

## THE CASE FOR IMPROVED FUNDING OF THE OFFICE OF THE AUDITOR GENERAL FOR THE FEDERATION

### 1. Introduction

*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 accept responsibility, to obtain compensation, or to take steps to prevent- or at least render more difficult- such breaches<sup>1</sup>.*

The audit function, being quasi-judicial in nature requires a high degree of detachment and independence of mind. The integrity and dependability of the Auditor-General's reports derive largely from the autonomy of his office. Various national and international standards have made provisions for the independence and funding of the Office of the Auditor-General for the Federation which is Nigeria's Supreme Audit Institution (SAI). The Constitution of the Federal Republic of Nigeria 1999 (as amended) provides in section 85 (6) that:

*"In the exercise of his functions under this Constitution, the Auditor-General shall not be subject to the direction or control of any other authority or person".*

It is not enough to have a constitutional guarantee of freedom from external interference and pressure, there must be explicit provisions safeguarding the building blocks of this freedom such as funding of the Office and remuneration of key officials and staff of the Auditor-General<sup>2</sup>. The availability, sources and timeliness of funding public audit work contributes in no small measure to its independence, effectiveness and efficiency.

Section 84 (1) of the Constitution prescribes inter alia that the remuneration, salaries and allowances of the Auditor-General for the Federation shall be determined by the National Assembly but not exceeding the amount as shall have been determined by the Revenue Mobilisation Allocation and Fiscal Commission. By section 84 (2) of the Constitution, the remuneration, salaries and allowances of the Auditor-General is a charge on the Consolidated Revenue Fund. Section 84 (3) of the Constitution states that the salaries

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<sup>1</sup> Section 1 of the Lima Declaration of Guidelines on Audit Precepts adopted at the IX Congress of the International Organisation of Supreme Audit Institutions (INTOSAI) meeting in Lima, 1977.

<sup>2</sup> *Proposed Audit Act: Body of Principles* by Kalu Onuoha and Eze Onyekpere in *Critical Issues in Public Expenditure Management*, (page 100), Budget Transparency Network, 2006.

and conditions of service (other than allowances) shall not be altered to the disadvantage of the office holder after his appointment. The Constitution is silent on the other recurrent and capital expenses of the Auditor General's Office. However, the Auditor-General does not work alone. He has a team, staff and bureaucracy that facilitates the delivery of tasks assigned to the Office. It is a fundamental aphorism that an office is as strong as the supporting human and materials resources available to it to execute its mandate.

Section 5 of the Lima Declaration of Guidelines on Audit Precepts (Lima Declaration) states that Supreme Audit Institutions (same as Nigeria's Auditor-General of the Federation [AuGF] or a State) can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence. The Auditor-General's office is entitled to the functional and organizational independence required to accomplish assigned tasks. Specifically, on the financial independence of the AuGF, the Lima Declaration states as follows<sup>3</sup>:

*Supreme Audit institutions shall be provided with the financial means to enable them accomplish their tasks. If required, Supreme Audit institutions shall be entitled to apply directly for the necessary financial means to the public body deciding on the national budget. Supreme Audit Institutions shall be entitled to use the funds allocated to them under a separate budget heading as they see fit.*

Further, the Mexico Declaration on the Independence of Supreme Audit institutions provides in Principle 8 as follows:

*SAIs should have available necessary and reasonable human, material and monetary resources - the Executive should not control or direct the access to these resources. SAIs manage their own budget and allocate it appropriately. The Legislature or one of its commissions is responsible for ensuring that SAIs have the proper resources to fulfill their mandate. SAIs have the right of direct appeal to the Legislature if the resources provided are insufficient to allow them to fulfill their mandate.*

It has been stated in the "How to Note" (Policy Paper 2005) of the Auditor-General's office<sup>4</sup>:

*In particular, the SAI budget should be protected from interference by the Executive-both in setting the level of resources required and during the actual disbursement phase. However, it may be possible for the Ministry of Finance to exercise control over the SAI's budget, effectively treating the SAI like a line ministry. This is a particular risk where financial resources are limited and the Ministry of Finance has a strong role in reallocating or rationing available funds. Such interference may undermine the independence the SAI needs to review how the Executive has performed; while a lack of resources may limit the level of work the SAI is able to carry out.*

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<sup>3</sup> See section 7 (1), (2) and (3) of the Lima Declaration.

