# Public Financial Management Reforms

## The Problem

Public management is an essential part of the development process. By the advent of democratic governance in 1999, Nigeria was associated with poor fiscal management. The civilian administration inherited myriad of problems such as huge external debt and internal payment arrears, years of unprepared financial statements, and lack of auditing of government accounts. The military administration had a habit of wasteful spending, with continuing inefficiency and leakages in both the current and capital budgets. The Financial Instruction (a set of regulations governing the conduct of government financial transaction) was long neglected. There was inadequate funding of maintenance and operational costs and inflated payroll costs, due to a combination of payroll fraud and overstaffing. Projects were poorly planned and executed, with long delays in completion of projects.

Reform of fiscal management process commenced in 2000 by the federal government putting in place measures to improve the quality of spending, particularly with the capital budget, in which there was an early realisation that the bulk of spending was going on long-running projects of doubtful value and little prospect of early completion. One of the first steps of the government was to restore rule-bound financial management by re-issuing the *Financial Instructions.* The pace of reform, however, picked up after the 2003 presidential elections and the appointment of a new economic team with a strong reform mandate from President Obasanjo. Between 2003 and 2007, the economic team made significant progress to increase the transparency of the budget process, ensure more efficient cash management, and reform procurement processes. Also a major effort was made to modernise the legal framework for public financial management, through the passage of Fiscal Responsibility Act (2007) and Public Procurement Act (2007). In addition, Nigeria became an active member of the Nigerian Extractive Industries Transparency Initiative (NEITI), committing the country to higher standards of transparency in the management of mineral revenues. The Obasanjo administration also pursued a more disciplined fiscal policy from 2004 budget. The results of the fiscal discipline are the build-up of substantial foreign exchange reserves and substantial external debt reduction. However, some features of weakness in public financial management remain unsolved.

At the start of the Jonathan administration, there was a need to continue with reform of the fiscal management in the light of the unsustainable trajectory of most fiscal variables. As of 2010, the fiscal deficit, which is the excess of a country's annual expenditure over its annual revenue, stood at 3.5% of Nigeria's gross domestic product (GDP). In fact, this level of deficit spending already contravened the Fiscal Responsibility Act of 2007, which stipulates a 3% threshold for the fiscal deficit for every given year.

Furthermore the budget was too lop-sided in favour of recurrent expenditure. Recurrent expenditure was unacceptably high at 73.4% of the total expenditure, while capital expenditure, which is needed for fast-paced infrastructural development, stood at only 26.6% of total expenditure. At the end of first quarter of 2010, Nigeria's domestic debt had risen to about ₦3.6 trillion (or 16.4% of the GDP) from ₦1.7 trillion in December 2006. It is against the backdrop of these identified problems that the Jonathan administration continued with the reform of the fiscal management.

## Reform Actions

The reform initiatives that are being implemented to address the identified problems are as follows:

**Adoption of Cash Management**

Aggregate Cash Management plans currently in use as a basis for warrants

**Adoption of the Accounting Transactions Recording and Reporting (ATRRS) System**

This is ICT Microsoft Access-based accounting software application to enable rapid improvements in accounting and reporting. ATRRS was conceived because the full implementation of Government Integrated Financial Management Information System (GIFMIS) may not be realised within a short period of time. ATTRS is used to capture accounting transactions and data to facilitate prompt and timely reporting of Line MDAs and federal pay offices (FPOs) to OAGF for consolidation, finalisation of returns, and subsequent production of reports. The consolidation version of ATRRS was tested in 2007 and 2008 and used to produce the 2009 Federal Government Financial Statement. As a prelude to GIFMIS implementation, some of the benefits of the interim arrangements are as follows:

1. Familiarise the workforce with the use of IT equipment at the early stage of GIFMIS implementation, which would enable a smoother transition to GIFMIS software
2. Potentially reduce training period and requirement for GIFMIS
3. Potentially reduce GIFMIS implementation cost
4. Shorten business process re-engineering period (i.e., it is faster to transit from a semi-automated process than a manual process)

