



KOGI STATE GOVERNMENT

KOGI STATE ARREARS CLEARANCE FRAMEWORK

2019

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ABBREVIATIONS AND ACRONYMS

OAGF	Office of the Accountant General of the Federation
APA	Annual Performance Assessment
DLI	Disbursement Linked Indicator
DLR	Disbursement Linked Result
DMO	Debt Management Office
FRA	Fiscal Responsibility Act
FRL	Fiscal Responsibility Law
IGR	Internally Generated Revenue
ISPO	Irrevocable Standing Payment Order
IVA	Independent Verification Agent
MDAs	Ministries, Departments and Agencies
PforR	Program for Result
SFTAS	States Fiscal Transparency Accountability and Sustainability Program
FGN	Federal Government of Nigeria
WB	The World Bank

SECTION 1. INTRODUCTION

1.1 Coverage and Scope:

This document covers the policy guidelines and procedures for managing and settling the domestic expenditure arrears of Kogi State Government. The State's arrears are financial obligations that have been incurred by Kogi State Government for which payment have not been made by the due date.

The framework is guided by the World Bank and the Federal Debt Management Office's (DMO) Template for the establishment of Domestic Arrears Clearance Committee (DAC), as well as established best practices in the settlement of State's Domestic expenditure arrears.

The main categories of Kogi State's expenditure arrears are as follows: contractors' arrears, pension and gratuity arrears and salary arrears. The shorter terms: "domestic expenditure arrears", "domestic arrears", and "arrears" used variously in the document refer to Kogi State Government domestic expenditure arrears.

1.2 Purpose of the Framework Document

This framework document is aimed at providing practical guidance in the identification, recording and management of domestic expenditure arrears in the State. This will assist the State to establish processes and systems to reduce her stock of domestic arrears.

1.3 Users of the Framework Document

This framework is primarily meant for the government of Kogi State. Besides, the staff of MDAs such as Ministry of Finance and Economic Development, Office of the Accountant-General, Ministry of Budget and Economic Planning, Office of the State Auditor-General, Bureau of Public Procurement, Ministry of Works, Housing and Urban Development and other line MDAs, etc., who may be involved in debt management and settlement of arrears at one time or the other will find it useful.

The framework should be used in conjunction with other extant public finance laws and regulations, the accounting system and procedures manuals in the State.

1.4 VERIFICATION PROCESS:

Upon inauguration, the Committee swung into action by developing a Template for recording, verifying and reporting domestic expenditure arrears. The Committee observed that the contractual obligations reported in the state financial documents is the contract sum of projects awarded without establishing the proportion of work-done on which payments have been made. The Committee then recognized the actual amount due for payment based on the percentage of Work-Done by the Contractors and not just the contract sum. This information was extracted from the Certificate of Due Process (i.e. Value of Work-Done) from the Kogi State Bureau of Public Procurement after extensive reconciliation with the payment made so far from the Office of the Accountant-General. The Committee report was subjected to external audit review by the office of the State Auditor-General to arrive at the Final figures reported in the State Financial Documents for the year 2019.

