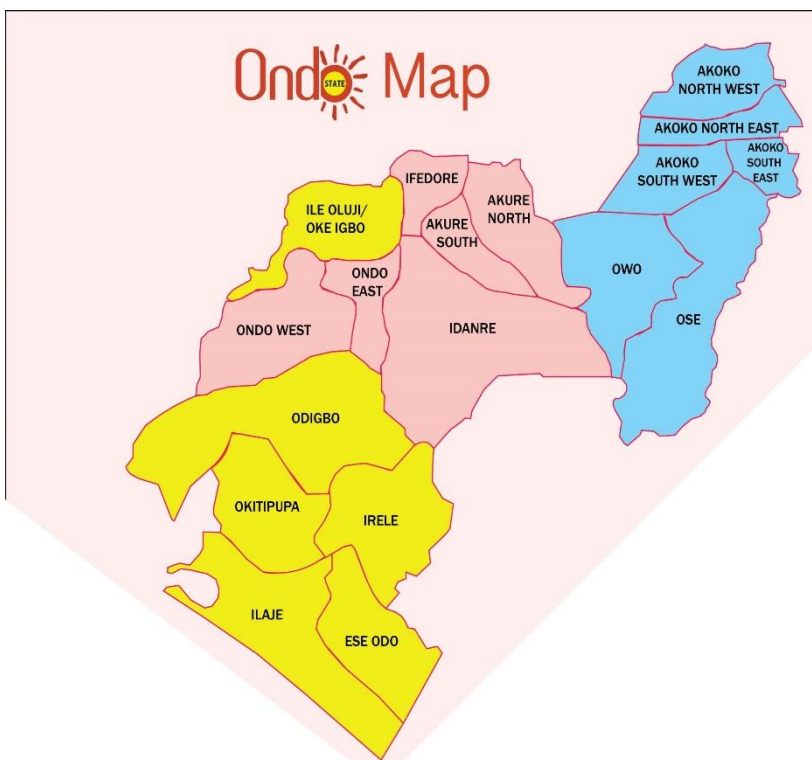


**REPORT ON REVENUES, DEDUCTIONS AND
ANALYSIS OF DISBURSEMENT AND
UTILIZATION OF FUNDS OF SELECTED STATE
GOVERNMENTS 2012 to 2016
ONDO STATE**



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1.0 ONDO STATE PROFILE

1.1 Brief History

Generally referred to as the Sunshine State, Ondo State was one of the seven States created on 3 February 1976 by General Murtala Ramat Muhammed who was the Military ruler of Nigeria from July 30, 1975 until his assassination on February 13, 1976. Created out of the old Western State, the State covered the entire area of the former Ondo Province, created in 1915 with Akure as the provincial headquarters.

1.2 Location, Land mass and Population

Ondo state is located at 7° 05' 35.38"N latitude and 4° 50' 7.01" E longitude. It also has a land area of 15820km² and has a total population of about 4 million with a population density of 221/square kilometre. The State has the longest coast line in Nigeria of ninety kilometres (90km) demonstrating a huge potential for beach resort based tourism.

1.3 Main Cities and Towns

The State capital is in Akure and its motto is "Sunshine State". The major cities and towns include Ondo, Owo, Ikare, Akure, Idanre, Ilaje, Odigbo, Okitipupa, Oka, Irele, Oke-Igbo, Ese Odo, Ifedore and Ose.

1.4 Occupations

Agriculture (including fishing) constitutes the major occupation of the people of the State with large scale production of Cocoa, Palm produce and Rubber. Other crops like Maize, Yam and Cassava are produced in large quantities. Major industries in Ondo State include Nigeria/Romania Wood Industries in Ondo, the Okitipupa Oil Palm Mill, Alpha Industries, Arigidi-Akoko, Catalytic Cocoa Processing Plant, Idanre, Ondo State Asphalt Company, Aponmu, Cassava Foods Company, Ikoya, Tomato Paste Factory, Arigidi, Oluwa Glass Company, Igbokoda and the Premier Metal Industry, Ondo.

1.5 Education

In pursuit of academic excellence, the following higher institutions have been established overtime within the State:

- Adekunle Ajasin University, Akungba Akoko.
- Adeyemi University of Education, Ondo
- Achievers University, Owo
- Elizade University, Ilaramokin
- Federal University of Technology, Akure.
- National Open University of Nigeria, Oke Aro Road, Akure
- Rufus Giwa Polytechnic, Owo
- University of Medical Sciences, Ondo
- Wesley University, Ondo

1.6 Commerce

Ondo State's economy that is the 13th largest in Nigeria is dominated by Oil & Gas and cash crop production, which jointly account for 90% of its Gross State Product (GSP). Ondo State has been the largest Cocoa producer within the Country considering its contribution of over 40% of all cocoa export in Nigeria.

1.7 Solid Minerals Development

The mineral resources available for commercial exploration and exploitation within Ondo State include: Crude oil, Natural gas, Bitumen, Limestone, Kaolin, Granite, Silica Sand, Ball clay, Salt etc. Ondo State is notably one of the nine (9) oil-producing states in Nigeria and it has one of the largest bitumen deposits in the world. Current efforts by the state, in partnership with the Federal Ministry of Mines and Steel Development and private sector investors, have led to the issuance of four bitumen exploration/exploitation licences to the state. Ondo accounts for 12% of national crude oil reserves with potential for oil and gas production, modular refineries and product marketing. Besides having one of the world's largest bitumen deposits and also producing 12% of the country's crude oil, Ondo state also holds pure deposits of Beach Sand Silica considering its ninety kilometre (90km) coastline. The State is willing to collaborate with private investors to utilise its ample natural resources thereby aiding its growth and that of the country.

2.0 REVENUE

2.1 Sources of revenue

The State derives its revenue from two main sources, which is monthly statutory allocation from the Federal Government of Nigeria and Internally Generated Revenue (IGR). The additional sub-sources of revenue generated by the State include Grants and Subventions, Internal loans, External loan etc.

2.2 Statutory Allocation from the Federation Account

This includes all forms of revenue received from the Federation Account as stated and described below:

- Monthly Statutory Allocation
- Value Added Tax (VAT)
- Excess Crude Account
- Budget Augmentation
- Exchange Gain
- SURE- P
- Refund from NNPC

(i) **Monthly Statutory Allocation**

This represents monthly distribution of revenue earned and collected on behalf of the Federal Government from both mineral and non-mineral sources shared among the three tiers of Government. The Allocation is usually made and distributed at the monthly Federation Accounts Allocation Committee (FAAC) Meetings. The Allocation is shared among the States based on the following criteria which is: Equality (40%), Population (30%), Land mass and terrain (10%), Social development factor (10%) and Internal revenue factor (10%).

(ii) **Value Added Tax (VAT)**

Value Added Tax (VAT) is tax charged and payable on the supply of taxable goods and services. It is collected by the Federal Inland Revenue Service (FIRS) and it is usually distributed to the Federal, State and Local Government after deducting 4% cost of collection. VAT is also shared among the States based on the following criteria: Equality (50%), Population (30%) and Derivation (20%)

(iii) **Excess Crude Account**

This is an account which was initiated to protect the implementation of each of the annual budgets from shocks that might arise from shortfalls in oil revenue receipts which could be as a result of fluctuations in prices of oil on the international market. The excess oil revenue over the benchmark volume and price computations accrues to the Excess Crude Account.