**Implementation of the Government Integrated Financial Management Information System (GIFMIS)**

The GIFMIS system is currently being used to manage the financial transactions of government in 447 MDAs, as at September 2014 and has drastically reduced waste in the system. The overall objective of GIFMIS is to implement a computerised financial management information system for the federal government, which is efficient, effective, and user-friendly and which:

1. Increases the ability of FGN to undertake central control and monitoring of expenditure and receipts in the MDAs
2. Increases the ability to access information on financial and operational performance
3. Improves internal controls to prevent and detect potential and actual fraud
4. Enhances access to information on government's cash position and economic performance
5. Improves medium term planning through a Medium Term Expenditure Framework (MTEF)
6. Provides the ability to understand the costs of groups of activities and tasks
7. Increases the ability to demonstrate accountability and transparency to the public and cooperating partner

The GIFMIS is used to support the government in all aspects of budget preparation, execution, and management of government financial resources. The system is designed to cover all spending units financed from the federal government's budget and to process and manage all expenditure transactions (including interfaces) pertaining to these units. All steps in the expenditure cycle, including budget appropriations, financing limits, commitments, verification, and payment transactions are recorded by and managed through the system. The system is a modern, efficient, and user-friendly facility, providing comprehensive information on all the financial affairs of the federal government. The introduction of the GIFMIS has greatly improved the efficiency of government expenditure. The system is currently being used to manage the financial transactions of government in more than 217 MDAs and has reduced wastages in the system. The implementation GIFMIS has transformed the government financial management and has led to improvement in the quality and timeliness of financial reports.

**Implementation of Comprehensive and standardised National Chart of Accounts (NCOA)**

In preparation for the introduction of GIFMIS, a new multi-dimensional National Chart of Accounts (NCOA) was designed. Implementation of the new NCOA commenced with the 2011 budget and a Treasury Circular was issued in 2010 directing MDAs of government to adopt it in execution of the 2011 budget.

The NCOA is multi-dimensional in the sense that budget and accounting data can be analysed in different ways depending on need. The details of each transaction include not only the exact particulars of a given receipt or payment but also the unit or section of the MDA responsible for the transaction.

The NCOA provides a robust mechanism for the classification of public resources under the budget as well as tracking receipts and payments during budget execution. In particular, the new classification system seeks to support one of the key deliverables of the World Bank's Economic Reform and Governance Project (ERGP) in Nigeria - the 'adoption of more transparent and modern economic and financial management systems and processes that are less prone to corruption'.

The new classification system supports all extant reporting and disclosure requirements under the Nigerian public finance management (PFM) legal framework. In addition, it has been designed to facilitate compliance with major international public sector accounting and reporting standards.

The NCOA is made up of six segments of 25 parts and 52-digits number, each representing an essential detail of each transaction. The NCOA is consistent with IMF Government Finance Manual 2001 (GFS), International Public Sector Accounting Standards (IPSAS) of IFAC reporting requirements, and other known modern public sector budgeting and accounting coding models. The NCOA has been modelled using REAL (i.e., revenue, expenditure, assets and liabilities). This will allow for easy migration to IPSAS cash and IPSAS accrual basis of accounting by 2014 and 2016, respectively.

***The development of the structure of the segmented COA is completed. However, the programme segment that supports Performance Budget System (PBS) is not being used. This is due to the fact that the PBS is not developed***.

**Adoption of International Public Sector Accounting Standard (IPSAS)**

The federal government approved in July 2010 the adoption of the International Public Sector Accounting Standards (IPSAS). The federal government IPSAS Technical Sub Committee produced a harmonised format for both cash and accrual IPSAS basis of accounting. The IPSAS Cash will take effect from 2014, while IPSAS Accrual will take effect from 2016.

The objective of IPSAS is to prescribe the manner in which general purpose financial statements should be presented in order to ensure comparability both with the entity's own financial statements of previous periods and with the financial statements of other entities. To achieve this objective, IPSAS sets out overall considerations for the presentation of financial statements, guidance for their structure, and minimum requirements for the content of financial statements prepared under the accrual basis of accounting.

