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I wish to express my gratitude and appreciation to Almighty God for giving us the privilege to produce this Report. We are grateful to God for making our proposal a success.

I also wish to acknowledge the support of His Excellency, the Governor of Ogun State, Prince Dapo Abiodun MFR to this Office. The provision of enabling environment and the needed resources by His Excellency has shown that he is an advocate of probity and accountability in governance. I also acknowledge and appreciate the contributions of the members of the 9th Legislative Assembly of Ogun State House of Assembly particularly the Chairman and members of the Public Accounts Committee.

I cannot but appreciate the favourable disposition of the Head of Service of Ogun State Engineer 'Lanre Bisiriyu FNSE for his regular support towards keeping this Office afloat.

Finally, my gratitude goes to the management and staff of this Office for their uncommon commitment to duty and loyalty to the discharge of their duties without which this Report would not have been possible.

Thank you and God bless you all.



L.A. Mulero (CNA)
Auditor-General for Local Governments,
Ogun State.
31st December, 2019

**STATEMENT OF OPINION OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF
THE TWENTY (20) LOCAL GOVERNMENTS AND THIRTY-SEVEN LOCAL COUNCIL
DEVELOPMENT AREAS IN OGUN STATE FOR THE YEAR ENDED 31ST DECEMBER,
2018**

The accounts of the twenty (20) Local Governments and thirty-seven (37) Local Council Development Areas of Ogun State for the year ended 31st December, 2018 have been examined in accordance with the provisions of Section 123 of Decree Number 12 of 1989 and 315 (1) of the 1999 Constitution of the Federal Republic of Nigeria and Sections 135-145 of Ogun State Local Government Law 2006.

RESPONSIBILITY STATEMENT

The Local Governments and Local Council Development Areas are responsible for the preparation of the Financial Statements under IPSAS Accrual Basis of accounting as applicable in the public sector. It is our responsibility to form an independent opinion based on our Audit on the Financial Statements therein.

THE SCOPE OF THE AUDIT

We conducted our Audit in accordance with Generally Accepted Auditing Standards. An audit includes examination on test basis of evidence relevant to the accounts and disclosures in the financial statements. It also includes an assessment of significant estimates and judgement made by the Councils in the preparation of the financial statements, and whether the accounting policies were appropriate in the Council circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all information and explanations we considered necessary to provide sufficient evidence to give reasonable assurances that the financial statements are free from material misstatement, whether by fraud, other irregularities or errors.

In forming our opinion, we evaluated the overall adequacy of the presentation of the information in the financial statements and assessed whether the Councils' books and Accounts had been properly kept.

OPINION

In our opinion, the financial statements give a true and fair view of the financial activities of the Local Governments and Local Council Development Areas for the period under review.



L. A. Mulero (CNA)

Auditor-General for Local Governments

Ogun State.

31st December, 2019.

**REVIEW AND GENERAL OBSERVATIONS OF THE CONSOLIDATED ACCOUNTS FOR
THE YEAR ENDED 31ST DECEMBER, 2018**

BUDGETED REVENUE PERFORMANCE

During the year under review, audit examination of the revenue profile of Local Governments and Local Council Development Areas revealed that out of the estimated Internally Generated Revenue of ₦2,182,287,204.00 for the year 2018, a sum of ₦943,987,452.82 only was actually generated and this represented 43.3% of the budget. Although this amount represented an increase of 2.5% when compared with the sum of ₦921,084,863.40 generated internally in year 2017, nevertheless, it is not an impressive performance. It appears there are leakages which had not been identified and fully blocked.

The Local Governments and the Local Council Development Areas should ensure that necessary machineries are put in place to harness its revenue potentials maximally as contained in Chapter 1:8(2) of the Model Financial Memoranda for Local Governments (MFM).

2. PERCENTAGE OF INTERNALLY GENERATED REVENUE EFFORTS TO TOTAL REVENUE

The total sum of ₦40,440,498,792.50 was received or generated as income from all sources in year 2018. This is made up of ₦39,154,511,339.68 received from the Federation Account Allocation Committee (FAAC), the sum of ₦342,000,000.00 received from Ogun State Joint Account Allocation Committee as grant and the sum of ₦943,987,452.82 generated internally by the 20 Local Governments and 37 Local Council Development Areas in the State. The receipt from the Federation Account Allocation Committee otherwise referred to as Statutory Allocation represented 96.82% of total revenue while the grant from the state government represents 0.85%. The internally generated revenue was 2.33% of total revenue.

