

BAUCHI STATE



Our Culture, our Values



**BAUCHI STATE'S ARREARS RECORDING,
VERIFICATION
AND CLEARANCE REPORT (SARVCR)**

STATE ARREARS RECORDING, VERIFICATION AND CLEARANCE REPORT (SARVCR)

ABBREVIATION AND ACRONYMS

APA	Annual Performance Assessment
DLI	Disbursement-linked Indicator
DLR	Disbursement-linked Result
DMO	Debt Management Office – Nigeria
FAAC	Federation Account Allocation Committee
FGN	Federal Government of Nigeria
FMIS	Financial Management Information System
FRA	Fiscal Responsibility Act
FRL	Fiscal Responsibility Laws
FSP	Fiscal Sustainability Plan
FY	Fiscal Year for the Government, running 1 Jan to 31 Dec
GDP	Gross Domestic Product
HFD	Home Finance Department (Federal Ministry of Finance)
IGR	Internally Generated Revenues
IVA	Independent Verification Agent
MDA	Ministries, Departments and Agencies
MTEF	Medium-term Expenditure Framework
OAG	Office of the Accountant General
OauG	Office of the Auditor General
PFM	Public Financial Management
PforR	Program for Results
SFTAS	The STATE's Fiscal Transparency, Accountability and Sustainability Program for Results
SMOF	STATE Ministry of Finance
TA	Technical Assistance
TSA	Treasury Single Account
WB	World Bank

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The State Arrears Reporting, Verification and Clearance Report (SARVCR)

Introduction

This State Arrears Reporting, Verification and Clearance Report summarize the activities and outputs of Bauchi State in managing domestic expenditure arrears. It contains the following information among others

- The total stock of domestic expenditure arrears at the end of each year as recorded in their internal domestic expenditure arrears database;
- The policies and actions taken to verify arrears, including the verification process triggered by individual contractors who submitted online queries to communicate the non-reporting of their claims to the State Ministry of Finance;
- The policies and actions taken to settle arrears in the past year, including explanations on their consistency with the state's arrears clearance framework;
- The policies and actions taken to prevent the occurrence of new arrears in the past year
- The establishment of a link to the electronic files showing evidence of the internal domestic expenditure arrears database; and also
- Setting up an electronic link to the online publicly-accessible domestic expenditure arrears database

Report Preparation and Responsibility:

This report is prepared by:

Director, Debt Management Department, with the following:

Phone number _____

Email address _____

Summary of Bauchi State's Progress towards the achievement of the requirements of SFTAS DLI #8.

The progress made by Bauchi State towards the achievement of each of the requirements of SFTAS DLI #8 highlighting successes and challenges has been summarized in the following table:

	SFTAS Domestic Arrears DLI #8 CHECKLIST of Key Steps	Status	Successes	Challenges
1	A domestic arrears committee established with clear ToRs and authority			
2	All domestic arrears should be recorded in an internal domestic arrears database that has updated data on the total stock (recommended on a monthly basis)			
3	An arrears verification process is in place and arrears categorized into valid, contested and rejected			
4	A publicly-accessible arrears database online, including the following information: (1) total contractors' arrears, total pension and gratuity arrears, total salary arrears; and (2) a list of names of contractors with recognized arrears exceeding 20 million naira			
5	The website supporting the online publicly-accessible arrears database shall contain an electronic link that permits contractors to query/verify their claim			
6	The State Arrears Clearance Framework is established and published online containing: 1) The planned actions to settle arrears; 2) An explicit prioritization of expenditure arrears to be settled			
7	Clearance of arrears is implemented in accordance with the ACF			
8	At least 5% decline in the stock of total domestic expenditure arrears* at end of FY2019 compared to FY2018 (*arrears which have been verified and valid across			

	SFTAS Domestic Arrears DLI #8 CHECKLIST of Key Steps	Status	Successes	Challenges
	all categories)			

Debt Stock Reporting

The next section shows the State Arrears Recording and Verification and Clearance Report (SARVCR) containing the debt stock report which indicates the balance at the end of the previous year, the additional debt or arrears incurred during the year and the actual arrears reduction made. It also indicates the balance of arrears in the major classification as at the end of 2019.

