

TRANSPARENCY AND FISCAL DISCIPLINE IN BUDGET IMPLEMENTATION¹

by

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Introduction

It gives me great pleasure to have this audience with Directors of Finance and Accounts and of Internal Audit of some agencies of the federal government today in person or virtually to discuss transparency and fiscal discipline in implementation of government budgets. This gathering is for those whom government has given responsibility for managing public finance and assets, on whom lies the responsibility for transparency and integrity of our public resources, but under whose watch and active collaboration the anomalies and distortions that results in the corruption of our public finance takes place. The failure of integrity on the part of these critical watchdogs of public finance is what accounts for the under development of Nigeria, the absence of infrastructure the fragility of the economy and the near collapse of the nation state. Within this room are those who make or mar the future of Nigeria.

This collaboration by ICPC with the Budget Office is designed to put in the public domain what we know that you know and we know that you do that undermines government agenda and fiscal projections but also to underscore the determination of the government to enforce fiscal discipline in the implementation of the 2021 budget and beyond. It is hoped that today's conversation will become a turning point towards much needed reforms in the management of the public finance and other resources.

ICPC System Study Review of Budget Implementation

¹ Paper presented at the Budget Office - ICPC Interactive Forum with Directors of Finance and Accounts and Directors of Internal Audit on Wednesday 17th February 2021 at Federal Ministry of Finance Auditorium Abuja.

The Commission as part of its statutory mandate has in the past few years been conducting systems study and review of ministries and organisations in the federal public service (MDAs). The overall objective of a system review is reform of the systems and procedures of public agencies with a view to identifying and eliminating, preventing, blocking and obstructing opportunities for corruption. To achieve this, the exercise targets detecting areas of vulnerabilities, actual weaknesses, leakages and corruption risks and to recommend ways of strengthening these systems and removing the discretionary gaps and such opportunities for both individual and institutional malfeasance on our public resources. In addition, the review also targets shoring up public resources for government and make them available for utilisation in delivering good governance and the dividends of our democratic processes. Often, these system study review leads to full blown investigation of egregious anomalies or enforcement measures like asset recovery and prosecution.

In 2019 ICPC reviewed 208 agencies of government that are funded from the Federal Treasury and came up with outstanding results which included discovery of **N31.8bn** personnel cost surpluses for 2017 and 2018, and misapplication of **N19.8bn** and **N9.2bn** from Personnel Cost and Capital Fund respectively. Consequent on these findings **N42bn** unspent surplus allocations for Personnel Cost for 2019 alone was blocked from possible abuse and pilfering mostly from health and some educational institutions. This implies that if we had covered the entire civil service structure of all MDAs the figures would be staggering.

In 2020 we extended the review with more focus on Health and Education sectors which touch the lives of ordinary citizens and are critical to meeting any of the internationally recognized development goals but is a major headache to budget execution. In addition, we commenced a review of Educational Institutions indicted in the 2017 Auditor-General's Annual Audit Report for a wider range of financial infractions. A number of investigations are

on-going on this as we have instituted a mechanism for continuous review of current and subsequent Annual Audit Reports.

In December 2019 the Federal Government launched the Open Treasury Portal [OTP] onto which all payments from N5m and above by MDAs are uploaded for the purpose of transparency and public scrutiny. We immediately began studying payment data on the Portal again with focus on educational and health institutions. While at it, the issue of payments of feeding allowance to federal unity secondary schools was thrown up and we had to carry out further investigations on expenditure on meal subsidy releases that remained constant despite the lockdown during which schools were closed and students away at home. In response to our findings, government set up the Transparency Portal Quality Assurance and Compliance Committee with ICPC as a member. The Committee now scrutinizes payments on the portal and periodically sends lists of agencies with serious infraction for further review and sometimes investigation and enforcement action. In the spirit of collaboration we report back our findings on cases of fraud or unaccounted for funds a number of which investigations are ongoing. The review is carried out on month by month transactions and is therefore an ongoing exercise and despite confronting erring ministries and MDAs with federal circulars prohibiting these activities, the infractions continue thus stronger measures on the part of government and anti-corruption agencies are inevitable. A summary of our findings on these activities and our achievements and recommendations follow.