(iv) **Exchange Gain**

This is the difference arising from the exchange rate disparity between the budgeted rate and the actual rate and remitted to the Federation Account.

(v) **SURE- P**

Subsidy Reinvestment and Empowerment Program (SURE-P) is a program established for reinvesting the Federal Governments' savings from fuel subsidy removal on critical infrastructure projects and other social safety programmes which will have direct positive impact on the citizens of the Country. The main objectives were to:

- Provide employment for unemployed graduates through internship programmes
- Create database for unemployed youth and reduce social vulnerability.

(vi) **Other Refund**

This is in respect of the money refunded to the coffers of the State which was wrongly deducted, withheld or under paid. For example: Refund from NNPC and Augmentation

2.3 Revenue Process

- The Accountant-General of Ondo State or the representative attends the meeting of Federation Account Allocation Committee (FAAC) every month.
- The Accountant-General receives the FAAC allocation sheet for Ondo State from the meeting. The FAAC meetings proceeding serves as a mandate for the amount to be credited into the Ondo State Bank Account. The Revenue collected into the Federation Accounts are recorded on preceding month basis.
- The Central Bank pays the allocation into the States' respective accounts. The Statutory allocation is credited into the State's FAAC Access bank account, while the VAT amount is paid into the FCMB VAT account.
- On the receipt of the allocation in the States' accounts which are also confirmed in the bank statements, the Treasury Account Officer enters the amount on the receipt side of the manual treasury cashbook and this is verified at the revenue departments by obtaining and reviewing the bank statements and the amounts received is recorded in the books.

2.4 Summary of Annual Distribution of Total Revenue

The table below shows the total revenue received by Ondo State during the years 2012 to 2016.

Table 1: Summary of Annual Distribution of Total Revenue from 2012 to 2016

Year	Total Revenue(₦ 'm)
2012	130,444
2013	107,683
2014	104,047
2015	71,885
2016	67,877
Grand Total	<u>481,936</u>

The total revenue received by the State during the years under review is broken down as follows:

Table 2: Breakdown of total revenue from 2012 to 2016

	2012 N'm	2013 N'm	2014 N'm	2015 N'm	2016 N'm	TOTAL N'm
Statutory Allocation	31,973	36,053	35,824	26,201	19,437	149,488
VAT	7,697	8,430	8,313	8,234	8,513	41,187
Excess Crude Oil Account	12,869	11,184	2,184	223	3,862	30,322
Exchange gain	801	-	403	2,090	4,552	7,846
Refund from NNPC	1,622	1,778	610	92	-	4,102
SURE P	3,067	4,761	4,771	-	-	12,599
Budget augmentation	-	4,533	66	-	-	4,599
External loan	27,000	7,398	763	2,350	3,609	41,120
Solid Mineral Derivation	<u>20,010</u>	<u>24,251</u>	<u>24,448</u>	<u>14,718</u>	<u>10,856</u>	<u>94,283</u>
FAAC revenue (A)	<u>105,039</u>	<u>98,388</u>	<u>77,382</u>	<u>53,908</u>	<u>50,829</u>	<u>385,546</u>
Internally generated revenue	11,639	7,519	10,033	9,582	8,181	46,954
Internal loan	11,234	-	7,637	8,395	253	27,519
Budget support	-	-	-	-	8,614	8,614
Grant and subventions	1,299	1,000	-	-	-	2,299
Miscellaneous	-	-	8,845	-	-	8,845
Dividend & Interest received	<u>1,233</u>	<u>776</u>	<u>150</u>	-	-	<u>2,159</u>
Other revenue (B)	<u>25,405</u>	<u>9,295</u>	<u>26,665</u>	<u>17,977</u>	<u>17,048</u>	<u>96,390</u>
Total revenue (A+B)	<u>130,444</u>	<u>107,683</u>	<u>104,047</u>	<u>71,885</u>	<u>67,877</u>	<u>481,936</u>

Source: Populated template and audited financial statements (2012 to 2016)

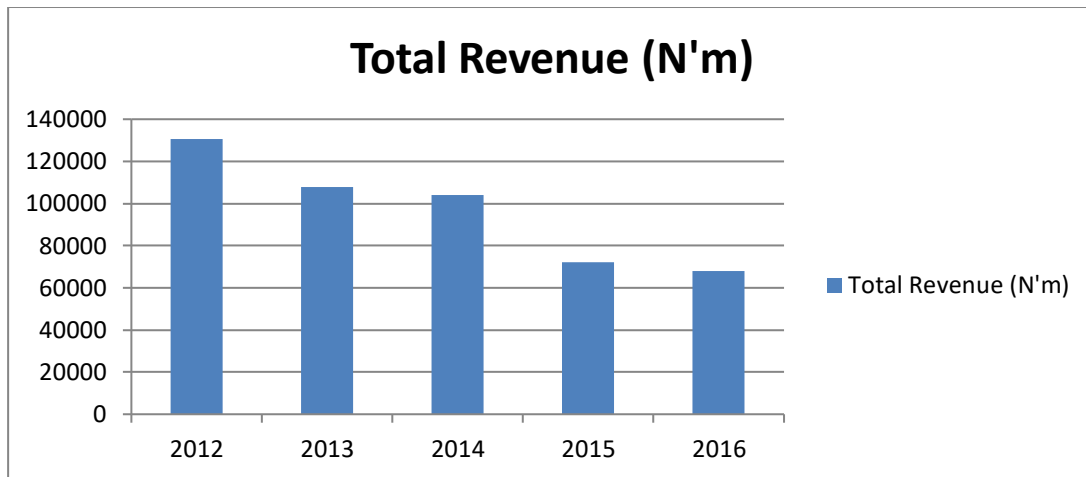


Figure 1: Total Revenue (2012 to 2016)

2.5 Analysis of Revenue Distribution by Sources

The total gross receipts from the Federation Account from 2012 to 2016 was N386 billion. Other forms of revenue generated comprise of grants and subventions, internal loans, budget support, dividend and interest received on investments and internally generated revenue amounting to N97 billion in the years under review. The total revenue generated by the State during the years under review amounted to N483 billion.

