



# **OYO STATE GOVERNMENT**

## **DOMESTIC ARREARS CLEARANCE FRAMEWORK**

**2019**

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## **CHAPTER ONE: Governance Framework**

The State Domestic Arrears Clearance Committee "Committee" shall comprise of the following members:

1. Honorable Commissioner for Finance - Chairman
2. The Director General, Bureau of Public Procurement
3. Permanent Secretary, Ministry of Finance
4. The Accountant-General of the State
5. The Permanent Secretary, Ministry of Budget & Planning
6. The Permanent Secretary, Ministry of Establishment & Training
7. The Permanent Secretary, Ministry of Works, Public Infrastructure and Transport

The Committee shall not have a fixed term of office, may exist in perpetuity, and may be disbanded or reconstituted subject to the discretion of His Excellency, The Executive Governor.

### **1.1 The roles and responsibilities of the Committee shall be as follows:**

#### Powers and Authority of the Committee

The Committee shall have the delegated authority of The Executive Governor to request for any relevant information from all Ministries, Departments and Agencies (MDAs) in order to carry out its duty.

#### Committee Secretariat

The Committee shall establish a Secretariat to support its work using an office space in any one of the buildings in the State Secretariat as may be agreed, these include:

1. Office of the Accountant-General
2. Debt Management Department, Ministry of Finance

#### Committee Compensation

This is to be determined by the State Executive Council.

The Committee shall present its annual expenditure estimate within one week of being constituted for Executive approval.

### **1.2 Objective of the Committee**

The Committee shall support the Office of the Accountant-General and Debt Management Department in their responsibility for accurate recording, verification and reporting of domestic arrears balances across all types.

The Committee shall ensure that the arrears are adequately classified for prioritization purposes. The Committee shall also be responsible for the production of arrears clearance

framework and production of the State Arrears, Recording, Verification and Clearance Report.

Its duties shall include, but not limited to the following:

- a. Introduction of specific guidelines setting out the roles and responsibilities of each primary record holder (the entity primarily responsible for keeping the records for each type of arrears). This will include specific reporting requirements (i.e. the use of agreed recording templates and any supporting schedules) and timelines for submission to the Committee monthly).
- b. Introduction of specific guidelines setting out the roles and responsibilities of individuals and institutions for the verification of domestic arrears balances i.e. the role of internal Audit, Inspectorates, and contracted consultants. This will include reporting requirements (a validated copy of the agreed recording templates and any supporting schedules) and timelines for monthly submission to the Domestic Committee.
- c. The creation, maintenance and regular update of an accurate internal domestic expenditure arrears database and the publicly accessible online version of the database.
- d. Oversight of the overall recording, verification and reporting processes for domestic expenditure arrears to ensure that they meet the requirements of SFTAS DLI No 8 as described in the SFTAS verification protocols.
- e. Ensure adequate classification of the arrears for prioritization purposes.
- f. Develop the State's Arrears Clearance Framework (ACF), including policies on prioritization and clearance of arrears.
- g. Provide accurate monthly, quarterly, and annual reports that present the position for verified domestic arrears and the progress made in implementing the state's ACF.
- h. Provide data/documentation to support the verification of SFTAS DLI 8, including the State Arrears, Recording, Verification and Clearance Report.

### **1.3 Specific Activities**

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

- a. Adoption and implementation of records management guidelines for domestic arrears.
- b. Adoption and implementation of verification guidelines for all types of domestic arrears.
- c. Establishment of a consolidated internal domestic arrears database.
- d. Establishment of publicly-accessible online version of the database.
- e. Reporting of valid and verified domestic arrears to end-users
- f. Development of State Arrears Clearance Framework

g. Produce the State Arrears Recording, Verification and Clearance Report.

**1.4 Supervision and Reporting Arrangements.**

1. The Committee will report directly to the Executive Governor of the State.
2. The Committee will be able to incur reasonable expenditure, including the engagement of professionals (as may be required) to assist in the course of executing its role. All expenditure must be incurred through the procurement systems of the selected institutions.
3. The Committee is to present annual expenditure estimates for its operations within one week of its composition, and thereafter as part of the annual budget process for the selected Secretariat institution. The staff complement determined by the Committee for its secretariat should be presented at the same time.

