

Debt Management Office

**External Auditors' report on Debt Operations in accordance with
ISAE 3000**

Period from 1 January 2010 to 31 December 2012

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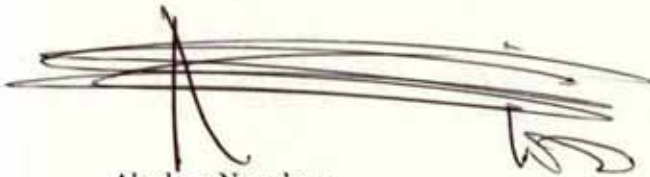
Debt Management Office's Assertion

The accompanying description, covering controls and related control objectives that apply to the debt operations undertaken by the Debt Management Office have been prepared to form the basis and criteria for assessing the effectiveness of their design and operating performance by an independent auditor. The result of the assessment is also intended to provide assurance to stakeholders on the effectiveness of controls operated by the DMO over debt operations initiated, processed, and reported by the Debt Management Office. The DMO confirms that:

- (a) The accompanying description fairly presents the DMO's system throughout the period covering 1 January 2010 to 31 December 2012. The criteria used in making this assertion were that the accompanying description:
 - (i) Presents how the system was designed and implemented, including:
 - the types of debt products being managed;
 - the procedures, within both information technology and manual systems, by which those transactions were initiated, recorded, processed, corrected as necessary, and transferred to the reports prepared for stakeholders;
 - the related records, supporting information and specific details that were used to initiate, record, process and report transactions;
 - how the system dealt with significant events and conditions, other than transactions;
 - the process used to prepare reports on public debts.
 - relevant control objectives and controls designed to achieve those objectives.
 - other aspects of control environment, risk assessment process, information system (including the related business processes) and communication, control activities and monitoring controls that were relevant to debt management
 - (ii) Includes relevant details of changes to the DMO's system during the period covering 1 January 2010 to 31 December 2012.
 - (iii) Does not omit or distort information relevant to the scope of the system being described, while acknowledging that the description is prepared to meet the common needs of a broad range of the DMO's stakeholders and their auditors and may not, therefore, include every aspect of the system that each individual stakeholders may consider important in its own particular environment.
- (b) Except where specifically noted in the report and below, the controls related to the control objectives stated in the accompanying description were suitably designed and operated effectively throughout the period 1 January 2010 to 31 December 2012. The criteria used in making this assertion were that:

- (i) The risks that threatened achievement of the control objectives stated in the description were identified;
- (ii) The identified controls would, if operated as described, provide reasonable assurance that those risks did not prevent the stated control objectives from being achieved; and
- (iii) The controls were consistently applied as designed, including that manual controls were applied by individuals who have the appropriate competence and authority, throughout the period 1 January 2010 to 31 December 2012.

Management acknowledges the exceptions identified by KPMG when carrying out its testing. For controls 3.4, 4.1, 11.1, 12.2, 13.2 and 22.3, management confirm that the controls were operating as described during the period covered by the report. The exceptions noted by KPMG in its opinion are as a result of failure to retain, in certain instances, appropriate and sufficient evidence to demonstrate the operational effectiveness of the controls. For certain other controls in 12.8, 13.10, 14.6 and 29.1 around reporting and disclosures of subnational external loans and on-lending facilities; reconciliation of domestic debt issuance proceeds account and information backups and recovery, respectively, management accept that the controls did not operate fully as described during the period and has taken the necessary remedial steps in subsequent periods.



Abraham Nwankwo
Director General

Date: 14 July 2014

**KPMG Professional Services**

KPMG Tower
Bishop Aboyade Cole Street
Victoria Island
PMB 40014, Falomo
Lagos

Telephone 234 (1) 271 8955
234 (1) 271 8599
Fax 234 (1) 271 0540
Internet www.kpmg.com/ng

Private & Confidential

The Director General
Debt Management Office
NDIC Building (1st Floor)
Plot 447/448 Constitution Avenue
Central Business District
P.M.B. 532, Garki,
Abuja

14 July 2014

Dear Sir

Independent Reasonable Assurance Report on the debt operations undertaken by the Debt Management Office ("External Audit of Debt Operations of the Debt Management Office")

In accordance with our engagement letter dated 7 November 2013 (our "Engagement Letter"), we have examined the accompanying description (the "Description") on pages 26 to 120 containing details of the controls in place in relation to debt operations undertaken by the Debt Management Office (DMO) for the period 1 January 2010 to 31 December 2012, and have carried out procedures to enable us to form an independent reasonable assurance conclusion on whether DMO's assertion that the controls in place in relation to debt operations undertaken by DMO is effective, in all material respects, in accordance with the DMO management's assertion at pages 3 to 4 of the Description.

Scope

Our examination included procedures to obtain reasonable assurance, in all material respects and based on DMO management's assertion at pages 3 to 4 of the Description, about whether:

1. The Description fairly presents the controls system that was designed and implemented throughout the specified period;
2. The controls included in the Description were suitably designed throughout the specified period to provide reasonable assurance that the control objectives specified would be achieved if the described controls were complied with satisfactorily, and
3. Such controls were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives were achieved during the specified period.



DMO Management's Responsibilities

Management of DMO is responsible for:

- (1) preparing the Description and accompanying assertion at pages 3 to 4, including the completeness, accuracy and method of presentation of the description and assertion
- (2) having a reasonable basis for its assertion;
- (3) selecting the criteria to be used and stating them in the assertion;
- (4) specifying the control objectives and stating them in the Description; and
- (5) identifying the risks that threaten the achievement of the control objectives and designing, implementing, and documenting controls that are suitably designed and operating effectively to provide reasonable assurance that the controls objectives stated in the Description will be achieved.

Our Responsibilities

Our responsibility is to express an independent reasonable assurance conclusion on DMO management's Description and on the design and operation of controls related to the control objectives stated in that Description based on our procedures. We conducted our engagement in accordance with International Standards on Assurance Engagement 3000, *"Assurance Engagements other than Audits or Reviews of Historical Financial Information"* issued by International Auditing and Assurance Standards Board. That standard requires that we comply with Parts A and B of the Code of Ethics for Professional Accountants, including independence by the International Ethics Standards Board for Accountants (IESBA Code), and implement quality control procedures that are applicable to the individual engagement in accordance with the requirements of the International Standards on Quality Control 1 (ISQC 1), plan and perform our procedures to obtain reasonable assurance about whether, in all material respects, the Description is fairly presented and the controls are suitably designed and operating effectively.

An assurance engagement to report on the description, design and operating effectiveness of controls involves performing procedures to obtain evidence about the disclosures in DMO's Description of its control system, and the design and operating effectiveness of controls. The procedures selected depend on the auditor's judgment, including the assessment of the risks that the Description is not fairly presented, and that controls are not suitably designed or operating effectively. Our procedures included testing the operating effectiveness of those controls that we consider necessary to provide reasonable assurance that the control objectives stated in the Description were achieved. An assurance engagement of this type also includes evaluating the overall presentation of the Description, the suitability of the control objectives stated therein, and the suitability of the criteria specified by DMO (as described at pages 3 to 4).

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our qualified conclusion.

Basis for Qualified Conclusion

Limitation of scope

- DMO states in its Description that it has control 3.3 in place for the timely recording of external loan agreements. However, during the period from 1 January 2010 to 31 December 2012, the dates of receipts of loan agreements were not recorded in the loan register. Consequently, we were unable to

determine whether the control objective "Controls provide reasonable assurance that external loan agreements are recorded on timely manner" has been met during the period from 1 January 2010 to 31 December 2012.

- DMO states in its Description that it has controls 27.1 and 27.9 in place to ensure adequate protection of its information assets and ensure compliance to management approved IT policies and procedures. However, during the period from 1 January 2010 to 31 December 2012, we noted that information security policies are yet to be documented and approved by the DMO authorities. Consequently, we were unable to determine whether the control objective "Controls provide reasonable assurance that information security policies and guidelines are implemented to ensure adequate protection of information assets" has been met during the period from 1 January 2010 to 31 December 2012.
- DMO states in its Description that it has control 29.1 in place to ensure recoverability of backed-up data. However, for the period from 1 January 2010 to 31 December 2012, we were not availed any sample of test restore reports that would indicate that restorations were performed successfully. Consequently, we were unable to determine whether the control objective "Controls provide reasonable assurance that data will be recovered in a timely manner in the event of a disaster or data loss" has been met during the period from 1 January 2010 to 31 December 2012.

Ineffective controls

- As discussed on pages 34 and 52 we were unable to obtain evidence over operating effectiveness of controls 3.4 and 12.2 in relation to team lead review of input data selected for testing during the period from 1 January 2010 to 31 December 2012. For the samples selected for testing, we did not see any documented evidence of review or approval by the team lead. This resulted in the non-achievement of the control objective "Controls provide reasonable assurance that data recorded into the CS-DRMS are accurate and authorized" during the period 1 January 2010 to 31 December 2012.
- As discussed on pages 56, we were unable to obtain evidence over operating effectiveness of controls 12.8 in relation to authentication of sub-national external debts stock selected for testing during the period from 1 January 2010 to 31 December 2012. For the sample selected for testing, we noted significant differences exist in the subnational external debt stock balances between the amount per reporting schedule and per CS-DRMS. This resulted in the non-achievement of the control objective "Controls provide reasonable assurance that sub-national external loans are completely and accurately recorded and reported on a timely basis" during the period 1 January 2010 to 31 December 2012.
- As discussed on pages 63, we were unable to obtain evidence over operating effectiveness of controls 13.10 in relation to outstanding balance of on-lending facilities selected for testing during the period from 1 January 2010 to 31 December 2012. For the samples selected for testing, we noted significant differences in original loan amount and outstanding balances between amount reported per schedule and amount per annual report. This resulted in the non-achievement of the control objective "Controls provide reasonable assurance that on-lending facilities are completely and accurately recorded and reported" during the period 1 January 2010 to 31 December 2012.
- As discussed on pages 71, we were unable to obtain evidence over operating effectiveness of controls 14.6 in relation to reconciliation of bond issue proceeds account with the CBN selected for testing during the period from 1 January 2010 to 31 December 2012. For the samples selected for testing, we

did not see documented evidence of review by the team lead and there was no evidence of internal audit review of the bond proceeds records and the reconciliation report. An unsubstantiated un-reconciled balance ageing above one year was noted in the reconciliation statement. These resulted in the non-achievement of the control objective "Controls provide reasonable assurance that securities issuance proceeds accounts are properly maintained and are periodically reconciled with the CBN statements" during the period 1 January 2010 to 31 December 2012.

- As discussed on pages 85, we were unable to obtain evidence over operating effectiveness of controls 22.3 in relation to reporting of contingent liabilities selected for testing during the period from 1 January 2010 to 31 December 2012. There is no documented supporting evidence for the amount reported in respect of pending litigations. Instances of misstatements of contingent liabilities of the Federal Government in respect of local contractors bond and guarantee on agriculture were also noted. These resulted in the non-achievement of the control objective "Controls provide reasonable assurance that contingent liabilities reported are complete, accurate and free from material misstatements" during the period 1 January 2010 to 31 December 2012.
- As discussed on pages 119, we were unable to obtain evidence over operating effectiveness of controls 29.2 in relation to disaster recovery procedures during the period from 1 January 2010 to 31 December 2012. We noted that the DRP does not clearly detail the planned recovery activities for each key IT processes and key contacts in the event of a disaster and the group responsible for testing the DRP. These resulted in the non-achievement of the control objective "Controls provide reasonable assurance that the organisation's disaster recovery plans are documented, approved and tested" during the period 1 January 2010 to 31 December 2012.

Qualified Conclusion

Our conclusion has been formed on the basis of the matters outlined in this report. The criteria we used in forming our conclusion are those described in DMO management's assertion at pages 3 to 4. In our opinion, except for the matters in the Basis for Qualified Conclusion paragraph, in all material respects:

- (a) The Description fairly presents the controls system as designed and implemented throughout the period from 1 January 2010 to 31 December 2012;
- (b) The controls related to the control objectives stated in the Description were suitably designed throughout the period from 1 January 2010 to 31 December 2012; and
- (c) The controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the Description were achieved, operated effectively throughout the period from 1 January 2010 to 30 December 2012.

Description of Tests of Controls

The specific controls tested and the nature, timing and results of those tests are listed on pages 26 to 120.



Restriction of Use and Distribution

This report is made to and has been prepared solely for the DMO's stakeholders as set out in our Engagement Letter. In this report, by "management" we mean the directors of the DMO and those employees to whom the directors of DMO have properly delegated day-to-day conduct over matters for which the directors of DMO retain ultimate responsibility.

This report is released on the basis that it shall not be copied, referred to or disclosed, in whole or in part, without our prior written consent.

This report was designed to meet the agreed requirements of DMO and Stakeholders' needs at the time. This report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire any rights or assert any claims against us other than DMO and Stakeholders for any purpose or in any context.

Any party other than DMO and Stakeholders who obtains access to this report or a copy and chooses to rely on this report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than DMO and Stakeholders, as a body, for our work, for this report, or for the opinions we have formed.

Yours faithfully

Akinyemi J. Ashade, ACA

FRC/2013/ICAN/00000000786

For: KPMG Professional Services

Chartered Accountants

14 July 2014

Lagos, Nigeria



Introduction to Debt Management Office

The DMO was established on 4th October, 2000, by the Debt Management Office Act of 2003, to centrally coordinate the management of Nigeria's debts. It was established for the following objectives, amongst others:

- a. Maintain a reliable database of all loans taken or guaranteed by the Federal or State Governments or any of their agencies;
- b. Prepare and submit to Federal Government a forecast of loan service obligations for each financial year;
- c. Prepare and implement a plan for the efficient management of Nigerian's external and domestic debt obligations at sustainable levels compatible with desired economic activities for growth and development; and participate in negotiations aimed at realizing those objectives;
- d. Verify and service external debts guaranteed or directly taken by the Federal Government;
- e. On agency basis, service external debts taken by State Governments and any of their agencies: where such debts are guaranteed by the Federal Government;
- f. Set guidelines for managing Federal Government financial risks and currency exposure with respect to all loans;
- g. Advise the Federal Government on the re-structuring and re-financing of all debt obligations;

Communication with stakeholders:

The Debt Management Office consistently communicates with various stakeholders within its sector via its website and offering circulars to the investing public via the Central Bank of Nigeria (CBN).

In terms of publication of Federal Government debt, DMO prepares a quarterly debt bulletin which is shared with the other government agencies; in addition, it produces annual report which contains the Federal Government debt information. In addition, the report contains information on the stock and composition of total public debt, the costs of servicing the debt, as well as residency classification of the debt.

Some key stakeholders as relates with the Subject Matter

- *Central Bank of Nigeria*

The Central Bank of Nigeria acts as the registrars and issuing house for Government's domestic debts. There is an agency agreement (Memorandum of Understanding) between the DMO and CBN signed in 2002 describing each party's responsibilities.

Furthermore, there is regular sharing of information on public debts and other matters between the DMO and the Central Bank of Nigeria through Monetary and Fiscal Policy Coordinating Committee (MFPCC) and the Fiscal Liquidity Assessment Committee (FLAC).

- *Ministry of Finance, Nigeria*

All borrowings are submitted to the Ministry of Finance, for review and incorporation into the annual borrowing plan. The Ministry of Finance works with the DMO in determining the cost/benefit of the borrowing plan. Furthermore, it prepares the Fiscal Strategy Paper, The Medium Term Fiscal

Framework and the Annual Budget for subsequent approval by the National Assembly ("NASS"). In addition, the Ministry approves the Annual Issuance program¹ prepared by the DMO.

- *Budget Office of the Federation*
The DMO provides annual forecast of Debt Service payments, which it incorporates into the Fiscal Strategy Paper, The Medium Term Fiscal Framework and the Annual Budget of the Federal Government.
- *The National Assembly*
The National assembly approves the annual budget through the passage of the Appropriation Act and also gives approval for request for obtaining external borrowing from non-concessionary sources in compliance with the External and Domestic Borrowing Guidelines of the Federal and State Governments and their Agencies.
- *Office of the Accountant General of the Federation*
The Office of Accountant General works with the Central Bank of Nigeria and the DMO (debt settlement section, the debt recording section and the internal audit section) to undertake a reconciliation process to ensure that payments are made according to Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) forecasts and creditors' requests.
- *Primary Dealer and Market Maker*
The Primary Dealers act as the market makers for the various debt instruments issued by the Central Bank of Nigeria on behalf of the DMO. The DMO communicates its debt issuance activities through the sharing of the quarterly issuance plan and the publication of offering circulars.
- *Ministry of Justice*
The Ministry acts as legal adviser to the Federal Government, as it reviews all terms and conditions of the loan agreement and is represented during the signing of the loan agreement.

Availability of Financing:

According to the Section 13 of the DMO Act, the Debt Management Office is funded from the following sources;

- Any allocation to the Office from the Consolidated Revenue Fund of the Federation;
- Such moneys as may, from time to time, be granted or lent to the Office by the Federal, a State Government or a Local Government;
- All moneys raised for the purposes of the Office by way of gifts, loan, grants-in-aid, testamentary disposition or otherwise; and
- All other assets that may, from time to time, accrue to the Office.

¹ The Annual Issuance Program is prepared by the Portfolio Management Department in conjunction with the Market Development Department. It specifies how the DMO intends to meet the financing needs of the government as specified by the Budget deficit through issuance of domestic debt products.

Laws and Regulations:

The main regulations and laws applicable to the organisation include:

- The Debt Management Office (Establishment) Act, 2003
- The Fiscal Responsibility Act 2007
- Investment and Securities Act 2007
- The Central Bank of Nigeria Act, 2007
- The Constitution of the Federal Republic of Nigeria, 1999 (as amended)
- The Office of the Accountant-General of the Federation (OAGF)
- The Local Loans (Registered Stock and Securities) Act, CAP. L17 (LFN)
- The Treasury Bills Act, CAP. T18 (LFN)
- The Government Promissory Notes Act, CAP. G4 (LFN)
- The Treasury Certificate Act, CAP. T19 (LFN)

The Debt Management Office Act

The DMO Act, 2003, is focused on the establishment of the Debt Management Office, its roles, staffing etc. The Act provides for the preparation and implementation of a plan for the efficient management of Nigeria's external and domestic debt obligations at sustainable levels, as well as guidelines for managing the risks with respect to all loans. On borrowing authorization, the Act specifies that external loan agreements shall be executed by the Minister of Finance (section 20) after its terms and conditions have been approved by the National Assembly (section 21). The DMO is authorized, in collaboration with the CBN, to issue debt securities in the domestic debt market (section 23).

The Fiscal Responsibility Act

The Fiscal Responsibility Act, 2007, Part IX, Debt and Indebtedness, sections 41 - 47, provides guidelines for new borrowing, purposes of such borrowing, as well as issuance of guarantees. Specifically, it is stated that "Government at all tiers shall only borrow for capital expenditure and human development, provided that, such borrowing shall be on concessional terms with low interest rate and with a reasonable long amortization period subject to the approval of the appropriate legislative body. The Act, Part X on Borrowing also set the conditions for borrowing and verification of compliance limits as well as prohibits State, Local Governments or Federal Agencies from borrowing externally on its own.

The Investment and Securities Act

The Investment and Securities Act, 2007, Part XV, Borrowings by Federal, State and Local Government and their agencies, sections 222 – 273, provides the guideline for issuance of debt securities from the capital market by Federal, State and Local Government and their agencies. Specifically, the Act stipulates the restrictions on raising funds from the capital market, registration of securities and appointment of registrar and issuing house, liability of a body in respect of issued securities, appropriation of revenue, payment of interest, creation and management of sinking fund, binding obligation on successive government or bodies among others.

The Central Bank of Nigeria Act, 2007

The Central Bank of Nigeria Act enables the CBN to, among other things, act as bankers to the government, register, discount or rediscount bonds issued by any tier of government and their agencies, being bonds, which have been publicly offered for sale and with maturity not exceeding three years, as well as, grant advances to the Federal Government, as may be appropriate.

The Constitution of the Federal Republic of Nigeria, 1999 (as amended)

The 1999 Constitution vests on the National Assembly (NASS) the exclusive powers to make laws to regulate domestic and external borrowing in the country. The Second Schedule of the Exclusive Legislative List, Items 7 and 50 confer this authority on the NASS. Pursuant to its constitutional authority and mandate, the NASS enacted the DMO (Establishment) Act, 2003, and the Fiscal Responsibility Act (FRA), 2007, to manage the country's public debt and enforce fiscal discipline in the management of the nation's resources, respectively. The NASS also has the statutory mandate to approve, through appropriation, all domestic borrowing by the Federal Government, and by resolution, all external borrowing by all tiers of government in Nigeria.

The Office of the Accountant-General of the Federation (OAGF)

The OAGF, established under the Civil Services Re-organization Decree No. 43 of 1988, is responsible for the overall management of all receipts and payments of the Federal Republic of Nigeria; maintain and operate the Federation Account, the Consolidated Revenue Fund, Department Fund, Contingencies Fund and other public funds; provides cash backing for the operation of the Federal Government; and, undertake externalisation of debt servicing, amongst others.

The Local Loans (Registered Stock and Securities) Act, CAP. L17 (LFN):

The Local Loans (Registered Stock and Securities) Act, CAP. L17 (LFN) provides for the creation, issuance and redemption of registered stocks, Government Promissory Notes and bearer bonds for the purposes of raising loans in Nigeria by the Federal Government.

The Treasury Bills Act, CAP. T18 (LFN)

The Treasury Bills Act, CAP. T18 (LFN) empowers the Federal Minister of Finance (FMF) to issue Treasury Bills through the CBN on behalf of the government and credit the Consolidated Revenue Fund (CRF) with the proceeds of the issuance. The Minister is also allowed to pay out any charges and expenses arising thereof.

The Government Promissory Notes Act, CAP. G4 (LFN)

The Government Promissory Notes Act, CAP. G4 (LFN) empowers the Federal Government to issue Promissory Notes to raise any sum of money by loan or repay any money borrowed by the government.