The Systems Study and Review focused on Personnel Cost allocation and Capital Development Fund for 2017 – 2020. In general, our findings showed that there was budget manipulation by most MDAs which resulted in MDAs receiving both appropriation and releases beyond their actual needs. While these surpluses were open to the risk of being misappropriated as is tradition sometime at the end of the year, the funds tied down for non-existent personnel deprived government and indeed needy MDAs of much needed funds to apply

to other critical but underfunded areas, especially overhead and capital development. This tended to make budget execution problematic for government at harsh economic times. While our review and the IPPIS takeover of the salary payment has helped to reduce these incidents, the mop up of balances immediately after the payment of salary at the end of every month had to be activated with the cooperation of the Ministry of Finance and Office of Accountant General of the Federation.

In addition to the above infraction on Personnel Cost allocation, we found that quite a substantial part of the Personnel Cost Budget was expended on matters not related to Personnel Cost. These expenditure types included DTA and estacode, electricity, water and sewage bills, procurement of diesel and stationery, payment of transport allowance and flight fares, payment of wages for outsourced services and ad hoc (locum, visiting and at times illegal employees), as well as illegal allowances.

For Capital Development Fund, review established huge expenditure on both personnel and overhead related items thus frustrating government's capacity for infrastructural development. Again, that the budgeting system for Capital Fund had shifted heavily to overhead related activities such as empowerments, sensitizations, trainings, etc thus reducing the visibility of government assets and infrastructural projects commensurate with the value of capital appropriation. Further, some agencies of government engaged in massive capital project implementation through direct labour with attendant implication for corruption and loss of project quality and tax revenues.

Summary of Findings from Fifty-One (51) Health Sector Institutions

- i. Padding of nominal rolls including inclusion of outsourced staff.

- ii. Warrant releases in excess of actual personnel cost needs.
- iii. Inadequate budgetary overhead allocation.
- iv. Inadequate or non-budgetary allocation for outsourced services.
- v. Widespread misuse of Personnel Cost allocation on non-personnel related expenditure especially on outsourced services (4.5bn).
- vi. Unspent excess balances despite abuses and misuse (N4.86bn).
- vii. Fraudulent diversion by role players of funds through manipulation of account numbers of beneficiaries on the GIFMIS Platform.
- viii. REMITA payment system not allowing for the matching of account numbers with account names and thus making fraud easy.
- ix. Inordinate balance staffing levels between Teaching Hospitals and Federal Medical Centres.

Summary of Findings on Educational Institutions/Review of Auditor-General's 2017 Annual Report

We note that a number of MDAs complained that the Audit Teams did not do exit briefing and thus deprived them of opportunity of providing responses to issues raised against them. ICPC also found that many MDAs defended the indictments before both the MoF and PAC of the National Assembly thus substantially reducing the indictments. However, many still remained on misapplication of funds which could not be explained. A summary of the indictments from the Auditor-General's report are listed below.

Award of contract and payment without contract agreement and job completion certificates
Award of contract without due process
Bulk payments to microfinance banks
Cash withdrawal without explanation
Contract Splitting
Conversion of public property
Deductions paid into individual's accounts due to challenges with GIFMIS Platform
Disbursement of funds through staff private accounts
Diversion of revenues (recovered staff loans) to unauthorized accounts
Double payment of allowances to University Staff without approval
Factoring of 3% Development Levy and 1% Admin. Charge on contract pricing
Retention of staff over-70 (academic) and 65+ (non-Academic) Staff on payroll
Illegal end-of-tenure payment
Illegal furnishing of residences despite rent allowance
illegal organisation of training abroad
Illegal payment of allowances to retired officers
Illegal transfer of funds to individual accounts in private banks
Illegal travel overseas without Head of Civil Service approval
Loss of FG Revenue through non provision of WHT and VAT in direct pruchases
Non-deduction of WHT/VAT
Non-remittance of Tax deducted to State BIRs
Overpayment of contractors
Overpayment of contract sums
Overpayment of reimbursable expenses and payment of preliminary expenses without evidence
Payment for work not done
Payment of contract mobilization fees beyond approved limits
Payment of illegal allowances
Payment of sitting allowance to management committee for meetings held during official hours
Payment of unauthorized allowances

Payment without PVs/Supporting documents
Payments to beneficiaries through 3rd parties
Personnel Vote misapplied on expenses not related to personnel matters
Procurement of store items not delivered
Unapproved expenditures
Under-remittance of IGR or Unremitted IGR
Unretired/Unaccounted for funds meant for disbursement to beneficiaries

Summary of General Findings on the Open Treasury Portal (OTP)

We began a pilot review of the Open Treasury Portal in April 2020 covering January to March in the first instance. Examples of infractions found are -

- i. Payment of advances beyond approved limit of N200,000 (scope here N5m and above) to individuals' accounts;
- ii. Advances for projects paid into project accountants' personal accounts with commercial banks.
- iii. Payments to individual staff/accountants for disbursement to ad hoc employees/outsourced services and other employees (say those on transfer to the MDAs who were yet to be captured/not on the agencies' GIFMIS Platform).
- iv. Payment to project officers/accountants to pay casual/onsite employees who are employed for short periods and cannot be registered on the platform.
- v. Payment to contractors/Vendors who were not on the GIFMIS Platform through staff and/or third parties.
- vi. Payments to staff for procurement of welfare and palliatives for staff.
- vii. Payment to staff of funds meant for loans to different empowerment beneficiary types.