NAME OF STATE: BAUCHI STATE

REPORTING YEAR: 2019

STATE DOMESTIC ARREARS STOCK REPORTING

S / N	ARREARS TYPE	OUTSTANDING ARREARS AT DECEMBER 31, 2017 (STOCK)	NEW ARREARS INCURRED IN 2018 (FLOW)	ARREARS SETTLED (PAID) IN 2018 (FLOW)	OUTSTANDING ARREARS AT DECEMBER 31, 2018 (STOCK)	NEW ARREARS INCURRED IN 2019 (FLOW)	ARREARS SETTLED (PAID) IN 2019 (FLOW)	OUTSTANDING ARREARS AT DECEMBER 31, 2019 (STOCK)	CHANGE IN ARREARS BETWEEN DECEMBER 31, 2018 AND DECEMBER 31, 2019	% CHANGE IN ARREARS BETWEEN DECEMBER 31, 2018 AND DECEMBER 31, 2019	REMARKS
	<i>In Naira</i>	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
1	Contractors' Arrears	15,630,658,730.09	-	-	15,630,658,730	-	5,621,916,456	10,008,742,274	5,621,916,456	36%	
2	Pension & Gratuity Arrears	15,271,469,672.16	1,668,246,043	-	16,939,715,715	3,994,536,931	1,069,261,210	19,864,991,435	2,925,275,721	-17%	
3	Salary Arrears & Other Staff Claims	-	-	-	-	-	-	-	-	0%	
4	Other Arrears (Judgment Debts)	5,415,006,076.17	-	-	5,415,006,076	2,111,683,049	-	7,526,689,125	2,111,683,049	-39%	
5	Other Arrears (Electricity Bill & Rented Properties)	-	-	-	-	532,195,820	-	532,195,820	532,195,820	0%	
	TOTAL OF ALL ARREARS TYPES	36,317,134,478	1,668,246,043	-	37,985,380,521	6,638,415,799	6,691,177,666	37,932,618,654	(52,761,867)	-0.14%	

NOTES

1. The arrears figures reported represent only those arrears which have been verified and recognized as valid i.e. a legal liability of the state government.
2. The arrears figures reported should be consistent with the figures contained in the state internal domestic arrears database
3. The arrears figures reported is in Naira and is the total amount of each type of arrears
4. The report should contain figures for contractor arrears, pension and gratuity arrears, salary arrears and other staff claims, even if the value is zero. If the state has other types of arrears, they should also be included.
5. Column (d) is expected to be equal to (a) + (b) - (c). Column (g) is expected to be equal to (d) + (e) - (f).

ALTERNATE "A" SIGNATURE MANDATE

Honourable Commissioner for Finance Or Permanent Secretary, Ministry of Finance Or State Accountant -General

ALTERNATE "B" SIGNATURE MANDATE

DG /Head State Debt Management Department/Office/Unit Or Director, Debt

Name:.....

Date:

Name:.....

Date:

1 Policies and actions taken to strengthen the recording, verification and reporting of arrears

1.1 Organizational/Institutional arrangements established to manage domestic expenditure arrears and oversee the implementation of the ACF

BAUCHI State Government has put in place a Domestic Arrear Clearance Committee as an 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

The Arrears Clearance Committee oversees arrears liquidation to ensure the consistent application of the principles of the framework. The Committee ensures that payments are made in accordance with the agreed prioritization criteria. This committee receives reports from spending units, and prepares periodic (for example, quarterly) reports to the Ministry of Finance and the Governor's office on the performance of entities on payment of arrears.

The report highlights any non-reporting spending units and recommends remedial actions.

1.1.1 Objective and Responsibilities of the arrangement:

The Committee supports the Ministry of Finance in its responsibility for accurate recording, verification and reporting of domestic arrears balances across all types.

The Duties of the Committee includes, but not limited to the following:

- i. Implement and from time to time review the State's Arrears Clearance Framework (ACF), including policies on prioritization and clearance of arrears
- ii. 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,
- iii. The creation, maintenance and regular (monthly) update of an accurate internal domestic expenditure arrears database and the publicly accessible online version of the database,
- iv. Oversight of the overall recording, verification and reporting process for domestic expenditure arrears.
- v. Ensure adequate classification of the arrears for prioritization purposes,
- vi. 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

The specific activities for the Committee include but are not limited to the following:

- i. Implement and do a periodic review of the ACF
- ii. Adoption and implementation of records management guidelines for domestic arrears.
- iii. Adoption and implementation of verification guidelines for all types of domestic arrears.
- iv. Establishment of a consolidated internal domestic arrears database.
- v. Establishment of a publicly-assessible online version of the database.
- vi. Reporting of valid and verified domestic arrears to end-users.
- vii. Produce the State Arrears Recording, Verification and Clearance Report.