The FAAC Sub-Committee on IPSAS has been set up

Relevant Sensitization workshops, local and foreign training has been organized to build capacity

Treasury Circular on the adoption, implementation and application of IPSAS in Nigeria has been issued

IPSAS complaint budget template has been developed

IPSAS Cash Basis commenced on 1st January, 2014 while IPSAS Accrual is to commence on 1st January, 2016

**The Adoption of Treasury Single Account (TSA) Concept**

The Federal Government has commenced implementation of the treasury single account (TSA) for better consolidation of cash balances. This TSA commenced with 92 MDAs and another 97 FCT-based MDAs were added in May 2013**.** As of November, 2014 TSA has been established in 447 MDAs. This accounts for 70% of the Federal Government Budget. The treasury single accounts:

1. Ensure complete, real-time information on government cash resources
2. Help prepare accurate and reliable cash flow forecasts
3. Optimise the cost of government operations
4. Facilitate efficient payment mechanisms
5. Improve operational and appropriation control during budget execution
6. Enhance efficiency and timeliness of bank reconciliation
7. Facilitate timely and more complete accounting statements/reports

The TSA handles payments from all spending units, and unlike the use of multiple bank accounts, the cash balances is rolled-up to a single account. The TSA is not just a single bank account but is typically multiple accounts rolled up to a single account. The TSA is therefore a unified structure of government bank accounts that gives a consolidated view of government cash resources. It could be just one account or a set of linked accounts (main and subsidiary). With the introduction of the system, there has been a reversal of the overall government accounts position, from an average overdraft of ₦102 billion in 2011 to a credit of ₦86 billion in 2013.

**Independent Revenue Enhancement (IRE)**

- Active involvement of OAGF in independent revenue target setting for MDAs
- Review of extant revenue rates in conformity with existing price levels
- Review of enabling Acts of MDAs to align them with provisions of S.180 of the 1999 constitution on revenue remittance to CRF; and
- Design of FGN independent revenue management guidelines

**Government Finance Statistics**

Adoption and Implementation of IMF Government Finance Statistics (GFS) reporting system

**Modernization of Internal Audit Function across all MDAs**

- modernisation process is on;
- Audit manual based on RBA has been developed;
- IDEA Audit software procured
- Internal Audit Modernisation strategy and road map has been developed and approved.

**Implementation of the E-Payment and E-Remittance of Independent Revenue**

E-payment and e-remittance measures were unveiled by President Jonathan during the presentation of the 2009 annual budget to the National Assembly in October 2008, as one of the measures for ensuring transparency and accountability. From 1 January 2009, all financial transactions of the federal government were made electronically. This was followed with Treasury Circular of 1 January 2009.

The e-payment covers all payment to contractors, service providers, staff, and other government agencies.

The Treasury Circular of 24 March 2009 introduced e-remittance of independent revenue into the consolidated revenue fund of the federal government of Nigeria and forwarding of evidence of remittance to the sub-treasury of the Federation.

**Budget Reform**

The Fiscal Responsibility Act (FRA) came into force on 30 July 2007. The FRA, as stated in its preamble, is an Act to provide for prudent management of the nation's resources, ensure long-term macroeconomic stability of the national economy, secure greater accountability and transparency in fiscal operations within a medium-term fiscal policy framework, and establish the Fiscal Responsibility Commission. The Act is meant to strengthen fiscal policy and implementation from the tradition of short-term fiscal perspective to medium- to long-term sustainability.

The Medium Term Expenditure Framework (MTEF) and Fiscal Strategy Paper (FSP) provide the basis for annual budget planning. They consist of a macroeconomic framework that indicates fiscal targets and estimates revenues and expenditure, including government financial obligations in the medium term. The documents also set out the underlying assumptions for these projections, provide an evaluation and analysis of the previous budget, and present an overview of consolidated debt and potential fiscal risks.

The MTEF and FSP produce a number of important outcomes, including the macroeconomic outlook, fiscal balance, and other key indicators. They fulfil a requirement of Section 11 of the Fiscal Responsibility Act (FRA) 2007, which stipulates that the Minister of Finance shall prepare the MTEF and FSP and have them approved by the Federal Executive Council and National Assembly. The framework enables the federal government to remain focused towards actualising the overall policy of fiscal sustainability and inclusive growth. The Act brought about a more streamlined budgetary process of the government and helps to eliminate budget overruns that had been so prevalent a few years back. It enables the government to start a gradual realignment of the budget in favour of capital expenditure.