The pie charts shown below depict the various analysis of revenue generated by the State on a yearly basis from 2012 to 2016:

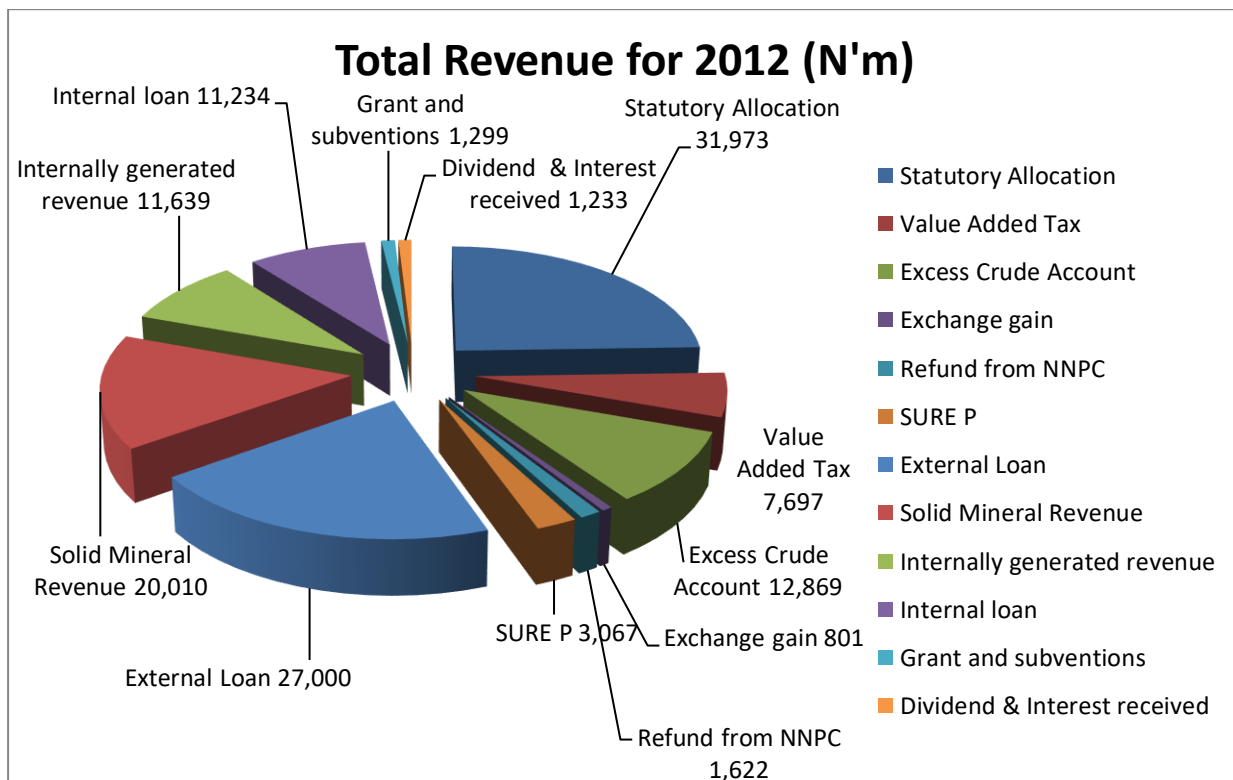


Figure 2: Total Revenue for 2012

The diagram above depicts various revenues earned by the State during the year 2012. It revealed that substantial part of the revenue was in respect of Statutory Allocation

received from the Federation Account amounting to N105 billion or 81% of the total revenue. The State generated internal revenue of N12billion or 9% of total revenue, while the internal loan received stood at N11billion or 9% of the total revenue. Grants and subventions received during the year was N1billion or 1% of the total revenue while dividend, interest received on investments and fixed deposits amounted to N1billion or 1% of the total revenue. The external loan obtained by the State during the year amounted to N27 billion or 21% of the total revenue.

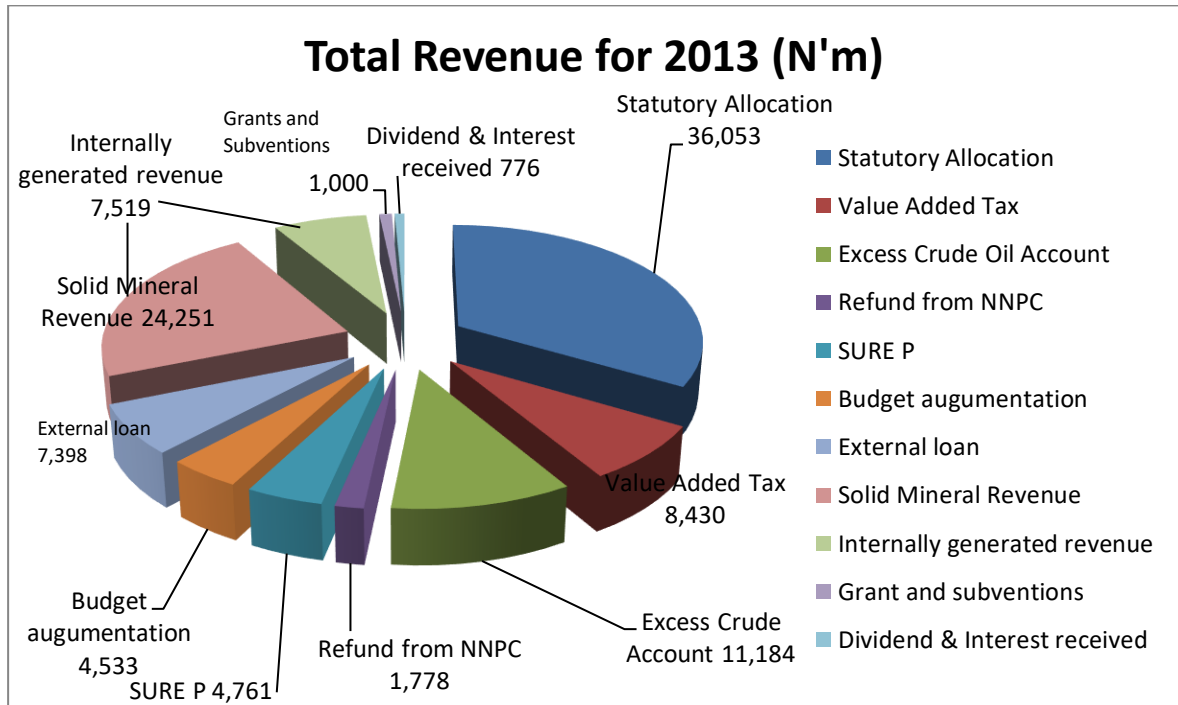


Figure 3: Total Revenue for 2013

The diagram above depicts various revenues earned by the State during the year 2013. The review revealed that substantial part of the revenue was in respect of Statutory Allocation received from the Federation Account amounting to N98 billion or 92% of the total revenue. The State generated internal revenue of N8 billion representing 8% of the total revenue. Dividend and interest received on investments and fixed deposits amounted N776 million representing 1% of the total revenue.

