



AUDIT EFFECTIVENESS

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THE 2017 AUDIT ON THE ACCOUNTS OF THE FEDERATION AND FEDERAL GOVERNMENT BY THE AUDITOR GENERAL FOR THE FEDERATION

The report of the Auditor-General of the Federation (AuGF) for 2017 contains some ground shaking revelations and issues which need to be addressed if transparency, accountability and value for money is to be mainstreamed in the audit process. Highlights of the Executive Summary in the exact words of the AuGF is reproduced below.

Mandate

"I am required by Section 85 (5) of the Constitution of the Federal Republic of Nigeria 1999 (as amended), to submit my Report on the audit of the Accountant- General's Financial Statements to the National Assembly within 90 days of receipt of the Statements from the Accountant-General of the Federation. The Financial Statements of the Federal Government of Nigeria for the year ended 31st December, 2017, were first submitted to me by the Accountant-General of the Federation on 20th December, 2018. Following my preliminary observations, the Statements were significantly amended and resubmitted on 26th April, 2019.

In accordance with Sections 85 (2) and (5) of the Constitution, I have examined and certified the accounts subject to the comments and observations contained in this Report.

Significant Observations

Compliance by parastatals with financial reporting requirements – *The Financial Statements of Government Statutory Corporations, Companies, Commissions, etc., otherwise called Parastatals are not audited by my Office, in line with Section 85(3) (a) of the 1999 Constitution. However, in accordance with Section 85(3)(b) of the Constitution, their Annual Accounts and Audit reports thereon shall be submitted to me for comments. Some of the Government Corporations, Companies and Commissions have not submitted their audited accounts to me as at 30th June 2019, despite the provision of Financial Regulation 3210(v) which enjoins the Chief Executive Officers of these bodies to submit both the audited accounts and management reports to me not later than 31st May, of the*

following year of Accounts.

The table below shows at a glance, a summary of the number of defaulting Agencies that have not submitted audited accounts. 160 agencies defaulted in submission of audited accounts for 2016; 265 agencies defaulted in submission of audited accounts for 2017; while 11 agencies have never submitted any financial statements since inception.

STATUS OF SUBMISSION OF AUDITED ACCOUNTS

| Year of Accounts | Number of Defaulting Agencies |
|---|--------------------------------------|
| Up to Financial Year ended 31 st December 2017 | 265 |
| Up to Financial Year ended 31 st December 2018 | 180 |
| No Submission since inception | 11 |

Although, we have noticed a marked improvement since my last report, there are still some violations of statutory financial reporting obligations by Parastatals. Stringent sanctions, including withholding financial releases and sanction of the Chief Executive Officer, should be imposed on defaulting Agencies who do not render timely accounts, as provided in the Constitution, Financial Regulations and other relevant laws.

Cross-cutting findings - A number of major weaknesses and lapses in the management of public funds and resources were identified across several MDAs during the annual audit. A separate section is therefore included in this annual report to highlight the key issues. Our findings range from irregular expenditures to failure to surrender surplus revenues to the Treasury, all running into billions of naira. Also notable was the continuing failures in the implementation of International Public Sector Accounting Standards (IPSAS). Overall, our findings are indicative of significant weaknesses in expenditure control, accounting, financial reporting and in the completeness and accuracy of the consolidated financial statements.

Delays in budget passage, low levels of budgetary release across Government and the impact on the ability of the MDAs to perform - As in previous years, the annual budgeting process of the Federal Government remains flawed and unable to support genuine development. Delays in the passage of the budget had a direct impact on the ability of MDAs to perform their functions and rendered the annual budget execution process ineffective to a large extent (especially regarding capital expenditures). There remains the need for the Executive and the Legislature to work better together on the passage and implementation of budgets, if Nigeria is to achieve meaningful development.

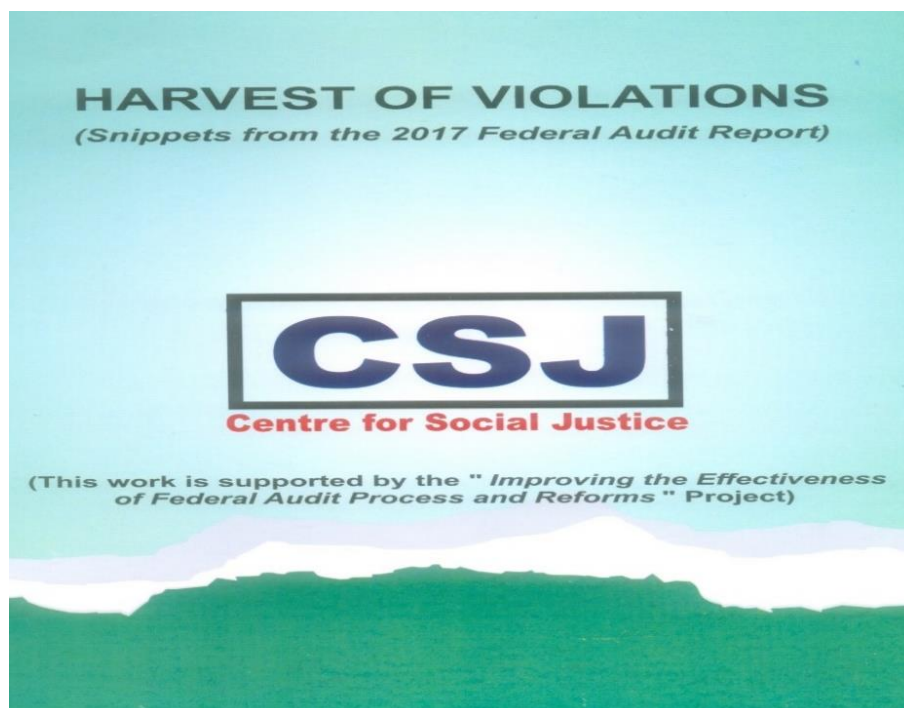
Responses to audit queries - The performance of Ministries, Departments and Agencies (MDAs) and their Accounting Officers in responding promptly to audit observations is yet to improve. The 9th Assembly presents a fresh opportunity for the Public Accounts Committees to achieve a positive impact in this regard by ensuring sanctions for non-responsive behaviour by Accounting Officers and their Management.