**Establishment of the Sovereign Wealth Fund (SWF)**

In order to ensure that the government had a mechanism that compels it to create buffers needed in times of economic crises the Nigeria Sovereign Investment Authority (NSIA) was created to manage the Sovereign Welfare Fund (SWF). An initial amount of US$1 billion was transferred into the account for its take-off. The SWF would:

1. Provide for stabilisation and ensure that there is a buffer/insurance against external shocks
2. Provide resources for critical infrastructure
3. Boost savings for future generations in view of the intergenerational dimensions of crude oil

**Debt Management**

In view of rising domestic debt, the government had begun to develop debt management capacity at the sub-national levels and had prepared the first-ever national medium-term debt management strategy. A sinking fund of ₦100 billion was included in 2013 budget for repaying the government's maturing domestic debt in order to slow the growth in the debt stock.

## Main Achievements

Through the Public management reforms, the federal government has:

1. Reduced budget deficit and changed budget composition.
2. The TSA system has reversed the overall government accounts position, from an average overdraft of ₦102 billion in 2011 to a credit of ₦86 billion in 2013.
3. The GIFMIS has increased the ability to undertake central control and monitoring of expenditures and receipts in the MDAs, which has significantly reduced corruption.
4. The government reduced the flow of domestic borrowing from ₦852 billion in 2011 to ₦744 billion in 2012, and then to ₦727 billion in 2013 budget.
5. There is better access to information on financial and operational performance that makes it easier to produce reports.
6. As a result of these gains, rating by international agencies like Fitch, Standard & Poor's, and Moody have improved to BB- (or equivalent). This implied that Nigeria businesses could borrow at cheaper rates on the international bonds by some of the country's commercial banks, including Access Ban ($350 million Euro Bond), GT Bank ($350 million Euro Bond), and Fidelity Bank ($300 million Euro Bond).
7. Tax collection improved significantly from a paltry total of ₦455 billion in 2000 to ₦1.9 trillion by end of 2009.

**Other Specific Achievements include:**

1. Sensitisation and enlightenment of key stakeholders in the six geo-political zones covering the federal, states and the local governments.
2. Production of a new National Chart of Accounts to be used by the three tiers of government.
3. Training and re-training of process owners on the accounting standard.
4. Production of a user's manual for the National Chart of Accounts.
5. Production and exposure of key stakeholders to the general purpose financial statements (GPFS)-IPSAS cash basis.
6. Production and exposure of key stakeholders to the general purpose financial statements (GPFS)-IPSAS accrual basis.

7. Production of the format of statistical reports in form of functional report, programme report, and geo-location report, which are made available to all stakeholders.
8. Production of IPSAS complaint template for preparation of budget.
9. Production and distribution of 'what you need to know about IPSAS'.

## Key Challenges

The Finance (Control and Management) Act initially enacted in 1958 provided detailed guidelines for control and management of the public finances of the Federation and matters connected therewith. It should be noted that the Act was passed prior to independence in 1960, a period during which Nigeria was operating a parliamentary form of government. The Act, though fundamentally sound, requires modernisation to reflect Nigeria's move from parliamentary to a presidential system of government.

There is still a gap in the Constitution outlining roles and timelines in the budget process leading to persistent disagreement between executive and legislature on federal government MTEF, FSP, and annual budget benchmark leading to late passage of annual budget, which in turn impacts on expenditure outturn.

The issue of securing political will and best method for reaching out to political leaders, policy makers, and legislators still remains a challenge.

Finally, there are critical capacity gaps particularly in terms of right staffing skills and availability of IT, particularly at MDAs levels.

**Treasury Single Account (TSA)**

The implementation of the TSA has experienced resistance by a number of stakeholders to join TSA.