## **CHAPTER TWO: Establishment of Arrears Clearance Framework for the State**

The domestic expenditure arrears clearance framework refers to structure put in place to ensure verification, recording and payment of domestic financial obligation of the State that has fallen due. These includes salaries, pensions, Contractors' arrears but not loan repayment(s).

The essence of the framework is to guide the State on the payment of its financial obligation, allow for proper planning, promote transparency, reduce inconsistency usually associated with payment of financial obligations as they fall due.

The framework serves as a guide to the Government.

### **2.1 Recording**

There shall be at Ministries, Departments and Agencies (MDAs) level a ledger called Domestic Expenditure Clearance Ledger for recording domestic arrears incurred on behalf of State Government.

The ledger shall contain the following information:

- a. Name of the contractor
- b. Amount approved for the contract/supply
- c. Address of the supplier with amount due at exact dates.
- d. Amount paid up to date from the Arrears.
- e. Balance due to the contractor/ Supplier/ Creditors.

Each MDA's internal audit must check and pass each arrears, before inclusion in the Domestic Arrears Ledger and the primary record holder database.

The documents to be attached for the use of verification of the arrears and recording are listed below:

#### **Requirement 1**

- a. Certificate of no Objection from Oyo State Bureau of Public Procurement for the job
- b. Letter of Approval
- c. Certification of project monitoring unit
- d. Audit Certificate from the Office of the Auditor General

#### **Requirement 2 (Old Arrears)**

Payment of resuscitated old arrears not captured in the database before the establishment of this framework shall be coordinated on the basis below:

- a. Value for money – Economy, efficiency and effectiveness of the project
- b. A letter of revalidation of approval by His Excellency, The Executive Governor.
- c. A letter of acceptance by arrears clearance committee validating the arrears
- d. Other requirements stated in Requirement 1 above

## **2.2 Auditing of the scheme:**

The scheme shall be audited on a quarterly basis by the inspectorate and management unit of the Office of the Accountant General and Ministerial and Non-ministerial Department of the Office of the Auditor General.

Both organs shall submit the report of their findings separately to the State Arrears Clearance Framework Committee on a quarterly basis for consideration and approval after due reconciliation.

The report shall make necessary recommendation to the Committee on suitability or otherwise of any arrears to be accepted or rejected, stating grounds for their acceptance or rejection.

## **2.3 Other Matters:**

All corporations and parastatals obtaining funds from State Government should submit their annual final report to the State Accountant General for the purpose of this framework and other reconciliations, with their financial report of the State on outstanding debt and other matters therein.

## CHAPTER THREE - Recording, Verification and Reporting of Arrears

Successful arrears management requires strong accounting and reporting systems.

### 3.1 Recording

Each MDA's shall record arrears as soon the payment for the obligation fall due.

Each MDA is expected to maintain a ledger known as Domestic Expenditure Arrears ledger for recording arrears. The ledger shall state the following information.

1. **Debtor details:** The government entity incurring the liability Ministry Department or Agency or State-owned enterprise.
2. **Credit details:** The data base shall capture the creditor name classified by the type: employees, private individuals, private businesses, financial institutions.
3. **Contact information:** The appropriate address for each creditor.
4. **Arrears owed (cumulative):** The total amount owed as at the date of reporting.
5. **Effective/Billing date:** This should be the original due date on each invoice or the date when the amount owed fell into arrears. It will enable classification of the arrears into those overdue by 1-3 month, 6-12 months and more than 12 months.
6. **Amount Settled/Part Paid:** This will indicate how much was previously owed and has been settled.
7. **Nature of the debt:** This will enable differentiation between various types of arrears, for example, goods supplied, services, salaries, pensions, gratuities, judgment debt, unpaid grants, Bursary
8. **Contract terms and penalties:** This is to record any interest or penalties that are due or may become due on the arrears.
9. **File reference:** This is to provide a unique file/record identifier that can enable the location of primary documents (relevant for verification).
10. **Economic category:** Should be in accordance with the National Chart of Account (NCOA).