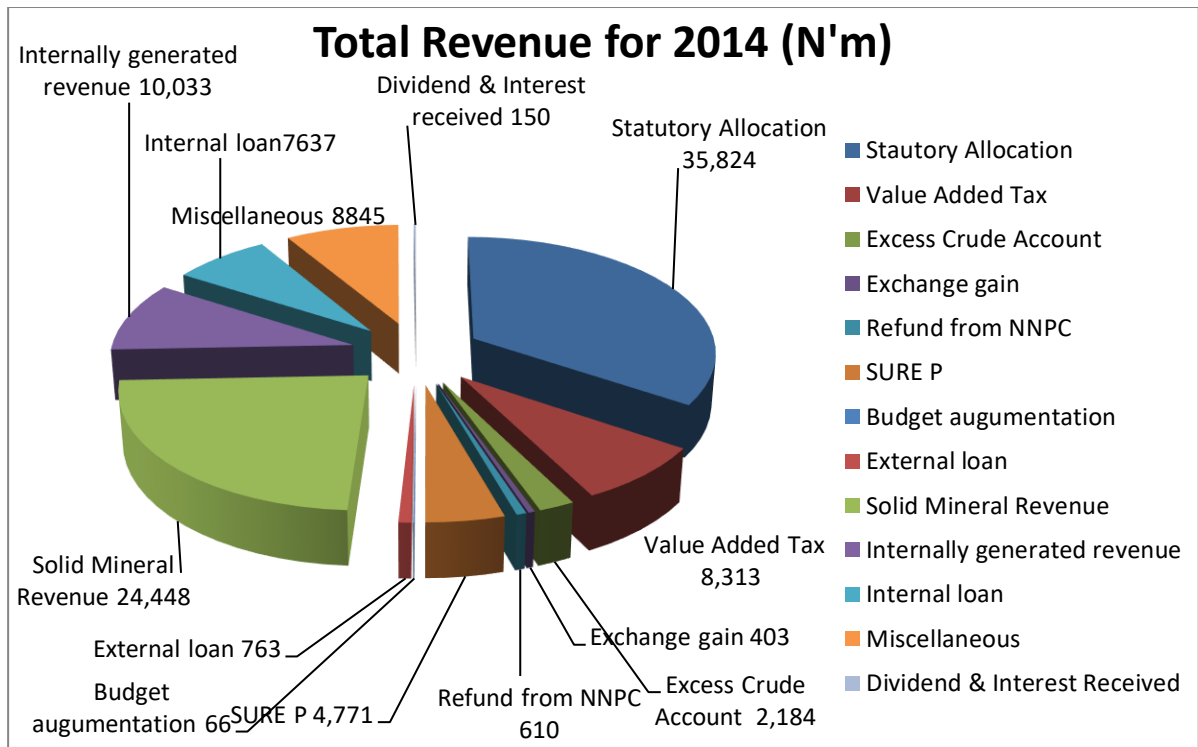


Figure 4: Total Revenue for 2014

The diagram above depicts various revenues earned by the State during the year 2014. It revealed that substantial part of the revenue was in respect of Statutory Allocation received from the Federation Account amounting to N77 billion or 74% of the total revenue. The State generated internal revenue of N10 billion or 10% of the total revenue, while the internal loans received amounted to N8 billion representing 7% of the total revenue. Revenue earned from various streams of income and other miscellaneous receipts amounted to N9 billion representing 8% of the total revenue for the year.

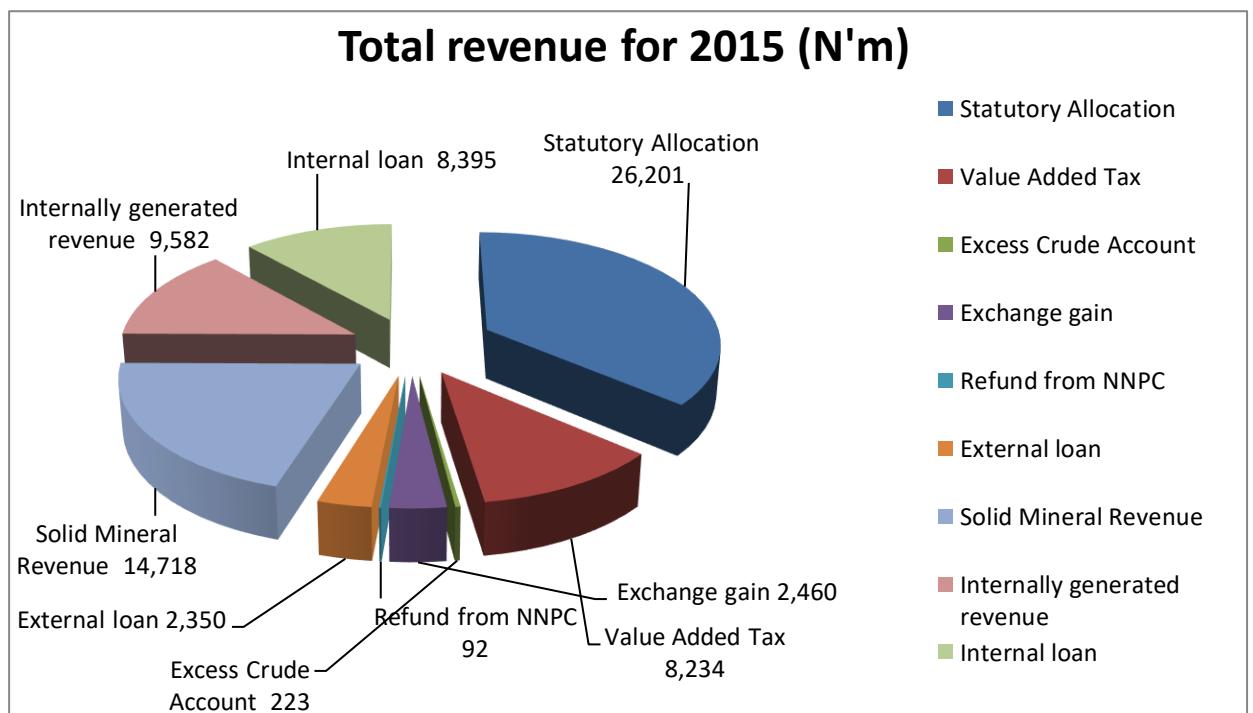


Figure 5: Total Revenue for 2015

The diagram above depicts various revenues earned by the State during the year 2015. It revealed that substantial part of the revenue was in respect of Statutory Allocation received from the Federation Account amounting to N54 billion or 66% of the total revenue. The State generated internal revenue of N10 billion representing 12% of the total revenue while internal loans amounted to N18 billion or 22% of the total revenue for the year.

