconciled monthly and the bank reconciliation statements are supposed to be sent to Treasury by the 15th of the following month, otherwise the cash release for the following month will not be granted. In practice:

- the reconciliations are made by MDAs, passed by on-site external auditors, and received by Treasury on average within 4 weeks (2 weeks delay);
- cash releases for salaries are never withheld;
- Treasury does not make an overall reconciliation of cash movements for the whole of Government.

This PEFA indicator scores 'B'. However it does not capture the main weakness - that no overall reconciliation of total cash movements is made by Treasury. This is covered by PI-17 dimension (ii) on cash balances, which scores 'D'.

Regularity of reconciliation and clearance of suspense accounts and advances

Reconciliations of other unidentified receipts or payments which are put to suspense accounts are only carried out at the year end. There is at least two months delay before they are reconciled (a 'D' score). Advances to staff have been replaced by lump sum allowances.

Summary of PI-22:

No.	Performance Indicator	Score M2	Brief Explanation
PI-22	Timeliness and regularity of accounts reconciliation	C	
(i)	Regularity of bank reconciliations	B	Bank reconciliations for all bank accounts take place monthly and are completed within 4 weeks.
(ii)	Regularity of reconciliation and clearance of suspense accounts and advances	D	Reconciliation of suspense accounts and advance accounts is carried out annually with at least two months delay.

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

There is no routine collection of information dealing with delivery of front-line services to the community. Ministry of Education has a system in place but comprehensive information is not being regularly obtained. No special surveys have yet been carried out to assess such service delivery.

The proposed Jigawa State Medical Supply Organisation will take control of delivery of medicines to clinics around the state and will be able to provide more information relevant to this performance indicator.

Summary of PI-23:

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

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

Scope of reports in terms of coverage and compatibility with budget estimates

There is now a system for quarterly in-year budget reports which compare the actual results for the quarter with the pro-rata approved estimates for the quarter using consistent budget classification, and displaying variances in absolute and percentage terms.

For actual results information is given about receipts and payments under the main administrative headings and broad economic heads, but no information is available about committed expenditure (score 'C').

The bulk of the report is a commentary on the performance for income and expenditure and an explanation of variances.

Timeliness of the issue of reports

These reports were produced for the first two quarters of 2006, but have not been produced since then (score 'D'). They will be reinstated once the 2007 budget has been approved by the new government.

Quality of information

This dimension is actually about the accuracy of the information. A 'C' score has been awarded because the reports are limited by the accuracy of the actual data which, being a manual system, is subject to errors.

Summary of PI-24:

No.	Performance Indicator	Score M1	Brief Explanation
PI-24	Quality and timeliness of in-year budget reports	D+	
(i)	Scope of reports in terms of coverage and compatibility with budget estimates	C	Comparison to budget is possible for main administrative headings. Information is not captured at the commitment stage
(ii)	Timeliness of the issue of reports	D	Quarterly reports were issued for the first two quarters of 2006 but have since not been issued.
(iii)	Quality of information	C	The reports are limited by the accuracy of the actual data, which, being a manual system, is subject to errors.

PI-25: Quality and timeliness of financial statements

The annual financial statements are prepared manually by the Accountant General (final accounts department) in the Ministry of Treasury operations within 6 months of the end of the fiscal year. They are then passed to the Auditor General. The annual financial statements of JSG cover the activities of all government MDAs but not parastatals. Expenditure on grants/subventions by JSG to parastatals are shown as an expense. Parastatals produce their own sets of accounts which are audited separately to JSG's accounts (see PI-26 below).

In practice there are numerous accounting errors and queries in the JSG final accounts which the Auditor General's staff have to resolve before they can start to audit the financial statements, and the Auditor General has, in effect become part of the accounts preparation process as well as being the auditor.

The official annual financial statements are eventually published in the Auditor General's report. Despite much work by external auditors correcting the original figures from the final accounts department, these statements still contain some schedules that do not add up,

columns with wrong headings and totals that do not cross-reference to backing schedules. Though most of these errors are not material, some are more serious. In particular there is an error of exactly N100 million unexplained difference in the consolidated revenue fund balances between 2003 and 2004.