<sup>4</sup> DFID, *Working with Supreme Audit Institutions*, 2005.

## 2. Extant Funding of the Auditor General's Office

In the report of the Phillips Committee, on *Strengthening the Federal Budget System in the Year 2000 and Beyond*<sup>5</sup>, it was observed that the personnel and logistics of the Office of the Auditor-General were inadequate, so much so that field audits which ought to be regular became sporadic, qualified officers were overstretched, offices cramped, transport facilities virtually non-existent and cash chronically short. However, this may not be the exact state of funding of the Auditor-General's Office in 2019 as this to a large extent reflected the poor funding during the days of military dictatorship. But the challenges of funding the AuGF's Office persist.

In the Auditor-General's Annual Report on the Accounts of the Federation, 2016<sup>6</sup>, the Auditor-General of the Federation stated as follows<sup>7</sup>:

*Severe funding constraints continue to be a major impediment to achieving the statutory and constitutional mandates of the Office. The National Budget, the mandate of the Office and public expectations have been increasing over the past years, just as the annual audit budget has been on a steady decline...Funding for audit has been cut repeatedly over the years, and actual releases for overheads in 2016 was less than half of the already inadequate budget. The present funding levels make it very difficult to fulfil my constitutional mandate and cover the full range of governance issues to the satisfaction of all key stakeholders.*

The Auditor-General further stated in the 2016 Report that costs of audit fieldwork are funded from overheads and low releases have a direct impact on the coverage that can be achieved<sup>8</sup>. It is also reported in the 2016 Auditor-General's Report that the major challenge faced in the implementation of the AuGF's Five Year Strategic Development Plan (2017-2022) is inadequate funding<sup>9</sup>. The Auditor-General stated further<sup>10</sup>:

*The Office has approximately 1,700 staff and an inadequate annual budget of N2.7bn<sup>11</sup>. The Office is currently rated a "2" on a range of 1 – 5, based on the AFROSAI-E<sup>12</sup> Institutional Capacity Building Framework (ICBF), which means the Office is developing and is not yet well established.... Resource constraints and a lack of financial and operational independence had affected the quality of the audit function over decades.*

The 2016 Auditor General's Report concludes its review of the funding situation in the following words:

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<sup>5</sup> A Reform Committee set up by former President Olusegun Obasanjo.

<sup>6</sup> Hereinafter called "2016 Auditor-General's Report".

<sup>7</sup> At page 6 of the 2016 Auditor-General's Report.

<sup>8</sup> At page 6 of the 2016 Auditor-General's Report.

<sup>9</sup> Page 10 of the 2016 Auditor-General's Report.

<sup>10</sup> At page 9 of the 2016 Auditor-General's Report.

<sup>11</sup> 2017 Annual Budget: Budget Office of the Federation of Nigeria.

<sup>12</sup> African Organisation of English-Speaking Supreme Audit Institutions.

*The OAuGF does not have the resources required to develop its capabilities. Several efforts are being made to improve the funding situation and the results are yet to be seen. The lack of funding means it will take longer to achieve office-wide improvements in skills, capacity, methodology and auditor remuneration. On remuneration in particular, the Office has conducted a study that shows it is among the most poorly paid in the Federal Service, with auditors earning less than half of the basic wages of four comparable entities. Improving the remuneration of auditors will be key to achieving lasting improvements in the work of the OAUGF.*

The extant remuneration of staff of the office of the AuGF runs contrary to section 14 (4) of the Lima Declaration which states that to ensure auditing staff of excellent quality, salaries shall be commensurate with the special requirements of such employment.

Table 1 shows the funding trend from the 2010 Appropriation to the present 2020 budget proposal currently pending before the National Assembly.