Inadequate funding for audit - Severe funding constraints continue to be a major impediment to achieving the statutory and constitutional mandates of the Office (OAuGF), and the Office is not able to self-fund significant amounts of fieldwork. The Office also does

not have adequate accommodation for its staff, thereby resorting to the Resident-Auditor approach where audit staff are based permanently at auditee offices. This practice has long been stopped by Supreme Audit Institutions but in the absence of suitable accommodation and funding for audit fieldwork, the OAuGF is yet to discontinue this arrangement.

As was the case in previous years, the National Budget, the mandate of the Office and public expectations have been increasing. However, the annual audit budget remains inadequate”.

CSJ RESPONDS TO THE 2017 FEDERAL AUDIT



Recommendations

The Lima Declaration of Guidelines on Auditing Precepts (adopted at the IX Congress of the International Organisation of Supreme Audit Institutions-INTOSAI) states that the concept and establishment of audit is inherent in public financial administration as the management of public funds represents a trust. Audit is not an end in itself but an indispensable part of a regulatory system whose aim is to reveal deviations from accepted standards and violations of the principles of legality, efficiency, effectiveness and economy of financial management early enough to make it possible to take corrective action in individual cases, to make those accountable to accept responsibility, to obtain compensation, or to take steps to prevent - or at least render more difficult such breaches.

The last set of requirements on the purpose of audit is generally lacking in the Nigerian audit regime; corrective action appears not to follow individual cases of mismanagement; the treasury is hardly compensated and those responsible for the violations hardly accept responsibility. This has led to situations of impunity for violations of the law. Thus, the Nigerian society neither gets guarantees of

non-repetition, compensation nor have the offenders punished.

The office of the Auditor-General for the Federation (AuGF) needs a supportive institutional environment in which audit issues can be taken seriously and identified flagrant abuses remedied. In this direction, the collaboration of the Public Accounts Committee of the legislature (PAC), anti-corruption agencies, the media, nongovernmental organizations and other aspects of civil society, collectively dubbed "Pillars of Integrity" is imperative. The AuGF will be effective to the extent that these vital pillars collaborate to promote accountability and transparency in governance and financial management. Specifically, audit is central to the quest for transparency and accountability and the fight against corruption; the success of these campaigns is directly related to the extent to which citizens demand for adherence to the rule of law including the full implementation of audit recommendations, recovery of monies due to the treasury and punishment of offenders.

Year after year, the AuGF has documented series of violations and the situation did not improve in the 2017 Audit of the Accounts of the Federation of Nigeria. The 2017 Audit Report indicates that 160 agencies defaulted in submission of audited accounts for 2016; 265 agencies defaulted in submission of audited accounts for 2017; while 11 agencies have never submitted any financial statements since inception. Things are not getting better, rather impunity is increasing. Also, the performance of Ministries, Departments and Agencies (MDAs) and their Accounting Officers in responding promptly to audit observations is yet to improve.

The specific violations are mind-blowing. N26.6billion in irregular payments and expenditure across various MDAs - no payment vouchers and supporting documents, unapproved international trips, extra budgetary payments and payments that violated the E-Payment policy. Payments vouchers were routinely withheld and not presented for audit. The key agencies involved in these infractions include the National Health Insurance Scheme - N8.3bn, Ministry of Foreign Affairs - N4.3bn, Corporate Affairs Commission - N2.19bn and Plateau State Universal Basic Education Board - N1.6bn.