The Treasury Certificate Act , CAP. T19 (LFN)

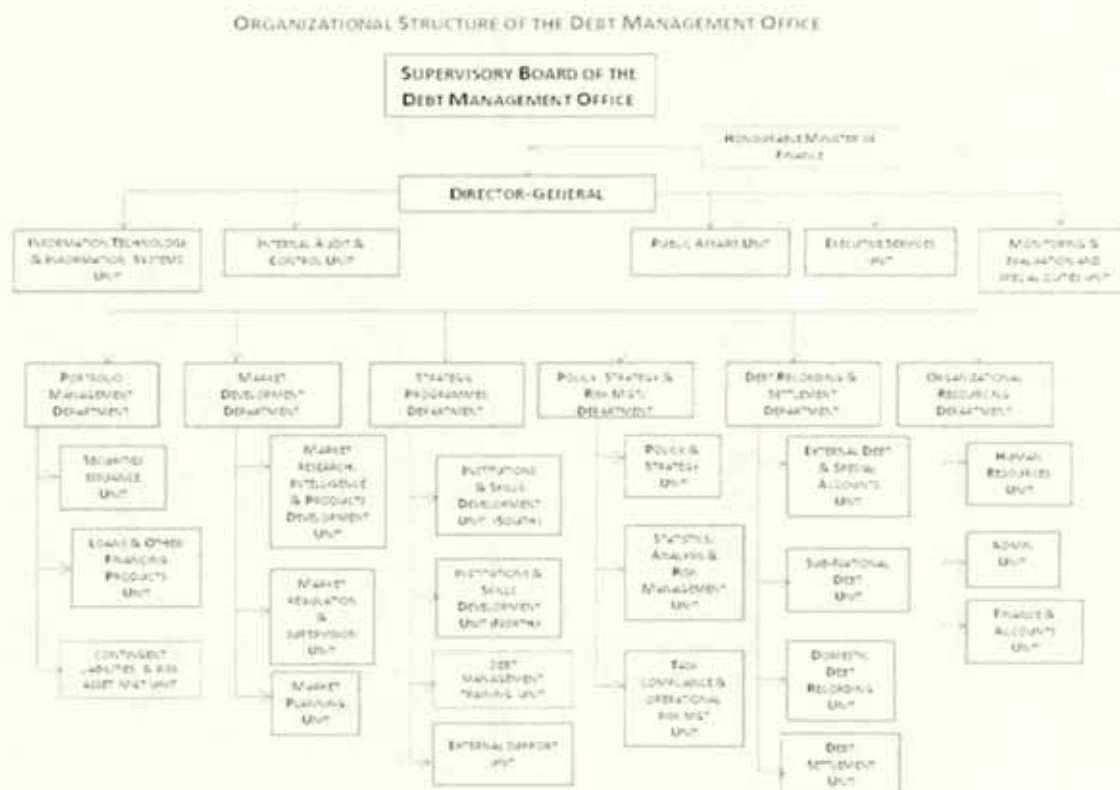
The Treasury Certificate Act , CAP. T19 (LFN) makes provisions which enables the FGN to raise short-term loans of not more than two (2) years tenor through the issuance of Treasury Certificates (TCs). The proceeds of the TCs may be on-lent to States.

Reporting Framework

According to section 17(1) of the DMO Act, The Supervisory Board shall cause to be kept proper accounts of the Office in respect of each year and proper records in relation thereto and shall cause the accounts to be audited not later than 6 months after the end of each year by auditors appointed from the list and in accordance with the guidelines supplied by the Auditor-General of the Federation. The organisation's accounts are prepared under the historical cost convention of accounting, and income and expenditure are recognized on the cash basis of accounting.

In addition to the above, the World Bank during the period under review carried out a Debt Management Performance Assessment (DeMPA) over the public debt management operations of the organisation.

OPERATING STRUCTURE



The Organization's organogram

The Organisation is structured into seven (7) Departments, namely:

- The Office of the Director General
- Portfolio Management Department
- Market Development Department
- Strategic Programmes Department
- Policy, Strategy & Risk Management Department
- Debt Recording & Settlement Departments
- Organizational Resources Department

The DMO is established under the DMO Act, 2003, which provides clear roles and responsibilities of the debt management function. Section 6 is a detailed list of roles, and includes keeping debt records, preparation of debt service forecasts for the budget, the development and implementation of a debt management strategy. The responsibility for all borrowing and issuance of guarantees rests with the DMO.

A Supervisory Board, headed by the Vice President, and comprises the Minister of Finance, the Governor and senior civil servants, provides the overall guidance for the DMO. The Board plays a very important role regarding the activities of the DMO, including the formal approval of the medium term debt management strategy.

Governance

The Supervisory Board of the DMO is charged with the responsibility of providing overall oversight on the activities and operations of the Debt Management Office. The Supervisory board is made up of the following individuals;

- The Vice President of Nigeria
- The Minister of Finance
- The Governor of the Central Bank of Nigeria
- The Accountant General of the Federation
- The Attorney General of the Federation
- The Chief Economic Adviser to the President
- Director-General of the Office

For domestic borrowing, a memorandum of understanding between the DMO and the Central Bank of Nigeria (CBN) specify the role of CBN in conducting the auctions of government securities.

For external borrowing, the formal leader of the negotiations of bilateral and multilateral loans is the International Economic Relations Department of the Ministry of Finance, with the DMO participating in the decision making in terms of the Cost/Benefit analysis of the loans.

Conduct of operations

The DMO is organized according to functions, into front office, back office, and middle office. The front office is made up of the Portfolio Monitoring Department (PMD), while the back office comprises of the Debt Recording and Settlement Department (DSRD) and the middle office is made up of the Policy Strategy and Risk Management Department (PSRM). The Market Development Department (MDD) interplays between the front and the middle offices. Also, there are departments that focus on issues that cut across the organization, which include Organizational Resourcing Department (ORD), Strategic Programmes Department (SPD), and Public Debt Management Institute (PDMI).

Assignment of authority and responsibility is done via the job description of each position in the organizational hierarchy. Management has analyzed the tasks comprising different functions. This analysis, as evidenced by the documented job description, was done with consideration to such factors as the extent to which individuals must exercise judgment and the extent of related supervision.

The legal and operating structure of the Organisation is considered clear and unambiguous.

The Organisation's registered office is located at NDIC Building (1st Floor), Plot 447/448 Constitution Avenue, Central Business District, Garki Abuja, Nigeria

Overview

The control environment in an organization is the foundation for other components of internal control and impacts the way activities are structured, objectives are established and risks are assessed. The DMO hires and retains competent staff and promotes an entity-wide culture of integrity and compliance with systems and controls.

Control environment elements include the following:

- A. Control Environment and Organisation Structure
- B. Risk Assessment/Management
- C. Monitoring
- D. Information and Communication

The extent to which each control environment element is addressed at the DMO is described in the sections which follow.

A. Control Environment and Organisation Structure

An entity's organizational structure provides the framework within which its activities for achieving entity-wide objectives are planned, executed, controlled and monitored. Important aspects of establishing a relevant organizational structure include defining key areas of authority, apportioning responsibility and establishing appropriate lines of reporting. DMO's organizational structure and reporting lines are designed to ensure that key risk and control information are escalated in a timely manner.

The DMO's Principal Officers are responsible for executing and monitoring the core mandates of the office in order to ensure that the objectives for the establishment of the office are met. The seven principal officers are directors of various departments within the DMO and each of them have over 10 years of work experience in the DMO. As a result they are fully aware of all activities, initiatives and developments.

The Office of the Director- General

The Director- General's Office is responsible for overseeing all the activities in the DMO, including the departments in the Front, Middle and Back Offices, as well as the Organizational Resourcing Department (ORD). The Director-General's Office coordinates the activities of the DMO Secretariat with respect to the DMO Supervisory Board. The Director-General's Office also oversees the DMO's collaboration with all the local and external stakeholders. These responsibilities are coordinated by the Executive Services Unit (ESU), under the direction and supervision of the Director-General.

The Portfolio Management Department (PMD)

The Portfolio Management Department (PMD) is part of DMO's Front Office. The PMD is responsible for executing transactions in financial markets, including the management of auctions and other forms of borrowing. It is responsible for external debt negotiations, other forms of negotiations, and all other funding operations. Its staff members are responsible for implementing short-term strategies related to bond issuances in domestic money and capital markets.

The Market Development Department (MDD)

The Market Development Department (MDD) was created based on the need to give a sharper focus to the development of the sovereign bond market in particular and the domestic bond market at large.

MDD is responsible for the development of medium- and long-term strategies aimed at reducing debt costs and maintaining prudent degree of risk. It tracks macroeconomic issues and their impact on the activities of the DMO. It undertakes risk analysis, monitors, and reports on portfolio-related risks, and publishes economic and debt management statistics in regular bulletins and also, quarterly status reports on behalf of the DMO. It undertakes research on macroeconomic issues, as well as global best practices on debt management and also conducts Debt Sustainability Analysis (DSA) on an annual basis, on the nation's debt portfolio.

The Policy, Strategy, & Risk Management Department

The Policy, Strategy, & Risk Management department constitutes the analytical group of the organization. It performs analysis of the total stock of domestic and external public debt and debt flows in specific periods. It provides information on the indebtedness to each creditor, while evaluating the nation's debt composition for each creditor on currency, maturity, and interest-rate basis. It presents debt statistics in consonance with measurable indicators that conform to established standards of debt reporting that allow international comparison and measurement.

The department promotes the use of centralized public debt databases at the DMO and interactive extranet in analyzing debt data and processing reports, part of which could be open to remote access by public entities in obtaining up-to-date information on the status of stocks and flows of public debt.

It also produces other information and reports needed for analytical purposes such as estimates and projections of disbursements and public debt service using various assumptions of variable interest rates and exchange rates. This information normally aids its function of coordinating debt management with other public policy objectives. It is required to integrate these statistics with the analysis of Balance of Payments information to develop debt strategies using appropriate DSA tools to enable it provide strong support to the Portfolio Management Department.

The department is also responsible for proactive debt management, which measures the performance of the DMO within a minimum-risk level, thereby reducing the risk for government funds. These functions provide substantive feedback to the Board through the DG, which permits functional evaluation and revision of the debt strategy by the Board.

The Debt Recording and Settlement Department

The Debt Recording and Settlement Department performs two core functions, which allow all other operational functions in the DMO to be carried out and these are:

- To maintain the debt database and provide information that supports the reporting and analytical work of the organisation; and
- To forecast, process and effect the servicing of debt.

The department uses the CS-DRMS (Commonwealth Secretariat Debt Recording & Management System) 2000+ Version 1.3 for public debt recording in order to attain efficiency and effectiveness in the activities of the department. This software is supported by internal controls and regular data validation to avoid discrepancies in loan transactions and to ensure a reliable database.

The Organization and Resourcing Department

The Organization and Resourcing Department provides corporate services supportive of the activities of the DMO and is the custodian of its corporate values.

The Strategic Programmes Department

The Strategic Programmes Department has effective public debt education across Nigeria and beyond as its core function. The department is responsible for assisting States in the establishment of debt management departments as well as bringing them up to speed in their knowledge of Debt management in particular and public finance management in general.

The Directors of each department are principal officers of the DMO and all report directly to the Director General.

Ethical conduct

The Supervisory Board and the Principal Officers of the DMO seek to maintain a strong corporate culture employing high standards of integrity and fair dealing in the conduct of the organisation's activities, compliance with both the letter and the spirit of relevant laws and regulations and standards of good debt management practices. The aim is to enable the DMO achieve the enviable goal of being one of the leading public debt management institutions in the world, in terms of best practice and contribution to national development. This aim is encapsulated in the DMO's core values of Excellence, Commitment, Integrity, Teamwork and Efficiency (EXCITE).

To support this objective, the DMO maintains varieties of policies and procedures which serve as guidance in the day to day running of its activities.

Compliance Manual

DMO is yet to formally document and approve a detailed compliance and procedural manual for all aspects of debt management operations.

The procedural manuals that are currently in use are detailed below:

S/N	Title	Status
1	Debt service payment procedure	Approved
2	External Borrowing Guidelines	Approved
3	A Guide to operations for the Debt Management Office in the FGN Bond market	Approved
4	General Rules and Regulations Governing Primary Dealer Market Maker (PDMM) System in FGN Securities	Approved
5	Securities issuance manual	Draft

6	Loans and other financing products operational manual	Draft
7	Debt recording and settlement manual	Draft
8	Disaster recovery manual	Draft

Code of Ethics

DMO is committed to the pursuit of excellence in the management of Nigeria's debt and this is encapsulated in its core value and service pact with its stakeholders. The DMO's Code of Ethics is available to all existing and new employees in the staff handbook.

In addition, the DMO specifies the code of ethics for the licensed Primary Dealer Market Makers Dealers (PDMMs) through various operational circulars and directives. The operational circulars and directives are available to all PDMMs on DMO official website (www.dmo.gov.ng).

Staff Competence

The adherence to high standards of business and the effectiveness of internal controls is dependent, in part, upon the competence of the personnel responsible for the organization and who develop, administer and monitor those internal controls. The DMO endeavors to hire, develop and retain personnel with the appropriate knowledge and skills to accomplish successfully the tasks required for their jobs.

Recruitment

As part of the recruitment process, DMO subjects each candidate to a rigorous assessment before they are employed. A job description is established for each new employee.

Training

Each new employee receives induction training appropriate to their position and responsibilities. The training also covers DMO's policies and procedures, necessary information on DMO's organization, security and any job-specific requirements. Knowledge and skills are enhanced through on-the-job training and employees participate in internal and external seminars and training courses as required.

Staff Performance Reviews

On a quarterly basis, performance review and development program are conducted for all staff. Such review considers performance evaluation in relations to objectives of the job and targets set; aptitude of the employee in relation to the job; suggestions made by the employee to improve performance; training and development needs assessment and other prospects for the employee's advancement based on merit.

Promotion to higher grades or position of higher authority and responsibilities in the Debt Management Office is based on vacancy, performance appraisal reports, written test and or interview performance results.

Staff are rotated to different units and functions within the Debt Management Office on an annual basis.

B. Risk Assessment/Management

The Supervisory Board of the DMO which has the Vice President of the Federal Republic of Nigeria as the Chairman approves all debt management policies, strategies and procedures for its operations. The DMO also obtains the approval of the Federal Executive Council with respect to the borrowing guidelines issued by the DMO, issuances of Federal Government of Nigeria guarantees, debt management frameworks and debt strategies. The DMO reports to the Federal Minister of Finance on a routine basis.

The authority to borrow on behalf of FGN, from both domestic and external sources lies with the National Assembly (NASS). Domestic borrowing must be duly appropriated through the Appropriation Act, while external borrowing may be appropriated or approved through a special resolution by both Houses of the National Assembly.

The DMO collaborates with some government agencies on such activities as the conduct of the annual debt sustainability assessment, development of medium term debt strategy, debt servicing and settlement, issuance of sovereign guarantees and Irrevocable Standing Payments Orders (ISPOs) to States. The Ministries, Departments and Agencies (MDAs) which collaborate with the DMO along these lines are as follows:

- i. Federal Ministry of Finance (FMF)
- ii. Budget Office of the Federation (BOF)
- iii. National Planning Commission (NPC)
- iv. National Bureau of Statistics (NBS)
- v. Central Bank of Nigeria (CBN)
- vi. Office of the Accountant-General of the Federation (OAGF)
- vii. Bureau of Public Enterprises (BPE)
- viii. Infrastructure Concession and Regulatory Commission (ICRC)
- ix. Securities and Exchange Commission (SEC)

The DMO principal officers participates in the following debt management advisory committees: Monetary and Fiscal Policy Coordinating Committee (MFPCC), Bond Market Steering Committee (BMSC) and Fiscal Liquidity and Assessment Committee (FLAC).

The Monetary and Fiscal Policy Coordinating Committee (MFPCC) meets on monthly basis with the overall purpose of providing a platform for the sharing of information and harmonization of the objectives of public debt strategies, fiscal and monetary policies, among other issues. Members of the Committee are drawn from the DMO, FMF, CBN, BOF, OAGF, NPC and the NBS.

The Bond Market Steering Committee (BMSC) meets on quarterly basis and it is charged with the function of reviewing developments in the bond market. It serves as a consultation platform on strategy and policy matters, and examines, as well as, make recommendations with respect to any conflicting policy issues that may hinder the orderly development of the Nigerian bond market. Members of the Committee are drawn from the Federal Ministry of Finance (FMF), DMO, CBN, Securities and Exchange Commission (SEC), Federal Inland Revenue Service (FIRS), National Insurance Commission (NAICOM), National Pension Commission (PENCOM), The Nigerian Stock Exchange (NSE), and Market Operators.

The Fiscal Liquidity and Assessment Committee (FLAC) is responsible for providing information on the operations of the Treasury to the Liquidity Assessment Group of the CBN, which forecasts the level of

liquidity in the economy. It provides policy advice on fiscal rules to the CBN and generates a robust database on the operations of the Treasury that have implications on domestic liquidity. The committee meets on a weekly basis. Members are drawn from all relevant departments in the CBN that have responsibility for monetary policy formulation, the FMF, DMO, BOF, OAGF, FIRS, NNPC and the Nigerian Customs Services (NCS).

All the Principal Officers of DMO possess a broad range of experience and strong fundamental background in sovereign debt management, portfolio monitoring, fiscal and monetary policy coordination. All debt management operations and risk management decisions made by them are subject to review and approval by the Director General after due consultation with the Supervisory Board of the DMO.

As at 31 December 2012, the DMO had no management committee that was charged with the responsibility of conducting information technology (IT) risk assessment. The IT risk assessments were not performed as part of entity wide risk assessment processes. In February 2013, a framework for operational risk management for the debt management office was approved by the Director General which created the Operational Risk Management Committee with the following terms of reference:

- i. Identification and Reporting of potential risks within an assigned work environment and the elaboration of control activities;
- ii. Notification of the Risk Champion of errors encountered in the assigned work environment, measures taken, as well as suggestions for future prevention of error.

Operational risk management reports are to be produced bi-annually and forwarded to the Director of Policy, Strategy and Risk Management Department.

C. Monitoring

The Internal Audit and Control unit carries out monitoring functions within the DMO and reports its findings to the Director General. The unit also reviews the operational and debt management processes of the DMO.

Operational audit

The Internal audit and control unit are required to ensure proper staff placement, legitimacy of payments, proper accounting records and timely supply of all procurement contracts among others. All procedures and guidelines that must be observed in the day to day operations of the DMO are monitored by the internal audit unit to ensure that management objectives are met.

Debt management audit

The internal audit and control unit carries out test on samples of debt records maintained at the DMO back office to ensure accuracy and reliability of records. At the front office, the unit carries out monthly audit visits for inspection of domestic debt instrument auctions and verification of the calculation of commission paid to Primary Dealer Market Makers (PDMMs).

D. Information and Communication

DMO applies processes and systems to support the identification, capture and exchange of information in a way and manner that enable its staff to carry out their responsibilities and to generate accurate and timely reports for both internal use and for external purposes.

IT Environment

The debt management operations and process is supported by major infrastructure. Highly developed systems and technology play critical roles in DMO's operational processes.

Overview of IT components

S/N	IT Component	Detailed description
1	Key IT application	Common-Wealth Secretariat Debt Recording & Management Software (CS-DRMS)
2	Database	Oracle 10g
3	Operating System	Windows server 2003
4	Hardware Server	HP DL 380 G5
5	Anti-virus	Microsoft Forefront Client Security
6	Network service provider	Galaxy BackBone

IT organization & People

DMO has an IT/IS unit which is structured to support and enable the business. The IT/IS unit is responsible for the deployment and support of IT initiatives. The unit is led by an Assistant Director and has staff strength of three (3) personnel. Roles and job responsibilities within the IT function are clearly defined. Principal operation officers report to the Head of IT who in turn reports to the Director General of DMO.

IT Policies and procedures

The management of DMO is yet to articulate information technology (IT) policies and procedures to define standards that constitute acceptable use of the organizations computing resources.

IT Application

The key IT Application in use is CS-DRMS. CS-DRMS is a debt management product suite for recording, monitoring, analyzing and reporting public debt. DMO utilizes CS-DRMS as a standalone application without any interfaces to other applications for transaction processing and financial reporting requirements.

Modules in CS-DRMS

Loan management: this module offers ease in capture, update and tracking of data and transactions across a complete loan cycle. The module is used for recording loan terms and conditions, forecasting of disbursement and debt service flows and capturing of actual disbursements and payment.

Securities management: this module allows the capture of a wide range of domestic and external debt securities covering treasury bills, bonds, promissory notes and commercial papers. The module allows users to record securities details, generate debt service forecasts, auto-generate actual and restructure debt.

Grants management: this module enables monitoring of disbursements provided through grants.

Disbursement and Project: this module offers the facility for recording and tracking various types of disbursement for project implementation. The module allows users to capture projects funded by loans and grants and capture government chart of account and expenditure line items.

IT Connectivity

DMO has implemented a centralized transaction processing architecture. The key business application and database servers are domiciled at the server room at NDIC building, Plot 447/448 Constitution Avenue, Abuja.

DMO office is connected to the DR site (Galaxy Back Bone) via two independent communication links i.e. Optic fibre and VSAT. DMO's sole service provider is the Galaxy Back Bone that provides these different communication links.

DMO has also implemented Cisco ASA firewalls to analyse and filter network traffic. However, DMO is yet to implement network monitoring tools to monitor disruptions or downtimes on the network.

Internal Communication

DMO staff communicate by email, verbal and written instructions, with physical meetings taking place as frequently as required. DMO's systems are utilised to provide the internal reports connected with its debt management activities. Transactions are entered into CS-DRMS by the back office and reviewed by the team leads for completeness and accuracy. Further controls ensure that DMO's records are reconciled with those of the creditors and stakeholders.

A variety of internal reports are generated to be used in different ways and for different purposes within DMO.

External Communication

DMO maintains communication with its stakeholders and creditors primarily through daily upload on its official website www.dmo.gov.ng and the use of regular quarterly and annual reports which identify key debt statistics, market analysis, debt portfolio breakdowns and other relevant statistics. The reports are prepared by the middle office team with inputs and assistance as required from people from front and back offices. All updates and reports are subject to Director-General's review and approval before issue.

Summary of Control Objectives

Process & Transaction	
1	Determining the financing gap and how to finance the gap
	Controls provide reasonable assurance that all public borrowings by governments are authorised by the appropriate authorities.
2	External borrowing
	Controls provide reasonable assurance that all external loan agreements entered into by governments are authorised by all the appropriate authorities
3	Capturing and tracking of agreements entered into with creditors
	Controls provide reasonable assurance that external loans agreements are kept in safe custody with restricted access
	Controls provide reasonable assurance that external loans are completely and accurately captured and recorded in a timely manner.
4	Data recording
	Controls provide reasonable assurance that data recorded into the CS-DRMS are accurate and authorized.
5	Calculation of interest (and related charges) on external borrowings
	Controls provide reasonable assurance that interest and charges related to external borrowings are captured accurately and completely.
6	External debt service projections
	Controls provide reasonable assurance that the external debt service projections are duly authorized, complete and accurate.
7	External debt service payment and settlements
	Controls provide reasonable assurance that external creditors' bills are processed on timely manner and that there is appropriate authorization and approval before payments are made.
	Controls provide reasonable assurance that creditors' bills are correctly and completely captured into the system on a timely manner.
8	Recording of identified penalty / recognition of waivers and discounts
	Controls provide reasonable assurance that penalties, waivers or discounts are accurately and completely recorded.
9	Reconciliation of external debt service payments and debt service projections
	Controls provide reasonable assurance that there is proper reconciliation of actual external debt service payments with the projections schedule.
10	Authentication of periodic external debt stock balances
	Controls provide reasonable assurance that external debt stock balances are complete and accurate.