1.1.2 Monitoring and Reporting of the arrangement

The Committee reports directly to the State Governor through the Honourable Commissioner for Finance.

1.1.3 Membership of the Committee

The memberships of the Committee are as follows:

S/NR	TITLE	POSITION
i	Accountant General -	Chairman
ii	Permanent Secretary State Planning Commission -	Vice Chairman
iii	Representative of Ministry of Justice	Member
iv	Chairman, Bauchi Internal Revenue Service	Member
v	Permanent Secretary Ministry of Finance -	Member
vi	Chairman, Bauchi State Public Procurement (Due Process)	Member
vii	Permanent Secretary, Ministry for Local Government Affairs	Member
vii	Permanent Secretary, Ministry for Local Government Affairs	Member
ix	Director General, Debt Management Agency	Secretary

Committee Secretariat.

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

2 Policies and actions taken to reduce the stock of domestic expenditure arrears

2.1.1 Stocktaking and Recording

The State government undertakes a thorough Stocktaking of Arrears to understand the extent, composition and the age of the unpaid bills and prioritize their clearance.

The State government also develops a time table which is communicated for the stocktaking exercise, with a clear definition of the information requirements provided to all relevant stakeholders/institutions.

A cut-off date for inclusion of new arrears is established to encourage timely reporting and avoid the generation of fraudulent claims.

The government prepares a data base of all apparent claims and a regular reporting framework is instituted. The data base has enough information to allow for proper definition and classification of arrears into categories for proper evaluation.

Sanctions for non-reporting, fraudulent, and incomplete reporting of arrears is announced and enforced. Using the information produced from the database, a review of the types of arrears, the age of the debts, and the spending agencies generating the arrears are undertaken. This helps to identify the underlying causes and the specific corrective actions required to address them.

The review helps to assess whether the problem is restricted to past events, or whether the problem persists.

2.1.2 Verification:

After the collection of the data on outstanding stock of arrears, the data is verified to ensure that they are genuine claims to avoid payment of fraudulent claims. These activities are undertaken by the State Auditor General's Office. All reports and relevant information are provided to the external auditor.

The data is verified to ensure that they are genuine claims to avoid payment of fraudulent claims.

The verification process involves the following steps:

Step1. Collection of unpaid invoices: The Chief Financial Officer of the entity has the initial responsibility for producing the necessary documentation

Step2. Verification of claims- Arrears are subjected to tests to verify their existence, value, and age of the debt.

Step3. Categorization of claims: Based on this review of validity, each claim is categorized as **valid, contestable, or rejected.**

Step4. Appeals from claimants: Holders of contestable claims may be invited to provide further documentation to support their claims or have their claims referred for adjudication.

Step5. Rejection of invalid claims: The government formally notifies rejected claimants and states the basis for the rejection. It is essential that government retain full records of decisions made to defend future legal actions by claimants.

Arrears are verified using the following guidelines:

- The legal validity of the payable
- Evidence that the goods were delivered and services were duly received
- Invoices and supporting documentation are checked

Arrears of Entitlement are computed by the line Ministry or Agency and provided to the Ministry of Finance.

2.2 The Arrears Database

For each outstanding claim:

- **Age of Debts:** The database captures the original due date on each invoice, and arrears classified according to how long they have been overdue:

- **Debtor:** The database captures the government entity incurring the liability, classified by institutional group (The State government, Local government, MDAs, extra-budgetary fund, or State-Owned enterprise).

- **Creditor:** The database captures the creditor's name classified by type:

- Employees,
- Private individuals,
- Private businesses,
- Financial institutions,
- Local government,
- Extra-budgetary funds, or
- State-Owned enterprise.

- **Economic category:** The data base classifies arrears into economic categories, such as compensation of employees, acquisition of goods and services, transfers, acquisition of nonfinancial assets, and acquisition of financial assets.

- **Currency:** The database captures the currency in which the obligation was originally denominated

- **The age of the payable is checked** by reference to the invoice and other supporting documentation. A confirmation from the supplier is obtained in contentious cases.

- **The Ministry of Finance** takes full account of the legal framework with respect to disclosure of taxpayer records, undertakes checks with the revenue authority to ensure that suppliers are registered taxpayers and determine whether they are delinquent in tax payments.

3 Policies and actions taken to reduce the stock of domestic expenditure arrears

The BAUCHI State's Policy on Arrears is aimed at controlling the accumulation of arrears whilst ensuring measures that clear existing arrears.