The legal framework appears to give autonomy to certain agencies

**Cash Management**

- Poor interagency Coordination
- Late passage of annual budgets
- Autonomy of other Arms and Agencies of Government

**Independent Revenue Enhancement (IRE)**

- Adequate funding for monitoring of revenue collection and remittance through the approval of cost-of-collection for the Treasury
- Unwillingness of MDAs to remit internally generated revenues
- Conflict between Fiscal Responsibility Act and the Circular issued for the remittance of 25% of gross revenues by MDAs

**Government Integrated Financial Management System (GIFMIS)**

- Resistance by MDAs
- Low internet connectivity in MDAs
- Power fluctuations at the data centres
- Acquisition of parallel systems that increase resistance
- Poor interagency coordination

- Resistance by a number of stakeholders
- The legal framework appears to give autonomy to certain agencies

**Timely accounting and reporting in line with IPSAS**

- Inadequate Funding

**National Chart of Accounts (NCOA)**

- Autonomy of certain agencies e.g. NASS, NJC, INEC and Human Rights Commission thus refusing buying in;
- Inadequate motivations to staff;
- Inadequate attention to training and retraining of officers; and
- Poor ICT infrastructure

**Government Finance Statistics**

- Constitute Inter-Ministerial GFS Working Group
- Develop a realistic implementation plan
- Revision of the COA to incorporate GFS requirements

**Modernization of Internal Audit Function across all MDAs**

- Inadequate Funding

## Assessment of Reform Initiative

Judged against the 10 criteria for assessing the success of reform efforts, it is clear that while significant successes have been recorded, daunting challenges remain.

| S/No. | Assessment Criteria | Result of Assessment |
|---|---|---|
| 1. | Have the public financial management reforms improved the quality and quantity of public services? | The reforms have improved governance as reports are produced timely, thereby instilling some level of transparency around financial management. The government finances are better managed. |
| 2. | Do more people now have access to services, including disadvantaged groups such as women, young persons, and people with disabilities? | Not Applicable |
| 3. | Have the PFM management reforms reduced the cost of | The reforms have certainly reduced the cost of governance, particularly as the |

| S/No. | Assessment Criteria | Result of Assessment |
|---|---|---|
| | governance? | huge amount spent on manual processes has been eliminated. There is also substantial reduction in government overdraft costs. |
| 4. | Have the PFM management reforms made the service more affordable for citizens? | Not Applicable |
| 5. | Have the PFM management reforms reduced corruption? | Yes. |
| 6. | Have the PFM management reforms reduced unnecessary bureaucracy and red tape? | Fiscal management reforms have reduced bureaucracy and red tape, and the delays in processing and payments of government bills have been reduced through e-payment system. |
| 7. | Are the PFM management reforms likely to lead to improved development outcomes? | Better fiscal management definitely leads to better development outcomes, particularly as budget outcomes will lead to development and provision of better services. |
| 8. | Are things improving, staying the same, or getting worse? | Yes. As a result of the reforms, information is widely available to the population and documents are now produced on a timely basis. |
| 9. | Where things are improving, will those improvements endure? | The improvements that have been made in some areas particularly the automated system are more sustainable than the previous system, although there is no legal framework to back the reforms. |
| 10. | Where things are not improving, what should be done? | Not Applicable. |

## Proposed Next Steps

1. Review, amend, and re-enact the Finance (Control and Management) Act.
2. Prompt publication of the approved Budget Calendar so that civil society organisations can pressure both the Executive and the Legislature to comply with the timelines provided in the Calendar.

3. Set up an independent body of experienced professionals charged with the responsibility to determine appropriate benchmark oil price annually in order to avoid politicization in the process of setting the oil benchmark.
4. Ensure that Medium Term Sector Strategies (MTSSs) and MDAs' Rolling Plans as well as analysis of past performance are used to make the budget envelope system more efficient and transparent.
5. Review the Constitution to set roles and responsibilities of major budget stakeholders at each stage of the budget process as well as setting timeline for performing specific budget activities.

**Treasury Single Account**

6. Complete connection of remaining MDAs to TSA by the end of 2014
7. Commence revenue collection into TSA
8. Rollout TSA to foreign Missions
9. Addition of donor Funds to TSA; and
10. Extension of TSA to extra budgetary fund

**Cash Management**

11. Incorporate MDA needs as a basis for the aggregate cash plans
12. Reduce FAAC receipts floats/delay

**Independent Revenue Enhancement**

13. Active involvement of OAGF in independent revenue target setting for MDAs
14. Review of extant revenue rates in conformity with existing price levels
15. Review of enabling Acts of MDAs to align them with provisions of S.180 of the 1999 constitution on revenue remittance to CRF
16. Design of FGN independent revenue management guidelines