11	Debt database maintenance
	Controls provide reasonable assurance that there is proper record maintenance over external and domestic debt records
12	Sub-national external loans
	Controls provide reasonable assurance that all sub-national external loan arrangements between the states and federal government are properly authorized and executed
	Controls provide reasonable assurance that sub-national external loan agreements and activities are completely and accurately recorded on a timely basis.
	Controls provide reasonable assurance that sub-national external debt stock reports are complete and accurate.
13	On-lending activities to the States and Federal MDAs
	Controls provide reasonable assurance that all on-lending arrangement between the federal government and the MDAs are properly authorized and executed.
	Controls provide reasonable assurance that on-lending activities with are completely and accurately recorded
	Control provides reasonable assurance that debt fund projects are properly monitored
	Controls provide reasonable assurance that the completeness and accuracy of on-lending facilities are not significantly misstated
14	Issuance of domestic debt instruments
	Controls provide reasonable assurance that securities issuance processes are duly authorized
	Controls provide reasonable assurance that subscription bids are properly verified before securities are allotted
	Controls provide reasonable assurance that commission payable to Primary Dealers Market Makers (PDMMs) are accurate
	Controls provide reasonable assurance that securities issuance proceeds accounts are properly maintained and are periodically reconciled with the CBN statements
15	Capturing and recording of auction result
	Controls provide reasonable assurance that domestic debts are completely and accurately captured and recorded in a timely manner.
16	Calculation of interest (and related charges) on domestic borrowings
	Controls provide reasonable assurance that interest and charges related to domestic borrowings are captured accurately and completely.
17	Domestic debt service projections
	Control provides reasonable assurance that the domestic debt service projections are complete, accurate and are duly authorized.
18	Domestic debt payment and settlements
	Control provides reasonable assurance that domestic debts are paid on timely manner and that there is appropriate authorization and approval before payments are made.

19	Authentication of periodic domestic debt stock balances
	Control provides reasonable assurance that domestic debt stock balances are complete and accurate.
20	Reporting and disclosure of outstanding external and domestic debt stocks
	Controls provide reasonable assurance that debt figures reported are complete, accurate and free from material misstatements.
21	Capturing States' domestic debt data
	Controls provide reasonable assurance that sub-national domestic debts data are captured correctly and completely on timely basis.
22	Capturing, recording and disclosure of contingent liabilities
	Controls provide reasonable assurance that Federal government guarantees are authorized
	Controls provide reasonable assurance that contingent liabilities are accurately recorded
	Controls provide reasonable assurance that contingent liabilities of the Federal Government are being monitored on a timely basis
	Controls provide reasonable assurance that contingent liabilities disclosures are complete, accurate and free from material misstatements.
23	Debt management products and their respective objectives
	Controls provide reasonable assurance that the objectives of the various debt products are being met from time to time
	Controls provide reasonable assurance that other DMO products and activities are authorized, accurate and completely recorded and reported on timely basis
24	Creation and maintenance of Sinking fund
	Controls provide reasonable assurance that sinking fund accounts are authorized, and properly maintained for FGN Bonds and external debts
25	Public debt reports and publications
	Controls provide reasonable assurance that periodic public debt reports are published and circulated on timely basis
	Controls provide reasonable assurance that public debt publications are reviewed and duly authorized before they are issued to the public

Systems Review	
26	Commonwealth Secretariat Debt Recording and Management Software (CS-DRMS)
	Controls provide reasonable assurance that the Commonwealth Secretariat Debt Recording and Management Software (CS-DRMS) is efficient and adequate as implemented
27	Restricting access to systems and data
	Controls provide reasonable assurance that physical access to computer networks, equipment, storage media and program documentation is restricted to authorised individuals.
	Controls provide reasonable assurance that logical access to computer systems, programs, master data, transaction data and parameter, including access by administration to applications, databases, systems and networks, is restricted to authorised individuals via information security tools and techniques.
	Controls provide reasonable assurance that information security policies and guidelines are implemented to ensure adequate protection of information assets
	Controls provide reasonable assurance that segregation of incompatible duties is defined, implemented and enforced by logical security controls in accordance with job roles.
28	Providing integrity and resilience to the information processing environment, commensurate with the value of the information held, information processing performed and external threats
	Controls provide reasonable assurance that IT processing is authorised and scheduled appropriately and exceptions are identified and resolved in a timely manner.
29	Business Continuity Plan
	Controls provide reasonable assurance that data will be recovered in a timely manner in the event of a disaster or data loss
	Controls provide reasonable assurance that the company's disaster recovery plans are documented, approved and tested

DMO's description of procedures and controls, together with tests performed by the Independent Service Auditor

1. Determining the financing gap and how to finance the gap

Control Objective			
Controls provide reasonable assurance that all public borrowings by governments are authorised by the appropriate authorities			
Process	Ref	Control	Testing performed by KPMG and result
<p>Anticipating and meeting financing needs/gaps of the Government</p> <p><i>Preparation of the Medium Term Expenditure Framework:</i> The Fiscal Responsibility Act (FRA) 2007 requires the Minister of Finance to prepare the Medium Term Expenditure Framework (MTEF) over a multi-year period and present to the National Assembly prior to the submission of the annual budget. The MTEF contains a macroeconomic framework, fiscal strategy and Medium Term Fiscal Framework (MTFF). The MTEF serves as the basis for the preparation of the estimates of revenue and expenditure for the Annual Federal Budget. The MTEF is prepared by the Ministry of Finance and forwarded to the National Assembly for approval.</p>	1.1	The Medium Term Expenditure Framework is prepared by the Ministry of Finance and forwarded to the National Assembly for approval.	<p>KPMG obtained the MTEF for the fiscal years 2011-2013, noted the following:</p> <ul style="list-style-type: none"> • Evidence of approval by the National Assembly • Evidence of assent by the President of the Federal Republic of Nigeria. <p>No relevant exceptions were noted</p>
<p>Preparation of the Annual Budget:</p> <p>The Federal Government is required to present annually a budget to the National Assembly for passage into law. In the Annual Budget, the Ministry of Finance estimates revenue and expenditure for the period under review, in case of an expected shortfall between the expected revenue over the proposed</p>	1.2	The annual budget is prepared by the Budget Office of the Federation (BOF) under the Ministry of Finance using the approved Medium Term Expenditure Framework as a baseline. The Budget is forwarded to the National Assembly for its approval and subsequently assented to by the President.	<p>KPMG obtained the Appropriation Act for the year 2010, 2011 and 2012 and noted the following:</p> <ul style="list-style-type: none"> • The Appropriation Acts were passed by the National Assembly • The portion of the budget deficit to be financed through domestic borrowings was clearly stated.

Process	Ref	Control	Testing performed by KPMG and result
<p>expenditure, a budget deficit is created which will be financed partly through domestic borrowings.</p> <p>The annual budget is prepared by the Budget Office of the Federation (BOF) under the Ministry of Finance this is forwarded to the National Assembly for its approval and to the President for the presidential assent.</p>			No relevant exceptions were noted

2. External borrowings

Control Objective
Controls provide reasonable assurance that all external loan agreements entered into by governments are authorized by the appropriate authorities

Process	Ref	Control	Testing performed by KPMG and result
<p>External borrowing process</p> <p>The process for external borrowings is carried out in line with the External and Domestic Borrowings Guidelines for Federal and State Governments and their Agencies. In line with the Debt Management Office (DMO) Act of 2003 and Fiscal Responsibility Act (2007), all external borrowing arrangements must be undertaken by the Federal Government for itself and on behalf of the States.</p> <p>Any state that intends to borrow from external creditors must obtains approvals from its Executive Council and State Assembly, after which it forwards the project document and borrowing proposal to the Federal Ministry of Finance (FMF) for appraisal through the Debt Management Office. The DMO reviews the proposal to ensure that the State had complied with the guidelines for external borrowings. If successful, the borrowing proposal is incorporated into the medium term external borrowing programme for the Federal Executive Council's and National Assembly's approvals.</p> <p>Upon the approval by the NASS, a team comprising of the NASS, DMO, Federal Ministry of Justice, and Federal Ministry of Finance ("FMF") is formally constituted for the negotiation process with the creditors.</p> <p>A negotiation report is forwarded to the Honourable Minister of Finance ("HMF"). The negotiation documents is submitted to the Federal Ministry of Justice for clearance After this, the FMF processes the loan agreements taking into account the legal opinion from the Federal Ministry of Justice</p> <p>The loan agreement is then, signed by the Honourable Minister of Finance and the Creditors etc.</p> <p>The loan agreement is subsequently forwarded to DMO for record keeping and management of the loan.</p>	2.1	All external loans contracted by the Federal Government for itself and on behalf of the states and MDAs are signed by the Minister of Finance.	<p>KPMG selected 3 samples of loan agreements executed during the period from 1 January 2010 and 31 December 2012 and checked for the following:</p> <ul style="list-style-type: none"> • Evidence of execution by the Honourable Minister of Finance • Evidence that the loans were approved in the medium term borrowing program <p>No relevant exceptions were noted</p>

Process	Ref	Control	Testing performed by KPMG and result
<p>International Capital Market - Eurobond</p> <p>The proposed amount of securities to be issued to the International Capital Market are included in the annual budget of the Federal Government for approval by the National Assembly.</p> <p>The Market Development Department (MDD) of the DMO and the Federal Ministry of Finance (FMF) are responsible for liaising with lead managers/issuers (e.g. Deutsche bank AG, London Branch and Citigroup Global Markets) from the International Capital Market (ICM). The lead managers perform a book-building exercise (pricing survey) to determine the market's valuation of the bond. Lead managers then send a pricing notification to DMO indicating the principal amount, price, proceeds, and payment dates amongst other details. DMO then authorize the lead managers to raise capital for the sovereign bonds.</p> <p>Upon purchase of the bonds by investors, the lead managers credit Nigeria's foreign accounts with JP Morgan. CBN receives notification of the credited amount and sends notification to DMO.</p>	2.2	Federal Government approval for the issuance of Eurobond securities	<p>KPMG noted that the \$500 million Eurobond issued in the International Capital Market in January 2011 was approved in the 2010 Appropriation Act of the Federal Government of Nigeria.</p> <p>No relevant exceptions were noted</p>

3. Capturing and tracking of agreements entered into with creditors

Control Objective
Controls provide reasonable assurance that external loans agreements are kept in safe custody with restricted access
Controls provide reasonable assurance that external loans are completely and accurately captured and recorded in a timely manner.

Process	Ref	Control	Testing performed by KPMG and result
Maintenance of loan agreement register Loan agreements executed by the Ministry of Finance are sent through the Office of the Director General of the Debt Management Office to Loans and Other Financing Products (LFP) Unit. The Loan and Other Financing Product Unit (LFP) is responsible for safe custody of all loan agreements. The Unit maintains a loan register where all external loan agreements obtained from the Ministry of Finance are recorded. All original copies of loan agreements are filed and stored in secure fireproof cabinets with restricted access.	3.1	Maintenance of loan agreement register	KPMG reviewed the loan agreement register and traced individual loans in the loan report to the loan register. The loan register shows the date the loan agreement was executed and the description of the loan agreements. The date of receipt of the loan agreement was not recorded. Hence, KPMG could not ascertain the date the external loan agreements were received by DMO.
	3.2	Safe custody of loan agreements	KPMG inspected the loan custody room and noted that all loan agreements are filed and stored in secure fireproof cabinets with restricted access. Each of the cabinets requires keys and combination of passwords to access the files. No relevant exceptions were noted.
Receipt of loan agreements Photocopies of the loan agreements are sent to the Debt Recording Unit for recording on the debt management database – Commonwealth Secretariat Debt Recording and Management System (CS-DRMS).	3.3	Loan agreements are forwarded to the Debt Recording Unit as soon as they are received from the Ministry of Finance.	The Debt Recording Department does not maintain a register of loan agreement received from the LFP unit. Hence, KPMG could not ascertain the date and time of receipt of loan agreement for recording purpose.

Process	Ref	Control	Testing performed by KPMG and result
			<p>KPMG carried out further tests by checking the master list of agreements obtained from LFP for loan agreements signed during the period of our review to the CS-DRMS database.</p> <p>No relevant exceptions were noted.</p>
<p>Extraction of loan parameters from loan agreements</p> <p>Upon receipt of the signed loan agreement by the LFP Unit, the same is forwarded to the Debt Recording Section for recording and processing. The loan details and borrowing terms are then extracted from the signed loan agreements and entered into the Data Entry Sheets (DES). The approved DES are then entered and processed into the system (CS-DRMS).</p> <p>The team lead in Debt Recording section cross-checks the data entry sheets to the signed loan agreements and ensures that all data are accurately and completely captured in those sheets and that there are no variances between the data extracted into the data entry sheets and the signed loan agreements.</p>	3.4	<p>The team lead cross-checks the data entry sheets to the signed loan agreements and ensures that all data are accurately and completely extracted into the sheets and that there are no variances between the loan parameters on the data entry sheets and the signed loan agreements.</p>	<p>KPMG reviewed 15 data entry sheets prepared after extraction from the signed loan agreements and noted that there is no documented evidence of review by the team lead on the data entry sheets.</p> <p>Further review of the data entry sheets and the signed loan agreements revealed that the data entry sheets captured all the parameters in the loan agreement correctly.</p> <p>No other exceptions were noted.</p> <p><i>Management response:</i> Going forward, validated data entry sheets would be duly signed-off by the Team lead or whoever validates.</p>
<p>Capturing of new loans on CS-DRMS</p> <p>The data entry sheet (DES) is used to capture new loan information on the CS-DRMS. The Desk Officer input the loan parameters into the CS-DRMS using the approved Data Entry Sheet.</p>	3.5	<p>Review of data entry</p>	<p>KPMG tested 15 samples of new loan agreements to ascertain that the loan parameters were correctly recorded on the CS-DRMS.</p> <p>No relevant exceptions were noted.</p>

Process	Ref	Control	Testing performed by KPMG and result
Validation of loan data entry Upon processing, validation report (report 104) is generated on the system to highlight errors arising from non-processing of loans due to either incomplete or inaccurate data entry. When these reports are highlighted, they are corrected and re-processed by the desk officer who handles the process. The team lead then re-processes the validation report to cross-check for accuracy.	3.6	Validation of data entry and processing of validation reports by the Team lead.	KPMG carried out a walkthrough on the validation processing on 3 rd December 2013 and noted that the system validation reports were properly processed and all highlighted errors were corrected. No relevant exceptions were noted.

4. Data recording

Control Objective
Controls provide reasonable assurance that data recorded into the CS-DRMS are accurate and authorized.

Process	Ref	Control	Testing performed by KPMG and result
Recording macroeconomic data on CS-DRMS Some macroeconomic data such as bi-monthly exchange rate (long rates) from CBN, Fund Unit of Account (FUA) from ADB/ADF, Bank Unit of Account (BUA) from ADB/ADF, amongst others are required on CS-DRMS to translate the external debt records from the original loan currencies to US-Dollar, which is the reporting currency. The process entails obtaining the macroeconomic data from CBN website and recording same on CS-DRMS.	4.1	All data entries made by the desk officer are cross-checked and reviewed by the team lead before they are entered into the system.	KPMG obtained an extract of exchange rates recorded on the CS-DRMS KPMG requested for source documents used for the data entries and noted that there was no documented evidence of review and authorization by the team leader before the data were recorded on CS-DRMS. KPMG downloaded exchange rates figures for 2010 - 2012 from the CBN Website (www.cenbank.org/rates) Using the Pounds Sterling and U.S Dollars as samples, KPMG noted that the records on the CS-DRMS is consistent with the data obtained from the CBN website. No relevant exceptions were noted.
	4.2	System flagging of dates without exchange rates	KPMG carried out procedures to test whether the CS-DRMS application flags dates without exchange rates. It was observed that the CS-DRMS does not have the functionality to flag and send notifications for users to update exchange rates on the system on daily basis.

Process	Ref	Control	Testing performed by KPMG and result
			<p><i>Management response:</i> CS-DRMS does not have this functionality</p>
<p>Recording actual disbursements Notice of disbursements by creditors are obtained by downloading the information on actual disbursements from the creditor's website or through emails sent by the creditors.</p> <p>The disbursement details are then processed into the system by the desk officer. All disbursements entered into the system are validated with the data downloaded from the external creditors' website. A general processing report is generated on the system and this is used to highlight errors that exist in the database relating to over disbursements, under disbursements, arithmetical inaccuracies. These errors are then corrected by the desk officers with the supervision of the Team Lead. Once the errors have been corrected, they are ticked off in the validation report to certify their correction.</p>	4.3	<p>Validation of disbursement data entries and processing of validation reports by the Team Lead, Debt recording and settlement department.</p>	<p>KPMG carried out a walkthrough on the validation processing on 3rd December 2013 and noted that the validation reports were properly processed and all highlighted errors were corrected.</p> <p>KPMG sighted validation report that highlighted errors in the database. KPMG also sighted the validation report that contained the ticked-off errors which showed that the errors had been corrected.</p> <p>No relevant exceptions were noted.</p>

Process	Ref	Control	Testing performed by KPMG and result
<p>Recording of Eurobonds issued to the International capital markets</p> <p>The Director, MDD writes to the DG seeking approval for inclusion of the bond to Nigeria's External Debt Stock. After the DG provides approval for the inclusion of the eurobond, a memo is sent to DRSD authorizing them to record on CS-DRMS.</p> <p>The Director, DRSD forwards the approval memo to the External Debt and Special Account (EDSA) unit for recording on the CS-DRMS application.</p>	4.4	<p>Management approval and authorization</p> <p>Validation of the Eurobond's data records on CS-DRMS</p>	<p>KPMG reviewed the CS-DRMS records for the \$500 million Eurobond issued on the 29th January 2011 and noted the following:</p> <ul style="list-style-type: none"> • Approval and authorization to record was obtained from the DG. • The 'Instrument Details', 'Tranche Details' and 'Accepted bids' were accurately inputted when compared to the approval memo from the DG. <p>No relevant exceptions were noted</p>

5. Calculation of interest and related charges on external borrowings

Control Objective
Controls provide reasonable assurance that interest and charges related to external borrowings are captured accurately and completely.

Process	Ref	Control	Testing performed by KPMG and result
Interest is calculated automatically by the CS-DRMS; based on parameters inputted into the CS-DRMS.	5.1	<ul style="list-style-type: none"> Validation of parameters at point of loan capture Execution of 'Processing' of loans for computation of interest. Test of accuracy of interest and other related charges. 	<p>KPMG carried out procedures to ascertain the accuracy of interest calculation, timely scheduling of interest processing runs and the accuracy of forecasts for interest and other related charges</p> <p>KPMG noted that CS-DRMS has been configured to generate schedules for forecasted interest and other related charges based on inputted loan agreement parameters when 'processing' of loan instruments.</p> <p>KPMG also noted that interest forecast schedules were generated for a sample of 15 loans selected.</p> <p>KPMG recomputed the forecast for interest and other related charges for a sample of external loans selected.</p> <p>No relevant exceptions were noted.</p>

6. External debt service projections

Control Objective
Controls provide reasonable assurance that the external debt service projections are duly authorized, complete and accurate.

Process	Ref	Control	Testing performed by KPMG and result
<p>External debt service projections are done on yearly basis for inclusion in the annual budget and on bi-annual basis for actual debt service payment.</p> <p>For the yearly projection of external debt service, the Director of Debt Recording and Settlement performs a procedure by executing an SQL query to extract the forecasts of principal and interest repayments for all creditors for the subsequent year from Data Manager (CS-DRMS 2000+ v1.3) v1.0. The extracted data is sent to Debt Settlement section for the preparation of debt service projection schedule.</p> <p>A team of Officers from Debt Settlement Section and External Debt Recording Section runs CS-DRMS reports to reconcile the principal and interest payment forecasts with the forecasts extracted from Data Manager.</p> <p>After the reconciliation, a provisional schedule of debt service payments by creditor category is prepared by the Debt Settlement Officer, based on the amounts arrived at, a mark-up is always introduced. 10-15 percent is usually deemed appropriate as the mark up rate to cover for various types of contingencies like exchange rate fluctuations, etc.</p> <p>The debt projection schedule is reviewed by the Team Leader of Debt Settlement Department and forwarded to the Director of Debt</p>	<p>6.1</p> <p>6.2</p>	<p>External debt service projections are reviewed by the Team Lead, Debt Settlement Unit, by verifying and vetting the extracted forecast report to the individual loan forecasts on the CS-DRMS.</p> <p>The internal audit vets the projection and recommends for approval to the Director General.</p> <p>Authorisation and approval of the debt service projections by the Honourable Minister of Finance.</p> <p>Upon approval, the OAGF and CBN are notified of the projections to avoid delay in debt servicing as at when due.</p> <p>Validation of accuracy and interest and principal projections</p>	<ul style="list-style-type: none"> We selected 3 samples of approval for external debt service projections during the period under review and tested for evidence of <ol style="list-style-type: none"> Team lead, DSS review Internal audit review DG's approval, and Approval by the Minister of Finance. No relevant exception was noted. <p>KPMG reviewed the marked-up debt service projection schedule to validate the accuracy of the mark-up of interest and principal projections for FY 2012.</p> <p>Exception noted</p>

Process	Ref	Control	Testing performed by KPMG and result
<p>Recording and Settlement Department (DSRD) review and signature.</p> <p>The external debt projection schedule is then sent to the Director General who also review and signs off on the schedule, and then forward same to the Budget Office of the Federation for inclusion in the annual budget.</p> <p>For the bi-annual projection of debt service, the DSS prepares in advance, a schedule of debt service payments on a bi-annual basis together with letter of authority to process payment, for the approval of the HMF. The approved debt service payment projection is then forwarded to OAGF and CBN as authority to pay and process payments as and when due.</p> <p>In order to obtain the HMF's approval, the DSS must prepare the provisional schedule of external debt service payments split into two (i.e. January-June and July-December) and present this to the HMF as the bi-annual schedules of debt service for the approval of the HMF.</p> <p>The Debt Management Office will forward to the OAGF and the CBN the debt service payment projections as approved by the HMF with the letter conveying the HMF's approval of letter of authority for OAGF and CBN to process payment for the debt service when they become due.</p> <p>Copies are made and kept in the file for record purposes.</p>			<ul style="list-style-type: none"> • The mark up percentage for one (1) out of 128 items tested exceeds 15% <p>KPMG also compared the marked up debt service forecast by creditors' category to the debt service projection approved by the Honourable Minister of Finance and noted the following:</p> <ul style="list-style-type: none"> • The debt service projections approved by the HMF is higher than the marked-up debt service forecast for 2 out of the 12 creditors in the schedule for the year 2012. • No relevant exceptions were noted in the year 2010 and 2011

7. External debt service payments and settlements

Control Objective
Controls provide reasonable assurance that external creditors' bills are processed on timely manner and that there is appropriate authorization and approval before payments are made.
Control provides reasonable assurance that creditors' bills are correctly and completely captured into the system on a timely manner.