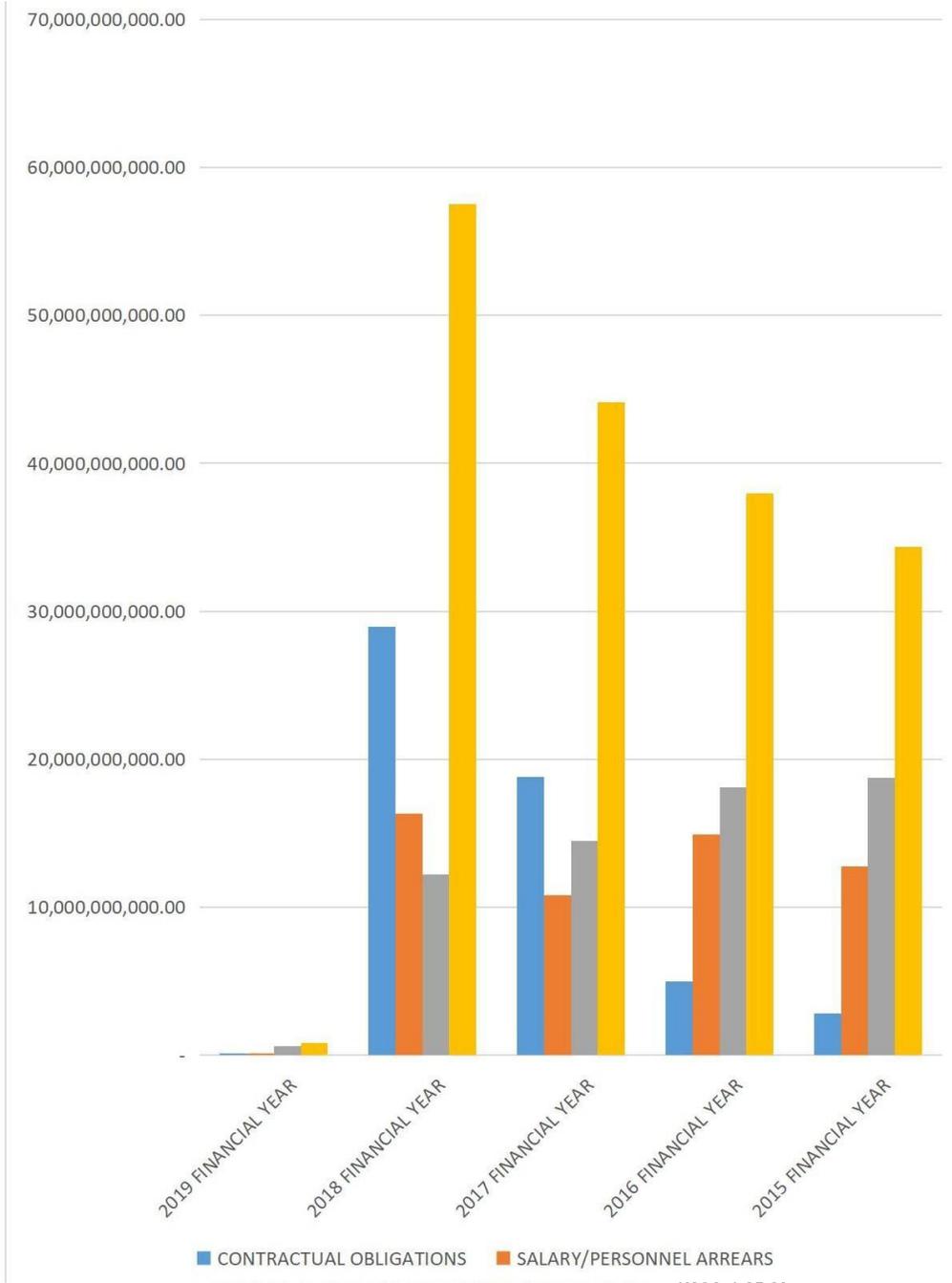
Total Stock of Domestic Expenditure Arrears of Kogi State Government

Table 1: Breakdown of Kogi State Domestic Expenditure Arrears (2015-2019)

SUMMARY OF KOGI STATE DOMESTIC EXPENDITURE ARREARS FOR FIVE (5) YEARS 2015-2019						
COA-CODE	DOMESTIC EXPENDITURE ARREARS DETAILS	2019 FINANCIAL YEAR	2018 FINANCIAL YEAR	2017 FINANCIAL YEAR	2016 FINANCIAL YEAR	2015 FINANCIAL YEAR
41040105	CONTRACTUAL OBLIGATIONS	111,680,614.00	28,934,435,963.24	18,798,931,683.39	4,968,245,969.44	2,854,528,053.22
41040101	SALARY/PERSONNEL ARREARS	131,874,099.00	16,340,838,225.51	10,813,271,705.88	14,926,274,292.55	12,776,385,122.45
41040102	PENSION & GRATUITY ARREARS	592,474,560.00	12,216,707,890.00	14,504,353,299.50	18,091,113,648.18	18,730,264,173.64
	ANNUAL TOTAL	836,029,273.00	57,491,982,078.75	44,116,556,688.77	37,985,633,910.17	34,361,177,349.31
NOTE: THE ARREARS FIGURES REPORTED IS IN NAIRA (₦) AND IT IS THE TOTAL AMOUNT OF EACH TYPE OF ARREARS AS PER DOMESTIC DATABASE FOR THE YEAR ENDING 31ST DECEMBER, 2019.						
						
	Asiru Asiwaju Idris (FCA)				Alhaji Momoh Jibrin (CNA)	
	Hon. Commissioner of Finance,				Accountant-General,	
	Kogi State.				Kogi State.	

YEARLY COMPARATIVE ANALYSIS OF KOGI STATE DEBT STOCK.