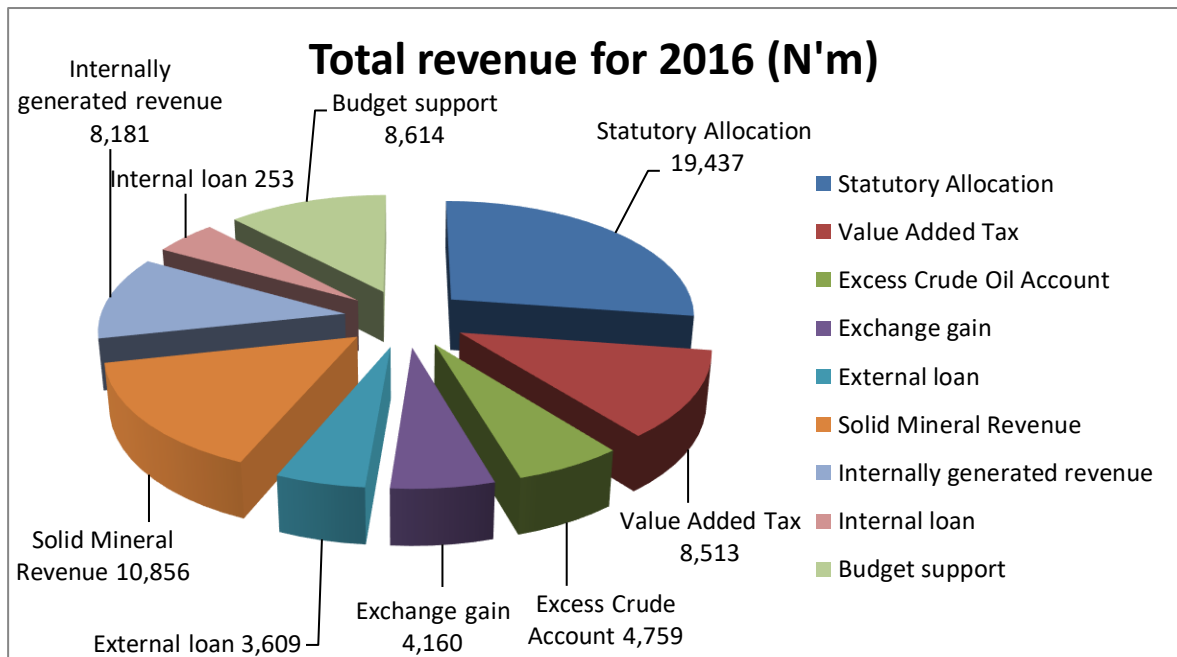


Figure 6: Total Revenue for 2016

The diagram above depicts various revenues earned by the State during the year 2016. It revealed that substantial part of the revenue was in respect of Statutory Allocation received from the Federation Account amounting to N51 billion or 72% of the total revenue. The State generated internal revenue of N8 billion representing 11% of the total revenue, while the internal loan received amounted to N3 billion or 5% of the total revenue. Furthermore, Budget support received from the Federal Government amounted to N9 billion or 12% of the total revenue.

Additional comments on the State revenue include the following:

- (i) The Statutory Allocation slightly decreased from N105 billion in 2012 to N98 billion in 2013. This however witnessed a continuous and sharp decline over the years from N98 billion in 2013 to N77 billion in 2014 and from N54 billion in 2015 to N51 billion in 2016. The decline in statutory allocation is because of the decline in oil prices, which dropped from \$109.45 per barrel to \$40.68 per barrel during the period. The State relied heavily on statutory allocation as its main source of revenue.
- (ii) The States' share of Value Added Tax over the period under review remained stable, increasing from N7.7 billion in 2012 to N8.43 billion in 2013 while over N8 billion was earned yearly between 2013 and 2016.
- (iii) Except for the year 2013, the State borrowed significantly to fund its budget during the period.
- (iv) The State's internally generated revenue witnessed fluctuations over the period of review with a decline from N12 billion in 2012 to N8 billion in 2013 and increased to N10 billion in 2014. In 2015, IGR remained stable but declined to N8 billion in 2016.

3.0 RECURRENT EXPENDITURE

3.1 Types of Recurrent Expenditure

Recurrent expenditure refers to the expenses incurred by the Government for the day to day running of the business of governance. It mainly includes money spent for the settlement of liabilities that are of recurring nature such as payment of bills and administrative overheads. It also includes payment of salaries and overhead costs to various Ministries, Departments, Agencies and Parastatals. The recurrent Expenditure heads include the following:

- **Personnel Emolument**

This represents the salaries and wages and other personnel related expenses incurred by the State Government on the employees and other staff matters within the State Civil service.

- **Overhead Costs**

This is the major item of recurrent expenditure incurred by the State. This is used for the execution of the day to day administrative activities of the Government. It is the expenditure incurred on the states' business and other running cost incurred on events classified under such heads as the special programmes organised by the state and transfers to other funds. These are briefly described below:

-Special programmes:

This represents the monies spent by the State Government for the purpose of organising special events and programmes such as hosting visitors from within and outside the state and scholarship programmes organised within the states.

-Transfer to other Funds:

These are transfers made from recurrent expenditure heads to other funds such as the Capital development funds as the need arises.

- **Consolidated Revenue Charges**

- Pensions & Gratuity

This is the payment made by the State Government to retired employees of the State Civil Service as well as the portion of the State Government's obligation of the contributory pension scheme in line with the Pensions Reform Act, 2004.

- **Grants and subvention**

This is the payments, usually made on monthly basis to ministries and government parastatals for the smooth running of government operations in the state.

- **Loan repayments**

This is the amounts incurred on servicing and managing the State's debt both internal and external loans and other public debts through repayments of principal sum and interest on loan.

3.2 Summary of Total Recurrent Expenditure from 2012 to 2016

The table below shows the summary of total recurrent expenditure incurred by the State during the years 2012 to 2016.

Table 3: Summary of Total Recurrent Expenditure from 2012 to 2016

Year	Total Recurrent Expenditure(₦'m)
2012	70,798
2013	66,169
2014	77,235
2015	78,146
2016	60,585
Grand Total	352,933

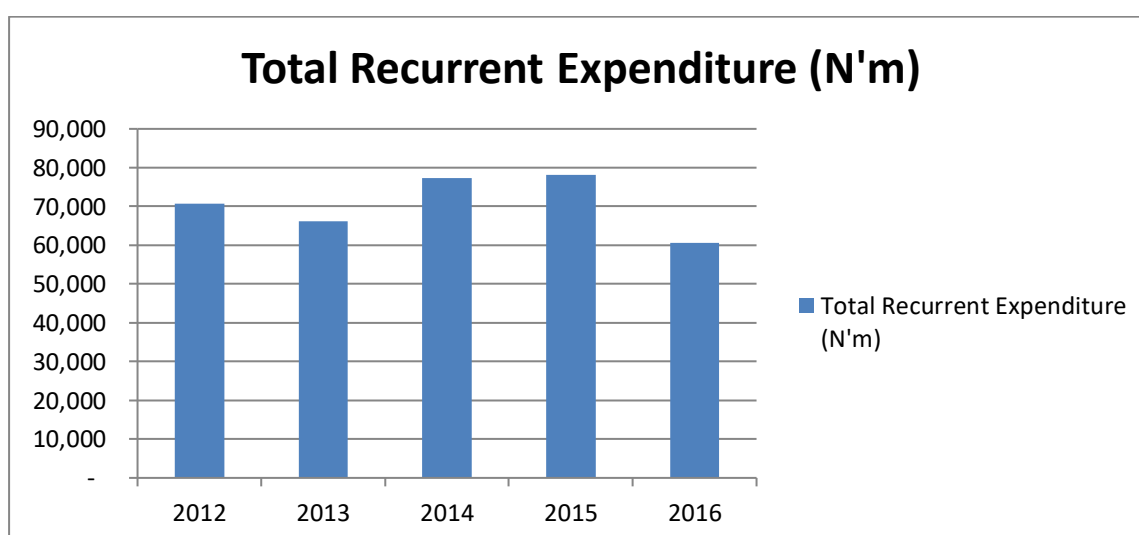


Figure 7: Analysis of Total Recurrent Expenditure (2012 to 2016)

3.3 Comparison of Total Revenue to Total Recurrent Expenditure 2012 to 2016

The table below compares total revenue to total recurrent expenditure of Ondo State during the years 2012 to 2016.