Process	Ref	Control	Testing performed by KPMG and result
<p>Receipt and processing of creditors' bill/demand notes.</p> <p>When demand notes/bills are received from creditors, the DG's office passes them on to the Director, Debt Recording and Settlement Department (DDRS) for processing.</p> <p>The DDRS endorses the bills to the Team Leader in DSS, who passes them on to the Desk officer for processing. The desk officer processes all the bills received by preparing a schedule of external debt service payments and raises payment advice/voucher. This is then passed on to the External Debt Records unit for verification using CS-DRMS records for comparison.</p> <p>The Team leader in DSS cross-checks the processed bills again for accuracy and consistency and recommends same for settlement to the DDRS.</p> <p>DDRS passes the bill to the Internal Audit and Compliance Unit (IACU) for vetting; IACU vets the debt service transactions and minutes it to the DDRS.</p>	7.1	<p>The Desk Officer in Debt Settlement Section (DSS) prepares interest payment schedule using demand notes received from the relevant creditors.</p> <p>This is forwarded to the External Debt & Special account unit (ED & SA) for verification to the projected payment in CS-DRMS. The Desk Officer in the Debt Recording Section signs off on the schedules as an evidence of his verification exercise.</p> <p>The schedule is sent to the Head, DRSD Unit, upon approval by the Head of DRSD, the approved schedule of debt service payment is forwarded to the internal audit unit who verifies the debt service payment schedule to the debt service forecasts that is already on CS-DRMS by checking each projection per creditor to the forecast per creditor already on the system. The Internal Audit team signs-</p>	<p>KPMG selected 9 samples of debt service payment file and check for the following:</p> <ul style="list-style-type: none"> - Evidence of sign-off of Desk Officer in the Debt Settlement Section, who prepared the schedule of demand notes to be paid - Evidence of verification and review by the External Debt Recording Section - Evidence of verification and review by Internal Audit & Control Unit - Memo forwarded to the DG requesting the Accountant General of the Federation (AGF) to raise mandate to the CBN to effect payment on the demand notes. - Copy of mandate from the AGF to the Central Bank of Nigeria to effect the payment. <p>No relevant exceptions were noted.</p>

Process	Ref	Control	Testing performed by KPMG and result
The DDRS finally endorses the processed bills for DG's approval. The DG endorses the processed bills advising the OAGF to issue the necessary mandate to the CBN to externalize payment, and then return the file to DDRS		<p>off on the debt service payments schedule to acknowledge the completeness and accuracy of the debt service payment schedule and recommend it for payment to the DG. Then the file is returned to Debt Recording and Settlement Department.</p> <p>The DG reviews the processed bills and endorses the memo requesting the OAGF to authorize the issuance of mandate to the CBN to effect payment.</p>	
	7.2	Validation of fees and charges forecast per CS-DRMS to actual bills per creditor	<p>KPMG selected one sample and compared the debt service forecasted per CS-DRMS to bills submitted by creditors and noted the following:</p> <p>a. Commitment fee The comparison of Commitment fee per 'Forecast schedule' to the Demand note (Bill) of the creditor on 21 March 2013 resulted in \$116,508.2611 and \$116,508.26 respectively, representing a difference of \$0.0011.</p> <p>b. Interest Charge The comparison of interest charge fee per 'Forecast schedule' to the Demand note (Bill) of the creditor on 21 March 2013 resulted in \$718,299.2769 and \$718,299.28 respectively, with a difference of \$0.0031.</p> <p>No relevant exceptions were noted.</p>

Process	Ref	Control	Testing performed by KPMG and result
<p>Procedures followed after processing of demand notes (Externalization)</p> <p>The Debt Settlement Officer is required to follow-up on the OAGF to ensure that the OAGF processes and issues mandate to CBN within five working days and that the file is returned to DMO.</p> <p>The DSS ensures that the CBN confirms mandate from OAGF and externalizes the payments within three working days.</p> <p>Collection of debit advice and monthly schedule of external debt service payments from CBN is done and a monthly reconciliation of debt service payments is carried out. The report of the reconciliation is prepared and submitted to the Director of Debt Recording Department, who then passes it to the DG after review. The DG forwards the payment reconciliation to the Internal Audit and Control Unit for confirmation, then the reconciled debt service report is forwarded to the Honourable Minister of Finance.</p>	7.3	<p>After the externalization process has been completed, a team constituting of representatives from the following units;</p> <ol style="list-style-type: none"> 1. Office of the Accountant General of the Federation; 2. Central Bank of Nigeria; 3. Debt Settlement Section, DMO; 4. Debt Recording Office, DMO; 5. Internal audit and Control Unit <p>Reconcile the monthly debt service payment by comparing payment advice to the actual payments carried out by the Central Bank of Nigeria. A reconciliation report is generated from this activity and forwarded to the Director General through the Director (DRSD). The Internal Audit and Control unit vets the report and recommends appropriately to the DG for action.</p>	<ul style="list-style-type: none"> • We selected 9 samples of reconciliation schedules during the period under review and tested for the following: ✓ Checked for evidence of reconciliation by the Representative of the DMO ✓ Checked for evidence of reconciliation by the Representative of the Internal Audit ✓ Checked for evidence of reconciliation by the Representative of the OAGF ✓ Checked for evidence of reconciliation by the Representative of the CBN <p>No relevant exceptions were noted.</p>
<p>Entering Creditors Bills</p> <p>Once the creditors' bills have been serviced. The Officer in External Debt Recording Unit obtain the reconciled schedule of actual debt service payments (i.e. summary of all creditors' bills that have been externalised) from the Debt Settlement Section for the purpose of recording the payments on CS-DRMS.</p>	7.4	<p>Review of actual payment records on CS-DRMS</p>	<p>KPMG selected 9 samples of actual debt service payments schedule for testing, to ascertain the accuracy and completeness of the actual payments recorded on the CS-DRMS.</p> <p>KPMG noted that the actual debt service payments recorded on CS-DRMS represent the net amount paid after deducting or adding waivers or penalties respectively.</p>

Process	Ref	Control	Testing performed by KPMG and result
			All source documents used for recording actual payments were duly reviewed and authorized. No relevant exceptions were noted.

8. Recording of identified penalty / recognition of waivers and discounts

Control Objective
Controls provide reasonable assurance that penalties, waivers or discounts are accurately and completely recorded.

Process	Ref	Control	Testing performed by KPMG and result
<p>Waivers are obtained from the external creditors based on early payment of demand notes. This waiver is used to partially offset subsequent debt service payments.</p> <p>Penalties are charged by the creditors for late payment of interest advisement. These penalties are required to be paid together with the debt service payments.</p> <p>The schedule of actual debt service payments indicates the waivers/credit/penalty received on each creditors' bill.</p> <p>Actual waivers and discounts received or penalties charged are recorded on CS-DRMS against the billed amount to reduce or increase it, as the case may be.</p> <p>An officer in Debt recording section prepares monthly reports on debt service payment to external creditors that show the actual external debt principal and interest payments, including waivers and penalties.</p>	8.1	<p>Monthly reconciliation of creditors' demand note to the actual debt service reports that shows the amount of waivers and penalties by the representatives of the;</p> <ol style="list-style-type: none"> 1. Office of the Accountant General of the Federation; 2. Central Bank of Nigeria; 3. Debt Settlement Section, DMO; 4. Debt Recording Office, DMO; 5. Internal Audit and Control Unit <p>The Director of Debt Recording and Settlement Department reviewed the report of actual debt service payment on monthly basis for reporting purpose.</p>	<p>KPMG selected 9 reconciled actual debt service reports and noted that the waivers and penalties form part of the debt service payments schedule. The reconciliation memos were signed by the:</p> <ul style="list-style-type: none"> ✓ Representatives of the DMO ✓ Representatives of the Internal Audit ✓ Representative of the OAGF ✓ Representative of the CBN <p>Amount disclosed as waivers and penalties in the debt service reconciliation report were traced to the creditors' demand notes.</p> <p>No relevant exceptions were noted.</p>
	8.2	<p>Test of CS-DRMS records to ascertain the completeness and accuracy of waivers, discount and penalties.</p>	<p>Based on the tests performed in 7.4 and 8.1 above on the 9 samples selected, KPMG noted that:</p> <ul style="list-style-type: none"> • Waivers received /penalties paid were netted-off against the billed amount • Records of identified waivers/penalties are not maintained on the CS-DRMS <p>No further testing was performed.</p>
	8.3	<p>Analytical review of waivers, discount and penalties</p>	<p>KPMG obtained the monthly actual debt service payment schedules to extract all identified waivers and penalties.</p>

			<p>All identified waivers/penalties are added up to obtain monthly and yearly totals.</p> <p>We traced and agreed the total balance per schedule of waivers and penalties to the DMO Annual report and noted no exceptions.</p>
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9. Reconciliation of external debt service payments and debt service projections

Control Objective
Controls provide reasonable assurance that there is proper reconciliation of actual external debt service payments with the projections schedule.

Process	Ref	Control	Testing performed by KPMG and result																				
Variance analysis report showing the differences between debt service projections and actual debt service payments and the reasons for the variances are prepared on semi-annual basis by the Officer in Debt Settlement Section and reviewed by the Team Leader. The variance analysis report is forwarded to the Director of Debt Recording and Settlement Department for record purpose.	9.1	Variance analysis of debt service projections and actual debt service payments	<p>KPMG reviewed the variances between HMF's authorized debt service projections and actual debt service payments for the year 2010, 2011 and 2012 and noted an average positive variance of 15.6% between actual debt service payments and debt service projections.</p> <p>The reasons provided for the variances noted are:</p> <ul style="list-style-type: none"> (a) Cross exchange rate fluctuations between SDR, USD and other third currencies e.g. JPY, EURO and NGN which occurred during the period (b) projections made to service new loans whose expected disbursements did not occur within the periods (c) Restructuring of loans which alters the debt servicing arrangements. <p><i>Variance analysis of debt service projection to actual debt service payment</i></p> <table border="1"> <thead> <tr> <th>Year</th><th>Debt service projection approved by the HMF</th><th>Actual debt service payment</th><th>Variance</th></tr> <tr> <th></th><th>\$'000</th><th>\$'000</th><th>(%)</th></tr> </thead> <tbody> <tr> <td>2010</td><td>414,767.89</td><td>354,415.57</td><td>14.55%</td></tr> <tr> <td>2011</td><td>381,253.15</td><td>351,619.05</td><td>7.77%</td></tr> <tr> <td>2012</td><td>388,151.69</td><td>293,003.54</td><td>24.51%</td></tr> </tbody> </table> <p>No other exceptions were noted.</p>	Year	Debt service projection approved by the HMF	Actual debt service payment	Variance		\$'000	\$'000	(%)	2010	414,767.89	354,415.57	14.55%	2011	381,253.15	351,619.05	7.77%	2012	388,151.69	293,003.54	24.51%
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10. Authentication of periodic external debt stock balances

Control Objective
Controls provide reasonable assurance that external debt stock balances are complete and accurate.

Process	Ref	Control	Testing performed by KPMG and result
Validation of external debt stock with the external creditors The creditors' bills usually contain the outstanding debt and this is used to reconcile with the external debt stock balance on CS-DRMS. Any exceptions identified are discussed with the creditors' representatives and resolved. The director signs off on all reconciliations done.	10.1	The Director of Debt Recording and Settlement signs off on all reconciliations of external debt stock balance after thorough review.	KPMG noted that there was no documented evidence of reconciliation of periodic external debt stock with the creditors. Hence, no further testing was performed.
	10.2	Validation of external debt stock on loan by loan basis	KPMG performed substantive tests on 15 samples of external debt instrument to ascertain the accuracy of external debt stock as at 31 December 2010, 2011 and 2012. No relevant exceptions were noted.
	10.3	Reporting and disclosures of external debt securities issued in DMO Annual Reports	KPMG reviewed the DMO annual reports for the year 2011 and 2012 and noted that reports and disclosures on the external debt securities issued (Eurobond) were presented in the DMO annual reports. No relevant exceptions were noted.

11. Debt database maintenance

Control Objective
Controls provide reasonable assurance that there is proper maintenance over external and domestic debt records

Process	Ref	Control	Testing performed by KPMG and result
Debt records maintenance	11.1	<ul style="list-style-type: none"> Configuration of audit-trail settings for application user activities and back-end database table actions (e.g. insert, update, delete, drop table, drop user, etc) 	<p>KPMG carried out procedures to ascertain that audit-trail settings are adequately configured for critical user activities on CS-DRMS.</p> <p>KPMG noted that required auditing parameters for user-trail activities have been enabled.</p> <p>User actions such as creation, copying and deletion of tranches, instruments, modification of audit trail log data are currently recorded for audit trail.</p> <p>However, logs of super user activities are not reviewed by independent parties for propriety.</p> <p>No other exceptions were noted</p>
	11.2	<ul style="list-style-type: none"> Scheduled daily backup of data and configuration settings of the CS-DRMS Weekly back-up to a secondary back-up location 	<p>KPMG carried out procedures to ascertain the adequacy of the backup processes.</p> <p>See Control Objective 'Business Continuity Plan - Backup and Recovery' in 29.1 – 29.2 below for the details of findings.</p>

12. Sub-national external loans

Control Objective
Controls provide reasonable assurance that all sub-national external loan arrangements between the states and federal government are properly authorized and executed.
Controls provide reasonable assurance that sub-national external loan agreements and activities are completely and accurately recorded on a timely basis.
Controls provide reasonable assurance that sub-national external debt stock reports are complete and accurate.

Process	Ref	Control	Testing performed by KPMG and result
<p>Execution of a Subsidiary Loan Agreement (SLA) with the Federal Government</p> <p>The Federal Ministry of Finance prepares a subsidiary loan agreement (SLA) between the State Government that seeks the external loan and the Federal Government for on-lending of the amount borrowed from the external creditors. By virtue of this SLA, the State Government is obligated to repay the debt to the Federal Government by signing an irrevocable standing payment order (ISPO) while the Federal Government in turn repays the external creditors.</p> <p>Upon signing the subsidiary loan agreement by the contracting parties (i.e. the State Government representative and the Minister of Finance), the signed copy</p>	12.1	All Subsidiary Loan Agreements entered by the Federal Government on behalf of itself or for the States and MDAs are executed by the Minister of Finance.	<p>For a selection of six (6) samples of subsidiary loan agreements executed during the period under review, we noted the signature of the Minister of Finance, as evidence of approval and execution of the loan agreement.</p> <p>No relevant exceptions were noted</p>

Process	Ref	Control	Testing performed by KPMG and result
is sent to DMO for recording and management.			
<p>Recording of subnational external debt on CS-DRMS</p> <p>On receipt of the loan agreement at the DMO back office, the loan data are extracted by an Officer into the data entry sheet for upload on CS-DRMS. The data entry sheet is reviewed by a team lead vis-à-vis the loan agreement to ensure that the parameters have been properly captured in the data entry sheet. He/she then authorizes the officer to upload same on CS-DRMS.</p> <p>After upload, the team lead reviews the uploaded information by checking the data entry sheet to ensure that all loan parameters in the data entry sheet were properly inputted on the system.</p>	12.2	<p>(a) Data entry sheet is reviewed by a team lead vis-à-vis the loan agreement to ensure that the loan parameters have been properly and correctly extracted into the data entry sheet. He/she then authorizes the officer to upload same on CS-DRMS.</p> <p>After upload, the team lead reviews the uploaded information by checking the data entry sheet to ensure that all loan parameters in the data entry sheet were properly inputted on the system.</p>	<p>For a selection of 2 samples of data entry sheets used in recording sub-national external debt, there is no documented evidence of review of the data entry sheet by team leader before the data was uploaded on CS-DRMS.</p> <p>However, KPMG carried out further test by checking the parameters of the 2 sampled loan agreements and data entry sheets against the records on CS-DRMS.</p> <p>No other exceptions were noted.</p> <p><i>Management response:</i> The team leaders actually reviewed the data entry sheets and make necessary corrections without having to sign-off on the data entry sheet. Subsequent to December 2012, the team leaders now signs-off on the data entry sheet as evidence of review.</p>
Calculation of interest (and other related charges)	12.3	<ul style="list-style-type: none"> • 'Processing' of loans records to generate interest and principal forecasts. • Validation of the accuracy of interest and other related charges. 	<p>KPMG carried out procedures to ascertain the accuracy of interest calculation, timely scheduling of interest processing runs and the accuracy of forecasts for interest and other related charges</p> <p>KPMG noted that CS-DRMS has been configured to generate schedules for forecasted interest and other related charged based on inputted loan agreement parameters when 'processing' of loan instruments.</p>

Process	Ref	Control	Testing performed by KPMG and result
			<p>KPMG also noted that interest forecast schedules were generated for the 10 samples of subnational external loan selected.</p> <p>Per KPMG's recomputation of interest and related charges to ascertain the accuracy of the forecasts, no relevant exceptions were noted for the samples of subnational external loan selected.</p>
<p>Sub-national external debt service projection</p> <p>The CS-DRMS forecasts the amount for debt service projection in original loan currency based on the forecasting rules inputted into the system from the data entry sheet. The periodic debt service projection is then summed up on an annual basis, and then converted into naira using the exchange rate ruling on the date of the projection, usually 31 December of the year before the year of projection. A mark-up percentage is applied to cater for exchange rate fluctuations to arrive at the annual total debt service projection for the year.</p> <p>The mark up percentage is calculated on a systematic basis by carrying out exchange rate sensitivity analysis of the debt currencies. Exchange rate sensitivity analysis is prepared by the Officer, reviewed by the Director and approved by the Director General.</p>	12.4	<p>The Director of Debt Recording and Settlement Department (DRSD) reviews and verifies the completeness and accuracy of the debt service projection prepared by the Debt Settlement Officer by checking detailed computations and assumptions (i.e. exchange rate, mark up percentage) used in the debt service projections. They both sign off on the schedule as evidence of review.</p> <p>The schedule of debt service projection is then sent to the Director-General for a second level review and authorization to be forwarded to the Office of Accountant General of the Federation (OAGF)</p>	<p>KPMG selected 3 samples of sub-national external debt service projection sent to the OAGF covering the year 2010, 2011 and 2012 and noted that they were verified by the Director of Debt Recording and Settlement as evidenced by the Director's signature and date. The schedule was also authorized by the Director General before it was forwarded to the Office of Accountant General of the Federation.</p> <p>No relevant exceptions were noted</p>

Process	Ref	Control	Testing performed by KPMG and result
<p>The naira amount of total debt service projection for the year is then divided into twelve (12) equal monthly installments and this is sent to the Office of Accountant General of the Federation (OAGF) on biannual basis for deduction from the respective states' account.</p> <p>Monthly deductions from the states' account are done in Naira. On a monthly basis, the schedule of amount deducted from the states' account by the OAGF is obtained from the OAGF, the total actual amount deducted is then translated into the transaction currency at the exchange rate ruling on the reporting date and then inputted into CS-DRMS as actual debt service payment.</p> <p>At the end of reporting period, the total actual debt service payment is translated from the transaction currency into naira using the exchange rate at period end. This is then translated to the USD (i.e. the reporting currency) at the exchange rate ruling on the reporting date.</p>			
<p>Reconciliation of debt service projection and actual debt service payments</p> <p>Reconciliation of sub-national debt service projection and the actual deductions from states' account is done on biannual basis by comparing the schedules sent to the</p>	12.5	<p>The desk officer in Debt settlement department prepares a reconciliation schedule of debt service projection and the actual debt service payment and provides explanation on the variances noted to the Director of Debt Recording</p>	<p>KPMG selected 3 samples of sub-national external debt service reconciliation reports prepared by the desk officer, and noted that they were reviewed by the Director of Debt Recording and Settlement as evidenced by the Director's signature.</p>

Process	Ref	Control	Testing performed by KPMG and result
<p>OAGF and the schedule of actual deductions which was recorded on CS-DRMS.</p> <p>If there is any difference between the debt service projection and actual debt service payment in naira, the difference is explained in a reconciliation schedule and then applied in subsequent period debt service projections.</p> <p>The reconciled schedules are signed by the representatives of the OAGF, the States and the Debt Settlement Unit of the DMO.</p>		and Settlement. He/She also prepares the projection for the next period and applies the variance of the preceding period to either increase or decrease the amount of debt service projection for the next period. The Director reviews the reconciliation and the new projection and signs off as evidence of review.	No relevant exceptions were noted
	12.6	Validation of deductions from the States' account to actual amount recorded on CS-DRMS	<p>KPMG selected 10 subnational external debts actual transactions reports in order to validate the completeness, accuracy and existence of actual deductions from states recorded on CS-DRMS and noted the following:</p> <p>Forecasted amounts are uploaded into actual amount on the CS-DRMS</p> <p>Actual deductions from States' accounts are translated from naira into the original loan currency. Records of actual deductions from states are maintained on MS-Excel spreadsheet.</p> <p>The MS-Excel spreadsheet is used in the reconciliation and determination of the subnational external debt stock</p> <p><i>Management response:</i> CS-DRMS has not been tailored to handle the subnational external debt operations in the Nigeria context. Manual processing are usually carried out by</p>

Process	Ref	Control	Testing performed by KPMG and result
			<p>staff to prepare the necessary reconciliations and subnational external debt stock.</p> <p>Subsequent to December 2012, actual deductions have been converted to original loan currency using the exchange rate at the date of payment and are recorded as the actual transactions on CS-DRMS.</p>
<p>Reporting and disclosure of sub-national external debts</p> <p>To report external debt of a sub-national government, an Officer run the debt status report of each loan on CS-DRMS and present a summary using Ms-Excel.</p> <p>External debt stock of a sub-national government is reported as the addition of outstanding principal and outstanding interest (including arrears of principal and interest, if any) in original currency translated into USD at the exchange rate ruling on the reporting date</p>	12.7	<p>All reports and disclosures of sub-national external debts prepared by the desk officers are reviewed and signed-off by the team leader and the Director of Debt Recording and Settlement Department.</p>	<p>KPMG selected 6 samples of report on sub-national external debt report as at 31 December 2012 and noted that the reports were signed-off by the Team leader and the Director of Debt Recording and Settlement.</p> <p>No relevant exceptions were noted.</p>
	12.8	<p>Validation and authentication of sub-national external debt stock</p>	<p>KPMG tested 10 samples of sub-national external debt stock to ascertain the completeness and accuracy of sub-nation external debt stock balances and noted significant differences between the subnational stock balance per CS-DRMS and per reporting schedule.</p> <p>Based on further review, the difference is largely attributable to non-inclusion of outstanding balances of some executed loans in the reporting schedule.</p>

Process	Ref	Control	Testing performed by KPMG and result
			<p><i>Management response:</i></p> <p>The differences noted by the auditors were as a result of external debts agreements and disbursement notifications that were not received as at the time of preparation of the subnational external debt stock balances.</p> <p>The newly received information on subnational external debts were applied retrospectively when they were uploaded on the CS-DRMS to allow for completeness of reporting going forward. Hence, debt stock generated in subsequent period may not have the same amount when compared with the debt stock as at the time of report preparation.</p>

13 On-lending activities to Federal MDAs

Control Objective
Controls provide reasonable assurance that all on-lending arrangements between the federal government and the MDAs are properly authorized and executed
Controls provide reasonable assurance that on-lending activities with the Federal MDAs are completely and accurately recorded
Controls provide reasonable assurance that debt funded projects are properly monitored
Controls provide reasonable assurance that the completeness and accuracy of on-lending assets reported are not significantly misstated.