- viii. Cash payments for staff DTA, Transport, collation of results and the like for personnel of paramilitary services under the Ministry of Interior for promotion exercise, etc.
- ix. Payment of funds as logistics and training fees for empowerment, trainee stipends, and trainers' fees paid from Personnel Cost.
- x. MDAs having problems with GIFMIS Platforms and finding it difficult to pay third party deductions and thus the third parties requested that their payments be made into nominated personal accounts of individuals.
- xi. In order to circumvent the rule, some MDAs had many payments below the N5m threshold such as multiple payments of N4.9m, N4.8m ostensibly (in our view) that such transaction will not be captured and uploaded on the OTP.
- xii. Most officers interrogated during the review complained that most of the beneficiaries of the payment (staff or government agency) are not listed on the GIFMIS platform, consequently such funds are paid to project accountant (PA) for onward transmission to the actual beneficiaries.
- xiii. Payment between Government agencies through GIFMIS is not possible at the moment, therefore payments were made to PAs and other officers' accounts for onward transmission to the Agencies account.
- xiv. Delay in procurement process leading to advancing staff funds to procure the items that are urgently required, delay of which could result in the mop up of the funds and cause harm to the organization.
- xv. Review of the maximum limit of personal advances beyond N200,000.00.

- xvi. MDAs transfer funds from TSA to Sub-TSA accounts for the purpose of making payments the kind of which enables advances beyond approved limits, project funds, payments to third parties and possible abuses.
- xvii. Uploading of payments to the Portal is done some times without or with inadequate description which defeats the transparency component of the policy. However, since it is not done by the MDAs, the appropriate Agency should be directed to improve on the process. Expenditure on the Sub-TSA are not viewable on the platforms and therefore hidden from public view and regulatory/law enforcement review.
- xviii. That until the circular from Accountant General in June 2020 it was not illegal.
- xix. Only disbursement of money from the transit account for purposes other than foreign transactions

OTP – Payments Without Description

- i.** Payment without description and narration: this deprives the public of adequate information on payments and thus frustrating the purpose of the Portal.
- ii.** Secret nature of operations necessitating limited narration of payments both on PVs, GIFMIS and Portal
- iii.** In the main, payment vouchers and on the GIFMIS Platform contain full narratives or description.
- iv.** It is GIFMIS Officials' responsibility to upload payments from the Platform to the Portal and as such MDAs are not to blame.
- v.** Description of payment on the PVs capture the content from contract award letters as they are, sometimes inadequately so.

- vi. Problem of consolidation of several PVs into one by Federal Pay Officers for FGCs thus creating issues of appropriate description.

Our review of payments on Federal Unity Schools threw up a number of findings. Our preliminary investigations showed that meal subsidy released to schools before and during lockdown were used for several other purposes of recurrent nature in addition to procurement of food supplies during school sessions and settlement of outstanding obligations. Consequent on our exposure of the matter, the Government withheld or reduced releases to the FGCs from June 2020 thus saving N6.1B that the Schools argue should cancel out any recoveries that ICPC might have directed. The figures are still being reconciled while the observations on the general payment systems and financial management in the sector will be forwarded to the Ministry and the Schools for reaction or any possible defence before a final report is made.

Summary of ICPC Achievements

Pursuant to our operations and findings, the following achievements were recorded:

(a) Funds Retained/Restrained

Analysis of IPPIS transactions of MDAs restrained further diversion of third party funds (PAYE Tax etc). A total of N220m Tax was diverted by some MDAs within 2018 to 2020 among other third party deductions like Cooperative and Union Dues, this was restrained and the funds were retained within the system when IPPIS was alerted on the leakages. This was achieved through two basic steps:

- i. The first step taken by IPPIS is the initiation and conclusion of third party deductions within the same time by role players (Initiator, Approver and Finalizer) to stem editing and manipulation by the MDAs. Hitherto, the GIFMIS payment batches for third party were

initiated for a week before conclusion of payment exposing it to editing and manipulation by MDAs' Role Players.