*Table 1: 11 Years Trend of funding to the Office of the Auditor General of the Federation (2010-2020)*

Year	Overall Budget	Allocation to Auditor General's Office (AuGF)	% of AuGF's Allocation to Overall Budget	Annual % Increase or Decrease	Capital Allocation to AuGF's Office	Recurrent Allocation to AuGF's Office
2010	4,427,239,782,585	2,667,293,277	0.06		300,000,000	2,367,293,277
2011	4,484,736,648,992	4,695,167,505	0.10	76	1,760,006,116	2,935,161,388
2012	4,877,209,156,933	3,061,565,314	0.06	-35	553,280,000	2,508,285,314
2013	4,987,220,425,601	3,600,747,034	0.07	18	647,620,000	2,708,223,326
2014	4,695,190,000,000	5,138,420,325	0.11	43	1,943,134,021	3,195,286,304
2015	4,493,363,957,158	3,217,298,014	0.07	-37	400,000,000	2,817,298,014
2016	6,060,677,358,227	2,798,094,527	0.05	-13	317,509,819	2,480,584,709
2017	7,441,175,486,758	2,783,763,339	0.04	-01	90,509,818	2,693,253,521
2018	9,120,334,988,225	5,102,415,524	0.06	83	290,509,818	4,811,905,706
2019	8,916,964,099,373	3,149,763,712	0.04	-38	188,451,747	2,961,311,965
2020*	10,330,416,607,347	4,128,498,300	0.04	31	153,071,048	3,975,427,252

Source Annual Budgets Annual Budgets Annual Budgets Annual Budgets

\* Implies Proposal

Table 1 above shows the extent to which the Office of the Auditor-General of the Federation has been funded in the past 11 years. In terms of percentages of total budget, the maximum ever received by the AuGF was 0.11% of total budget sum in 2014, with as low as 0.04% of the budget on many occasions. Despite steady increase in total federal budget size, the percentage of AuGF's allocation to total budget has continued to decline, from 0.11% in 2014 to 0.04% by 2020. Also, the trend of fund allocation has been inconsistent, with a large increase of 76% over the 2010 allocation in 2011, to a drop of 35% immediately in 2012, to another increase of 43% in 2014 to another decline of 37% in 2015. Once again, an 83% increase in 2018, followed again by 38% decline in 2019

and now an increase of 31% in 2020. Despite a 153% increase in total budget size from N4.08 trillion in 2010 to N10.33 trillion in 2020, the budgetary allocation to the Office of the AuGF only increased by 55% from N2.67 billion in 2010 to N4.128 billion in 2020. According to the 2016 Auditor General's Report on the Accounts of the Federation, the nominal increase in 2014 was entirely due to the cost of purchasing a headquarters building after decades of rented office accommodation.<sup>13</sup> The US Dollar equivalent of the funding to the AuGF is detailed below.

*Table 2: Funding of the Office of the AuGF in US Dollars (2010-2020)*

Year	Exchange Rate (NGN/USD)	Auditor General Budget (NGN)	Auditor General Budget in USD	Capital Allocation to Auditor General (NGN)	Capital Allocation to Auditor General in USD	Recurrent Allocation to Auditor General (NGN)	Recurrent Allocation to Auditor General in USD
2010	150	2,667,293,277	17,781,955	300,000,000	2,000,000	2,367,293,277	15,781,955
2011	150	4,695,167,505	31,301,117	1,760,006,116	11,733,374	2,935,161,388	19,567,743
2012	155	3,061,565,314	19,752,034	553,280,000	3,569,548	2,508,285,314	16,182,486
2013	160	3,600,747,034	22,504,669	647,620,000	4,047,625	2,708,223,326	16,926,396
2014	160	5,138,420,325	32,115,127	1,943,134,021	12,144,588	3,195,286,304	19,970,539
2015	190	3,217,298,014	16,933,147	400,000,000	2,105,263	2,817,298,014	14,827,884
2016	197	2,798,094,528	14,203,526	317,509,819	1,611,725	2,480,584,709	12,591,801
2017	305	2,783,763,339	9,127,093	90,509,818	296,754	2,693,253,521	8,830,339
2018	305	5,102,415,524	16,729,231	290,509,818	952,491	4,811,905,706	15,776,740
2019	305	3,149,763,712	10,327,094	188,451,747	617,875	2,961,311,965	9,709,220
2020*	305	4,128,498,300	13,536,060	153,071,048	501,872	3,975,427,252	13,034,188