Completeness of the financial statements

Because of a lack of control over the reconciliation of total cash balances and the existence of numerical errors in the JSG financial accounts, it is difficult to have confidence in the published financial statements. Between 2003 and 2005 there were, according to the audited accounts, surpluses of receipts over payments totalling N2.478 billion. It is not clear whether this surplus is represented by cash at bank.

JSG are fearful that there may be material expenditure omissions from the accounts for 2006 and these matters will need careful investigation. A 'D' has therefore been awarded for this dimension.

Timeliness

Because for the period 2003 to 2005 the accounts were submitted to the Auditor General within 6 months of the year end, an 'A' score has been awarded. The 2006 accounts were delayed, but this is regarded as an extraordinary case because of the change in government and the subsequent changes of staff and investigations being carried out.

Accounting Standards

The accounts are presented according to the old Nigerian standard format which applied up to 2003. This standard has subsequently been revised to accord with International Public Sector Accounting Standards (IPSAS) but the presentation in Jigawa has not been altered. Score 'B'.

Summary of PI-25:

No.	Performance Indicator	Score M1	Brief Explanation
PI-25	Quality and timeliness of annual financial statements	D+	
(i)	Completeness of the financial statements	D	The financial statements presented to the Auditor General are of very poor quality. The audited financial statements which eventually appear as part of the Auditor General's report are of much higher quality, but there are still numerical errors. There is an expressed fear that significant amounts may be missing from these statements, particularly those for 2006.
(ii)	Timeliness of submission of the financial statements	A	The accounts are submitted for audit within 6 months of the year end.
(iii)	Accounting standards used	B	Former Nigerian National Standards are used for the presentation of the accounts. These are partially in accordance with the IPSAS cash standard.

3.6. Budget Cycle (IV): External scrutiny and audit

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

External audit is carried out by the Office of the Auditor General and by private audit firms:

- The Office of the Auditor General audits JSG state accounts, incorporating all MDAs.
- Parastatals have the power to appoint their own auditors, chosen from a list of private firms supplied by the Auditor General.
- Local governments are audited by private firms chosen by the Auditor General.

Audit of JSG MDAs and JSG annual financial statements

The score for indicator PI-26 is based on the audit work by the Auditor General's staff on MDAs and the JSG annual financial statements. The work consists of continuous transaction level testing by staff who are based permanently in the offices of the MDAs they are auditing. These auditors then carry out year-end accounts work on behalf of the MDAs, followed by reports on irregularities. 100% of MDAs are audited every year. Score 'C' for dimension (i).

The main weakness of this approach are:

- The transactions based approach does not make evaluations of major risks to the integrity of the financial statements, for example weaknesses in controls at the highest level.
- The independence of audit staff can be regarded as compromised by their permanent presence inside the MDAs.

As stated in PI-25 above the Auditor General's staff are needed to assist the Accountant General to prepare acceptable annual financial statements. The Auditor General then forms an opinion on these statements. The Auditor General's reports for 2003, 2004 and 2005 state that in his opinion the financial statements give a true and fair view of the affairs of JSG, but include a list of unanswered queries on irregularities in the records of MDAs and a schedule of those MDAs which have overspent their budget allocation, even, in some cases, after the budget has been revised upwards as part of the supplementary budget.

The Auditor General's report is submitted to the legislature within 3 months of receiving financial statements from the Accountant General. Score 'A' for dimension (ii).

Ministries generally acknowledge and follow up on recommendations made by the Auditor General, though the list of agencies which have overspent their revised budget contains some persistent offenders and the list of 'unreplied report and queries' for the 2005 accounts contains some queries on the 2004 accounts which are still unanswered. The lack of a Public Accounts Committee and lack of review of the Auditor General's report by the State House of Assembly (see PI-28) has allowed these queries to remain unanswered. Score 'C' for dimension (iii).

Audit of the accounts of parastatals

There have in the past been significant delays in the audit of the financial statements of parastatals by the private audit firms selected. Some of this delay has been caused because parastatals have not paid past audit fees to these firms. The Auditor General states that the backlog has now been cleared to 2005 and the only outstanding audit reports are for the 2006 accounts.

Local governments

JSG has outsourced the preparation of final accounts and audit of LGs to a private firm of accountants/auditors. Annual audited accounts for 2005 have been received from all local governments.