Revenue from internally generated sources of ₦943,987,452.82 representing 2.33% of total revenue is abysmal. While this is an improvement to the sum of ₦921,084,863.40 generated in the previous year, nevertheless, it was not a true reflection of the revenue potentials of the Local Governments & Local Council Development Areas in the state. The internally generated revenue could not cover the overhead expenditure of ₦2,438,604,779.36 for the Local

Governments & Local Council Development Areas which is just 6.56% of total expenditure for the period, let alone salaries and allowances and other expenses. This implied that without revenue from Federation Account, the Local Governments & Local Council Development Areas will not be able to function.

3. WEAKNESSES IN INTERNALLY GENERATED REVENUE EFFORTS

During the audit exercise, it was observed that there were leakages in the internal revenue generation machinery. This ranges from the use of revenue contractors engaged under questionable circumstances and conditions of contracts despite the fact that the use of revenue contractors to assess and collect revenue is forbidden by Circular letter No SART/72/003 issued from the Office of the Special Adviser on Revenue and Taxation dated 25th October, 2013. Reported cases of default by contractors and other acts inimical to revenue generation or loss of revenue were treated with the wave of the hand by the management for whatever reasons. Also, there were instances where career revenue collectors failed to remit collections to the Treasury contrary to the provisions of Chapter 6:3 of Model Financial Memoranda for Local Governments which requires that a Revenue Collector shall pay all Local Government monies he has collected into the Treasury at intervals prescribed by the Executive Committee, preferably within 24 hours of collection. In addition, there were cases of deliberate refusal to keep relevant records and documents on revenue generation possibly to prevent easy detection of fraudulent acts in the revenue generation machinery contrary to the provisions of Chapter 6:23 of MFM which requires that where revenue becomes due to the Local Government at recurring fixed intervals, a Register of recurring revenue must be kept. Moreover, there were situations of blatant refusal to formally generate revenue data base in an attempt to hinder the tracking of revenue. There was the absence of adequate supervision by the management as required by Chapter 1.4(9) (11) (12) (a) of Model Financial Memoranda for Local Governments which requires that the Executive Chairman carried out such check, necessary to satisfy itself that Local Government revenues are promptly collected and accounted for. There was failure to act by individuals saddled with the responsibility of revenue supervision; the Treasurers and Internal Auditors did not live up to expectation as far as revenue generation was concerned as required by Chapter 1:14 (5) (6), 40:6 (a) & (d) of MFM. Also, Departmental heads have not ensured proper supervision of revenues generated by their departments as required by Chapter

40:1 of MFM which stipulates that, notwithstanding the existence of an Audit Unit in the Local Government, the individual officer's responsibilities shall subsist and Departmental checks shall continue. It appeared in some cases that these officers gave tacit approval to revenue racketeering.

4. STATUTORY ALLOCATION FROM FEDERATION ACCOUNT

The sum of ~~₦~~39,154,511,339.68 was received from the Federation Account for the Local Governments & Local Council Development Areas in the State during the year under review. This is an increase of ~~₦~~9,692,235,139.85 and it represents 32.9% increase when compared with the sum of ~~₦~~29,462,276,199.83 Statutory Allocation of year 2017. This is the major source of revenue to the local Governments and Local Council Development Areas representing 96.82% of total revenue for the year.

The federal allocation is made up of the following:

	₦
Statutory allocation	29,410,195,273.97
Value Added Tax	8,375,951,967.05
Additional NNPC Refund	98,663,472.23
Excess Bank charges	71,813,102.93
Exchange Gain	275,064,393.37
Forex Equalization	<u>922,823,130.13</u>
Total	<u>39,154,511,339.68</u>

5. EXPENDITURE PATTERN

A review of the expenditure of the Local Governments and Local Council Development Areas revealed that a total sum of ~~₦~~37,149,022,112.57 was expended during the year under review as detailed below:

	₦
Salaries & Allowances	26,907,058,266.69
Social benefit (Pension)	7,699,830,992.72
Overhead Cost	2,438,604,779.36
Expenditure on long term assets	<u>103,528,073.80</u>
Total	<u>37,149,022,112.57</u>

The sum of ~~₦~~26,907,058,266.69 expended on salaries and allowances represented 72.4% of total expenditure while expenditure on pensions represented 20.7%. Overhead expenditure of ~~₦~~2,438,604,779.36 represented 6.6%, while the sum of ~~₦~~103,528,073.80 expended on long term assets amounted to 0.30% of total expenditure.