**Government Integrated Financial Management System (GIFMIS)**

17. Rollout to remaining MDAs
18. Deploy commitment management functionality
19. Deploy fixed Assets and stores management functionality
20. Complete interface with FIRS and DMO systems
21. Complete interface with IPPIS and
22. Extend GIFMIS to Federation Accounts
23. Adequate training for key end users and sensitisation of stakeholders
24. Early completion of the 52-digit Chart of Account Code
25. Encourage other tiers of government to adopt the system
26. Introduction of programme-based budgeting and IPSAS.

**International Public sector Accounting Standards (IPSAS)**

27. Setting up governance structure for IPSAS Implementation for the three tiers of Government

28. Setting up of IPSAA Ministerial Steering Committee for the Federal Government
29. Undertake capacity building for political leaders and stakeholders involved in PFM on the process for IPSAS Accrual
30. Study tour to countries that have implemented IPSAS to learn lessons and share experience
31. Setting up of IPSAS Technical Study Group
32. Set In motion the process for the identification of FGN Assets and liabilities for IPSAS Accrual Basis by all Public Sector entities
33. Identification of Government Business Enterprises of the Federal Government
34. Commence the process for a law on the management of "unclaimed" Public Funds
35. Ensure budget format as approved are implemented by BOF and OAGF through training and retraining
36. Training of operational officers to ensure full implementation of IPSAS cash and accrual dates
37. Monitoring of implementation if IPSAS
38. Setting up of Project Management Team
39. Identification and valuation of Assets and liabilities of all the MDAs in the FGN from 2016-2020
40. Preparation of "Fiscal Operation Report" a report that will highlight key financial indicators of the FGN. It will include the financial activities of the Federal, States and Local Government. It will be championed by the OAGF
41. Amendment of the Financial Control Management Act to be in line with IPSAS from 2014-2015
42. Amendment of the Treasury Manual to be in line with the provisions of IPSAS in 2015
43. Preparation of Internal Audit Guide to be line with IPSAS by 2016
44. Provide clear guidelines for migration from IPSAS Cash to IPSAS Accrual in 2015
45. Ensure all MDAs (entities) commence the convergence to IPSAS Accrual by 2016

**National Chart of Accounts (NCOA)**

Work in progress to:

- Review the NCOA as approved by FAAC
- Review the programme segment of the NCOA in line with vision 20:2020
- Review the existing business process of the FG with respect to Planning, Budgeting and Accounting procedures;
- Recommend a revised and robust business process for the integration of Planning, Budgeting and Accounting processes with the NCOA, in line with the Transformation Agenda of the FG and Nigeria Vision 20:2020
- Develop programme Objectives and Activity for the 21 Programmes approved in the NCOA in consultation with all the relevant Federal Government Ministries, Departments and Agencies based on the

Transformation Agenda of the Federal Government and Nigeria Vision 20:2020;

- Update the NCOA with the detail 'Programme Objectives and Activity';
- Train all the relevant MDAs on the use of the 'Programme Objectives and Activity' for the production of 2015 - 2017 Medium Term Budget of the Federal Government based on the IPSAS Compliant Budget Template and format of the IPSAS Compliant Cash Basis General Purpose Financial Statements (GPFS) i.e. Statutory Financial Statements, Performance Reports and Statistical Reports;
- Conduct training for the Legislature, Judiciary and Executive Officers on the new reporting requirements based on IPSAS Compliant Budget Templates and Format of the GPFS;
- Provide training blueprint on the implementation of IPSAS by MDA on the developed Programme Segment of the NCOA; and

**Government Finance Statistics**

- Obtaining top political support
- Wider acceptance by all stakeholders on the importance of fiscal reporting based GFS
- Funding
- Capacity

**Enhance capacity for accounting and reporting**

- Professionalization of Federal Training Academy, Orozo courses and running CIPFA PFM courses

**Modernization of Internal Audit Function across all MDAs**

- Effective change management and leadership
- Training and Human Resources Development
- Use of Information Technology to foster and develop skills in auditing environment
- Implementation of Audit manual
- Structural and organisational changes