*Source: Budget Office of the Federation \* Implies that figures are as in the 2020 Budget proposals*

From \$17.78 million in 2010 to \$13.53 million in 2020, the allocation to the AuGF has declined in US Dollar terms by 23.88% over the eleven-year period. Considering that the finances available to MDAs is increasing, the increase as well in their activities, the cost of audit cannot be reducing. It should at a minimum, keep pace with increased activities. For effective functioning of the Office and the execution of its constitutional mandate, enough funding is required. The foregoing is not a demonstration of adequate funding. The above figures are just the allocations based on the Appropriation Act as they do not show the actual releases and disbursements which will be lower than the appropriation.

Table 3 shows the actual capital releases and disbursements to the AuGF in the eleven-year period. This assumes that personnel cost was disbursed and overheads were made available to the AuGF.

<sup>13</sup> At page 6 of the 2016 Auditor-General's Report on the Accounts of the Federation.

Table 3: Cash-backing and Utilisation of Capital Allocation

Year	Capital Allocation to Auditor General's Office (AuGF)	Amount Cash-backed	Percentage of Cash-backed Sum to Allocation	Amount Utilised	Percentage of Utilised Sum to Allocation
2010	300,000,000				
2011	1,760,006,116	2,735,750,762	155.44	2,627,472,665	149.29
2012	553,280,000	271,010,781	48.98	265,907,859	48.06
2013	647,620,000				
2014	1,943,134,021	892,576,463	45.93	892,576,462	45.93
2015	400,000,000	200,000,000	50.00	199,999,981	50.00
2016	317,509,819				
2017	90,509,818	45,254,909	50.00	45,246,711	49.99
2018	290,509,818	290,509,818	100.00	239,709,818	82.51

Source: Annual Budgets

Q4 BIRs<sup>14</sup>

Q4 BIRs

The year 2011 was an outlier when available information indicated that the AuGF even got more than was budgeted. Information of the actuals for 2013 and 2016 was not available. For the other years excluding 2011, the actual average cash-backed percentage of capital appropriation was 46 percent. The implication of Table 3 is that the financial resources for capital projects made available to the Office of the AuGF were not equal to those approved in the budget. Thus, the budget is not a fair guide to understanding resource allocation and management. Again, there is no evidence that the office of the AuGF has a medium-term sector strategy which is costed and guides its annual budget preparation. This would be necessary to enable the AuGF plan investments in infrastructure, training and other needs<sup>15</sup>.

It is pertinent to note that some federal agencies have been considered very important in the scheme of things and therefore enjoy statutory transfers<sup>16</sup>. The implication is that all their appropriation gets released as their funding will not be restricted even if there is a shortfall in revenue to fund the budget<sup>17</sup>. But the Auditor-General's office is not part of the agencies entitled to statutory transfers.

### 3. Comparative Funding Experience

Unlike the Nigerian scenario, the budget of the Auditor-General is a first line charge in countries like Ghana, Sierra Leone and South Africa. Again, due to their funding and

<sup>14</sup> BIRs means Budget Implementation Reports.

<sup>15</sup> See DFID "How to Note - Working with Supreme Audit Institutions", 2005 at page 33.

<sup>16</sup> These agencies include the National Assembly, National Judicial Council, National Human Rights Commission, Niger Delta Development Commission, Independent National Electoral Commission, Public Complaints Commission and the Universal Basic Education Commission.

<sup>17</sup> See section 28 (3) of the Fiscal Responsibility Act, 2007.

structure, Ghana, Sierra Leone, South Africa, Kenya and United Kingdom Auditors-General can recruit staff and fix remuneration.

Table 4 below on the comparative funding of the Auditor-General's office in six countries in the year 2017 contrasted with other indicators is relevant to our analysis.