The arrears should be recorded based on types i.e. salaries, contractor arrears, judgment debt others statutory deduction, (utility bills, i.e water bill, telephone bill etc). There should be a summary total of arrears by type.

The individual arrears are recorded to generate internal domestic arrears database for MDAs after proper verification of payment voucher by the resident internal auditor of the MDA.

For contractor arrears it should be recorded based on certificate issued but not paid within a three (3) month timeframe. This means that the State is deemed to be indebted only when work done has be certified by relevant regulatory institutions including Project Monitoring Unit, Office of the Auditor General, Bureau of Public Procurement, etc.

Addition to the database is made as they occur after proper verification by the resident Internal Auditor of the concerned MDA and clearance/ approval by the Arrears Clearance



Committee. Payments from the arrears are reduced as they are carried out. Each MDA shall maintain separate ledger for each class of arrears e.g. Salaries, Contractor, Judgement.

On quarterly basis the total domestic arrears paid with additions to individual arrears shall be forwarded to the Committee Secretariat and debt management department. The State domestic arrears shall be warehoused at the Debt Management Department.

An arrears is deemed to have been verified after satisfying all the internal check procedure for validity, and acceptance.

Overseeing and ensure the conduct of complete check by primary record folder for each check.

The following checks are to be carried out for completeness:

- Salaries – review the payment records to confirm the system of the payment and date of the last payment.
- Test a sample at the balance.

Oversight of the overall recording, verification and reporting processes for domestic expenditure arrears.

### **3.2 Records Management Guidelines for Domestic Arrears**

To address risks to the completeness and accuracy of record keeping, the State through the Domestic Arrears Committee should do the following:

- a. Identify the various forms of arrears and the entities primarily responsible for keeping the records for each type of arrears.
- b. Review the existing format for the recording of each form of arrears and confirm it holds the minimum information needed to populate the data fields in the domestic arrears database. The minimum required information are as follows:
  - i. Name and contact information for the person being owed.
  - ii. Cumulative amounts owed at the end of each period (each month).
  - iii. Effective date the debt was incurred or fell due (billing date if applicable).
  - iv. Nature of the debt the nature of the goods and/services procured.
  - v. Invoice supporting the billing rate of the debt.
  - vi. A unique reference number or identity for each debt except salary, pensions and gratuity arrears which can be reported as aggregate balances but not withstanding at primary record holder must use a unique reference to identify each component in each type of arrears.
  - vii. Other information as necessary
- c. Where the existing format does not hold some of the necessary minimum information required the primary record holders is to update the records appropriately, in line with the standard format of Arrears Clearance Framework.

- d. Oversee and ensure that the conduct of completeness checks by primary record holders for each type of arrears are well established on a clean baseline. Primary record holder's and their respective Internal Auditors is to conduct the checks for completeness and accuracy of the Arrears stated therein.

**3.3 Types of Domestic Arrears and likely Primary Record Holders.**

<b>S/N</b>	<b>Types of Domestic Arrears</b>	<b>Likely Primary Record Holder(s)</b>
1	Salaries	Ministry of Finance / MDA
2	Pensions & Gratuities	Oyo State Pensions Board
3	Contractor Arrears	Ministry of Works and other MDAs
4	Judgement Debt	Ministry of Justice and bills affected MDAs
5	Other arrears (Statutory deductions, discos, other bills)	Relevant MDAs

## CHAPTER FOUR: Verification Guidelines for all types of Domestic Arrears

To address the risks of invalidity and misstatement (understatement or overstatement) of the debt balances, the State through the Domestic Arrears Committee should introduce the following verification processes and actions as shown in the table below:

Verification Processes / Procedures			
S/N	Types of Domestic Arrears	Likely Primary Holder	Verification Process / Guidelines
1	Salaries	MDAs, service provider	Annually including the Validation of individual arrears balances, review of biometric data management processes e.t.c. Ensure the audit tests include a check to confirm existence of the officer check for the arrears attendance
2	Pension & Gratuities	Pensions Board & Accountant General	Revalidation of pensioners. Check for Existence. Check the authentication of Beneficiary for the payment. Confirm that due process is followed in awarded of the contract. There is value for money. i.e. has the beneficiary attend pensionable age of 45 years? Establish that the beneficiary did not undertake any other pensionable appointment.
3	Contractor Arrears	Bureau of Public Procurement, Accountant General, Ministry of Budget (Contracts M&E Department)	Establish a publicly-accessible arrears database and includes electronic links to enable contractors to validate their balances as well as submit claims for excluded amounts. Internal Audit (or equivalent), verification committees, Project monitoring unit, office of the Auditor General Special Investigation Unit and the management services verify work done, completion certifications and amounts owed. (Possibly on a sample basis for contracts below the set threshold).
4	Unremitted Deductions (Tax)	Accountant General, individual MDAs, payroll department or service provider	Shall be covered as part of the verification process for pay roll
5	Unremitted Deductions (Non-tax and subscription, e.g union dues, Agric credit scheme, housing scheme,	Accountant General, individual MDAs, payroll department or service provider	Shall be covered as part of the verification process for pay roll (above)

	car loan etc)		
6	Judgement Debts	Ministry of Justice, Office of Attorney General	Internal Audit (or equivalent) legal experts to contact case audits to verify judgement debts are correctly and properly recorded as due
7	Unpaid grants and subventions (scholarships, staff claims for medical expenses etc)	Scholarship Board or equivalent at the Ministry of Education, Accountant General, individual MDAs	Internal Audit (or equivalent) to conduct beneficiary file audit to verify the entitlement to stated balances possibly on a sample basis.
8	Overhead expenses including staff claims and out of pocket expenses	Individual MDAs, Accountant General	Internal Audit- to conduct expenditure claim audits, (minimum annually), including the validation of individual arrears balances.

#### 4.1 Verification Process For Each Claim

In the event there is a claim, the following procedure are to be followed:

- a. Collation of information on unpaid arrears by the Chief Financial Officer of each debtor entity or primary record holders, and then preparation of a consolidated record or database.
- b. Verification of claims: Also note that legal validity of each payable can be verified by checking that:
  - i. The transaction was duly authorized by a responsible officer.
  - ii. It was in accordance with authorized public finance and procurement laws, rule, and regulations.
  - iii. It was consistent with budgetary authorizations; and
  - iv. The transaction reflects a valid charge on the public purse for which commensurate goods and/or services have been received by the Government.
- c. Categorization of claims - Each claim should be categorized as one of the following:
  - i. Valid (claims are those for which adequate documentation exists to recognize a government liability).
  - ii. Contestable (claims are those for which incomplete documentation has been provided and/or items under litigation).
  - iii. Rejected claims are those for which legitimate documentation has not been presented.

## **CHAPTER FIVE: Establishing a Consolidated Internal Domestic Expenditure Arrears Database**

The Committee, through its Secretariat is to establish and maintain a comprehensive database of all the State's domestic arrears. The database should have the capacity and functionality to record all the categories of the arrears claims and balances into the following categories:

- a. Valid;
- b. Contestable; and
- c. Rejected.

### **5.1 Features And Functionalities of the Consolidated Internal Domestic Expenditure Arrears Database**

1. The aggregate and individual amounts of contractors arrears, categorized as valid, contestable and rejected.

For Contractors' arrears, at a minimum, the internal domestic arrears database must include:

- a. The name of the Contractor;
  - b. The amount due at the end-of-year;
  - c. The nature of goods and services procured that generated the claim;
  - d. Billing data (as applicable).
2. The aggregate amount of pension and gratuity arrears, categorized as valid, contestable and rejected.
  3. The aggregate amount of salary arrears and other staff claims, categorized as valid, contestable and rejected.  
The aggregate amount of each of the other types of arrears, categorized as valid, contestable and rejected.

### **5.2 Recommended Process for Establishing the Database**

The following process is recommended to be followed for establishing a database:

1. Designate a unit at the domestic arrears committee secretariat and specific staff for collecting arrears data maintaining the information and updating the database.
2. The data can be held on excel spreadsheets or in a specialized database software. Note, that the proposed database is software/software agnostic and can be created using spreadsheets as its most basic.
3. There should be a clear definition of arrears, data requirements and a monthly cut-off data for inclusion of new arrears. These will require circulars/instructions/guidelines and templates for the institutions and entities that are to provide the arrears data.