Execution of MOUs on on-lending of funds On lending activities are initiated by Presidential and/or Honourable Minister of Finance's directives for government intervention into selected sectors or MDAs. The DMO through the Contingent Liabilities and Risk Assets Management Unit reviews the proposal and communicates its viability to the Ministry of Finance for approval by the Minister of Finance and the President of the Federal Republic of Nigeria. The review is done on a case by case basis, and the specific nature of the proposal determines the structure of terms to be embedded into the memorandum of understanding (MOU) that will be executed with the respective MDA.	13.1	All MOUs entered into by the DMO on behalf of the Federal Government with the MDAs are executed by the Director General and witnessed by a senior officer in Portfolio Management Department.	KPMG selected 9 MOUs executed during the period under review and noted that they were executed by the Director General of the DMO and witnessed by a senior officer in Portfolio Management Department. No relevant exceptions were noted
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<p>Recording of on-lending MOUs on CS-DRMS</p> <p>The External Debt and Special Account Unit (EDSA) of the Debt Recording and Settlement Department (DSRD) is responsible for recording of MOUs and on-lending transactions. On receipt of the MOU at the DMO back office, the data are extracted by an Officer into the data entry sheet for upload on CS-DRMS. The data entry sheet is reviewed by a team lead vis-à-vis the MOU to ensure that the parameters have been properly captured in the data entry sheet. He/she then authorizes the officer to upload same on CS-DRMS.</p>	<p>13.2</p>	<p>The team lead in CL&RAMU forwards the signed MOUs to the Debt Recording Department to record the loan details on CS-DRMS in a timely manner.</p>	<p>For a selection of 9 samples of MOUs tested, KPMG noted the following:</p> <ul style="list-style-type: none"> • There was no documented evidence that 5 of the MOUs were forwarded to DRD for recording • 3 of the MOUs were forwarded to DRD 31 months after the MOUs were executed • 1 of the MOUs was forwarded to DRD one week after the MOU was executed. <p>However, KPMG reviewed the CS-DRMS records to verify actual records of on-lending facilities recorded on the system and noted that out of the 17 items of MOU/on-lending facilities, only 1 was not recorded on CS-DRMS.</p> <p>No other exceptions were noted.</p>
<p>The Officer in External Debt and Special Accounts (EDSA) utilizes the 'Special Account' module of CS-DRMS to record outstanding debts from various MOUs.</p> <p>After upload, the team lead reviews the uploaded information by checking the data entry sheet to ensure that all MOU parameters in the data entry sheet were properly inputted on the system.</p>	<p>13.3</p>	<p>The Data entry sheet is reviewed by the team lead vis-à-vis the MOUs to ensure that the parameters have been properly and correctly extracted into the data entry sheet. He/she then authorizes the officer to upload same on CS-DRMS.</p>	<p>For a selection of 2 samples of data entry sheet tested, we do not see any mark of review of the CS-DRMS data entry sheet by team lead before the data was uploaded on CS-DRMS.</p> <p>However, KPMG carried out further test by checking the sample data entry sheets to the MOUs and then to the CS-DRMS and noted that the extracted data were captured accurately and recorded properly on CS-DRMS.</p> <p>No other exceptions were noted</p> <p><i>Management response:</i> Going forward, validated data entry sheets would be duly signed-off by the Team lead or whoever validates.</p>

		<ul style="list-style-type: none"> Review of data entry sheets and loan agreement against recorded loan details on CS-DRMS 	KPMG's comparison of loan parameters for the 9 samples of MOU/on-lending agreement revealed no exception as the parameters and disbursements were accurately captured.
<p>Creation of sinking fund accounts for repayments of principal and interest</p> <p>Sinking fund accounts are created with the CBN for the repayment of the principal and interest due on the on-lending facilities.</p> <p>Separate accounts are usually required to be opened for principal and interest repayments.</p> <p>The accounts are used for monitoring repayments and review of performance of the borrowing MDAs.</p> <p>Approval of the OAGF must be obtained for the account to be created by the CBN.</p>	13.4	Approval of the OAGF must be obtained for the sinking fund accounts to be created by the CBN	<p>For the 9 samples selected, we noted that approval of the OAGF was obtained before the facility repayments and interest accounts were created by the CBN</p> <p>No relevant exceptions were noted.</p>
<p>Monitoring of Federal Government's MOU and on-lending to MDAs</p> <p>The Contingent Liabilities and Risk Assets Management Unit (CL&RAMU) in the Portfolio Management Department has the responsibility of</p>	13.5	Activity reports on MOUs and on-lent funds are requested and received from States and Federal MDAs on quarterly basis for project monitoring purpose.	<p>KPMG selected 2 samples of on-lent loans to MDAs for testing and noted the followings:</p> <ul style="list-style-type: none"> activity reports on the on-lending facilities were requested by the Director of Portfolio and Monitoring Department

<p>monitoring the status of MOUs and on-lent fund to the MDAs.</p> <p>Demand notes are sent to the MDAs on regularly based on the terms of repayments in the MOU and the loan amortization schedule to request for the payment of outstanding installment of interest and principal on the on-lent funds. Also, letter or request are sent by the Director of Portfolio Management Department (DPMD) on behalf of the Director General as the need arises to the MDAs to obtain updates on the projects and the utilization of the on-lent funds.</p>			<p>- Responses were received from the respective MDAs.</p> <p>No relevant exceptions were noted.</p>
	13.6	Sending of monthly demand notes to respective MDAs for on-lent loan servicing	<p>For a selection of 9 loan facility files reviewed, KPMG noted the followings:</p> <ul style="list-style-type: none"> - Demand notes were sent within one month before the due date - Demand notes sent were approved and authorized by the Director of Portfolio and Monitoring Department <p>No relevant exceptions were noted.</p>
	13.7	Regular reconciliation of sinking fund accounts against payment advice sent by borrowers	<p>For a selection of 9 loan facility files reviewed, KPMG noted that regular reconciliation of sinking fund accounts with payments made by the MDAs were done based on the agreed frequency of loan repayments.</p> <p>No relevant exceptions were noted.</p>
	13.8	Transfer of amount repaid on on-lent facilities to the Consolidated Revenue Fund	<p>For a selection of 9 loan facility files reviewed, KPMG noted the cumulative amounts repaid by the MDAs were transferred to the Federal Government (CRF) Account</p> <p>No relevant exceptions were noted.</p>

<p>Recording of receipts in respect of on-lending/MOU facilities</p> <p>MDAs made repayments by paying the amount advised on the demand notes or by signing an ISPO which authorises the OAGF to deduct repayment due from their monthly allocation. Monthly deductions from the MDAs' statutory allocation account are done in Naira based on the irrevocable standing payment order (ISPO) and translated into the transaction currency at the exchange rate ruling on the reporting date.</p> <p>Payment notification is sent to the DMO, once payment is made by the MDAs and this is confirmed by the account officer, who then prepares the schedule of payments received from MDAs for the Team Lead to review. The Team Lead review the schedule by tracing each payments to the bank statement and forward the schedule to the Desk Officer in Debt Recording (DR) section for input into CS-DRMS. After the input, the Team Lead, DRS cross-check the entries on the system with the schedule sent from CL & RAM unit. Any exceptions identified are corrected immediately.</p>	<p>13.9</p>	<p>The quarterly schedule of payments by the MDAs are sent to the Debt Recording Departments to update the loan records on CS-DRMS.</p>	<p>For a selection of 9 loan facility files reviewed, KPMG noted the followings:</p> <ul style="list-style-type: none"> • All payments made by the MDAs were traced to the bank statement • There were no documented evidence of instruction for Debt Recording Department to update the payment records on CS-DRMS for six (6) of the sampled loan facilities <p>No other exceptions were noted</p>
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<p>Reporting and disclosure of on-lending facilities to MDAs</p> <p>To report outstanding balance of on-lending facilities to MDAs, an Officer prepares the schedule of on-lending facilities showing the original amount, amount repaid and the outstanding balances. The schedule also contains remark on whether the on-lent facilities are performing or non-performing.</p>	<p>13.10</p>	<ul style="list-style-type: none"> • All reports and disclosures of on-lending facilities are prepared by the desk officers and reviewed by the team leader of Contingent Liabilities and Risk Assets Management Unit. • Recomputation of outstanding balances of on-lending assets as at year end 	<p>KPMG obtained 3 samples of reports and disclosure of on-lending/MOU facilities prepared by the Contingent Liabilities and Risk Assets Management Unit.</p> <p>KPMG performed substantive tests by recomputing the outstanding balances of on-lending facilities to the MDAs as at 31 December 2010, 31 December 2011 and 31 December 2012. The results were compared with the disclosures in the DMO annual reports and CS-DRMS records.</p> <p>KPMG noted the following:</p> <ul style="list-style-type: none"> • Reporting and disclosures of on-lending facilities were not made in the DMO annual report as at 31 December 2010 • As at year ended 31 December 2011, <ul style="list-style-type: none"> - Original amount of 1 out of the 14 on-lending facilities was significantly misstated in the DMO annual report - Outstanding balances of 5 out of the 10 on-lending facilities were significantly misstated in the DMO annual report • As at the year ended 31 December 2012, <ul style="list-style-type: none"> - Original amount of 2 out of the 16 on-lending facilities were significantly misstated in the DMO annual report - Outstanding balances of 10 out of the 16 on-lending facilities were significantly misstated in the DMO annual report
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			<ul style="list-style-type: none">- 1 out of the 16 items which does not qualify as on-lending facilities were reported as on-lent funds to MDAs. <p>The debt to equity swap that occurred during the period were not properly presented.</p> <p>No other relevant exceptions were noted.</p>
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14. Issuance of domestic debt instruments

Control Objective
Controls provide reasonable assurance that securities issuance processes are duly authorized
Controls provide reasonable assurance that subscription bids are properly verified before securities are allotted
Controls provide reasonable assurance that commission payable to Primary Dealers Market Makers (PDMMs) are accurate
Controls provide reasonable assurance that securities issuance proceeds accounts are properly maintained and are periodically reconciled with the CBN statements

Process	Ref	Control	Testing performed by KPMG and result
<p>Annual Issuance Program Details of the domestic borrowing to finance part of budget deficit of the Federal Government are specified in the Appropriation Act passed by the National Assembly.</p> <p>Domestic borrowings are undertaken through the issuance of Federal Government of Nigeria (FGN) bonds and Nigeria Treasury Bills (NTBs) for subscriptions by investors.</p> <p>A team comprising the Heads of Portfolio Management Department (PMD), Market Development Department (MDD), and Debt Recording and Settlement (DRS) Department, drafts and recommend the annual issuance program/Auction calendar. The annual issuance programme specifies the quantum and timing of</p>	14.1	<p>The annual issuance program contains a quarterly forecast of domestic borrowings to be carried out by the DMO on behalf of the Federal Government. The Director General initiates an approval memo to the Minister of Finance seeking approval to implement the annual issuance plan. The Minister approves the issuance program by signing off on the approval memo sent by the DG.</p> <p>In situations where the annual budget has not been approved, approvals are sought from the Minister of Finance for the implementation of an ad-hoc quarterly issuance program until the budget is approved.</p>	<p>KPMG selected 3 samples of annual issuance program for testing, and noted the following:</p> <ul style="list-style-type: none"> • A Memo seeking approval from the Minister of Finance was signed by the DG • Evidence of approval by the Minister of Finance. <p>No relevant exceptions were noted</p>

Process	Ref	Control	Testing performed by KPMG and result
<p>financial instruments to be issued during the year. The annual issuance programme is sent to the DG for review and subsequently forwarded to the Honourable Minister of Finance for approval before publication.</p> <p><i>Procedures for the preparation of annual issuance programme</i> The Director of PMD carries out the following procedures in preparing the annual issuance programme: (a) Obtain the Public Sector Domestic Borrowing Requirements (which is a subset of the budget deficit from the Budget Office (BOF))</p>			

Process	Ref	Control	Testing performed by KPMG and result
<p>(b) Obtain the profile for maturing instruments during the year from the Domestic Debt Recording Department (DRS)</p> <p>(c) Calculate the amount of FGN Bond required for the refinancing programme for the year</p> <p>(d) Review the portfolio structure of the domestic debt to ensure that optimal portfolio mix of 25:75 between short term:long term debt is maintained.</p> <p>(e) Identify the direct cost of floatation such as listing fees, advertisements, publicity, transport expenses etc for the conduct of the auctions and these are approved by the Honourable Minister of Finance.</p> <p>Using the information gathered from the above listed, cash budget and annual issuance calendar (detailing the amount, tenor and date of auctions) are prepared and a memo on the issuance programme is sent to the DG for approval.</p>			

Process	Ref	Control	Testing performed by KPMG and result
Pre- FGN Bond Auction Process In preparing for the FGN Bond auction, the following activities are carried out: (i) Letter to the Governor of the CBN and signed by the Honorable Minister of Finance, for the use of CBN's NTB platform for the auction; including other operational supports (ii) Letter to the AGF (to be signed by the Minister of Finance) to issue Mandate to the DMO for issuance of FGN Bonds (iii) Attach issuance calendar detailing the monthly auctions (amount, tenor and date of auctions)	14.2	In approving the FGN Securities Issuance Program, Minister of Finance directs the Office of the Accountant- General of the Federation to issue a letter of authority to the DMO to float the bonds and NTBs as specified by the FGN Securities issuance program.	KPMG sighted a letter from the Office of the Accountant General of the Federation (with Ref. No; FD/LS/0147/III/10/DF) authorizing the floating of N1,054.64 Billion 3,5,10 & 20 year tenors FBN Bonds and N204 Billion worth of Nigerian Treasury Bills of 91, 182 & 364 days in line with the 2010 FGN Securities Issuances Calendar. No relevant exceptions were noted
Licensing of Primary Dealer Market Makers (PDMMs) The DMO sets and periodically reviews the qualifications for its dealers under the Primary Dealer Market Maker System. The PDMMs' role is to, among others, take up, market and distribute the Primary Issuance of FGN Securities and enhance secondary market trading activities. PDMMs shall submit bids for their proprietary account and on behalf of their customers. No PDMM or customer with their affiliated entities as a group, may be awarded more than 30% of any auction.	14.3	Approval and periodic review of operational circulars for PDMMs Publication of updated list of licensed PDMMs in line with changes in the industry.	KPMG obtained the operational circular issued for the PDMMs and noted the following: <ul style="list-style-type: none"> - The Operational circular specifies the General Rules and Regulations Governing the Primary Dealer Market Maker System in Federal Government of Nigeria (FGN) Securities. - It was first produced in December, 2005 and revised in December, 2009 and August 2012 - Specific rules and regulations governing the PDMMs in relation to market activities, reporting and technical requirements, organisational structure, restrictions, privileges, and dissemination of information, among others were clearly stated.

Process	Ref	Control	Testing performed by KPMG and result
			<p>KPMG also sighted an updated list of licensed primary dealer market makers (PDMMs) as at 1 August 2012. It was notable that the list was updated following the changes in the banking sector.</p> <p>No relevant exceptions were noted</p>
<p>Auction Process</p> <p>Upon approval of the Annual Issuance calendar, a Quarterly auction calendar is communicated to the Primary Dealer and Market Maker (PDMM) and other stakeholders and on a monthly basis, the public is notified through an offer circular/advert in the media and DMO Website of the monthly auction to raise domestic debts.</p> <p>The following activities are carried out in respect of the auction process:</p> <ul style="list-style-type: none"> - Notices to Banks/CBN, NSE, PDMM (via email) on every issuance - Letter to CBN, OAGF, FMF, BOF, PENCOM on new issues - Preparation of Offer Circular - Posting of Offer circular and related documents on the DMO's website, CBN branches, stockbrokers, print media - Participate in Interactive sessions with PDMMs 	14.4	<p>At the start of every monthly auction, the DMO representative at the auction performs a download of subscription bids posted in the auction spreadsheet. Each of the journals for the various instruments on issues is verified against their respective support document (Bid Subscription forms supplied by the PDMMs).</p> <p>At the end of each review, appropriate transaction gets a tick while exceptions noted are reported to the Central Bank personnel for rectification.</p> <p>At the end of the exercise, the call-over document is signed by the representative the CBN and DMO representatives and sent to DMO office for archiving.</p>	<p>KPMG tested 9 samples of reviewed bond issuance auction schedule and noted the following:</p> <ul style="list-style-type: none"> • Evidence of verification and sign-off by a representative of DMO • Evidence of verification and sign-off by a representative of CBN <p>No relevant exceptions were noted</p>

Process	Ref	Control	Testing performed by KPMG and result
<ul style="list-style-type: none"> - Supervision of opening and closing of submission of bids - Conduct of auction and compilation of list of successful bidders (allotment) - Preparation of auction summary result - Posting of Auction summary result on DMO's website - Obtain application/allotment journals - A report of the auction summary is forwarded to the Director General and the CBN's Fiscal Liquidity Assessment Committee <p>(xiii) Internal memo is sent to the DDRS and DMDD forwarding the allotment journals</p> <p>(xiv) Preparation and analysis of auction from reports generated from CBN's T24 on Excel for internal recording and documentation.</p> <p>(xvi) A feedback process is carried between MDD, CBN, PDMMs and the stockbroker on the most efficient strategy for conducting the next auction.</p>		<p>Every auction result goes through various stages of review from when the auction has been allotted. Checks are carried out by representative of the DMO at the auction and before an auction result is published/uploaded to the DMO website, it must be approved by the Director General of the Debt Management Office.</p>	
<p>Post-Allotment Activities</p> <p>The CBN acts as the registrar and banker for the DMO during the auction of FGN Bonds and Nigerian Treasury bills. The following activities are carried out after the allotment process:</p> <p>(i) Obtain Bank Statement of FGN Bond Account from The CBN and ascertain the total amount realized</p>	14.5	<p>For commission payments, the total amount of third party subscription by PDMM is extracted from the allotment journal by a desk officer in the Securities Issuance Unit. The Desk Officer prepares a schedule of commission payable to the PDMMs;</p> <p>The Team Leader of the issuance unit reviews the schedule to ensure that they are</p>	<p>KPMG selected nine (9) items as samples and checked for the following:</p> <ul style="list-style-type: none"> • Evidence of review by the Team Leader, Securities Issuance Unit (SIU), • Evidence of approval by the Head of the Portfolio Management Department (PMD) • Evidence of Internal Audit review;

Process	Ref	Control	Testing performed by KPMG and result
<p>(ii) Prepare schedule of commission due to receiving agents and specify amount to be transferred to the CRF for funding budget deficit and to other accounts as may be appropriate.</p> <p>(iii) Memo to the DG through the DPMD attaching schedule of commission to receiving agents and mandate to CBN on utilization of proceeds realized from the auction.</p>		<p>accurate and that they are not misstated, the Head of the Department of the Portfolio Management Department reviews and forwards the schedule to the Internal Audit, who vets the figures to the allotment journal and recommends the schedule for the Director General's approval.</p> <p>The Director General reviews and writes to the Governor of the Central Bank of Nigeria to effect payment of the commission due to the PDMMs.</p>	<ul style="list-style-type: none"> Evidence of notification to CBN to effect payments to the PDMMs <p>KPMG also recomputed the commission paid to the PDMMs</p> <p>No relevant exceptions were noted.</p>
<p>Accounting and reconciliation of financial records of domestic debt transactions</p> <p>DMO has a process of accounting for domestic debt transactions where the proceeds of FGN Bonds and Treasury bills issued are credited into FGN Bond issue account domiciled with the Central Bank of Nigeria and from the gross receipts, all administrative costs are paid out and fund part of the budget deficit as appropriated by the National Assembly, meet refinancing obligations and on-lent to MDAs as the case may be.</p> <p>The position of the memorandum account is reconciled with the CBN on annual basis.</p>	14.6	<p>Annual reconciliation of FGN Bond issue account with the CBN</p> <p>Periodic review of financial records of domestic debt transactions by the team lead, Securities Issuance</p> <p>Internal audit review of domestic debt transaction records</p>	<p>KPMG selected 3 reconciliation statements prepared to reconcile the FGN Bond Issue accounts statement with the DMO financial records.</p> <p>KPMG noted that there was no documented evidence of team lead and internal audit review of the accounting records and the reconciliation report.</p> <p>Unsubstantiated non-reconciled balances ageing above one year were noted in the reconciliation report.</p> <p>No other exceptions were noted</p>

Process	Ref	Control	Testing performed by KPMG and result
Updating DMO's Website and Securities Issuance Unit (SIU) Folder. After the bond issuance, The Securities and Issuance Units carries out the following procedures in order to ensure the completeness of debt records within their folder; (i) Update new instrument issued (ii) Update the schedule of the FGN Bonds issued to date and other relevant files (iii) Update the schedule of coupon, interest payment and redemption dates (iv) Create and update a new file on Quarterly, Bi-Annual, and Annual schedule of coupon, interest payment and maturity of FGN Bonds (v) Update the SIU folder with memos, letters, publications, raw data of auction results, etc	14.7	All request for file uploads of auction results on DMO's website are reviewed by the Director of Portfolio Management Departments and forwarded to PSRM Department for authorization before they can be uploaded on the DMO website by the IT Department.	KPMG sighted 9 samples of approved memo for the upload of auction result on DMO website and noted the following: <ul style="list-style-type: none"> • Request was made by a team leader in the requesting department • Evidence of review by Director of Portfolio Management Department • Copies were sent to the Directors of other departments and the Director General. • The auction results were uploaded on the DMO website. No relevant exceptions were noted

15. Capturing and recording of auction result

Control Objective
Controls provide reasonable assurance that domestic debts are completely and accurately captured and recorded in a timely manner.

