



**BORNO STATE GOVERNMENT
NIGERIA**

2021

STATE ARREARS RECORDING, VERIFICATION & CLEARANCE REPORT (SARVCR)

ACRONYMS AND DEFINITIONS

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
OAG	Office of the Auditor-General
PFM	Public Financial Management
ProrR	Programme 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

1. OVERVIEW OF THE SARVCR.....	4
1.1 Report Preparation and Responsibility:.....	5
1.2 Summary of Borno State’s Progress towards the Achievement of the Requirements of SFTAS DLI #.....	5
1.3 Dept Stock Reporting.....	6
1.4 The State Arrears Recording and Verification and Clearance Report(SARVCR).....	7
2. Policies and Actions taken to Strengthen the Recording, Verification And Reporting of Arrears.....	8
2.1 Organizational/Institutional Arrangements Established to Manage Domestic Expenditure Arrears and oversee the Implementation of the ACF.....	8
2.1.1 Objective and Responsibilities of the arrangement:.....	8
The Specific activities for the committee include but are not limited to the following:.....	9
2.1.2 Monitoring and Reporting of the Arrangement.....	9
2.1.3 Membership of the Committee.....	9
3. Plans to Reduce the Stock Of Domestic Expenditure Arrears.....	10
3.1 Stocktaking and Recording.....	10
3.2 Verification:.....	10
3.3 Classification of Arrears:.....	11
4. Policies and Actions taken to Reduce the Stock of Domestic Expenditure Arrears.....	13
4.1 Funding Payment of Arrears:.....	14
4.2 Settlements:.....	14
4.3 Centralization of Payments:.....	14
4.4 Netting Arrangements:.....	14
4.5 ACF Prioritization.....	15

1. OVERVIEW OF THE SARVCR

This State Arrears Recording, Verification and Clearance Report (SARVCR) summarizes the activities and outputs of Borno State in Managing domestic expenditure arrears. It contains the following information among others;

- The total 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 and Budget;
- 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

1.1 Report Preparation and Responsibility:

This report is prepared by:

Borno State Debt Management Office

1.2 Summary of Borno State's Progress towards the Achievement of the Requirements of SFTAS DLI 8

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

S/N	SFTAS Domestic Arrears DLI #8 CHECKLIST of Key Steps	Status	Successes	Challenges
1.	A domestic arrears committee established with clear ToRs and authority	<i>Complete</i>		

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)	<i>Complete</i>		
3.	An arrears verification process is a place and	<i>Complete</i>		
	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	<i>Complete</i>		
5.	The website supporting the online publicly-accessible arrears database shall contain an electronic link that permits contractors to query/verify their claim.	<i>Complete</i>		
6.	The state arrears clearance framework is established online containing: 1) the planned actions to settle arrears; 2) An explicit prioritization of expenditure arrears to be settled	<i>Complete</i>		
7.	Clearance of arrears is implemented in accordance with the ACF	<i>Complete</i>		

8.	At least 5% decline in the stock of total domestic expenditure arrears at end of FY2021 compared to FY2020 (arrears which have been verified and valid across all categories)	<i>Complete</i>		
----	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------------	--	--

1.3 Reconciliation.

With recent commencement of the gradual automation of our systems, the State Debt Management Office is in the process of validating all its Domestic Arrears as at 31st December 2021, and have also applied for another round of reconciliation with DMO Abuja.

For instance, the state Debt Management Department (DMD) realised that some records of contractors arrears received from various State Ministries, Departments and Agencies (MDAs) are not actual arrears but on-going project mistakenly captured as arrears. The same records were used to populate our State Quarterly Debt Report of 2021 submitted to DMO Abuja.

1.4 Debt Stock Reporting

The next section shows the State Arrears Recording, 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 indicated the balance of arrears in the major classification as at the end of 2020.

NAME OF STATE: Borno State
 REPORTING YEAR: 2021
 STATE DOMESTIC ARREARS STOCK REPORTING

DEBT CATEGORY	OUTSTANDING ARREARS AS AT DECEMBER 31, 2019 (STOCK) (a)	NEW ARREARS INCURRED IN 2020 (FLOW) (b)	ARREARS SETTLED (PAID) IN 2020 (FLOW) (c)	OUTSTANDING ARREARS AS AT DECEMBER 31, 2020 (STOCK) (d)	NEW ARREARS INCURRED IN 2021 (FLOW) (e)	ARREARS SETTLED (PAID) IN 2021 (FLOW) (f)	OUTSTANDING ARREARS AS AT 31 DEC. 31 2021 (STOCK) (g)	CHANGE IN ARREARS BETWEEN DECEMBER 31, 2019 AND DECEMBER 31, 2021 (h)	% CHANGE IN ARREARS BETWEEN DEC. 31 2019 AND DEC. 31 2021 (i)
STATE BONDS									
COMMERCIAL BANK LOANS									
AGRIC. LOAN									
INFRASTRUCTURE LOAN									
MICRO SMALL MEDIUM ENTERPRISE DEVELOPMENT FUND (MSMEDF)									
JUDGEMENT DEBTS									
GOVT - GOVT DEBTS									
CONTRACTORS' ARREARS	108,000,000.00	310,332,906.60	108,000,000.00	9,360,153,993.00	2,123,946,107.53	4,762,942,926.99	4,762,942,926.99	50.9	
PENSION AND GRATUITY ARREARS	22,897,988,046.00		9,719,393,602.00	11,085,524,532.30		4,397,936,330.54	6,687,588,221.76	39.7	
SALARY ARREARS AND OTHER STAFF CLAIMS	16,893,141,286.00		6,117,949,640.30	516,273,102.00		200,000,000.00	316,273,102.00	38.7	
OTHER DEBTS									
TOTAL	40,415,382,434.00	310,332,906.60	15,945,343,242.30	20,961,951,647.30	2,123,946,107.53	9,360,879,257.53	11,601,072,389.77	9,360,879,257.53	129.30