Summary of PI-26:

No.	Performance Indicator	Score M1	Brief Explanation
PI-26	Scope, nature and follow-up of external audit	C+	
(i)	Scope/ nature of audit performed (including adherence to auditing standards)	C	Audit work consists of continuous transaction level testing and some year end accounts work, followed by reports on irregularities. 100% of institutions are audited.
(ii)	Timeliness of submission of audit reports to legislature	A	Auditors reports presented to legislature within 3 months of receipt of financial statements from Accountant General.
(iii)	Evidence of follow-up on audit recommendations	C	Ministries follow up on recommendations and questions of weaknesses, but many items remain unresolved.

PI-27: Legislative scrutiny of the annual budget law

No members of the legislature have yet been available to comment on this indicator, and it is recommended that their viewpoint be obtained.

Scope of the legislature's scrutiny

The State House of Assembly sets up committees on the different budget sectors who are responsible for reviewing policies, plans and budgets for those sectors before and during the budget preparation process.

The SHA holds a debate on the proposed annual budget estimates which usually takes about one month, and this is not curtailed by the need to meet a budget timetable. They review the detailed estimates of revenue and expenditure, but the extent to which members of the House take a balanced overview of the budget objectives has been questioned. There is a general perception that they are most interested in contracts that are to executed in their constituencies. Score 'B' for dimension (i).

Extent to which the legislature's procedures are well established and respected

The SHA's procedures for budget review are firmly established and respected. The House appoints specialised committees on sectors and has procedures for negotiations when determining the agreed budget. Score 'A' for dimension (ii).

Adequacy of time for legislature to provide a response to budget proposals

The earliest date at which the budget has been finished allowed the legislature one month to approve the budget before the start of the fiscal year. The legislature will always allow

themselves one month to debate, which means that the approved budget is delayed in most years. Score 'C' for dimension (iii).

Rules for in-year amendments to the budget without ex-ante approval by the legislature

Clear rules allow the executive to reallocate expenditure between expenditure categories within an MDA, but any allocation from one MDA to another requires approval of the SHA in a revised or supplementary budget.

However these rules are temporarily broken by some MDAs, allowing over expenditure, which is later 'regularised' by a revised or supplementary budget. This revised budget must be passed by the legislature, but it is questioned whether members of the SHA understand the implications of their approval of a revised budget. It is also questioned whether they fully understand their role in the political process, as they have exhibited little political will to challenge the request of the Governor to make significant in-year changes to the budget. Score 'C' for dimension (iv).

Note: The Nigerian state governance structure is subject to considerable abuse by the Governor if the State House of Assembly does not take its powers seriously. In particular, if individual members of the House can be compromised by the inclusion within the budget of constituency contracts which may benefit them personally, the review of the budget by the SHA is seriously undermined. While this PEFA review has insufficient evidence to take a view on this problem, there is potential for this score to fall.

Summary of PI-27:

No.	Performance Indicator	Score M1	Brief Explanation
PI-27	Legislative scrutiny of the annual budget law	C+	
(i)	Scope of legislature's scrutiny	B	SHA committees review the fiscal policies and aggregates for the coming year. The whole SHA reviews the detailed estimates of revenue and expenditure.
(ii)	Extent to which the legislature's procedures are well established and respected	A	The SHA's procedures for budget review are firmly established and respected. The House appoints specialised committees on sectors and has procedures for negotiations when determining the agreed budget.
(iii)	Adequacy of time for legislature to provide a response to budget proposals	C	The legislature always has one month to debate and review the budget proposals.
(iv)	Rules for in-year amendments to the budget without ex-ante approval by the legislature	C	Clear rules exist: any re-allocation of budget from one MDA to another requires approval by the SHA in a revised or supplementary budget. However, the spirit of these rules is usually broken by the budget execution process which allows overspends by some MDAs, effectively forcing underspends by others. These effective re-allocations are then 'regularised' by the revised or supplementary budget which is approved by SHA.

PI-28: Legislative scrutiny of external audit reports

The Public Accounts Committee (PAC) was dormant for a number of years until the new administration was elected. As at July 2007, the PAC has been reinstated but members have not yet been selected.