3.1 Measures adopted in this regard include:

- Strengthen legal and regulatory framework.** A framework that defines payment terms, when in arrears, reporting requirements as well as the necessary controls at the budget stages of authorization, commitment and payments with appropriate provisions for breaching sanctions;
- Enhance the credibility and realism of the State's budget.** The State's budget is a realistic plan for expenditures based on conservatively estimated revenues based on robust assumptions and forecasts in the fiscal frameworks;
- Improve accounting and reporting.** Arrears clearance require adequate, timely and reliable information about their size, composition and impact through government accounting systems that recognize expenditure commitments, liabilities and payments;
- Strengthen commitment controls** to effectively limit commitments to approved budget allocations and to availability of funds;
- Facilitate improved and integrated cash and debt management** that ensure liquidity to meet cash obligations as they arise through accurate and timely short term estimates of cash inflows and outflows;
- Enhance oversight of the State owned enterprises** through governance frameworks that require timely payment of bills, regular monitoring and reporting of liabilities to reduce implicit contingent liabilities;
- Establish Treasury Single Account (TSA)** for effective management of cash flows and ensure that payments are centralized to the State's Treasury to prevent arrears as a result of administrative hurdles;
- Upgrade the government's financial management information systems** to one that is capable of controlling the main stages of budget execution that handles the entire expenditure chain, including the release of budget funds, commitments against the budget funds, production of purchase orders, receipt of goods and services claimed in the invoices, and payment or non-payment of invoices;
- Hold regular Liquidity Management Committee (LMC)** meeting to guide government decisions on budget and fund releases;
- Implement technological solutions to control expenditures** that historically contribute to the accumulation of arrears

3.2 The policies and actions taken by the State in the past 12 months to clear/settle existing arrears involve:

3.2.1 Funding payment of arrears:

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

- Statutory Allocation
- Internally Generated Revenue
- Grants from the Federal Government, and
- Loans

3.2.2 Settlements

The Arrears Clearance Committee oversees arrears liquidation to ensure the consistent application of the principles. The committee ensures that payments are made in accordance with the agreed prioritization criteria.

The 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

Entities provide this information to the Ministry of Finance for budget preparation, Medium-Term Expenditure Framework, performance monitoring, and budget release purposes, as well as verification against the database at the time of payment.

A separate control on the remaining stock of arrears is kept by the Ministry of Finance to ensure that sufficient provision is made in each subsequent annual budget until all arrears are paid.

3.2.3 Centralization of Payments:

Responsibility for payments of arrears is centralized. This is to ensure that payments are made according to the agreed framework and schedule.

3.2.4 Netting arrangements:

Offsetting the settlement of arrears to the private sector against tax obligations is not done; All payments are accounted for on a gross basis.

3.3 The State's own assessment on whether the policies and actions taken by the state were consistent with the State's Arrears Clearance Framework

Bauchi State policies and actions towards the prevention and reduction of Arrears are consistent with the State's Arrears Clearance Framework.

In relation to the multi-year financial plan included in the arrears clearance framework document, a reduction of arrears of N10.02 billion was planned to be made in 2019. In the Domestic Arrears Stock Reporting table in Section 3 of this SARVCR shows that the sum of N8.78 billion was made for the settlement of arrears.

The comparison for compliance and the prioritization criteria applied is shown in the table below:

BAUCHI STATE ARREARS PRIORITISATION

Year: 2019

NOTES

All numbers are presented in Billion Naira

All input cells are colored pink

All calculation cells are colored yellow

Type of Arrears	Total stock at end of 2019	Criteria for allocation among types	PLANNED amount to be cleared in 2020	Actual Amount Cleared in 2020	Prioritization criteria to be applied to arrears within each type of arrears
Contractors		Ongoing work first			The plan is to pay 75% to enhance the credibility of the Government before the contractor and to create a buy in for the on going construction work in the State
Pensions and Gratuities		First In First Out			This shall be cleared on the basis of first in first out.
Salaries		Oldest first			This is highly prioritized and will be paid fully at once because it is not supposed to be owed.
Other					The small ones shall be cleared first then the large one.
Total					
Individual Arrears	Total owed at end of 2019	Prioritization criteria to be applied to arrears within each type of arrears	PLANNED amount to be cleared in 2020	Actual Amount Cleared in 2020	
Contractor A					
Contractor B					
Contractor C					
Contractor D					
Contractor E					
Contractor F					
Contractor G					
Contractor H					
Total	-		0.00	0.00	