Table 4: Comparison of Total Revenue to Total Recurrent Expenditure 2012 to 2016

Year	Total Revenue (₦'m)	Total Recurrent Expenditure(₦'m)	Percentage of Total Recurrent Expenditure to Total Revenue
2012	117,393	70,798	60
2013	99,285	66,169	66
2014	104,690	77,235	74
2015	81,698	78,146	95
2016	71,532	60,585	85
Grand Total	474,598	352,933	74

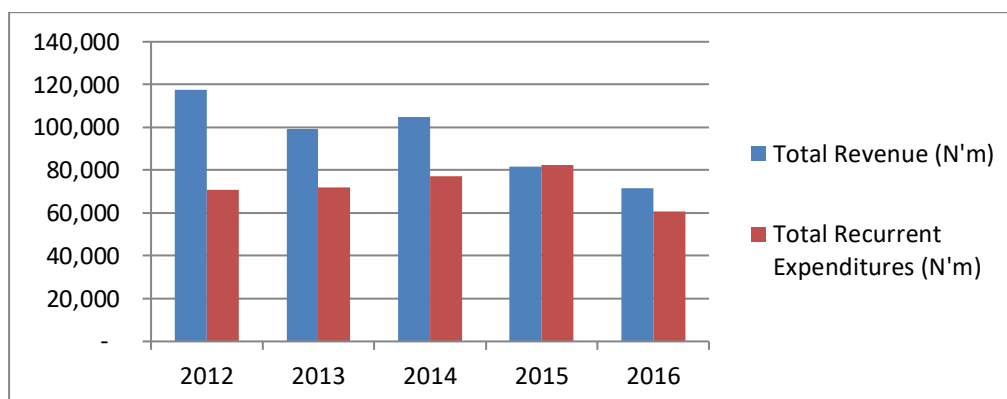


Figure 8: Comparison of Total Revenue with Total Recurrent Expenditure

Table 4.1: Comparing Total Revenue with Total Recurrent Expenditure from 2012 to 2016

Year	Total Revenue(₦'m) A	Total Recurrent Expenditure(₦'m) B	Difference(₦'m) (C=A-B)
2012	117,393	70,798	46,595
2013	99,285	66,169	33,116
2014	104,690	77,235	27,455
2015	81,698	78,146	3,552
2016	71,532	60,585	10,947
Grand Total	474,598	352,933	121,665

The above table shows the proportion of the revenue available for capital expenditure after settlement of recurrent expenditure during the respective years.

Table 5: Breakdown Analysis of Recurrent Expenditure for 2012 to 2016

Recurrent Heads	2012 N'm	2013 N'm	2014 N'm	2015 N'm	2016 N'm	Total N'm
Personnel Costs	27,667	32,348	32,553	28,163	25,797	146,528
Overhead Costs	3,783	3,084	3,085	2,773	2,460	15,185
Special Programmes	-	-	9,750	6,828	9,192	25,770
Transfer to other Funds	15,635	11,029	-	-	-	26,664
Consolidated revenue fund charges	4,712	-	6,618	4,567	5,510	21,407
Grant & Subvention	7,871	7,527	6,162	5,287	4,011	30,858
Retained Earnings Expended by Parastatals	-	-	337	-	-	337
Repayment of	11,130	12,181	18,730	30,528	13,615	86,184

loans/leases						
Total	70,798	66,169	77,235	78,146	60,585	352,933

Source: Populated Template and Audited Financial Statements from 2012 to 2016

3.4 Financial Review of Recurrent Expenditure

- The recurrent expenditure distribution shows that the expenditure incurred by the State over the years under review decreased by N4.6 billion or 6% from N70.8 billion in 2012 to N66.2 billion in 2013. This was because of decrease in amount incurred on transfer to other funds and grant & subvention issued to MDAs during the period under review.
- Recurrent expenditure increased by N1 billion or 1.3% from N77 billion in 2014 to N78 billion in 2015 as a result of huge amounts incurred on loan repayment in 2015 and this decreased thereafter by N17 billion or 22% to N61 billion in 2016. This was attributable to the decrease in the amount incurred on loan repayments in 2016.

The figure below shows the total recurrent expenditure per each recurrent heads according to how money was disbursed during the year 2012 to 2016 under review.

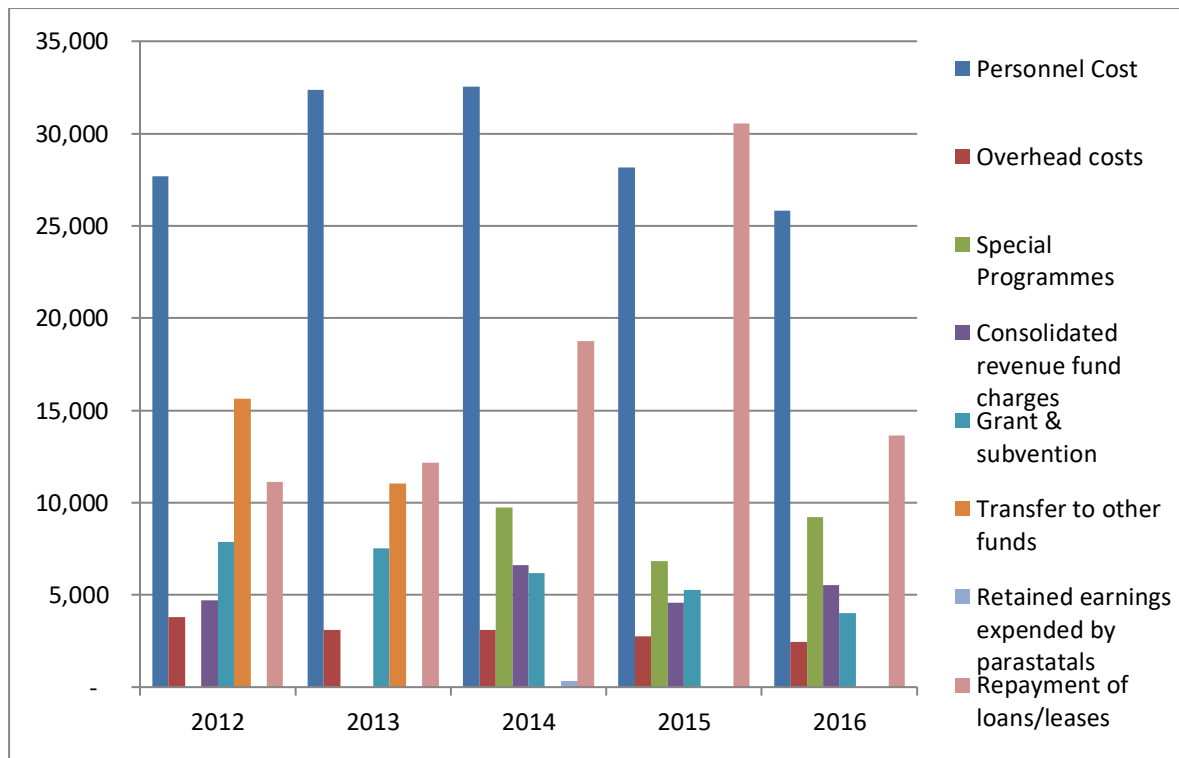


Figure 9: Recurrent Expenditure from 2012 to 2016

4.0 CAPITAL EXPENDITURE

Capital expenditure represents the capital outflows used for the improvement and acquisition of assets and other long term construction for infrastructural development for the benefit of the State. The table and diagram below show the summary of the total Capital expenditure incurred by Ondo State from year 2012 to 2016.