### **5.3 Establishment of Domestic Arrears Database**

1. Cash or accrual accounting systems will need accurate reporting of accounts payable and be able to identify those in arrears. Cash accounting systems may need to be

supplemented with a separate reporting mechanism for monitoring expenditure commitments, invoices received and verified, accounts payable, invoices paid, and arrears.

2. The arrears data should be certified by the Head of Finance of the respective MDAs or institutions who are the primary record holders as a true and complete account of all arrears and include all necessary documents/information for validation and verification.
3. There should be sanctions for non-reporting or late reporting of arrears.

#### **5.4 Establishing a publicly accessible Arrears Database**

In order to achieve this, the State is to publish online, elements of the internal domestic arrears database on the State's official website. This will constitute the online publicly accessible arrears database.

Furthermore, the website shall provide State contractors who are owed above twenty million naira (N20 million) the opportunity to confirm that their debts are included within the database. The publicly accessible arrears database published online shall include the following information about domestic expenditure arrears categorized as valid in the internal domestic arrears database:

- a. The amount of total domestic expenditure arrears;
- b. The aggregate amount of contractors' arrears;
- c. The aggregate amount of pension and gratuity arrears;
- d. The aggregate amount of salary arrears and other staff claims; and
- e. A list of individual contractors with recognized arrears of twenty million naira (N20 million) or more in the database. For each of these contractors, the name of the contractor, the nature of the goods and services procured, and the billing date shall be provided. The amount of the contractor's claim and other billing data may be provided.

#### **5.5 Features of the online Domestic Arrears Database**

The website supporting the publicly accessible arrears database shall contain an electronic link that permits any contractor or creditor whose individual claim is listed in the database as per 5.4e above to request a restricted disclosure of the information not reported on the online database namely; the amount of the contractor's claim and other billing data by filling a confidential form online and attaching supporting evidence of the claim.

- If the State's Ministry of Finance confirms the validity of this claim, the restricted disclosure will be provided to the creditor.
- If the creditor believes the amount recorded in the database is incorrect, they can request the State's Ministry of Finance to review and provide supporting evidence.

- If the State's Ministry of Finance confirms the validity of this further claim, the correction will be made to the internal and online version of the database.
- If the State's Ministry of Finance confirms the validity of this claim, it shall be added to the internal domestic arrears database and included as relevant in the online publicly accessible arrears database.

### **5.6 Standard Reporting on Domestic Arrears to end-users**

The Committee will also be responsible for the maintenance and accuracy of the data required for reporting to key decision makers and stakeholders, as stated below:

- The Executive Governor
- The cash management or cash budget committee (if separate)
- The Ministry of Finance and the Ministry of Budget and Economic Planning
- The debt management department

As such, the reporting requirements of these various stakeholders should be determined and built as a function into the operations of the domestic arrears committee.

Standard reporting of domestic arrears to end-users

- The Committee should be able to generate directly from the consolidated internal domestic expenditure arrears database all the information it requires to fulfill its standard reporting obligations.
- The standard reports should be generated at least on a quarterly basis (to feed into the quarterly state domestic debt reports sent to DMO), however a monthly basis reporting is recommended.
- The reports will be key in monitoring the implementation of the State's arrears clearance framework (ACF) and progress toward achievement of STFAS DLI.
- The Domestic Arrears Committee shall produce the annual state Arrears Recording, verification and clearance report.

### **5.7 Work-Flow for Recording, Verification and Reporting of Domestic Arrears**

It is recommended that the Committee introduces the processes and actions (or similar) as listed below:

- a. On a monthly basis, primary record holders are to submit their full records of arrears to the domestic arrear committee using the agreed recording template.
- b. The domestic arrears committee coordinates the verification of the arrears engaging the services of Internal Audit or inspectorates, and management services e.t.c
- c. The domestic arrears committee submits the verified arrears to end users in a standard format and informs the primary record holder of arrears which did not pass the verification checks (for further substantiation or for write-off).