SUVs and cars were taken away by high level retiring officers or could not be accounted for at the Federal Civil Service Commission and the Lake Chad Research Institute, Maidugiri. 51 transactions in MDAs did not comply with the Public Procurement Act and the notable ones include NECO - N13.87bn, Nigerian Ports Authority (NPA) - N7.5bn and Federal University of Petroleum Effurun (FUPRE) - N1 bn. As the Federal Government and the States complain of paucity of resources, the Nigerian National Petroleum Corporation (NNPC) and the Department of Petroleum Resources (DPR) continued the practice of unauthorized deductions from funds due to the Federation Account contrary to S. 162 of the 1999 Constitution. This has been reported on a yearly basis and nothing has been done to stem the tide. The DPR has outstanding in respect of royalty and rent the sum of N980.2billion while bad and doubtful debts amount to \$149million. The Ministry of Mines and Steel Development failed to remit N8.5bn to the Federation Account between the years 2015 to 2017. Further, various agencies failed to remit operating surplus, IGR, Value Added Tax (VAT) and withholding tax to the treasury. These agencies include the National Power Training Institute of Nigeria, Securities and Exchange Commission, Bureau of Public Enterprises, University of Abuja, University of Uyo, National Examinations Council (NECO). The Executive illegally took N8billion from the Natural Resources Fund Account and "lends" it to Kano and Osun states at N4billion each. This is a practice outside the contemplation of enabling laws and policies.

What should Nigerian citizens do in the circumstances of these fundamental violations? Key institutions have failed the audit test and the oversight bodies are not alive to their responsibilities; what options for succour is there for the ordinary Nigerian? Is the situation truly intractable for a government that is openly committed to fighting corruption? What is the core anti-corruption agencies doing about this pathetic state of affairs? Apart from the recommendations of the AuGF, the authors have included recommendations for follow-up action that are by no means exhaustive. We therefore call on all well-meaning Nigerians to get on board now and take actions that will improve transparency, accountability and value for money in public finance management.

Recommendations of CSJ

Nigeria's economic and social development is challenged by paucity of resources. We need to make the maximum use of available resources for the progressive improvement in the standard of living of our people, build necessary infrastructure and create jobs for the unemployed population. Further, considering that law is the command of the sovereign backed by sanctions, - laws, policies and regulations are meant to be obeyed.

Laws are not mere moral adjurations. When audit breaches attract no sanctions, they are bound to be replicated every year. Nigerians have collectively recognized and agreed that corruption is one the greatest binding constraints on our development and audit reports provide a veritable opportunity to scientifically fight corruption.

In the circumstances, the following recommendations are imperative.

To the National Assembly and its Public Accounts Committees

- ❖ Engage MDAs indicted in audit reports and ensure compliance with audit recommendations through the legislative process.
- ❖ Expeditiously enact the Federal Audit Service Commission Bill into law and forward same to the President for assent. The Bill when passed into law will improve the audit function and reform the system's ability to secure greater compliance with fit and good practices.

To the President

- ❖ Ensure that the resolutions and recommendations of the National Assembly on audit reports are implemented to the letter.
- ❖ Guarantee assent to the Federal Audit Service Commission Bill when it is finally approved by the National Assembly and sent for presidential assent. This is imperative considering that when the Bill was sent for presidential assent by the Eight National Assembly, it neither got assent nor was it returned to the legislature with reasons for declining assent.
- ❖ Give directive to the Accountant General of the Federation for the creation of subaccounts in the Treasury Single Account for the domicile of the IGR of relevant agencies and

automatically deduct the requisite 25% (as required by Finance Circular Ref. No.: BO/RVE/12235/259A/11/201 dated 11th November, 2011) on a quarterly basis without recourse to the agencies or waiting for the end of year to calculate the due amount.

- ❖ Give directives to the Accountant General of the Federation for the creation of subaccounts in the Treasury Single Account for the domicile of withholding tax, VAT and all taxes collected by MDAs so that they will be swept into the CRF automatically without entering the accounts of the respective MDAs.

To the Auditor-General for the Federation

- ❖ Ensure follow-up information on compliance with the 2017 audit recommendations in the 2018 and future audit reports.
- ❖ Build further capacity of the office to improve subsequent audit reports.
- ❖ Maintain a professional and good inter-agency collaboration with the anticorruption agencies for follow-ups on audit recommendations.

To Accounting Officers and Relevant Public Service Authorities

- ❖ Build capacity of staff and sensitise them on the Financial Regulations and its demands.
- ❖ Ensure the discipline of public officers who violate the Financial Regulations and Public Service Rules through the activation of the relevant sanctions mechanisms.

To the Anti-Corruption Agencies

- ❖ The report of the Auditor-General for the Federation contains tested facts which have provided opportunities for audited MDAs to respond to audit queries. Therefore, violations contained in audit reports and the accompanying recommendations provide very strong leads for the prosecution of offenders and recovery of money due to the treasury. The Economic and Financial Crimes Commission, the Independent Corrupt Practices and other Related Offences Commission and the Police should follow up on audit findings.

To Civil Society and the Media

- ❖ Embark on advocacy to ensure that audit violations and recommendations are not swept under the carpet but kept on the front burner of national discourse leading to societal pressure for reforms in accordance with fit and good practices.
- ❖ Support the enactment of the Federal Audit Service Commission Bill into law.
- ❖ Activate the office of the citizen, especially the tax-payer to demand that mismanagement of public resources attract the requisite consequences in law and in fact; that Nigerians get apologies and guarantees of non-repetition for audit violations.