Table 6: Breakdown Analysis of Capital Expenditure from 2012 to 2016

Year	Total Capital Expenditure(₦'m)
2012	43,046
2013	27,538
2014	18,521
2015	30,337
2016	19,226
Grand Total	138,668

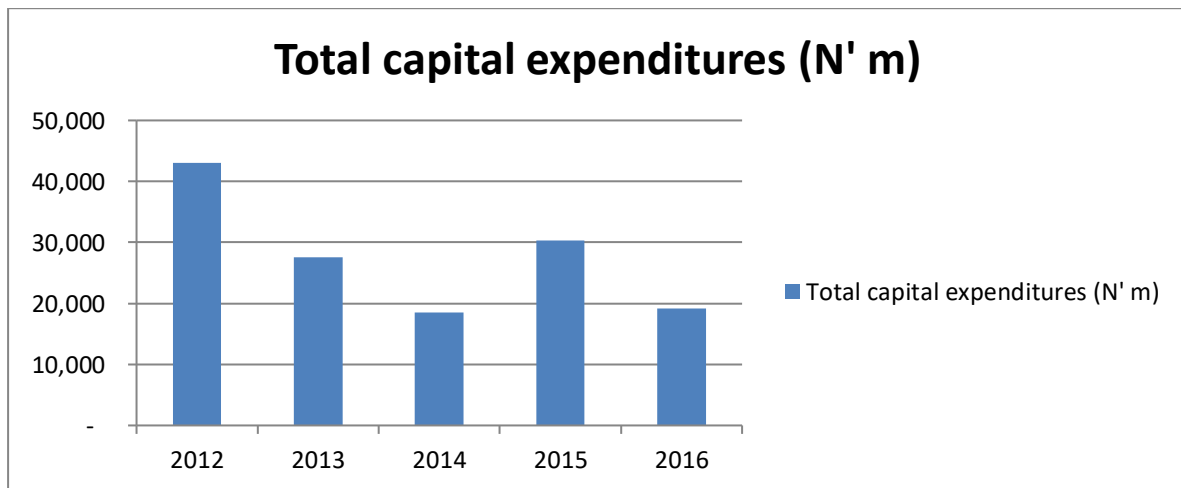


Figure 10: Distribution of Capital Expenditure from 2012 to 2016

Table 7: Breakdown Analysis of Capital Expenditure Per Sector from 2012 to 2016

Capital Expenditure Head/ Years	2012 (N'm)	2013 (N'm)	2014 (N'm)	2015 (N'm)	2016 (N'm)	Total (N'm)
Economic Sector	4,878	3,064	6,184	5,736	7,884	27,746
Social Services Sector	24,211	17,210	4,762	6,173	2,647	55,003
Regional development sector	6,313	3,865	6,473	7,044	4,153	27,848
Administrative Sector	7,644	3,399	895	481	536	12,955
Law and Justice	-	-	207	158	144	509
Funded from Aid and Grants	-	-	-	2,350	3,609	5,959
Funded from	-	-	-	8,395	253	8,648

Internal loans						
Total	43,046	27,538	18,521	30,337	19,226	138,668

During the periods under review, Ondo State disbursed a total of N139billion on capital expenditure.

- The capital expenditure distribution showed that the expenditure incurred by the State decreased by N15billion or 36% from N43billion in 2012 to N28billion in 2013. The decrease was because of reduced expenditure on social services, regional development and the administrative sectors in 2013.
- During the year 2014, the State Government fully commenced and complied with the implementation of reporting of financial statements to IPSAS (International Public Sector Accounting Standards) and this led to some changes in the nomenclature of the sectors.
- Capital expenditure increased by 64% or N11billion from N19billion in 2014 to N30 billion in 2015. This was because of amount incurred through funding capital projects from Funds domiciled in Aids & Grants as well as Internal Loan Portfolio.
- Capital expenditure decreased by 37% or N11billion from N30billion in 2015 to N19 billion in 2016. This was because of decrease in amount incurred on the regional development sector and in the amount incurred on capital projects through funding from internal loans during the year.

The following diagrams below show the actual capital expenditure expended on the various sectors of the State’s Economy during the years 2012 to 2016.