Process	Ref	Control	Testing performed by KPMG and result
<p>Capturing and recording of auction result (domestic borrowing)</p> <p>The Security Issuance Unit (SIU) of the DMO is responsible for the Auctions of Federal Government Securities (FGN Bonds and NTBs).</p> <p>The FGN Bond Auction results are forwarded to the Back Office from the (SIU) after the Auctions have been concluded and signed off with the CBN, while in the case of the NTBs, the Stamped Auction results are obtained from the CBN after conclusion of the NTBs Auctions.</p> <p>When new auctions of domestic debt instruments comes into the back Office. The DRSD authorizes the DDRU to enter the new auctions into the system.</p> <p>The Team leader (DDRU) checks the Auction journals for accuracy and completeness before authorizing the desk officer to enter the transactions into the CS-DRMS.</p>	15.1	<p>Management authorization for domestic debt data entry</p> <p>Cross-checking, Verification and validation of data entry by Team Leader at the subscriber level, instrument level, tranche level and bidder level.</p>	<p>For the 24 samples of auction journal selected, we noted that the DG acknowledges and signs off on the allotment journal as mark of authorization to update the domestic debt database with the new auction result.</p> <p>For the 24 samples of auction journal selected, there are no documented evidence of team lead or supervisor review of the data entered into the CS-DRMS.</p> <p>No relevant exceptions were noted</p>

Process	Ref	Control	Testing performed by KPMG and result
<p>The desk officer enters the transaction into the CS-DRMS which is automatically/ manually processed. The TL (DDR) checks the entries into the System/ runs standard report 001 in the domestic debt module or country reports 852TBO, 851A, 852BD, 851B and 852TBO in the CS-DRMS to compare with the CBN Auction results. If it matches, then there will be no need to query CBN/SIU for further information.</p> <p>The desk officer is mandated to file hard copies of the Allotment Journals in their respective folder.</p> <p>The CS-DRMS has inbuilt standard and country reports which can generate periodic reports on the Stock and debt service of domestic debt instruments as well as monitor the interest and principal payments due which can be used to reconcile with the equivalent CBN reports. After figures are reconciled and validated. The Back Office prepares reports for Internal and External Stakeholders when Reports are signed off by the Director DRSD.</p>	15.2	<ul style="list-style-type: none"> • Input validation of auction results • Control totals check for all bids, tranches and overall issued instruments (e.g. FGN bond or Nigerian Treasury bill) • Audit trails of changes to existing data 	<p>KPMG reviewed input validation controls over input of auction results. KPMG also tested whether controls-totals check to ascertain accuracy and reasonableness of inputted details of auction results.</p> <p><i>In-built validation controls</i></p> <p>a. CS-DRMS has in-built validation controls to minimize the risk of human errors at the point of data entry. Drop-down menus, numeric checks, radio buttons, calendar buttons etc have been configured across modules of the application to minimize errors at data entry.</p> <ul style="list-style-type: none"> • Test performed: Entered a character string 'yyyy' into an 'amount' field Test result: No response from the system – Disallowed entry Remark: Satisfactory • Test performed: Attempted to enter a character string '2013-11-12' into a 'date' field Test result: Date field is a 'date-picker' calendar function Remark: Satisfactory <p><i>Control Totals</i></p> <p>Data validation controls exist to ensure that inputted data is validated against preset rules and criteria. For example, during creation of tranches of financial instruments, the application ensures that the individual and aggregated sum of tranches/bids is always less than or equal to the issue/tranche amount</p>

Process	Ref	Control	Testing performed by KPMG and result
			<p><i>Audit trail</i></p> <p>KPMG tested the system to ascertain whether</p> <ul style="list-style-type: none"> • audit parameters are configured for activities over interest rates • maker-checker controls exist over recording of interest rates • 'lock-edit' controls exist and implemented appropriately. <p><i>Findings:</i></p> <ul style="list-style-type: none"> • Required auditing parameters for user-trail activities have been enabled. User actions such as creation, copying and deletion of tranches, instruments, modification of audit trail log data are currently recorded for audit trail. <p>Users can easily create, modify and/or delete transactions after period-end processing of debt instruments has been performed. Prior transactions such interest postings, principal, commitment or disbursement postings can be deleted without any trace.</p> <p>Audit logs are also not independently reviewed for propriety</p> <p>No other exceptions were noted</p>
	15.3	Review of bidders of domestic debt instruments on CS-DRMS	<p>KPMG selected 24 samples of auction journals to test that the bidders lists are completely recorded on CS-DRMS</p> <p>KPMG noted that for the samples selected, not all the bidders' names are recorded on the CS-DRMS. The CS-DRMS application is currently not scalable to accept entry of all bidders. Therefore, new bidders are assigned a default profile – CBN Abuja.</p>

Process	Ref	Control	Testing performed by KPMG and result
			<p>Per further inquiry, we noted that DMO rely on CBN database and CSCS central depository for the up-to-date list of domestic debt subscribers. By virtue of the memorandum of understanding between the CBN and the DMO on domestic debt operations, CBN performs the dual functions of a registrar and paying agent for domestic debt operations.</p> <p>No other exceptions were noted.</p>

16. Calculation of interest and related charges on domestic borrowings

Control Objective
Controls provide reasonable assurance that interest and charges related to domestic borrowings are captured accurately and completely.

Process	Ref	Control	Testing performed by KPMG and result
Interest payments are calculated automatically by the CS-DRMS; based on interest rate/coupon of the Auction results inputted into the CS-DRMS	16.1	Reconciliation is carried out on a monthly basis by representatives of the Central Bank of Nigeria and the DMO. A schedule which shows the Domestic Debt interest payments by instrument is stamped by the Central Bank of Nigeria as evidence of the reconciliation. The attendees prepare a report which is forwarded to the Director, DRSD and same is forward to the Office of the Director General and vetted by the Internal Audit Unit	<ul style="list-style-type: none"> • We selected nine (9) samples of reconciliations carried out on Domestic Debt Service payments during the period under review and tested for the following: <ul style="list-style-type: none"> ○ Checked for evidence of verification by the Debt Management Office Officials ○ Checked for evidence of verification by the Central Bank of Nigeria Officials <p>No relevant exceptions were noted.</p>

17. Domestic debt service projections

Control Objective
Controls provide reasonable assurance that the domestic debt service projections are complete, accurate and are duly authorized.

Process	Ref	Control	Testing performed by KPMG and result
<p>The process of preparation of debt service projections begins with instruction from the Director of Debt Recording Department informing the IT department to update the debt service projections module of CS-DRMS with the data on new auctions. After updating the CS-DRMS, an officer in Debt recording department process all loans into the domestic debt projections database and generate the debt service projection for domestic borrowing.</p> <p>The country reports are then printed and exported to an excel sheet where they are compared with the figures from the debt settlement unit, i.e. back office.</p>	17.1	<p>A Desk Officer in the Debt Recording Unit spools the domestic debt service projections data from the CS-DRMS and forwards it to a desk officer in Debt Settlement Unit to prepare a quarterly debt service projection for the year.</p> <p>The Desk Officer in Debt Settlement Section ("DSS") prepares a debt service schedule for the quarter, by calculating interest due using the following parameters</p> <ul style="list-style-type: none"> (i) Last payment date, (ii) Projected Debt stock, (iii) Interest rate, (iv) Issue date. <p>The Desk Officer signs on the schedule as evidence of the work done. The schedule is forwarded to a Desk Officer in the Debt Recording unit for verification to the CS-DRMS. The Desk Officer in the DRD signs off on the hard copy as an evidence of the verification exercise.</p> <p>The schedule is sent to a desk Officer in the Securities Issuance Unit for additional verification of the Debt Service Schedule to the approved issuance program.</p> <p>The team lead, Debt Settlement Section ("DSS") prepares a memo to the Director, DRSD Unit for approval. This is forwarded to the Director-General, who approves and forwards a memo to the Minister of Finance, who authorizes and communicates to the OAGF to issue a mandate to the Central Bank of Nigeria to effect payment as at when due.</p>	<ul style="list-style-type: none"> • We selected 4 samples of the Domestic Debt Service projections schedules during the period under review noting that this control was non-existent in 2010 and tested for the following: ✓ Checked for evidence of verification by the Debt Recording Unit ✓ Checked for evidence of verification by the Securities Issuance Unit ✓ Checked for evidence of approval by the Minister of Finance <p>No relevant exceptions were noted</p>

18. Domestic debt payment and settlements

Control Objective
Controls provide reasonable assurance that domestic debts are paid on timely manner and that there is appropriate authorization and approval before payments are made.

Process	Ref	Control	Testing performed by KPMG and result
<p>Reconciliation of Domestic Debt Service</p> <p>For the quarterly approval and reconciliation of FGN Bond Interest payment and Principal repayment, an advance preparation of quarterly debt service projections is done based on the calendar for repayment provided to the department by the PMD (SIU), DMO. The projection, along with a letter for the signature and approval of the HMF, (which is to authorize OAGF to raise mandate for CBN to process and make payment) and the schedule of respective payments that are falling due within the quarter are sent through the DG, DMO to the HMF. The HMF approves and then, via a letter authorizes OAGF to issue mandate to the CBN to make payments as at when due during the quarter. The CBN processes and makes payments accordingly. Interest payment journals are also raised by the CBN, where payments are recorded effectively.</p> <p>The Debt Settlement Unit along with the CBN representatives carries out a monthly reconciliation of domestic debt services at CBN Office in Lagos where actual payments are reconciled with approved projections using a template prepared by the Debt Settlement Unit. The reconciled report is then signed by the CBN representatives and DMO representatives. A report is then written accordingly by the DSS and forwarded to the DG through the DDRS. The DG then forwards same to IACU for vetting. The Team Lead, IACU vets and forwards their report to the DG, the DG takes note and redirects the report and the file to the department for filing and recording if no queries are raised.</p>		<p>The Central Bank of Nigeria sends the interest payment journals to the DMO, including the portfolio of domestic debt stock as at the given month, holding of NTB as at the period under review, holders of FGN Bonds, payments done year to date for FGN Bonds and the breakdown of payments made for the month.</p> <p>Reconciliation is done by representatives of the Central Bank of Nigeria and DMO. A schedule which shows the comparison between the Central Bank of Nigeria Interest paid and the DMO Projected figures, and a column for differences. The representatives sign the schedule as evidence of the reconciliation.</p> <p>The attendees prepare a report which is forwarded to the Director, DRSD and same is forward to the Office of the Director General and vetted by the Internal Audit Unit</p>	<p>We selected nine (9) samples of reconciliations carried out on Domestic Debt Service payments during the period under review and tested for the following:</p> <ul style="list-style-type: none"> ✓ Checked for evidence of verification by the Debt Management Office Officials ✓ Checked for evidence of verification by the Central Bank of Nigeria Officials <p>No relevant exceptions were noted.</p>

19. Authentication of periodic domestic debt stock balance

Control Objective
Controls provide reasonable assurance that domestic debt stock balances are complete and accurate.

Process	Ref	Control	Testing performed by KPMG and result
Validation of domestic debt data with the CBN This process begins with obtaining monthly statement of domestic debt instruments position from the CBN and using this to reconcile CS-DRMS database. Any exceptions identified are discussed with the CBN' representatives and resolved. Both the DMO representatives and the CBN representatives that carried out the reconciliations will sign off on the reconciled schedule.	19.1	Reconciliation is carried out on a monthly basis by representatives of the Central Bank of Nigeria and the DMO. A schedule which shows the Domestic Debt outstanding by instrument is stamped by the Central Bank of Nigeria as evidence of the reconciliation. The attendees prepare a report which is forwarded to the Director, DRSD and same is forward to the Office of the Director General and vetted by the Internal Audit Unit.	<ul style="list-style-type: none"> • We selected 9 samples of reconciliation schedules during the period under review and tested for the following: ✓ Checked for evidence of verification by the Debt Management Office Officials ✓ Checked for evidence of verification by the Central Bank of Nigeria Officials <p>No relevant exception were noted</p>

20. Reporting and disclosure of outstanding external and domestic debt stocks

Control Objective
Controls provide reasonable assurance that debt figures reported are complete, accurate and free from material misstatements.

Process	Ref	Control	Testing performed by KPMG and result
<p>Preparation of quarterly debt bulletin and annual reports Relevant reports are downloaded from the CS-DRMS.</p> <p>Firstly, the statistics data are cross-checked and processed and then reviewed and checked for errors. Where errors are found, they must be listed, corrected and then documented and filed in the DSRD for future reference.</p>	20.1	<p>Quarterly reports on public debts are compiled by both the officer and team leads in debt recording and settlement departments. These reports are forwarded to the Director of Debt Recording and Settlement, who reviewed and subsequently authorizes the reports.</p> <p>The reports are then forwarded to the Team Lead, SA & RM in the middle office.</p>	<ul style="list-style-type: none"> • We selected 6 samples of quarterly reports prepared and sent to SA & RM during the period under review and tested for the following: <ul style="list-style-type: none"> ✓ Checked for evidence of Director, DRSD's review and sign-off ✓ Checked for evidence that same report was sent <p>No relevant exception were noted.</p>

21. Capturing State's domestic debt data

Control Objective
Controls provide reasonable assurance that sub-national domestic debts data are captured correctly and completely on timely basis.

Process	Ref	Control	Testing performed by KPMG and result
<p>Circularization of State's Debt Management Department to report Debt Stock.</p> <p>The state bond issuance is subject to the approval of the Securities and Exchange Commission (SEC) and the Ministry of Finance in respect of the issuance of the Irrevocable Standing Payment Order (ISPO).</p> <p>The Debt Management Office captures the state's domestic bond issuance by circularising various states Debt Management Departments (DMDs) requesting the periodic relevant debt stock</p>	21.1	<p>This control is performed by the Special Projects Department (SPD). It entails sending out circularisation letters to the various states Debt Management Departments (DMDs) to report their debt stock data.</p> <p>These data, upon receipt by the DMO are verified and checked for accuracy using the prior quarter's report as a baseline. Where there are inconsistencies, they are escalated to the respective state's debt management departments for reconciliation and then recorded into the DMO's database.</p>	<p>KPMG sighted 3 samples of circularisation for state's debt data sent by the Debt Management Office and noted the following:</p> <ul style="list-style-type: none"> • The letter was signed by the Director of Special Programme Department on behalf of the DG • The states' debt data reporting sheet was received by the DMO • The DMO's State Domestic Debt database was updated with the correct information. <p>Per our review, we noted the followings:</p> <p>Only 3 evidences of circularisation were noted in 2010 with 2 responses obtained by the DMO and the responses obtained were not recorded on the DMO's State Domestic Debt database.</p> <p>In 2011, although few circularisations were sent, only 6 responses were obtained from the States. However, the DMO obtained the State's domestic debt data from the Domestic Debt data reconstruction exercise carried out by the DMO over a five-year period to re-organise and coordinate the activities of the various states domestic debt data capturing and recording process.</p> <p>In 2012, circularisation letters were sent to all the 36 states of the Federation and responses were obtained from all of them. Reports from the states were traced to DMO's database and no exceptions were noted.</p>

22. Capturing, recording and disclosure of contingent liabilities

Control Objective
Controls provide reasonable assurance that Federal government guarantees are authorized
Controls provide reasonable assurance that contingent liabilities are accurately recorded
Controls provide reasonable assurance that contingent liabilities of the Federal Government are being monitored on a timely basis
Controls provide reasonable assurance that contingent liabilities disclosures are complete, accurate and free from material misstatements.

Process	Ref	Control	Testing performed by KPMG and result
<p>Contingent liabilities identification Contingent liabilities arise from the issuance of Federal Government guarantees government special purpose vehicles and to support public private projects.</p> <p>Issuance of Guarantees A proposal is forwarded by the intending institutions/agencies seeking guarantee from the Federal Government, to the Minister of Finance for approval. The Ministry of Finance in consultation with the DMO appraises the viability of the project/proposal. The terms and conditions for the issuance of the Federal Government Guarantee are discussed with the beneficiary. Once this is</p>	22.1	Every Guarantee proposal goes through the vetting of the DMO. Before a guarantee is issued, it must be recommended by the DMO and signed/approved by the Minister of Finance as prescribed by Section 47 of the Fiscal Responsibility Act 2007.	<p>KPMG selected 3 samples of guarantee documents and tested for the following:</p> <ul style="list-style-type: none"> ✓ Checked for key terms of the guarantees ✓ Checked for evidence that the guarantees were approved by the Minister of Finance ✓ Checked for the signature of the Director General of DMO <p>No relevant exceptions were noted</p>

Process	Ref	Control	Testing performed by KPMG and result
done and the terms and conditions have been agreed, the DMO recommends to the Honourable Minister of Finance to issue Federal Government Guarantee to the beneficiary. A register of all Federal Guarantee issued is maintained on Ms-Excel spreadsheet by an Officer in Loan and Financing Product unit.			
Monitoring of Contingent Liabilities The Contingent Liabilities and Risk Asset Management unit is responsible for monitoring the contingent liabilities of the Federal Government that arise from issuance of Federal Government Guarantees. Monitoring is done by examining the activities of the Guarantee Recipients to the terms and conditions of the agreement between the parties.	22.2	Monitoring of contingent liabilities arising from issuance of Federal Government guarantee is done on regular basis by examining the activities of the Guarantee Recipients to the terms and conditions of the agreement between the parties.	<p>KPMG reviewed the activity files maintained for contingent liabilities during the period 1 January 2010 and 31 December 2012 and checked for the following:</p> <ul style="list-style-type: none"> (a) Evidence that DMO requests for and receives regular updates on important subject-matters relating to the contingent liabilities (b) Evidence that relevant findings on monitoring activities are appropriately reported. <p>The following were noted during the review,</p> <ul style="list-style-type: none"> (a) effective monitoring exists on contingent liabilities in respect of Federal Government guarantees to AMCON (b) effective monitoring exists on contingent liabilities in respect of Federal Government guarantees on Local contractors' debts (c) effective monitoring exist on contingent liabilities in respect of Federal Government's guarantee on agriculture: <p>No other exceptions were noted.</p>

Process	Ref	Control	Testing performed by KPMG and result
<p>Reporting and disclosure of outstanding Contingent liabilities</p> <p>Preparation of report and disclosures on outstanding contingent liabilities is done by the Contingent Liabilities and Risk Assets Management Unit.</p> <p>The reports are then forwarded to the Team Lead, SA & RM in the middle office.</p>	22.3	Validation of contingent liabilities reported in DMO Annual Report	<p>KPMG performed substantive procedures to ascertain the completeness, accuracy and valuation of contingent liabilities as at 31 December 2010, 31 December 2011 and 31 December 2012 and noted the following:</p> <p>DMO annual reports show only 5 items of contingent liabilities; three (3) out of which are explicit contingent liabilities arising from issuance of Federal Government Guarantee while the remaining two (2) are implicit contingent liabilities arising from pension arrears and pending litigations.</p> <p>Per KPMG's review of the register of guarantees issued by the Federal Government maintained by the LFP unit, it was noted that 8 guarantees were issued by the Federal Government out of which 4 were issued during the period from 1 January 2010 to 31 December 2012.</p> <p>The result of procedures carried out by KPMG to ascertain the completeness and accuracy of contingent liabilities revealed that only 1 out of the 8 explicit contingent liabilities was reported accurately.</p> <p>The source documents for contingent liabilities on pending litigations were not made available to the audit team. Hence, the completeness and accuracy of amount reported as contingent liabilities on pending litigation could not be ascertained.</p>

23. Debt Management products and their respective objectives

Control Objective
Controls provide reasonable assurance that the objectives of the various debt products are being met from time to time
Controls provide reasonable assurance that other DMO products and activities are authorized, accurate and completely recorded and reported on timely basis

Process	Ref	Control	Testing performed by KPMG and result
<p>External Loans comprise loans from official external creditors, namely</p> <p>a. Multilateral creditors such as</p> <p style="margin-left: 20px;">i. World Bank Group - IBRD, IDA</p> <p style="margin-left: 20px;">ii. ADB Group - ADB, ADF</p> <p style="margin-left: 20px;">iii. Other multilaterals - IFAD, ABEDA, EDF, IDB</p> <p>b. Bilateral creditors such as</p> <p style="margin-left: 20px;">i. Peoples' Republic of China</p> <p style="margin-left: 20px;">ii. France</p> <p>c. Commercial creditors such as</p> <p style="margin-left: 20px;">i. ZTE</p> <p style="margin-left: 20px;">ii. Alcatel</p> <p style="margin-left: 20px;">iii. CMEC</p>	23.1	<p>The objective of external borrowing is to mobilize additional financing such as grants and concessional loans to accelerate growth and poverty reduction and meeting other MDG-related targets;</p>	<p>KPMG's review of the external loans as at 31 December 2012 revealed the following:</p> <p>Loans from multilateral creditors are mainly concessional.</p> <p>Loans from Bilateral creditors are provided on semi-concessional terms.</p> <p>Commercial loans are obtained from private creditors and they are non-concessional</p> <p>91% of the external loans are on concessional terms. Concessional loans represent 87.95% and 92.71% of external loan stock as at 31 December 2011 and 2010 respectively.</p> <p>Interest and charges rates on the multilateral loans lie between 0.5% and 2.5% while interest and charges rates on the bilateral and commercial loans range from 1% to 6% per annum.</p> <p>Furthermore, KPMG noted that the external loans are in relation to agriculture, air transport, education and training, energy, environment, transport, health and social welfare, housing and urban development, monetary policy, multi-sector, rural development, scientific and equipment technology development, water supply, telecommunications and other areas.</p> <p>The review of external loans by sector revealed that the largest proportion of the external loan relates to health and social welfare, agriculture, multi-sector and rural development sectors.</p>