- ii. The second step taken by GIFMIS was the deactivation of MDAs' Role Players from performing personnel related transactions on GIFMIS, consequently all personnel budget lines (Salary, Non-Regular Allowance, Pension, NHIS etc) of IPPIS MDAs were blocked.

(b) Funds Mop-Up

Part of the outcome from 2019 System Study and Review of the Commission is the mopping up of **N42b** (Personnel Cost) in 2019 and **N147b** in 2020 respectively. The Hon. Minister of Finance through findings of the Commission of the wrong application of Personnel Cost on Overhead and Capital item issued a negative Warrant to mop up excess cash available in the Personnel Cost of the MDAs to forestall further misapplication of funds. Similar Warrant was issued in 2020 totaling N147b which was a huge savings to Government. The Year 2020 has been a challenging year with the devastating effect of COVID-19 leading to low revenue, low crude sales, low economic activities and recession among others, hence the importance of blocking leakages and wastages within the system.

(c) Circulars Issued

Three Treasury Circulars were issued arising from the SSR conducted by the Commission in 2019, they are:

- i. Federal Treasury Circular No. TRY.A7&B7/2020(OAGF/CAD/026/ V. 111/525) dated 23rd June, 2020 titled: **FINANCIAL GUIDELINES ON OPERATION OF SPECIAL PROGRAMMES/PROJECT ACCOUNTS IN MINISTRIES, DEPARTMENT AND AGENCIES (MDAs)**. *This circular warns against payment above threshold to staff in the name of Project Accountants in violation of the FR.*

- ii. Federal Treasury Circular No. TRY.A9&B9/2020(OAGF/CAD/026/ V. 111/557) dated 6th October, 2020 titled: **CONTINUOUS RISING PERSONNEL COST IN MINISTRIES, DEPARTMENTS AND AGENCIES (MDAs)**. *This circular warned against abuse and misuse of Personnel Cost for Overhead and Capital related expenses against the provision of the Appropriation Act.*
- iii. Federal Government of Nigeria 2021 Personnel Cost Budget Call Circular: Paragraph 2.2.1 specifically provided that MDAs should note that *“payment of salaries and allowance are for legitimate staff only. Any unauthorised payments from personnel cost will attract appropriate sanctions”*. *Therefore MDAs are required to validate the payroll section from IPPIS.*
- iv. Likewise in Paragraph 2.2.2 provides that ***no personnel cost provision will be made in the 2021 budget for any servicing employee of the FGN who is not captured in the IPPIS***

(d) Restricted Access to Personnel Cost Funds by MDAs

This was seamlessly achieved through restriction placed on MDAs GIFMIS Role Players in accessing the Personnel Cost by the OAGF which account for massive savings in Year 2020. Note that access to this account by GIFMIS Role Player is a major concern to the National Budget considering the fact that Personnel Cost takes chunk of the recurrent budget through misapplication and misappropriation of the funds.

(e) Restriction of transfer from GIFMIS to Sub-TSA (on-going)

Another leakage within the system is the transfer of funds from the GIFMIS platform to MDAs’ SUB-TSA Account and Microfinance Banks. This was observed largely with Tertiary Institutions before migration to IPPIS, basically to warehouse the funds and secure them before closure. Such transfer include:

- i. Transfer to Naira Transit Account in disguise of foreign exchange
- ii. Transfer to SUB-TSA Operation Account
- iii. Transfer to Microfinance Banks in disguise of casual workers wage among others

If this restriction is achieved a substantial savings can be made in this regard in line with Mr. President's directives to block leakages amidst dwindling revenue outlook.

(f) Reduction in the rate of infractions both in volumes & occurrence

As a follow up to 2019 system study, selected online review were carried out similarly in 2020 to reassess the level of compliance with recommendations given in previous study, it was observe largely that some MDA refrained from previous infractions. For instance misapplication of the Personnel Cost on burial expenses, DTA, training, disengagement allowance, electricity bills etc were not observed. Migration of almost all the MDAs to IPPIS also assisted in this regards.

(g) Strict Personnel Cost Budgeting

Government is stricter in scrutiny of actual payroll cost budget of the federal government through direct extraction of the nominal roll of MDAs from the IPPIS database for the preparation of Budget 2021 Personnel Cost. This was part of the observation made by ICPC in 2019 system study and review; that MDAs padded their personnel cost proposal to access excess funds from government far above their wages and salaries, since releases on this budget line is actual, then misapplied them for non-personnel related expenditure.