From the figures above, only 6.8% of the expenditure was incurred on items that did not relate to personnel cost while 93.2% was paid in form of salaries and allowances and pensions. This means that the bulk of the expenditure in the year was on personnel.

It was further observed that 0.30% was utilized on long term assets such as acquisition of equipment, boreholes for potable water, construction of schools, markets, roads etc. Certainly, ~~₦~~103,528,073.80 expended on long term assets in the 20 Local Governments and 37 Local Council Development Areas would not possibly have impact or stimulate any meaningful development at the grassroots. The reasons for this is not far-fetched, personnel related expenditure had taken a large percentage of the resources available.

PERSONNEL COST & PENSIONS

During the year under review, a total of ~~₦~~34,606,889,259.41 was paid to employees who are in active service and retired staff collecting pensions. This also included traditional council stipends and payment to political Office holders as detailed below:

	₦
Primary School Teachers salaries	16,153,545,238.68
Local Government Staff	7,740,089,980.68
Traditional Council	2,032,474,963.81
Political Office Holders	980,948,083.52
Total salaries and allowances	26,907,058,266.69
Retired Pry Sch. Teacher & LG	
Staff Pensions	<u>7,699,830,992.72</u>
	<u>34,606,889,259.41</u>

The sum of ~~₦~~34,606,889,259.41 paid as remuneration and pensions formed a colossal part of Local Government expenditure representing 93.2% of total expenditure of ~~₦~~37,149,022,112.57 and 85.6% of the total revenue of ~~₦~~40,440,498,792.50 generated during the year. The implication of this is that, Local Governments & Local Council Development Areas expended almost all her earnings on personnel cost leaving little for infrastructural development and other services expected from the Council.

It is worthy of note that payment of primary school teachers' salaries and allowances and primary school retirees pensions represented over 60% of the personnel cost. It appeared that the responsibility for payment of primary school

teachers' salaries, allowances and pensions by Councils is a burden too heavy for her to bear from the share of Statutory Allocation that it currently collects. If this trend continues, the Local Governments in the nation will become mere cashier for personnel cost and no more. This certainly is inimical to the fulfilment of the primary objective for the creation of the Councils for grass root development.

RECEIVABLES

This represents income earned by the Local Governments & Local Council Development Areas that were yet to be collected at the reporting date. The sum of ~~₦~~46,419,280.00 was captured as receivable as at 31st December, 2018. At the moment, only proceeds from government properties (majorly lock-up shops and open stalls) were captured as receivables. Other types of recurring items of revenue are yet to be captured. Revenue due but yet to be collected will not be obvious without a methodology that can help to isolate such items. One of such methods will be to maintain a register of different types of recurring revenue that is not daily collections as required by the provisions of chapter 6:23 of the Model Financial Memoranda for Local Governments.

INVENTORIES

The sum of ~~₦~~97,616,546.70 represents inventories of the twenty Local Governments and thirty seven Local Council Development Areas. Proper records of inventories were not kept by the Councils during the year. The store ledger did not contain all store items.

ADVANCES

The sum of ~~₦~~95,540,510.14 represents balances of advances at the reporting date. The advances were dormant during the year contrary to regulations.

LIABILITIES OF THE LOCAL GOVERNMENTS & LOCAL COUNCIL DEVELOPMENT AREAS

The sum of ₦10,002,822,762.76 was the total liabilities in the financial statements of Local Governments and Local Council Development Areas as at 31st December 2017. This is summarised below:-

	₦
(1) Bailout from Federal Government	4,624,327,367.52
(2) Facility from Ogun State Government	2,773,418,076.82
(3) Unremitted deductions	1,904,309,412.72
Other	<u>700,767,905.80</u>
Total liabilities	<u>10,002,822,762.76</u>

This represents loan granted by the Federal Government, the State Government, financial institutions, money received on the behalf of third parties, unremitted deductions and amount owed for supplies. The Councils have continued to hold onto third party funds like Value Added Tax (VAT), 5% Development Levy, Withholding tax, fund deducted on behalf of other government agencies etc. amounting to ₦1,904,309,412.72.

Below is the movement in the bailout from the Federal Government and loan facilities from the Ogun State Government.