<p>US\$500 million Eurobond (from International Capital Market)</p>	<p>23.2</p>	<p>The objective is to present Nigeria's Economic status and potential to the International community;</p> <p>To provide a benchmark for future borrowings by other Nigerian entities in line with the government's policy of paving way for private sector led development.</p> <p>To attract foreign direct investments into various sectors of the Nigerian economy including participation in public private partnership opportunities that are expected to emerged from various government initiatives</p>	<p>KPMG reviewed the prospectus for the USD 500million Eurobond issued in January 2011 and noted the following features: Issuer: The Federal Republic of Nigeria. Amount Offered: US\$500 million Tenor: 10 years Issue Date: 28 January 2011. Maturity Date: 28 January 2021 Type: 144A Reg S Rating: B+(Standard and Poors), BB- (Fitch) Interest: 6.75% p.a payable semi-annually in US Dollars. Interest payment dates: July 28 and October 28 Offer Price: 98.223 Listing: Listed on London Stock Exchange</p> <p>KPMG also reviewed the Appropriation Act 2010 (FGN Annual Budget) and noted that the Eurobond was approved as one of the funding source for the Federal Government in the 2010 fiscal year.</p> <p>KPMG inquiry revealed that the Eurobond issue has created presence for Nigeria in the international capital market</p> <p>The issue also created a benchmark for the sovereign at the international capital market and this has paved way for other corporate entities to access the market. Other corporate entities that have accessed the international market include: Guaranty Trust Bank Plc, Access Bank Plc and Afren Plc.</p> <p>In the year 2011, for example, Access Bank raised US\$350 million at 7.25% coupon while GT Bank</p>
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		<p>raised US\$500million Eurobond at 7.5% coupon from the international capital market The coupon on the Nigeria's USD 500million Eurobond was 6.75%. KPMG noted that the cost of borrowing (i.e. coupon) of these entities were set above the Nigeria Eurobond which now stands as the benchmark for Nigeria or Nigeria related entities at the international capital market.</p> <p>The coupon rate of the Nigeria Eurobond has been used in setting the risk free rate for the country at the international capital market.</p> <p>FGN Bonds were included in the J.P. Morgan's index in 2012, which attracted a large pool of foreign investors into Nigeria domestic bond market.</p>
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<p>Domestic debt securities such as</p> <p>a. Federal Government bonds</p> <p>b. Nigerian Treasury Bills</p>	<p>23.3</p>	<p>To finance the deficit in Federal Government budgets</p> <p>To finance maturing obligations on domestic debt from time to time</p> <p>Developing a multi-instrument domestic debt market with deepened participation to support private sector-led growth through enhanced access to credit;</p> <p>Developing a debt market for State Governments that will allow them to have access to borrowing through the issuance of State bonds</p>	<p>KPMG's review of the domestic debt securities revealed the following features:</p> <ul style="list-style-type: none"> • The FGN bonds' tenor range from a 3 year, 5 year, 7 year, 10 year, and 20 year • The NT Bills' tenor range from 91 days, 120 days, 182 days to 364 days • FGN Bonds are listed on the Nigerian Stock Exchange and are traded both on the NSE and in the Over the Counter (OTC) market • NTBs are money market product and are traded on the over the counter (OTC) market • Low/No Default Risk • Tax free: Interest received on FGN Bonds is not subject to tax. FGN Bonds have been tax free while NTBs only became tax exempt following the approval of the tax waivers by the President and subsequent implementation by FIRS. • Interest ranges between 4% to 16% <p>KPMG also reviewed the Appropriation Acts 2010, 2011 and 2012 (FGN Annual Budget) and noted that the domestic borrowings have been used to finance budget deficit consistently during the year 2010, 2011 and 2012.</p> <p>KPMG's review of the application of the issue proceeds revealed the following:</p> <ul style="list-style-type: none"> • In FY 2010, 67%, 19% and 11% of the proceeds received was used to finance budget deficit,
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		<p>redeem matured obligations and on-lent to Federal Government MDAs respectively.</p> <ul style="list-style-type: none"> • In FY 2011, 74% and 19% of the proceeds received was used to finance budget deficit and redeem matured obligations respectively. • In FY 2012, 55% and 34% of the proceeds received was used to finance budget deficit and redeem matured obligations respectively. <p>The domestic securities have been used to develop and deepen the Nigerian bond market.</p> <p>The FGN securities have created sovereign yield curve that has been used to guide borrowings by other entities.</p> <p>State Governments and other corporate bodies in the private sector have been able to access the domestic bond market as FGN securities had created a market, sovereign yield curve and awareness among issuers and investors.</p>
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Federal Government guarantees	23.4	Creatively using FGN guarantees to support the financing of projects under public-private partnership initiatives (PPPs), Joint Venture Schemes and on-lending to sub-national entities;	<p>KPMG reviewed samples of the Federal Government guarantee agreement and noted the following:</p> <ul style="list-style-type: none"> • Guarantees were used to support government special purpose vehicles that are not directly funded through the budget such as AMCON, LCRM • Guarantees were used to support borrowing arrangements for developmental activities of the Federal MDAs such the Federal Ministry of Agriculture and Rural Development's Growth Enhancement Scheme (GES) developed to promote agriculture in 2012. • The terms and conditions of the guarantee are clearly stated • The limit of the Federal Government exposure to liabilities in case of the crystallization of risk event are clearly defined.
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<p>Issuance of Sovereign Debt Notes</p> <p>The DMO is involved in the issuance of Sovereign Debt Note (SDN) to Oil Marketers in payment for the importation of petroleum product.</p> <p>The Petroleum Products Pricing Regulatory Agency ("PPPRA") with the aid of external auditors initiates the process by issuing sovereign debt statement ("SDS") to the Oil Marketers. PPPRA also forwarded the schedule of sovereign debt statements (SDS) issued to the Oil Marketers to the DMO. Oil marketers are required to come with the evidences to indemnify their claim on the SDS to the DMO.</p> <p>DMO compiles the schedule from PPPRA and cross check with the SDS from oil marketers. After the call over and reviews by the Team leads and the Unit Head sign offs, the schedule is sent to the CME & HMF for approval to issue the SDN to Oil Marketers.</p>	<p>23.5</p>	<p>The control is performed by a Desk Officer in the Portfolio Management Department, by comparing the batch list sent by The Petroleum Products Pricing Regulatory Agency ("PPPRA") to a list of indicted oil marketers prepared by the Nigeria Police Force.</p> <p>On approval/authorization by the Minister of Finance, Sovereign Debt Notes for the schedule/batch list of verified oil marketers approved by the minister is prepared by a Desk Officer in the Portfolio Management Department.</p> <p>The Head of Portfolio Management Department carries out a call-over review on the each of the sovereign debt note prepared by the Desk Officer by comparing it with the relevant SDS issued by the PPPRA. The Director signs off on the back of the SDS certificate as an evidence of his call-over process.</p> <p>The Director-General carries out a 2nd level call-over review, before signing the Sovereign Debt Note to be issued to the Oil Marketers as approved by the CME.</p>	<p>On 03 November 2013, KPMG sighted a letter dated 1st July 2013 for Batch I/13 verified claims supply under the Petroleum Support Fund (PSF) for the DMO consideration. KPMG observed that the schedule of SDS issued by PPPRA was recorded into the Excel Spreadsheet by a Desk Officer in the Securities Issuance Unit.</p> <p>KPMG noted a new tab is created in the excel spreadsheet called clean list and is populated by filtering the list of SDS from the list of indicted oil markets which was sent by the Nigeria Police Force ("NPF").</p> <p>KPMG observed that the clean list of Batch I/13 is forwarded to the Minister of Finance in a memo (dated November 06, 2013) from the Director General seeking approval/ authorization for the issuance of Sovereign Debt Notes to Oil Marketers.</p> <p>KPMG sighted the Batch I/13 Sovereign Debt Notes with the signature of the Director of Portfolio Management Department as evidence of approval and management review.</p> <p>In addition, KPMG sighted the Batch I/13 Sovereign Debt Notes signed by the Director- General as evidence of approval and management review.</p> <p>No relevant exceptions were noted.</p>
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<p>DMO then issued sovereign debt notes to oil marketers and send the Sovereign debt note schedules with the mandate to pay oil marketers to the CBN with all supporting documents attached and copy the Accountant-General of the Federation, the Honourable Minister of Finance, the Budget Office and Petroleum Products Pricing Regulatory Agency (PPPRA).</p>			
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<p>The following special accounts are also managed by the External Debt and Special Account units of the Debt Recording and Settlement Department.</p> <ol style="list-style-type: none"> 1. Federal Credit 2. Private Sector External Debt <p>Federal credits</p> <p>Federal credits are the lending of Nigeria Federal Government to other countries. The DMO maintains the records of Federal Government credits to other countries on CS-DRMS.</p> <p>Loan agreements between the borrowing countries and the Federal Government are signed and approved by the Ministry of Finance after rigorous negotiation process with the borrower and forwarded to the DG, DMO for recording.</p> <p>The DG authorises and forwards the loan agreement to the Director of Debt Recording for the necessary actions. The Director forwards same to the Officer in charge who then prepares the data entry sheet (DES) by extracting the relevant loan agreement information that will be inputted into the CS-DRMS. The Data entry sheet is reviewed by the team lead for completeness and accuracy of terms before authorisation for update on the CS-DRMS.</p>	<p>23.6</p>	<ul style="list-style-type: none"> • Review of data entry sheets for loan agreements by Team Leader • System review of forecasting rules by team leaders • System validation of recorded data 	<p>KPMG noted that there are no federal government lending to other countries during the period beginning 1 January 2010 to 31 December 2012.</p> <p>There are no reports or disclosures on federal credit in the DMO annual report for the year 2010, 2011 and 2012.</p> <p>Hence, no testing were performed.</p>
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<p>Private Sector External Debt recording and management</p> <p>The DMO keeps records of external debt arrangements entered into by private sector organisations in order to safeguard the credit reputation of the country.</p> <p>There is no authorised documented procedure on the method of tracking private sector external debt transactions yet. However, the initial process for capturing private sector external debt requires the CBN to track the records of external debts transactions through the banking system and provide the DMO with the report on periodic basis.</p>	<p>23.8</p>	<p>Manual capture of private sector external debts through the Private Sector External Debt Committee</p>	<p>KPMG noted that the External Debt Special Account Unit is required to maintain records of external debt obligation of privately owned companies who transact, via their respective banks, with external creditors through the CBN for disbursement and repayment.</p> <p>Details of outstanding private sector external debt (PSED) are obtained from CBN in Ms-Excel format.</p> <p>There are no disclosures on private sector external debt (PSED) in the DMO annual report for the year 2010, 2011 and 2012.</p> <p>KPMG reviewed the private sector external debt records (PSED) on CS-DRMS and noted that the entries were captured on industry sector basis.</p> <p>The private sector external debt (PSED) data obtained from CBN have not been completely captured on CS-DRMS due to data validation issues.</p> <p>No further testing was performed.</p> <p>Management response:</p> <p>The process of compilation of PSED is still at its nascent stage. A 'Private Sector External Debt' Committee (PSED) was set up by the DMO to ensure proper capturing of PSED data. The committee is chaired by the Director, Debt Recording & Settlement Department (DRSD) is composed of representatives from the CBN and the Federal Ministry of Finance (FMF).</p> <p>The data on private sector external debt data obtained from CBN are yet to be validated with the Deposit Money Banks. Also, PSED data entries on CS-DRMS were done on the industry sector basis due to the volume of data involved, considering that emphasis on PSED for now is on total exposure and not the individual borrowers.</p>
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24. Creation and maintenance of sinking fund

Control Objective
Controls provide reasonable assurance that sinking fund accounts are authorized, and properly maintained for FGN Bonds and external debts.

Process	Ref	Control	Testing performed by KPMG and result
Creation and maintenance of sinking fund Sinking fund accounts are to be maintained for FGN Bonds and other debt products, including external debts to guide against the risk of default. Approval of the OAGF must be obtained for the sinking fund accounts to be created by the CBN	24.1	Approval of the OAGF must be obtained for the sinking fund accounts to be created by the CBN	Per KPMG's review of debt operations during the year beginning 1 January 2010 to 31 December 2012, it was noted as follows: <ul style="list-style-type: none"> • Sinking funds were created and maintained for the MOUs/on-lending facilities with Federal MDAs (See 13.4) • No sinking fund accounts have been created or are being maintained for FGN Bonds and external debts. Hence, no further tests was performed.

25. Public debt reporting and circulation

Control Objective
Controls provide reasonable assurance that periodic public debt reports are published and circulated on timely basis
Controls provide reasonable assurance that publications are reviewed and duly authorized before they are issued to the public

Process	Ref	Control	Testing performed by KPMG and result
Publication of public debt reports The Statistical Analysis and Risk Management Unit (SA&RM) is charged with the responsibility of preparation and publication of the DMO annual and periodic reports showing the public debt stock of the Federal government. For the production of quarterly or annual report, the Team leader of SA&RM sends information requests to the various department of the DMO to provide their inputs. All inputs received are compiled and are used in the publication of the DMO report. Draft reports are first prepared and sent out to the respective departments to confirm the correctness of the report before they are presented for publication or upload on the DMO website.	25.1	<p>The Directors of PSRM, ORD, DRSD and the DG certify and authorize all reports that are to be published or uploaded on the DMO's website</p> <p>Quarterly public debt reports are uploaded on DMO website latest before the end of one month after the reporting period</p> <p>Annual public debt reports are published and uploaded on DMO website latest before the end of the 1st quarter after the reporting year.</p>	<p>KPMG tested 6 samples of quarterly public debt reports issued by the DMO and noted the following:</p> <ul style="list-style-type: none"> • The reports were duly authorized by the DG, DPSRM, DORD, and DRSD • The reports were uploaded on DMO website before the end of the month following the reporting period <p>No relevant exceptions were noted.</p> <p>KPMG tested 3 samples of annual public debt reports issued by the DMO and noted the following:</p> <ul style="list-style-type: none"> • The reports were duly authorized by the DG • The reports were uploaded on DMO website before the end of the 1st quarter after the reporting year • Hard copies of the reports were published <p>No relevant exceptions were noted.</p>

Process	Ref	Control	Testing performed by KPMG and result
The Directors of PSRM, ORD, DRSD and the DG certify all reports that are to be published or uploaded on the DMO's website (www.dmo.gov.ng)			
Publication and circulation of Annual Debt Sustainability Assessment Report on DMO website The Policy, Strategy and Risk Management Department (PSRM) is responsible for conducting the annual debt sustainability analysis workshop to review the debt management performance of the country. The analysis is carried out in conjunction with some other agencies of government including National Bureau of Statistics (NBS), Central Bank of Nigeria (CBN), Budget Office of the Federation (BOF), Office of the Accountant General of the Federation (OAGF) and the Federal Ministry of Finance (FMF). The Debt Sustainability Analysis report is published annually and circulated on the DMO website upon authorization by the Director General.	25.2	The Directors of PSRM, ORD, DRSD, MDD, PMD and the DG authorize all reports that are to be published or uploaded on the DMO's website	KPMG tested 3 samples of annual Debt sustainability assessment report issued by the DMO and noted the following: <ul style="list-style-type: none"> • The reports were duly authorized by the DG • The reports were uploaded on DMO website • Hard copies of the reports were published No relevant exceptions were noted.
Preparation of weekly trading highlights of FGN Bonds The Market Development Department (MDD) is responsible for the preparation of weekly highlight report on FGN Bonds.	25.3	The Director of MDD reviews the FGN Bond Weekly trading highlight reports and forward to PSRM Department.	KPMG tested 24 samples of reports on FGN Bonds Highlights for the Week and checked for the following: <ul style="list-style-type: none"> • Evidence of review by the Director MDD • Evidence of authorization by the Director of PSRM

Process	Ref	Control	Testing performed by KPMG and result
<p>An Officer in MDD collates secondary market reports obtained from the Financial Market Dealers Association (FMDA) and Central Securities Clearing System (CSCS) for data analysis. Also, inquiries are made via phone calls with the market operators, particularly the Primary Dealers and Market Makers (PDMMs) to obtain market information. The data analysis results and information obtained are used in the preparation of the FGN Bond weekly trading highlight report.</p> <p>The report features the summary of trading such as average price, highest price, lowest price, highest priced bond, lowest traded bond, highest traded volume, lowest traded volume, number of bonds traded and number of transactions; daily trading statistics such as number of deals, face value and consideration; mark to market prices as at the end of the week including the maturity dates, terms to maturity and the bond yields.</p> <p>Also, weekly graphical analysis of yield curve changes against the benchmark bonds and other qualitative factors affecting FGN Bonds market are reported.</p> <p>The report is reviewed by the Director of Market Development Department and authorized for publication and upload on the DMO website by the Director of Policy Strategy and Risk Management Department (PSRM) and the Director of Organisational Resourcing Department (ORD)</p>		<p>The reports are authorized for publication on DMO website by the Head of PSRM before upload by the IT Unit.</p> <p>FGN Bonds' weekly trading highlights are uploaded on DMO website before the end of one week following the reporting period</p>	<ul style="list-style-type: none"> • Evidence of authorization by the Director of ORD • Evidence that the report was uploaded on DMO website before the end of one week following the reporting period <p>No relevant exceptions were noted.</p>

Process	Ref	Control	Testing performed by KPMG and result
<p>Preparation of weekly highlights and activities of Eurobond</p> <p>The Market Development Department (MDD) is responsible for the publication and circulation of weekly highlight report of the Nigeria's USD 500 Million 10-Year Eurobond's secondary market performance.</p> <p>An Officer in MDD collates weekly summary reports containing the daily prices and closing yield of the Eurobond for data analysis from Thomson Reuters Eikon, a web-based platform for global financial market information. Other market qualitative and quantitative market information are obtained from eFinancial news.com, Citibank and Bloomberg websites. The report features the weekly graphical analysis of the yield on Nigeria's Eurobond, week-on-week comparative analysis of prices and average yield and other market performance updates.</p> <p>The report is reviewed by the Director of Market Development Department and the Director General, DMO.</p> <p>The reports are then forwarded to the Head of PSRM for publication, who authorizes the IT Unit to upload the publication on the DMO website.</p>	25.4	<p>The Director of MDD reviews the weekly Eurobond trading highlight reports and forward to the head of PSRM and the DG</p> <p>The reports are authorized for publication on DMO website by the Head of PSRM and the DG before upload by the IT Unit.</p> <p>Eurobonds' weekly trading highlights are uploaded on DMO website before the end of one week following the reporting period</p>	<p>KPMG tested 24 samples of reports on Eurobond Secondary Market Performance for the Week and checked for the following:</p> <ul style="list-style-type: none"> • Evidence of review by the Director MDD • Evidence of authorization by the Director of PSRM • Evidence of authorization by the Director of ORD • Evidence of authorization by the Director General • Evidence that the report was uploaded on DMO website before the end of one week following the reporting period <p>No relevant exceptions were noted.</p>

26. Commonwealth Secretariat Debt Recording and Management Software

Control Objective

Controls provide reasonable assurance that the efficiency and adequacy of the Commonwealth Secretariat Debt Recording and Management Software are effective as implemented

Process	Ref	Control	Functionally capable?	Currently in use?	Remark
External Debts:	26.1				
Capturing of new loans		Data Recording - Maker-Checker controls	Available	No	The maker-checker control was not enforced on CS-DRMS
		Input validation controls	Available	Yes	No exception
		Data Validation	Available	Yes	No exception
		Access configuration	Available	Yes	No exception
		Audit trails	Available	No	Audit logs are not independently reviewed for propriety
Setting of forecast rules			Available	Yes	No exception
Calculation of interest and related charges on external borrowings		Validation of parameterization at point of loan capture - Maker -Checker	Available	No	The maker-checker control was not enforced on CS-DRMS
		'Processing' of loans for computation of interest	Available	Yes	No exception
Recording of exchange rates		Flagging notification to update exchange rates/Flagging of dates without exchange rates	Available	No	
Debt Recording - Recording of actual disbursements from creditors		Maker-Checker controls	Available	No	The maker-checker control was not enforced on CS-DRMS
		Input validation controls	Available	Yes	No exception
Debt Maintenance		Audit-trail settings for application user activities and back-end database table actions (e.g. insert, update, delete, drop table, drop user, etc)	Available	No	

Process	Ref	Control	Functionally capable?	Currently in use?	Remark
		Scheduled daily backup of data and configuration settings of the CS-DRMS 2000+	Available	Yes	No exception
Debt Restructuring		Access Configuration Rules	Available	Yes	No exception
Recording external debt service payments		Maker-Checker controls	Available	No	The maker-checker control was not enforced on CS-DRMS
		Input validation controls	Available	Yes	No exception
External debt reporting		Report generation to meet various users need	Available	Yes	No exception
Subnational External Debts	26.2				
Recording of sub-national external debt loan on CS-DRMS		Maker-Checker controls	Available	No	The maker-checker control was not enforced on CS-DRMS
		Input validation controls	Available	Yes	No exception
Setting of forecast rules			Available	Yes	No exception
Calculation of interest (and other related charges)		Validation of parameterization at point of loan capture – Maker Checker	Available	No	The maker-checker control was not enforced on CS-DRMS
		'Processing' of loans for computation of interest	Available	Yes	No exception
Recording actual debt service payments		Maker-Checker controls	Available	No	The maker-checker control was not enforced on CS-DRMS
		Input validation controls	Available	Yes	No exception
Subnational external debt reporting		Report generation to meet various users need	Can be improved	Yes	Reports are maintained on Ms-Excel
Domestic debt operations	26.3				
Capturing and recording of auction result (domestic borrowing)		Data Recording - Maker-Checker controls	Available	No	The maker-checker control was not enforced on CS-DRMS
		Input validation controls	Available	Yes	No exception
		Data Validation	Available	Yes	No exception
		Access configuration	Available	Yes	No exception

Process	Ref	Control	Functionally capable?	Currently in use?	Remark
		Audit trails	Available	No	Audit logs are not independently reviewed for propriety
		Creation of new bidders	Can be improved	Yes	<ul style="list-style-type: none"> The CS-DRMS 2000+ application does not currently support users in creating new bidders for FGN Bonds and NTBs. Hence, new bidders are assigned a default profile (i.e. CBN-Abuja)
Setting of forecast rules			Available	Yes	No exception
Calculation of interest and related charges on domestic borrowings		Validation of parameterization at point of loan capture – Maker Checker	Available	No	The maker-checker control was not enforced on CS-DRMS
		'Processing' of loans for computation of interest	Available	Yes	No exception
Reporting of domestic debt stock		Report generation to meet various users need	Available	Yes	No exception
On-lending operations	26.4				
Recording of on-lending MOUs on CS-DRMS.		Data Recording - Maker-Checker controls	Available	No	The maker-checker control was not enforced on CS-DRMS
		Input validation controls	Available	Yes	No exception
		Data Validation	Available	Yes	No exception
		Access configuration	Available	Yes	No exception
		Audit trails	Available	No	Audit logs are not independently reviewed for propriety
Forecasting and loan repayment scheduling		Forecasting and loan repayment scheduling Existence of automated flags to prevent default	Can be improved	Yes	

Process	Ref	Control	Functionally capable?	Currently in use?	Remark
Accruing interests and other charges		Accruing interests and other charges	Can be improved	Yes	
Recording repayments		Maker-Checker controls	Available	No	The maker-checker control was not enforced on CS-DRMS
		Input validation controls	Available	Yes	No exception
Reporting outstanding balance		Report generation to meet various users need	Can be improved	No	Reports are exported to MS-Excel for easy editing and formatting.
Contingent liabilities operations	26.5				
Capturing and recording of contingent liabilities information			Available	Yes	No exceptions
Reporting and disclosure of outstanding contingent liabilities			Can be improved	Yes	Reports are exported to MS-Excel for easy editing and formatting.
Other Debt Management Operations	26.6				
Special Accounts: Federal Credits	26.6.1				
Capturing of new loans		Data Recording - Maker-Checker controls	Available	No	The maker-checker control was not enforced on CS-DRMS
		Input validation controls	Available	Yes	No exception
		Data Validation	Available	Yes	No exception
		Access configuration	Available	Yes	No exception
		Audit trails	Available	No	Audit logs are not independently reviewed for propriety
Setting of forecast rules			Available	Yes	No exception
Recording of actual payment		Maker-Checker controls	Available	No	
		Input validation controls	Available	Yes	No exception
Reporting of federal credits		Report generation to meet various users need	Can be improved	Yes	Reports are exported to MS-Excel for easy editing and formatting

Process	Ref	Control	Functionally capable?	Currently in use?	Remark
Private Sector External Debt recording and management	26.6.2				
Recording of private sector external debt stock			Can be improved	Yes	Data on Private Sector External Debts were summarised by industry sector for recording on CS-DRMS due to the fact that the emphasis on PSED is on total exposure and not the individual borrowers.
Reporting of private sector external debt stock			Can be improved	Yes	Reports are exported to MS-Excel for easy editing and formatting.

27. Restricting access to systems and data

Control Objective
Controls provide reasonable assurance that physical access to computer networks, equipment, storage media and program documentation is restricted to authorised individuals.
Controls provide reasonable assurance that logical access to computer systems, programs, master data, transaction data and parameter, including access by administration to applications, databases, systems and networks, is restricted to authorised individuals via information security tools and techniques.
Controls provide reasonable assurance that information security policies and guidelines are implemented to ensure adequate protection of information assets
Controls provide reasonable assurance that segregation of incompatible duties is defined, implemented and enforced by logical security controls in accordance with job roles.