Further Recommendations by ICPC

- i. Unspent balances should be blocked and restrained/reversed immediately salaries are paid to prevent misuse.
- ii. Prevent unauthorised editing of payroll information data on the GIFMIS platform for MDAs until after payment has been concluded by granting them view-only status.
- iii. Prevent inflation of nominal rolls by MDAs for the 2021 Budget and beyond to eliminate surplus allocation and releases, and other resultant infractions.
- iv. Withdraw MDAs' access to non-regular, pension and NHIS lines on GIFMIS and restrict same to IPPIS staff;
- v. Direct the application of the Bank Verification Number (BVN) as a requirement in populating the Personnel Cost Budget Template and IPPIS data to eliminate any fraudulent payments.
- vi. Filter repetitions of names of Medical/Education Sector personnel that feature in regular (pensionable) and non-regular (non-pensionable) nominal rolls for budget purposes, e.g. locum, contract staff, etc.
- vii. Reform REMITA payment system to provide matching of account name with number for all payments;
- viii. Direct Banks to ensure that account names and numbers match before completing payment.
- ix. Admit 'outsourced services' as a budget head for Hospitals and Education institutions, and regularly cashback same to enable them appropriately draw funds therefrom and end diversion of Personnel Cost to that causes.
- x. Clarify and agree with institutions status of ALL their receipts identifying those that are IGR and those that are not and provide them template for remittance into the consolidated revenue fund;

- xi. Conduct a staffing audit especially for educational and health Institutions in order to establish actual staffing and staffing needs based on volume of work and appropriately right-size for cost efficiency.
- xii. Distribution of federal regulatory circulars via both hard and soft copies to MDAs to ensure full circulation and remove the lame defence of ignorance of those regulations.
- xiii. Audit teams from Auditor General for the Federation should ensure exit briefing with MDAs at the end of the audit visit to reduce issues reported as infractions.
- xiv. DFAs and DIAs should be advised of the schedules of the audit exercise and strategize ahead in order to be able to respond fully with all documents necessary at the time of the visit.
- xv. MDAs should be advised to issue financial reports on time to enable completion of annual audit and publishing of result on time. Sanctions should be introduced for inordinate delays.
- xvi. Government should avoid late releases of budget allocation, especially at the end of the year as the practice raises opportunity for frenzied expenditure, circumvention of procedure, fraud and corruption. Appropriated funds should be released in time to allow for strict compliance with procurement procedure. Otherwise deferred till following fiscal year as government is a continuum.

Conclusion

The infractions established in the course of our several SSRs constitute the risks and building blocks for the inefficient public expenditure and pervasive corruption that bedevil our public finance. The continuity of these infractions challenges our professed political will to deal with impunity characterised by

disobedience of laws and regulations. This is an existential threat to the nation and it has already negatively impacted stability and development because funds appropriated for major infrastructure and development projects are simply diverted or mismanaged the same way thus diminishing the hope of the people and the plans and programs of government. It starts with those of us in this room. This impunity cannot continue ad infinitum. Nigeria cannot and will not survive it. We are at a turning point with a global pandemic whose end is uncertain, reduced public revenue but escalating citizen expectation, youth restiveness, insecurity and lack of or decaying critical infrastructure. In all of this government is striving to put money in the right place for the benefit of the people. The least we can do is to ensure that the expectations of the government and the people are met and we get value for money.

We believe that infractions can no longer be ignored or excused on the pedestal of everyone is doing it. ICPC is already investigating and prosecuting a number of egregious cases and we will escalate that position. We have got to the point where we will prosecute without discrimination public officers found with any, including the simplest of infractions, so that we entrench zero tolerance for budget execution inefficiency which breeds corruption.

DFAs and DIAs are by training professionals of the highest quality of knowledge in the sector, and by your level of authority capable of enforcing compliance with these rules down the line. The country should no longer slide into poverty if only you will be firm and refuse to tolerate culpability from anyone starting with yourselves. If this system is to be sanitized and scarce Government resources is to do more with less you have to play your leadership role.

We ask you all to work with us and commit to policing the system and driving this sanitization and reformation of the system to enable government meet its obligations to the public. It begins with you not with anyone else. We are ready to support anyone with challenge and to uphold the transparency and integrity

of our systems and processes. We owe it to ourselves and we owe it to our children and the future of our nation. The ICPC will continue to collaborate with all critical stakeholders towards entrenching integrity in the polity and in public finance management and governance particularly.

Thank you for your time and attention.