DOMESTIC EXPENDITURE ARREARS DETAILS	2019 FINANCIAL YEAR	2018 FINANCIAL YEAR	2017 FINANCIAL YEAR	2016 FINANCIAL YEAR	2015 FINANCIAL YEAR
CONTRACTUAL OBLIGATIONS	111,680,614.00	28,934,435,963.24	18,798,931,683.39	4,968,245,969.44	2,854,528,053.22
SALARY/PERSONNEL ARREARS	131,874,099.00	16,340,838,225.51	10,813,271,705.88	14,926,274,292.55	12,776,385,122.45
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ANNUAL TOTAL	836,029,273.00	57,491,982,078.75	44,116,556,688.77	37,985,633,910.17	34,361,177,349.31



1.1 Description of Kogi State's Policy on Arrears:

Kogi State Government shall adopt the following measures to clear her existing arrears and prevent accumulation of new one:

- i. The State shall empower her legal and regulatory framework on financial issues by strengthening legal and regulatory framework
- ii The State shall ensure that its budget shall be a realistic plan for expenditures to enhance its credibility and the borrowing limit shall include a margin to handle the situation of revenue shortfalls;
- iii The State shall ensure proper accounting and reporting through improve accounting and reporting system.
- iv The State Government shall strengthen her commitment controls to effectively limit commitments to approved budget allocations and to availability of actual cash;
The State shall facilitate improved and integrated cash and debt management;
- v. Establishment of Treasury Single Account (TSA) to reduce State's reliance on commercial banks loans;
- vi. Payment shall be centralized to the State Treasury to prevent arrears as a result of administrative hurdles;
- vii
- viii. Upgrading the government financial management information systems.

SECTION 2: PLANNED ACTIONS FOR SETTLEMENT OF KOGI STATE DOMESTIC EXPENDITURE ARREARS

Kogi State Multi-Year Plan is the financial plan of the State for clearance of her stock of arrears based on the total fund available to the State in the fiscal year.

The State Government shall clear her arrears using funds from any of the following sources:

- The State's Internally Generated Revenue;
- Grant from the Federal Government;
- Borrowing from the Commercial Banks
- Bonds

SECTION 3: PRIORITIZATION CRITERIA FOR ARREAR CLEARANCE

Until recently, there was no comprehensive effective sub-national arrears clearance strategy in Nigeria. To varying degrees, States have institutional mechanisms for prioritizing the payment of domestic expenditure arrears. The volume of the arrears of most States are usually too large to be cleared within a fiscal year.

Kogi State Government shall adopt any of the following criteria/approaches in deciding which of her domestic expenditure arrears to be paid.

3.1 Prioritization Criteria/Approaches between Types of Arrears

Approach 1:

Allocation of available fund among the types of the arrears in proportion to their share of the total outstanding stock of arrears

Approach 2:

Allocation of available fund on a particular type of arrears.

3.2 Prioritization Criteria/Approaches within Types of Arrears

S/N	CRITERIA/ APPROACHES	RATIONALE	REQUIRED DATA
1	CONTRACTORS		
	Ongoing worksfirst	Ensures ongoing works are completed	Status of project
	Largest first	Largest injury (in terms of arrear value) is addressed first	Value of outstanding arrear
	Smallest first	Allows many individual arrears to be paid immediately and focuses funds on small firms that may be vulnerable to cash flow problems (assuming most small arrears are owed to small contractors)	Value of outstanding arrear
	Oldest first	Creditor who has been waiting longest is paid first	Date missed payment was first due
	Subject to penalties first	Paying arrears that bear penalties for late payment reduces cost to state	Contract terms: whether provide for late penalties
2	SALARIES		
	Oldest first	Largest injury (in terms of delay) is addressed first	Date missed payment was due
	Smallest first	Allows many individual arrears to be paid immediately and focuses funds on lowest paid workers that may be vulnerable to cash flow problems	Value of outstanding arrear
	Equal percent to all	All staff receive something regardless of when salary payment was first missed or level of salary	Amount owed to each staff

3 PENSIONS AND GRATUITIES

Oldest first	Largest in jury (in terms of delay) is addressed first	Date missed payment was due
Equal percent	All pensioners <i>receive</i> something rig, regardless of when theyretired	Amount owed to each pensioner

SECTION 4: POLICIES AND ACTIONS TO PREVENT THE OCCURENCE OF NEW ARREAS

In order to control the accumulation of arrears, the State Government has put policies and actions in place to prevent the occurrence of new arrears.

- I. Opening of a Consolidated Debt Service Account each in Zenith Bank and UBA Plc with Accounts Numbers 1015315097 and 1022822234 respectively where 5% of the states' IGR would be paid to clear arrears.
- II. The Domestic Debt Arrears Committee would continuously review outstanding liabilities and present them for monthly payments
- III. The Government has put in place arrears monitoring systems that would capture the size, maturity, and composition of the stock of arrears and ensure that arrears are paid as at when due.
- IV. The Government has introduced the accrual accounting system, which recognize a liability when a service is delivered or goods are received, and would enable the systematic monitoring of liabilities, thereby preventing accumulation of arrears.
- V. The Government has introduced and strengthened commitment controls as part of the internal control system, which would prevent MDAs from initiating expenditure without available budget and cash.