## **CHAPTER SIX: Procedure for Clearance of Domestic Expenditure Arrears**

Planning - No State can afford the amount of fund required to settle its domestic arrears at once, therefore it is imperative that the Government plans its finances to avoid piling of debts and negative image usually associated with such huge debt.

Procedure for clearance of Domestic Arrears

- i. Designing of Annual Cash Plan of the State: The State shall design a cash plan at the beginning of every year. The cash plan will enable the Government to identify sources of cash and how the cash is used in settling the domestic arrears.
- ii. Prioritization: This is setting of priority criteria for the payment of domestic arrears. The State is committed to the payment of her domestic arrears despite competing sources for funding and limited revenue or income. As a result of the above, the State intends to use an hybrid model for the settlement of its domestic arrears.

For the purpose of this framework Domestic Arrears fall into the following types:

1. Gratuity Arrears
2. Pension Arrears
3. Judgment Debts
4. Salary Arrears
5. Other Arrears

1. Gratuity Arrears - The State shall set apart from annual budget based on cash forecast at minimum the sum of N2,180,000,000.00 for the payment of gratuity on yearly basis. This sum shall be applied on first in first out (FIFO) bases to beneficiary for the payment of gratuity to beneficiaries that have been verified, cleared and included in the state domestic arrears expenditure database. However, it is also considered that provision could be made for beneficiaries in the data basis with serious health challenge (Near Death Patient) based on ratification by Medical Board constituted for that purpose by Ministry of Health.
2. Pension Arrears - The State Government shall set apart a minimum of Seven Hundred and Twenty Million Naira (N720m) on yearly basis. This sum shall be included in the yearly budgets for the funding of payment of pension arrears. For the purpose of this framework, pension arrears are categorized as follows:
  - a. Re-establishment Arrears - These are arrears that arises as a result of removal of valid pensioners name from pension nominal roll of the State, or due to the erroneous stoppage of the monthly pension of a valid pensioner.
  - b. Placement Arrears – Commencement of Pension payment to valid pensioner at a later date other than his or her effective date of pension. This leads to arrears of monthly pension if not paid together at placement.



- c. Re-computation Arrears – This arrears arises from pension payment on new promotion after exiting the active service but was not use to compute the initial pension at retirement.
  - d. Other Arrears – This refers to Arrears that may not fall into any of the categories.
3. Judgment Debts - This shall be set at fifteen percent (15%) of amount standing of the total value of contractors arrears standing in the domestic arrears database of the State at the end of the third quarter of the year preceding the budget year on the date of the final judgment. The figure arrived at shall be included in the proposed budget and cash forecast of the year after. The prioritization should be applied on first in first out in the group.

Contractor Arrears - Payment of contractors arrears shall be based on contractor arrears verified and included in domestic database of the State. Also the payment of arrears shall be based on certificate issued and unpaid. The state shall set apart 15% of the total value of contractors arrears standing in domestic arrears database of the State at the end of the third quarter of the year preceding the budget year on annual basis. This sum (15% of the value of contractors arrears in the domestic arrears database), for the actual following year shall be included in the proposed Budget and cash forecast of the State for the funding of contractor arrears in the budget year.

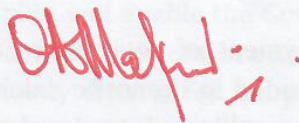
Contractor arrears for the purpose of this framework is categorized into works, goods and services. The Prioritization method to be employed within the above categories shall be as follows:

- Works - 6% of 15% percent of type value
- Goods - 5% of 15% Percent of type Value
- Services - 4% of 15% Percent of type Value

For each of the categories mentioned above the payment system generally shall be first in first out (FIFO) basis.

4. Salary Arrears - This include leave bonus and staff salary
5. Other Arrears – This includes arrears such as deferred statutory deduction, utilities bills (water bill, Discos bill and telephone bills) etc. If the arrears extends to another budget year, the amount standing in the domestic expenditure arrears data base as at third quarter of current year shall be included in the proposed budget and cash forecast of the following year in full, and shall be defrayed in that budget year.

Assented to by me this 23<sup>rd</sup> day of December 2019.



**His Excellency, Engineer Seyi Makinde**  
The Executive Governor, Oyo State