	BAILOUT FROM FEDERAL GOVERNMENT	FACILITY FROM STATE GOVERNMENT
BALANCE 1/1/2018	6,013,650,771.36	4,710,818,095.25
Bailout/Facility Received		1,123,863,877.97
TOTAL	6,013,650,771.36	11,848,332,744.58
Bailout/Facility Repaid	1,389,323,403.84	3,061,263,896.40
BALANCE 31/12/2018	4,624,327,367.52	2,773,418,076.82

OGUN STATE JOINT ACCOUNT ALLOCATION COMMITTEE (JAAC)

A total sum of ~~₦~~39,154,511,339.68 was received from the Federation Account as Statutory Allocation into the Ogun State JAAC for year 2018. This fund was allocated to Local Governments & Local Council Development Areas in line with the Ogun State JAAC law. Distributions were made to Local Governments & Local Council Development Areas after considering some category of expenditure referred to as 1st line charge. 1st line charge includes expenditure like Primary School Teachers Salaries and allowances, Traditional Council Fund, pensions of retired Local Government staff and retired Primary School Teachers. These items were remitted directly to various agencies of the State Government responsible for administering them while the remaining fund was utilised for the payment of Local Government salaries and allowances.

The Ministry of Local Government & Chieftaincy Affairs which oversees JAAC does not usually inform Local Governments and Local Council Development Areas of the details of expenditure in the form of advice so that they can be aware of and appropriately account for it. Hence Local Government's & Local Council Development Area's only accounted for staff salaries & allowances paid to Local Government Staff as the Statutory Allocation received.

As a result of the above, the amount of Statutory Allocation reported by each Local Government's & Local Council Development Area's represented the portion of salaries paid to her staff and not all the allocation actually received from the Federation Account. It represented the amount left over after taking care of 1st line charges for which all Local Government's & Local Council Development Area's in the state are jointly responsible. However, the consolidated accounts incorporates the 1st line charges directly sent to relevant state agencies to be administered on the behalf of Local Governments and Local Council Development Areas and those received and accounted for by the Local Governments and Local Council Development Areas. The Consolidated Financial Statement accounts for the full allocation received from the Federation Accounts.

REVENUE COLLECTED BY OGUN STATE GOVERNMENT ON BEHALF OF LOCAL GOVERNMENTS & LOCAL COUNCIL DEVELOPMENT AREAS

The Ogun State House of Assembly enacted several laws where some revenues of the Local Governments were to be collected by the State Government Agencies on behalf of the Local Governments for more efficient revenue collection. Apart from efficient collection of revenue, these laws were

meant to create friendlier economic environment by dealing with the issue of double taxation. Examples of such laws are the Ogun State Signage and Advertising Agency Law, 2008 which deals with outdoor advertising regulation and related matters. Another is the Ogun State Land Use and Amenities Charge Law, 2013 which deals with revenue on properties. Revenue from parks and garages which were part of Local Government levies are now being collected by the State Government.

These laws recognised the constitutional provisions on revenue collectable by each tier of government and made adequate provisions for sharing of the revenue generated by the agencies of the State Government on behalf of both the State and Local Governments.

However, it was observed that while the laws had become operational ever since and the State Agencies had commenced the collection of revenue as provided in the laws and the Local Government had withdrawn from collection of the revenue covered by the laws, which are constitutionally collectable by the Local Governments, the relevant provisions for the sharing and remittance of Local Government share of revenue collected were not complied with. No revenue was received either into the Ogun State Joint Account Allocation Committee (JAAC) or Local Governments Treasury in respect of revenue collected on her behalf since the laws became operational. For instance, section 13 of the Ogun State Signage and Advertising Agency Law provided for the setting up of a Fund Allocation Committee which shall determine the revenue to be allocated to the State and each Local Government Council from the revenue of the Agency. The same provision was made in the Land Use and Amenities Charge Law where Section 21(3) provides that the Commissioner for Finance shall, not later than ten (10) days from the beginning of each month, pay to each Local Government Council in the State a portion of the land Use and Amenities Charge Collection Fund attributable to each Local Government Area, net of cost of collection.

This office is of the opinion that the provisions of these laws should be complied with fully and all revenue generated on behalf of the Local Governments should be remitted to them. If this is done, it would go a long way to enhance the ability of Local Governments to deliver on its mandate to her inhabitants.



L. A. Mulero (CNA)

Auditor-General for Local Governments,
Ogun State.

31st December, 2019.