NOTES

- The arrears figure reported represent only those arrears which have been verified and recognised as valid i.e a legal liability of the government
- The arrears figure reported should be consistent with figure contained in the state internal domestic arrears database
- The arrears figures reported is in Naira and is the total amount of each type of arrears
- The report should contain figures for contractors arrears, pension and gratuity arrears, salary arrears and other staff claims, even if the values is zero. If the state has other types of arrears, they also be included.
- 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: Adamu Alhaji Lawan
 Honourable Commissioner for Finance Or Permanent Secretary Ministry of Finance Or State Accountant General
 Name: **ADAMU ALHAJI LAWAN** Date: **07.07.2022**

ALTERNATE "B" SIGNATURE: Abba Liman
 DG/Head Debt Management Department/Office/Unit Or Director Debt.
 Name: **ABBA LIMAN** Date: **07/07/2022**

2. POLICIES AND ACTIONS TAKEN TO STRENGTHEN THE RECORDING VERIFICATION AND REPORTING OF ARREARS

2.1 Organizational/Institutional Arrangements Established to Manage Domestic Expenditure Arrears and Oversees the Implementation of ACF

Borno State Government has put in place a Domestic Arrears 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 prepare periodic (for example, quarterly) reports to the Ministry of Finance and Budget 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.

2.1.1 Objective and Responsibilities of the Arrangement:

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

The Duties of the Committee include, 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 of 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 on 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-accessible 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.

2.1.2 Monitoring and Reporting of the Arrangement

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

2.1.3 Membership of the Committee

The Memberships of the Committee are as follows:

S/N	COMMITTEE MEMBERS	DESIGNATION
1.	Commissioner of Finance	Chairman
2.	State Accountant-General	Alternate Chairman
3.	Director-General, Debt Management Agency	Secretary
4.	Permanent Secretary, Budget Department	Member
5.	Director-General, Bureau of Public Procurement	Member
6.	Director of Treasury, Office of the Accountant-General	Member
7.	Permanent Secretary, Ministry of Finance	Member
8.	Director, Pensions	Member

Committee Secretariat

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

3 PLANS TO REDUCE THE STOCK DOMESTIC EXPENDITURE ARREARS

3.1 Stock taking and Recording

The State Government undertakes a thorough Stock taking 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 stock taking 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.

3.2 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 of Agency and provided to the Ministry of Finance and Budget.

3.3 Classification of Arrears

To allow for appropriate categorization, the following data shall be captured 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 non financial 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 and Budget:** 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.

4. POLICIES AND ACTIONS TAKEN TO REDUCE THE STOCK OF DOMESTIC EXPENDITURE ARREARS

The Borno State's Policy on arrears is aimed at controlling the accumulation of arrears whilst ensuring measures that clear existing arrears. To institutionalize this, the state shall:

- i. **Strengthen her legal and regulatory framework** by establishing a strong regulatory framework in a manner to maintain macroeconomic stability. This would limit the possibility of new contingent liabilities;
- ii. **Enhance the credibility and realism of the State's budget** by ensuring a realistic budget projection and also ensure the borrowing limit includes a margin to handle the situation of revenue shortfalls; iii. **Improve account and reporting** by ensuring adequate, timely and reliable information about the size, composition and impact of arrears clearance through government accounting systems that recognize expenditure commitments, liabilities and payments; iv. **Strengthen commitment controls** to effectively limit commitments to approved budget allocations and to availability of funds;
- v. **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; vi. **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;
- vii. **Established 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;
- viii. **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;
- ix. **Hold regular Liquidity Management Committee (LMC)** meeting to guide government decisions on budget and fund releases;
- x. **Implement technological solutions to control expenditures** that historically contribute to the accumulation of arrears.

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

4.1 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

4.2 Settlements

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. Entitles provide this information to the Ministry of Finance and Budget 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.

4.3 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.

4.4 Netting Arrangement:

Offsetting the settlement of arrears to the private sector against tax obligations is not done; All payments are accounted for on a gross basis. The State's own assessment on whether the policies and actions taken by the state were consistent with the State's Arrears Clearance Framework.

Borno 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 ₦6,350,000,000.00 billion was planned to be made in 2021. In the Domestic Arrears Stock Reporting table in Section 4 of this SARVCR shows that the sum of ₦9,160,879,257.53 billion was made for the settlement of arrears.

The comparison for compliance and the prioritization criteria applied is shown in the table below: 4.5

ACF Prioritization

BORNO STATE: ACF Prioritization

Year: 2021

NOTES

All numbers are presented in Billion naira

All input cells are coloured pink

All calculation cells are coloured yellow

Type of Arrears	Total Stock at end of 2020	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	9,360	35% of monthly net FAAC after mandatory payment & deductions	5,000.00	4,762	Each existing contractor shall be paid 30% on an annual basis for the next four years
Pensions and Gratuities	11,085	40% of monthly IGR collection	1,100.00	6,687	This shall be cleared on the basis of first in first out, the Government to consider issuing promissory notes to clear the remaining stock in 2021
Salaries		5% of monthly IGR collection	250.00		This is highly prioritized and will be paid as soon as possible because it is not supposed to be owed

Other					The small ones shall be cleared first, then the large ones.
Total	20,445		6,350.00	9,159	