SECTION 5: INSTITUTIONAL ARRANGEMENT

5.1 Institutional arrangement for Implementation of the

Framework

Kogi State is a participant in the Federal Government of Nigeria (FGN) and World Bank multi-year (2018-2022) States Fiscal Transparency Accountability and Sustainability (SFTAS) Program to support Nigerian States to strengthen fiscal performance and sustainability. One of the disbursement-linked indicators under the Program (DLI #8) requires the state to establish a database of verified domestic arrears, establish an arrears clearance framework (ACF) setting out the procedures to clear the stock of arrears, and implement the ACF. To this end, Kogi State Government has put in place a **Domestic Arrear Clearance Committee** as institutional arrangement charged with the overall arrears clearance process, including recording, verification, classification, reporting, prioritization and clearance of government domestic expenditure arrears in the State and to oversee the work of the State towards achieving the SFTAS DLI #8. The terms of reference guiding the work of the Committee are as follows.

5.2 Objective and Responsibilities of the Committee

The Committee will support the Accountant-General in its responsibility for accurate recording, verification and reporting of domestic arrears balances across all types. The Duties of the Committee shall include, but not limited to the following:

1. Introduction of specific guidelines setting out the roles and responsibility

- of individuals and institutions for the recording, verification of domestic arrears on agreed recording templates,
2. The creation, maintenance and regular (monthly) update of an accurate internal domestic expenditure arrears database and the publicly accessible online version of the database,
 3. Oversight of the overall recording, verification and reporting process for domestic expenditure arrears to ensure that they meet the requirements for SFTAS DLIs #8 as described in the SFTAS verification protocols,
 4. Ensure adequate classification of the arrears for prioritization purposes,
 5. Develop the State's Arrears Clearance Framework (ACF), including policies on prioritization and clearance of arrears
 6. Provide accurate monthly, quarterly and annually reports that present the true position for verified domestic arrears and the progress made in implementing the State's ACF
 7. Provide data/documentation to support the verification of SFTAS DLI #8, including the State Arrears Recording, Verification and Clearance Report.

5.2.1 Specific activities for the committee include but are not limited to the following:

- a. Adoption and implementation of records management guidelines for domestic arrears.
- b. Adoption and implementation of verification guidelines for all types of domestic arrears.
- c. Establishment of a consolidated internal domestic arrears database.
- d. Establishment of a publicly-accessible online version of the database.
- e. Reporting of valid and verified domestic arrears to end-users.
- f. Development of the ACF.
- g. Produce the State Arrears Recording, Verification and Clearance Report.

5.2.2 Supervision and Reporting Arrangements

The Committee will report directly to the State Governor through the Honourable Commissioner for Finance and Economic Development, keeping the appointed SFTAS focal persons informed.

5.2.3 Membership of the Committee

The membership of the Committee will be as follows;

COMMISSIONER OF FINANCE	CHAIRMAN
STATE ACCOUNTANT-GENERAL	ALTERNATIVE CHAIR
DIRECTOR CAD-AG's OFFICE	SECRETARY
DIRECTOR OF BUDGET (MIN. OF BUDGET)	MEMBER
DIRECTOR TREASURY AG's OFFICE	MEMBER
DIRECTOR-GENERAL-(BPP)	MEMBER
DIRECTOR-DMO (MOF)	MEMBER
DIRECTOR AUDIT (OAuD-GEN)	MEMBER
DIRECTOR PENSIONS – STATE PENSION	MEMBER
ASSISTANT DIRECTOR BUDGET (Mo B)	MEMBER
CHIEF ACCOUNTANT-AG's OFFICE	MEMBER
SFTAS FOCAL OFFICER (PforR)	STATE FOCAL OFFICER (PforR)
STATE AUDITOR-GENERAL	OBSERVER

5.2.4 Committee Secretariat

The Committee shall establish a Secretariat to support its work using existing Staff or Units within the Office of the Accountant General and State's Debt Management Office.

5.2.5 Powers and authorities of the Committee

The Committee shall have delegated authority to request any and every information it requires in order to carry out its functions from the MDAs.

The Committee will be able to incur expenditures, including the engagement of professional assistance in the course of executing its role. All expenditures must be incurred through the procurement systems of the selected institution.

5.2.6 TENURE OF THE COMMITTEE:

The Committee will operate in perpetuity and may be disbanded or reconstituted on the directive of the State Executive Governor.

Signed



Asiru Asiwaju Idris
Hon. Commissioner of Finance



Momoh Jibrin
State Accountant General