*Table 4: Comparative Funding of the Office of the Auditor-General<sup>18</sup>*

Criteria	Nigeria	Ghana	Sierra Leone	South Africa	Kenya	United Kingdom
Population	190.9m	28.8m	7.6m	56.7m	49.7m	66.2m
Country Annual Budget	\$24.3b	\$12.4b	\$439.7m	\$54.2b	\$12.3b	\$1trn
Auditor-General's Budget	\$9.1m	\$52.05m	\$4m	\$231.5m	\$44.6m	\$84.5m
Percentage of Auditor General's Budget to annual budget	0.037%	0.420%	0.910%	0.427%	0.363%	0.008%

Source: Advocacy Flier from the Office of AuGF

#### 4. Moving Forward: Conclusions and Recommendations

The analysis of Tables 1 and 2 makes a clear case for improved and adequate funding and financial independence of the AuGF and the Auditors-General of States. The United Nations General Assembly in two separate resolutions on *promoting and fostering the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions* noted with appreciation the Lima Declaration and Guidelines as well as the Mexico Declaration and urged member states (including Nigeria) to apply the principles in these Declarations<sup>19</sup>. The following recommendations flow from the above analysis.

**(a) Auditor-General to send Estimates Directly to National Assembly:** In preparing the annual estimates for the Office of the Auditor-General, the AuGF should be entitled to prepare and submit the budget of the Office directly to the National Assembly considering that the Constitution directs the Auditor-General to directly present his reports to the Public Accounts Committee of the legislature. The Auditor-General is a facilitator in helping the legislature to hold the executive accountable to the people. This new process will require the amendment of section 81 of the Constitution.

**(b) First Line Charge:** It is not enough to have the remuneration, salaries and allowances of the Auditor-General charged on the Consolidated Revenue Fund by section S.84 (2) of the Constitution, the administrative expenses of the Office should also be charged on

<sup>18</sup> Advocacy Factsheet published by the office of the Auditor-General of the Federation. In this Table, "m" refers to million, "b" refers to billion while "trn" refers to trillion.

<sup>19</sup> General Assembly Resolution 66/209 of 15<sup>th</sup> March 2012 and Resolution 69/228 of January 28<sup>th</sup>, 2015.

the Consolidated Revenue Fund. By section 187 (14) of the Constitution of the Republic of Ghana, it is provided that:



*The administrative expenses of the office of the Auditor-General including all salaries, allowances, gratuities and pensions payable to or in respect of persons serving in the Audit Service shall be a charge on the Consolidated Fund.*

The model of section 81 (3) of the 1999 Constitution which states that the amount standing to the credit of certain agencies in the Consolidated Revenue Fund of the Federation shall be paid directly to the said bodies respectively is recommended. S.84 (7) and (8) of the Constitution which makes the recurrent expenditure of judicial offices and INEC including salaries and allowances a charge on the Consolidated Revenue Fund is also recommended for the Office of the AuGF. Funds for the functioning of the Auditor-General's Office should be transferred as statutory transfers to facilitate the implementation of planned activities. The Auditor-General's office should enjoy statutory transfers comparable to bodies such as the National Judicial Council. The AuGF should collect, control and disburse all money, capital and recurrent for auditing. The AuGF may need to establish a specific Fund into which shall be paid all sums and payments available and accruing to the Office and all other assets that may from time to time accrue to the Office including budgetary disbursements for the carrying out of its functions and duties under the Constitution or any other law.

**(c) Adequate Remuneration:** Adequate funding demands hiring and retention of staff of excellent quality. The Lima Declaration states that salaries should therefore be commensurate with the special requirements of such employment<sup>20</sup>. This may involve taking the staff of the Auditor-General outside the normal civil service remuneration scale and placing them in an enhanced scale under the Federal Audit Service Commission proposed in the Federal Audit Service Commission Bill.

In conclusion, if funds for audit work will depend on the goodwill of agencies and persons subject to audit, then it is likely that the work of the Auditor-General will be frustrated. Funding for the Auditor General's Office should not be left to the goodwill of auditees whose interest may not be the same as the public interest to prevent mismanagement and misapplication of resources. Independence through adequate and timely financing should be statutorily secured for the Office.

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<sup>20</sup> Section 14 of the Lima Declaration.