For the purposes of this PEFA assessment, there is no evidence of any activity by PAC and no evidence of any scrutiny of the reports of the Auditor General (or of the reports of the auditors of parastatals or local governments) for the last three years of the old administration. The Auditor General's report is submitted to the Clerk of the House and an acknowledgement is received, but there is no evidence of any further systematic activity.

Summary of PI-28:

No.	Performance Indicator	Score M1	Brief Explanation
PI-28	Legislative scrutiny of external audit reports	D	
(i)	Timeliness of examination of audit reports by the legislature (last 3 years)	D	No evidence of activity
(ii)	Extent of hearings on key findings undertaken by the legislature	D	No evidence of activity
(iii)	Issuance of recommended actions by the legislature and implemented by the executive	D	No evidence of activity

3.7. Donor practices

D-1: Predictability of direct budget support

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

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

Summary of D-2:

No.	Performance Indicator	Score M1	Brief Explanation
-----	-----------------------	-------------	-------------------

D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D	
(i)	Completeness and timeliness of budget estimates by donors for project support	D	Not all major donors provide budget estimates for disbursement of project aid for the coming fiscal year at least 3 months in advance.
(ii)	Frequency and coverage of reporting by donors on actual donor flows for project support	D	Generally, donors do not provide quarterly reports within 2 months of the end of each quarter.

D-3: Proportion of aid that is managed by national procedures

Summary of D-3:

World Bank loans are disbursed based on World bank procedures. DFID support is administered outside the government system.

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

Annex 1: JSG Officers who provided information

Name	Organisation / Division
Abdulaziz	Permanent Secretary Ministry of Salary and Pension
Adamu Garingabas	Permanent Secretary Ministry of Budget and Planning
Yusuf Kazaure	Permanent Secretary Ministry Office of the Head of Service
Dahiru Abdulkadir	Permanent Secretary Ministry of Higher Education
Iliya Ado	Permanent Secretary Ministry for Local Government
Salisu A. Sani	Director Final Accounts Ministry Treasury Operations
Lawan Garba	The Auditor General State Audit Directorate
Aliyu Mohammed	The Executive Chairman Board of Internal Revenue
Bala Ibrahim Abubakar	Ministry of Budget and Planning

Annex 2: Documentary information

POLICY

1. Jigawa State Development Strategy Abridged Version 2005
2. Jigawa State Development Strategy Main Document 2005
3. Review of the Jigawa State Budget Consultant Report 198

SLGP CONSULTANTS REPORTS

1. Review of Jigawa State Budget Execution Process and Development of Inputs to Strengthen the Budget Preparation process Consultant Report 245
2. Report on PEM Strategy Development in Jigawa State, Incorporating Proposals for Support to Public Expenditure Management Reform Project April 2002 – March 2004 Consultant Report 12.
3. Detailed Assessment of Policy, Planning, Budget and Accounting in Jigawa State Consultant report 9.
4. Development of a Plan and Tender Documents for an Integrated Financial Management System (IFMIS) in Jigawa State Government Consultant Report 315.

BUREAU DOCUMENTS

1. Basic Skills in Accounting, Internal Control and Book-Keeping.
2. Jigawa State Financial Instructions.

BUDGET DOCUMENTS

1. Monthly Financial Statements for the month of March 2005 .
2. Jigawa State Estimates Recurrent Revenue Fiscal Year 2003. Ministry /Agency: Ministry of Education State Taxes)
3. Jigawa State Estimates Recurrent Revenue Fiscal Year 2003. Ministry /Agency: JARDA (Fines Fees).
4. Jigawa State Government of Nigeria. Annual Statement of Accounts for the year Ended 31st December 2004.
5. Jigawa State 2005 SEEDS Benchmarking. (Outcomes and Way Forward
6. Jigawa State Estimates, 2006 (section 2 – Schedules) (Recurrent Expenditure Summary).

7. Jigawa State Estimates, 2005 (Capital Expenditure Summary by Sectors)
8. 2005 Approved Recurrent Expenditure
9. Schedule Two Continue (Capital Expenditure)
10. Jigawa State of Nigeria Auditor General's Report on the Accounts of the Government of Jigawa State for the Year Ended.