Process	Ref	Control	Testing performed by KPMG and result
Information Security/User awareness Information Security policies are yet to be documented and approved by the DMO.	27.1	Information Security policies and guidelines	<p>KPMG carried out the following procedures:</p> <ul style="list-style-type: none"> a. Reviewed DMO's information security policy for adequacy using ISO 27001/2 as reference. b. Ascertain that appropriate level management approved the policy and that the policy has been communicated to all staff c. Verify that at least one personnel is aware of his/her security responsibilities d. Ascertain that at least one requirement in the information security policy has been implemented. <p>KPMG noted that:</p> <ul style="list-style-type: none"> a. DMO is yet to document an information security policy that ensures adequate protection of its information assets within the organization. b. Not tested as DMO is yet to document its Information Security policy

Process	Ref	Control	Testing performed by KPMG and result
			c. Not tested as there exists no Information security policy d. Not tested as no information security policy has been documented
Physical Access	27.2	Access to the server room is restricted to authorised personnel via a manual key lock. Access is granted on a business need basis only. Movements of non-employees in and out of the server room are logged via a manual visitors' register. Closed circuit Television (CCTV) cameras are installed to monitor activities of individuals within the server room. The control mitigates the risk of compromise to information systems resulting from unauthorised physical access to IT assets	KPMG inspected the server room to ascertain the adequacy of existing physical access controls. KPMG noted the following: <ul style="list-style-type: none"> • Access to information processing facilities is restricted to authorized personnel only and visitors on a need basis. Access is restricted using a manual key lock. • A visitor's register is used to capture details of visitor's movement in and out of the data center. Information maintained in the register includes date, name, purpose, time in, time out and signature, equipment type serviced. • Visitors are escorted in and out of the data center by IT/IS personnel and are mandated to sign the visitors register on entry and exit of the server room. We noted that the visitors register was last signed by Nnah Kenneth of the 'TTI infrastructure maintenance' on 24 October 2013. • Server racks in the server room were physically opened as at our date of review of 19 November 2013. We also noted that a server was logically open as at our date of review. However, servers are accessed via remote log-in.
Configuration of Access Rules	27.3	User access roles and privileges are pre-defined on the corporate network and business application (CS-DRMS)	KPMG reviewed privileges granted to 25 CS-DRMS users in order to ascertain that the approved privileges

Process	Ref	Control	Testing performed by KPMG and result
		<p>using management approved menu options. These menu options are used to assign system privileges to users on a need basis.</p> <p>This control mitigates the risk of segregation of duties conflict, resulting from inappropriate assignment of system privileges to users.</p> <p>The Head of Department, Debt Recording and Settlement (DRS) approves access rights to be assigned to new users on the CS-DRMS application in line with their individual functions/roles. Administrators of the active directory and CS-DRMS grant approved privileges to new users.</p> <p>Network</p> <p>-----</p> <p>IT/IS personnel (Murtala Hafizu) creates users on the corporate network based on approved request from HR. They assign users to a pre-existing user group ('User' or 'Administrator') which grants the user privileges to perform tasks including applications, using local and network printers, allow logins locally as well as from the corporate network.</p> <p>CS-DRMS</p> <p>-----</p> <p>IT/IS personnel (Daniel Ajeh) creates user's profiles on CS-DRMS based on authorization via request from the</p>	are in line with the users' job functions, noting certain exceptions.

Process	Ref	Control	Testing performed by KPMG and result
		Head of Department, DRS either verbally or by email. User roles include the following: 'Browser', 'Editor' and 'Administrator'.	
Access Administration - User creation	27.4	<p>Network</p> <p>-----</p> <p>IT officer (Murtala Hafizu) creates users on the network based on authorization received via email from Organization Resource Department (ORD)</p> <p>CS-DRMS</p> <p>-----</p> <p>IT officer (Daniel Ajeh) creates users on CS-DRMS based on authorization received via email or verbally from the Director, DRS.</p>	<p>Our review of the user creation process for a sample of selected users across the network revealed that approved profile creation procedures were followed.</p> <p>No relevant exceptions were noted</p>
Access Administration - User modification/deletion	27.5	<p>Network</p> <p>IT officer (Murtala Hafizu) modifies/disables users on the network based on authorization received via email from HR.</p> <p>CS-DRMS</p> <p>IT officer (Daniel Ajeh) modifies/disables users on CS-DRMS based on authorization received via email from HR unit.</p>	<p>KPMG reviewed the user deletion process for selected users on the business applications (CS-DRMS) to ascertain if the approved procedures were followed in the user deletion process revealed certain exceptions where approved email initiating deletions on the business applications were not provided. KPMG noted that the control is operating effectively. However, there is the need to improve the procedures for archiving emails for profile deletion.</p> <p>KPMG's review of samples of deleted user profiles on the corporate network revealed that user profiles of disengaged staff were deleted.</p>

Process	Ref	Control	Testing performed by KPMG and result
User Identification	27.6	The network and business application i.e. CS-DRMS are configured to request for unique user IDs which are authenticated before access is granted to system users. This control ensures accountability of users on key business applications and mitigates the risk of unauthorised/inappropriate access to information systems.	<p>KPMG carried out the following procedures:</p> <ul style="list-style-type: none"> a. Review DMO's practice to access the adequacy of user identification requirements for the corporate network and CS-DRMS business application b. Review the users on the network and CS-DRMS to ascertain that users are created in-line with the naming conventions set out by management c. Ascertain that users on the network and CS-DRMS access the application via a user ID d. Ascertain that there are no duplicates or generic user IDs on the network and CS-DRMS application <p><i>Findings</i></p> <ul style="list-style-type: none"> a. We noted that DMO is yet to document access control policies to guide the use of user IDs before access is granted to information systems that maintain or access confidential and domestic and external debt information. b. We noted that a practice exist to guide the naming of users on the network and the CS-DRMS application. <p>Network/CS-DRMS</p> <p>User IDs are creating by concatenating the first letter of the user's first name with the user's surname. Consequently, we reviewed the user IDs created on the network and the CS-DRMS application noting no exception.</p> <ul style="list-style-type: none"> c. We observed Principal Operating Officer, External Debt and Special Account (Abdulkadir Haruna) log on to CS-DRMS noting no exception as he logged on using his user ID "AHARUNA". d. Our review of the user IDs on the CS-DRMS revealed no existing duplicate user ID on the

Process	Ref	Control	Testing performed by KPMG and result
			application. However, we noted that two generic user IDs i.e. 'CWS' and 'DRMSSO' on the business application. Further review revealed that these accounts are system administrative accounts and are used for setting up of security rights on the application.
User Authentication	27.7	<p>Information systems are configured to request for passwords which are validated by the system before access is granted to end-users, super users and system administrators. Additionally, passwords security settings which conform to certain requirements such as the need to be changed at specific intervals, and password characters complexity have been configured on the business application and the network.</p> <p>This control ensures accountability of users on key business applications and mitigates the risk of unauthorised/inappropriate access to information systems</p>	<p>KPMG reviewed DMO's practice to assess the adequacy of security requirements for password on the network and business application (CS-DRMS). KPMG also ascertain whether users are required to access the information systems via the use of strong passwords.</p> <p>b. KPMG reviewed password security settings on information systems to ascertain that they have been configured in line with good practice.</p> <p><i>Findings</i></p> <p>a. We noted that DMO is yet to document password requirements to provide proper authentication of users on information systems.</p> <p>b. Our evaluation of the password security settings implemented on the network and key business application (CS-DRMS) against good practice revealed that password security settings on the network and CS-DRMS 2000+ application are yet to be configured in line with leading practice</p>
Super users	27.8	Department heads approves super user privileges to certain users based on a need basis. These users are responsible for performing critical activities on the network and business application.	<p>KPMG carried out the following procedures:</p> <p>a. Review the practice for granting/controlling super user privileges on the CS-DRMS</p>

Process	Ref	Control	Testing performed by KPMG and result
		<p>Activities of super users are logged on the network and business systems respectively.</p> <p>The Head, Organization Resourcing Department (ORD) and the Head, DRS are responsible for granting super user privileges on the network and CS-DRMS application respectively to authorised users on a need basis.</p>	<p>b. Verify if super user profiles are granted/controlled on the network and CS-DRMS in line with the existing practice</p> <p>c. Verify that the activities of super users are logged and independently reviewed. Also, ascertain that access to super-user profiles is dual controlled.</p> <p><i>Findings</i></p> <p>a. We noted that DMO is yet to document policies to guide the assignment of super user privileges to authorized individuals on a need basis only. However, our discussions with the Head, IT/IS (Joseph Odo) revealed that users are typically created with a default role of 'browser' and subsequently provided with higher privileges based on verbal or email authorization from the Director, DRSD.</p> <p>b. We noted that the two (2) super users exist on the CS-DRMS application namely:</p> <ul style="list-style-type: none"> • DRMSSO • CWS <p>Our discussion with Assistant Chief Operations Officer (Daniel Ajeh) revealed the 'DRMSSO' profiles is used by IT/IS personnel for creation and deletion of users and user roles as well as other user administrative activities (e.g. setup of security rights, force logoff of users, administration of user and audit trails settings) while the 'CWS' system profile that possesses full access to all functionalities on the application.</p>

Process	Ref	Control	Testing performed by KPMG and result
			c. We noted that super user profiles on the critical application (CS-DRMS) do not have dual control mechanisms implemented. We also noted that super user activities are not reviewed by Internal Audit as a compensating control for the lack of dual control.
Monitoring	27.9	The internal audit unit is responsible for performing independent assessment of controls to ensure compliance to management approved policies and procedures. However, internal audit unit does not cover review of IT controls within the scope of DMO's integrated audits.	<p>KPMG carried out the following procedures</p> <p>a. Review the organization's audit plan to verify if it provides for the performance of IT audit reviews during the period under review.</p> <p>b. Ascertain if IT audit reviews were performed at least once during the period under review.</p> <p>c. Ascertain if monitoring tools implemented on critical operating systems, databases and applications are reviewed and audited when exception are identified.</p> <p><i>Findings</i></p> <p>a. Our review of the Internal Audit and Compliance Unit (IACU) plan and discussion with the head of IACU (Aiyesimoju Olaitan) revealed that IT controls implemented by management are not evaluated during the monthly internal audit reviews.</p> <p>b. Not tested as the IACU does not perform a review of IT systems and processes.</p> <p>c. We noted that audit logs from the CS-DRMS application and the Oracle database are not reviewed by the internal audit unit for propriety</p> <p>No other exceptions were noted.</p>

28. Providing integrity and resilience to the information processing environment, commensurate with the value of the information held, information processing performed and external threats

Control Objective	
Controls provide reasonable assurance that IT processing is authorised and scheduled appropriately and exceptions are identified and resolved in a timely manner.	

Process	Ref	Control	Testing performed by KPMG and result
Job processing	28.1	<p>Debt recording units performs period-end processing (POP) procedures at the end of each month or bi-monthly to update relevant debt stock with financial transactions. Results of POP are automatically generated in a validation log report. The report contains data validation errors resulting from incomplete and/or inaccurate data entry.</p> <p>The system logs contain information such as instrument ID and error description of the process.</p> <p>Team leaders are responsible for ensuring timely and accurate execution of system jobs</p>	<p>KPMG's review revealed that DMO is yet to document procedures guiding period-end processing. However, per discussion with Director, DRSD (Hannatu Suleiman) and Senior Principal Officer (Chidinma Ewurum), we noted that there exists a practice that guides period-end processing. Below are the detailed steps for the performance of period-end processing at DMO:</p> <p>CS-DRMS</p> <ul style="list-style-type: none"> • Principal officers run required batch programs • Period-end processing is subsequently performed on the business application • Aggregate figures of relevant debt profiles (i.e. domestic and external) are automatically updated <p>b. DMO does not perform documentation of period-end processing activities. However, we reviewed the sample system generated job processing reports noting that the following activities were performed:</p> <ul style="list-style-type: none"> • Processing of bids and actual disbursements • Automatic aggregations <p>No other exceptions were noted.</p>
Anti-virus Management	28.2	<p>Anti-virus practices are in places and are applied to ensure all information systems have the latest virus definitions. DMO has deployed Microsoft ForeFront solution on</p>	<p>KPMG's review of a sample of fifteen (15) information systems to ascertain that the latest virus definitions were deployed on them revealed no exceptions.</p>

Process	Ref	Control	Testing performed by KPMG and result
		<p>the application servers and workstations. The update practice requires that the latest virus definitions are automatically downloaded from Microsoft website to the ForeFront server on a daily basis and subsequently pushed to all servers and workstations on the network.</p> <p>This control mitigates the risk of malicious virus attacks on critical data and information systems</p>	
Environmental controls	28.3	<p>The server room is located on the first floor of the office building location. It is equipped with environmental controls such as air-conditioning systems, temperature and humidity sensors, FM 200 fire suppression system and uninterrupted power supply amongst others to ensure that critical information systems are maintained under appropriate environmental conditions.</p>	<p>a. KPMG discussed with relevant IT personnel and review the DMO's requirements for environmental controls</p> <p>b. KPMG inspected the server room and verify the adequacy of implemented environmental controls.</p> <p><i>Findings</i></p> <p>a. KPMG noted that DMO is yet to document policies and procedures that would guide the implementation and management of environment controls in the server room housing critical information systems.</p> <p>b. KPMG's visit to the server room on 19 November 2013 revealed the existence of the following environmental controls:</p> <ul style="list-style-type: none"> o Air cooling systems (3 units) o Smoke detectors o Fire alarm o FM 200 fire suppression system o Raised floor o Temperature detectors o Server racks o Uninterrupted Power Supply (UPS)

Process	Ref	Control	Testing performed by KPMG and result
			Discussions with the Head of IT/IS (Joseph Odo) revealed that maintenance activities are performed on a periodic basis. KPMG noted that the FM 200 extinguisher was last serviced by 'TTI Infrastructure' on 24 October 2013.
Incident and Problem Management	28.4	Helpdesk functions are managed inhouse by IT/IS personnel. They are responsible for providing support to end-users and ensuring that the business objectives of all IT enabled processes are achieved. IT service requests by users are communicated to IT/IS personnel via email or verbally. An 'IT Support Form Online form' is completed by end-users upon resolution of the incidents.	<p>KPMG reviewed a sample of 25 IT incidents extracted from the 'IT-IS SUPPORT REQUISITION FORM' noting that none of the outstanding issues relate to period between 1 January 2010 and 31 December 2012.</p> <p>No relevant exceptions were noted.</p>
Service level agreement	28.5	Service Level Agreement exists between DMO and third party service providers to ensure optimal service delivery, continuous improved performance and management of the critical information systems and infrastructure. This control mitigates the risk of sub-optimal delivery of services by IT vendors.	<p>KPMG carried out the following procedures:</p> <ul style="list-style-type: none"> a. Review relevant documentation to gain an understanding of policy on SLA and ascertain that SLAs exists for all critical services provided by third parties b. Review one SLA to ascertain if it is valid and critical areas such as confidentiality, key performance indicators, terms and conditions and penalty for performance below agreed service levels are adequately addressed. <p><i>Findings</i></p> <ul style="list-style-type: none"> a. DMO has not documented policies to guide establishing SLAs with third parties to ensure optimal performance from the vendors. We observed that SLAs exist for the following critical IT services: - Provision of maintenance and restructuring services of IT infrastructure at DMO (Telecom Technologies International-TTI)

Process	Ref	Control	Testing performed by KPMG and result
			<p>- Provision of high speed internet access and storage services (Galaxy Backbone)</p> <p>b. Our review of the SLA between DMO and Galaxy Backbone revealed that it is valid (i.e. it is legally binding for the period under review) and covers the following areas:</p> <ul style="list-style-type: none"> - Description of the service to be rendered - Service level definition - Confidentiality - Criteria for termination of service - terms and conditions - Key performance indicators <p>However, we noted that the SLA does not cover penalty for performance below agreed service levels.</p>

29. Business Continuity Plan

Control Objective
Controls provide reasonable assurance that data will be recovered in a timely manner in the event of a disaster or data loss
Controls provide reasonable assurance that the company's disaster recovery plans are documented, approved and tested

Process	Ref	Control	Testing performed by KPMG and result
Backup and Recovery	29.1	Scheduled full backups of critical data on the application database is performed daily. The back-up is stored on-site and off-site. The backups are stored on the application server and transferred to the off-site location (Wuse II, Abuja) on a weekly basis. Test restoration is regularly performed to ensure recoverability of backed-up data. This control mitigates the risk that critical financial data will not be recovered in a timely manner in the event of a disaster/data loss.	<p>a. KPMG reviewed sample of backup reports from the schedule of backups, noting that backups were not performed for seven (7) days out of the 25 days samples selected for testing.</p> <p>b. We noted that DMO does not currently have a process to guide test restoration of backups for core debt management applications.</p> <p>c. Although, Head, IT/IS (Joseph Odo) asserted that test restoration is performed periodically by the IT/IS personnel on CS-DRMS, we were not availed any sample of test restore reports to corroborate the assertion</p> <p>No other exceptions were noted.</p>
Disaster Recovery Plan	29.2	DMO has documented a disaster recovery plan (DRP) detailing key procedures to be undertaken by specific individuals to ensure that the business can recover its infrastructure and operations within a reasonable timeframe in the event of a disaster. IT infrastructure has been installed at an alternate processing centre	<p>KPMG carried out the following procedures:</p> <p>a. Inquire from management and review relevant documentations to ascertain the existence of a formal DRP. Also ascertain that the plan covers the following among others:</p> <ul style="list-style-type: none"> • Identification of critical IT assets • Business impact analysis • Roles and responsibilities of the DR team <p>b. Ascertain if DMO has implemented an alternative processing site and evaluate it for adequacy</p>

Process	Ref	Control	Testing performed by KPMG and result
		(Galaxy Backbone) to ensure continuation of business activities in the event that the primary processing center is unavailable. The DRP is tested monthly to ensure recoverability of IT infrastructure and timely resumption of business operations in the event of a disaster. The control mitigates the risk that DMO would be able to recover its critical IT infrastructure within a reasonable time in the event of a disaster.	<p>c. Verify if at least one key contact in the DRP is aware of his/her role in the event of a disaster.</p> <p><i>Findings</i></p> <p>a. We noted that DMO has a draft Disaster Recovery Plan. The plan details the steps to be performed in the occurrence of any kind of disaster such as fire-outbreaks, civil unrest, terror attacks etc. The plan also identifies key IT process environments where critical mission activities take place (server room, servers, financially critical servers, infrastructure, telephone systems, work-stations, Systems and People). The DRP also details the following amongst others:</p> <ul style="list-style-type: none"> - Purpose of the plan - Scope of the plan - Recovery of critical IT assets such as CS-DRMS, Network and communications infrastructure and Exchange Mailing System. - IT process areas - Disaster Recovery Plan procedures - Roles and responsibilities of the DR team <p>However, the DRP does not clearly detail the following:</p> <ul style="list-style-type: none"> • Planned recovery activities for each of the key IT processes; • Key contacts in the event of a disaster and personnel/group responsible for testing the DRP. <p>b. Our discussion with Head of IT/IS (Joseph Odo) revealed that DMO has a designated DR site at Galaxy Back Bone, 61, Adetokunbo Ademola Crescent, Wuse II, Abuja, FCT. We noted an online backup of the key application database to the DR environment.</p> <p>c. Our discussion with the Head, IT/IS (Joseph Odo) revealed that he is aware of his role in the event of a disaster. He stated that his primary function include ensuring continuous coordination of IT activities as well as providing support to recovery activities.</p> <p>No other exceptions were noted.</p>

GLOSSARY AND ABBREVIATIONS

DMO:	Debt Management Office
KPMG:	KPMG Professional Services
ISAE 3000:	International Standard on Assurance Engagements (ISAE) 3000 <i>"Assurance Engagements other than Audits or Reviews of Historical Financial Information"</i>
FGN:	Federal Government of Nigeria
IMF:	International Monetary Fund
IBRD:	International Bank for Reconstruction and Development
IDA:	International Development Association
ABEDA:	Arab Bank for Economic Development in Africa
aIDB:	Inter-American Development Bank
EDF:	Export Development Fund
ADB:	African Development Bank
AfDF:	African Development Fund
NASS:	National Assembly
FMF:	Federal Ministry of Finance
FEC:	Federal Executive Council
DG, DMO:	Director General, DMO
CBN:	Central Bank of Nigeria
AMCON:	Asset Management Corporation of Nigeria.
OAGF:	Office of the Accountant General of the Federation.
BOF:	Budget Office of the Federation
MoJ:	Ministry of Justice
NSE:	Nigerian Stock Exchange
NPC:	National Planning Commission
NBS:	National Bureau of Statistics
BPE:	Bureau of Public Enterprises
SEC:	Securities and Exchange Commission
PPPRA:	Petroleum Products Pricing Regulatory Agency
ICRC:	Infrastructure Concession and Regulatory Commission

NAICOM:	National Insurance Commission
PENCOM:	National Pension Commission
HMF :	Honourable Minister of Finance
DDSRD:	Director Debt Recording and Settlement Department
PMD:	Portfolio Monitoring Department
DSRD :	Debt Recording and Settlement Department
DSS:	Debt Settlement Section
DSF:	Debt Sustainability Framework
MDD:	Market Development Department
SPD:	Strategic Programmes Department
PSRM:	Policy, Strategy and Risk Management Department
ORD:	Organizational Resourcing Department
LFP:	Loans and other Financing Products Unit
IT:	Information Technology
IS:	Information Systems
IT & IS:	Information Technology/ Information Systems Unit
CCTV:	Closed Circuit Television
IACU:	Internal Audit and Control Unit
CL&RM:	Contingent Liabilities and Risk Management Unit
SIU:	Securities Issuance Unit
MTDS:	Medium Term Debt Management Strategy
MTDF:	Medium Term Expenditure Framework
MTFF:	Medium Term Fiscal Framework
DeMPA:	Debt Management Performance Assessment
CS-DRMS:	Commonwealth Secretariat- Debt Recording and Management System
PDMM:	Primary Dealer Market Makers
FLAC:	Fiscal Liquidity Assessment Committee
MFPCC:	Monetary and Fiscal Policy Coordinating Committee
BMSC:	Bond Market Steering Committee
MoU:	Memorandum of Understanding
FSP:	Fiscal Strategy Paper
DSA:	Debt Sustainability Analysis

DMDs:	Debt Management Departments
FRA:	Fiscal Responsibilities Act 2007
ISA:	Investment and Securities Act 2007
DMO Act:	Debt Management Office (Establishment) Act 2003
USD:	U.S. Dollar
GBP:	Great Britain Pound (Sterling)
EUR:	Euro
ICM:	International Capital Market
MDAs:	Ministries, Departments and Agencies
LCDs:	Local Contractors' Debts
FDI:	Foreign Direct Investment
SDR:	Special Drawing Rights
NTBs:	Nigerian Treasury Bills
FGN Bonds:	Federal Government of Nigeria Bonds
FGN Guarantee:	Federal Government of Nigeria Guarantee
FMBN Bond:	Federal Mortgage Bank of Nigeria Bond
NDMF:	National Debt Management Framework
ISPOs:	Irrevocable Standing Payment Orders
DES:	Data Entry Sheets
SLA:	Subsidiary Loan Agreement
SDN:	Sovereign Debt Notes
SDS:	Sovereign Debt Statements
FAAC:	Federation Account Allocation Committee
EDSA:	External Debt and Special Account
Ms- Excel:	Microsoft Excel
MDGs:	Millennium Development Goals
PPP:	Public-Private Partnership
GES:	Growth Enhancement Scheme
API:	Application Programming Interface
Back office:	Debt Recording and Settlement Department and its units
Front office:	Portfolio Monitoring Department and its units
Middle Office:	Policy Strategy and Risk Management Department and its units