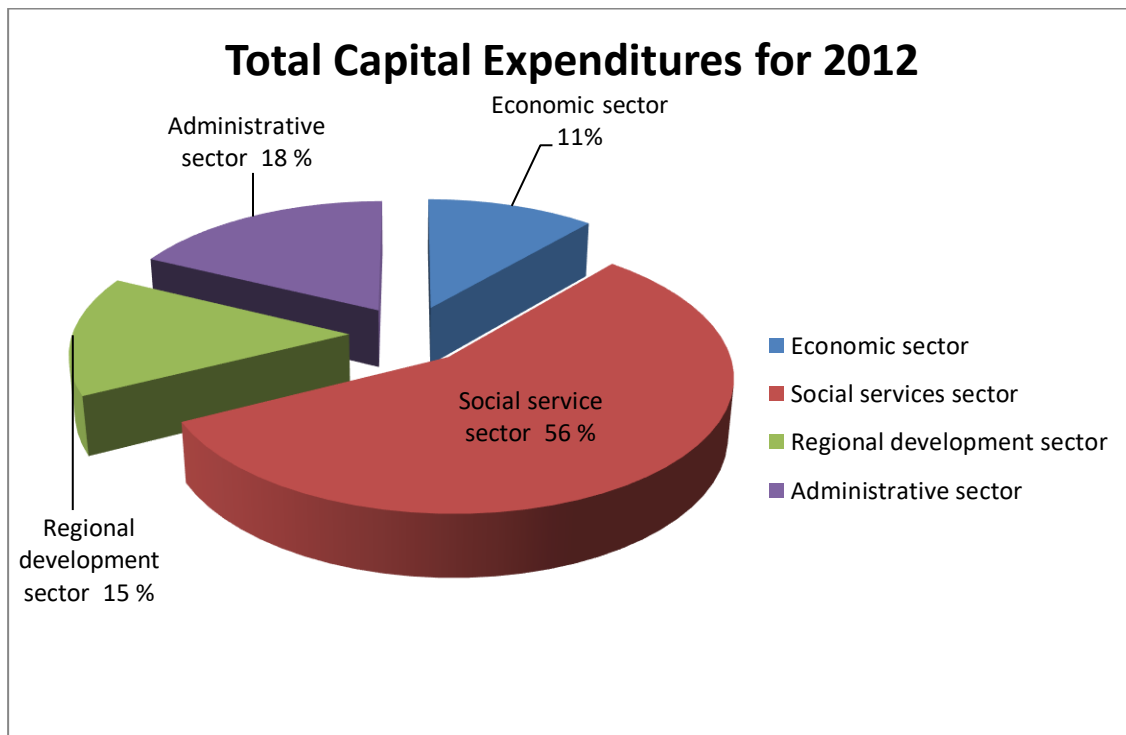


Figure 11: Capital Expenditure for 2012

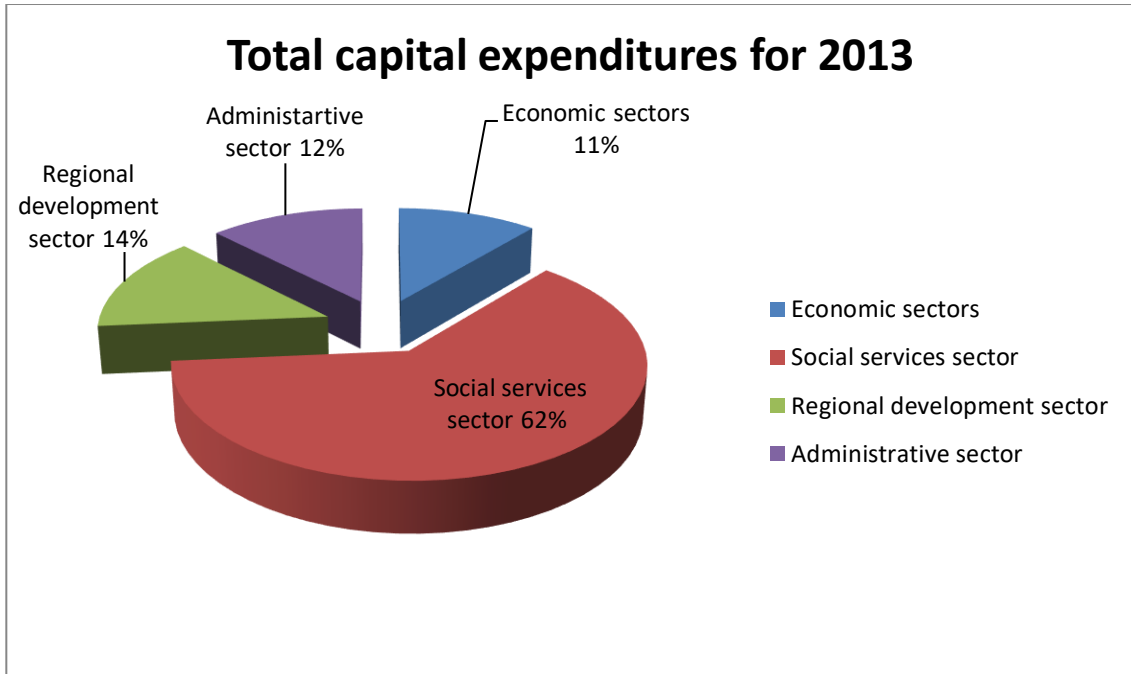


Figure 12: Capital Expenditure for 2013

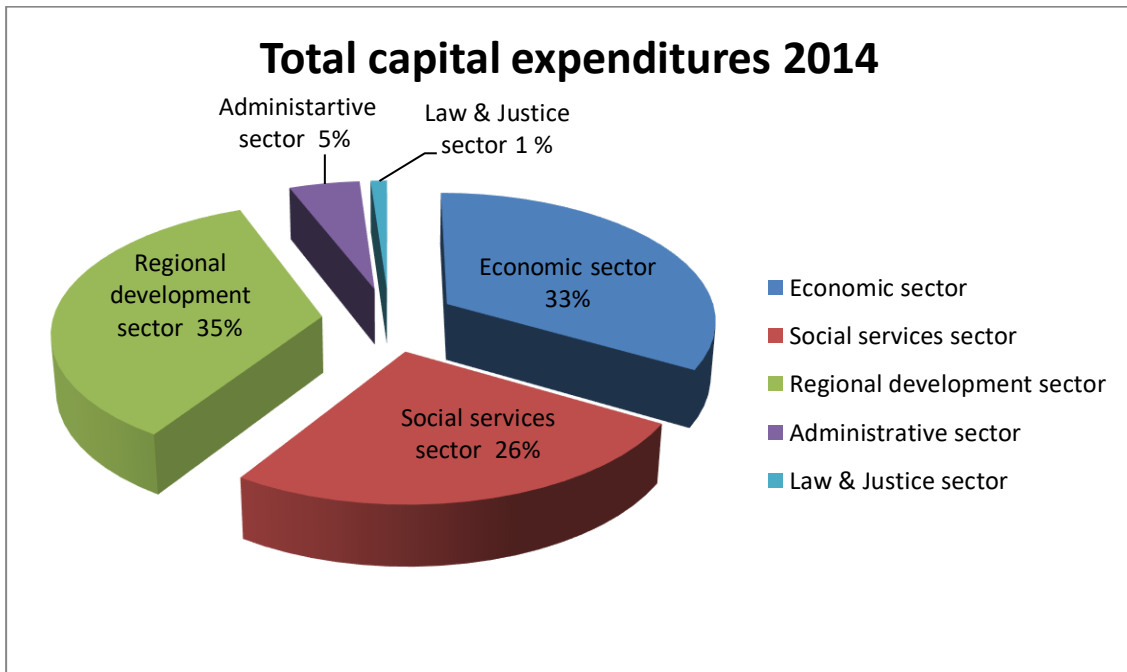


Figure 13: Capital Expenditure for 2014

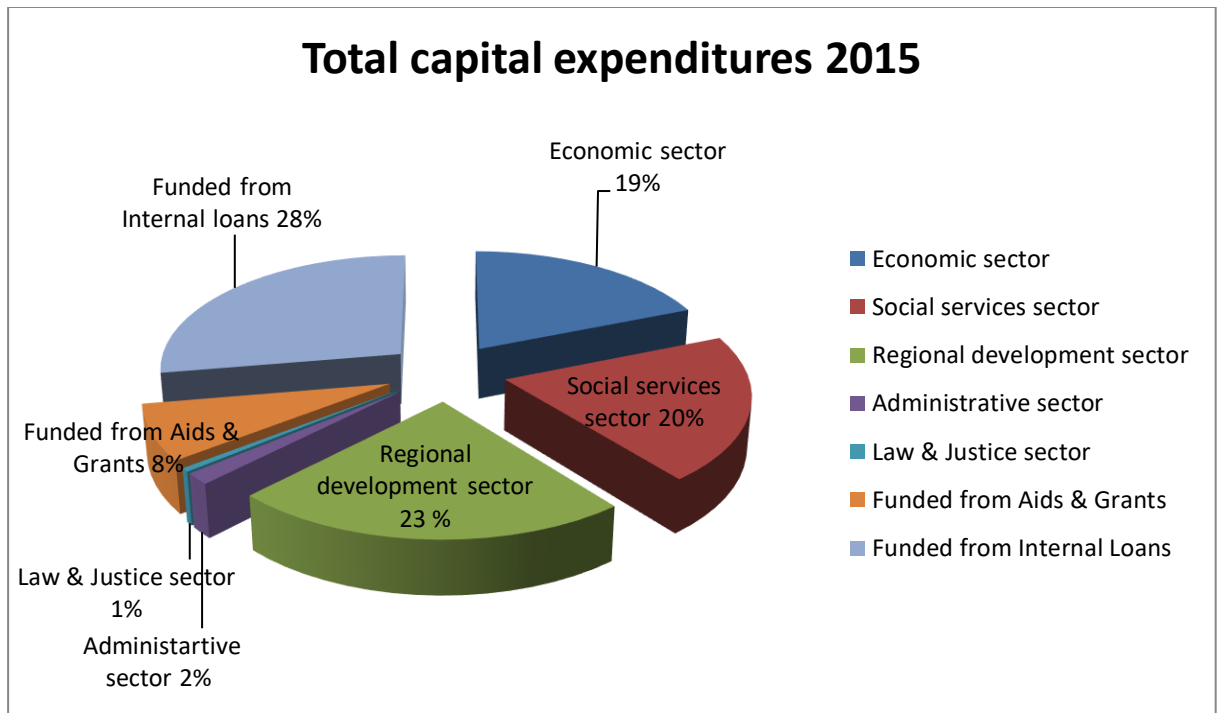


Figure 14: Capital Expenditure for 2015

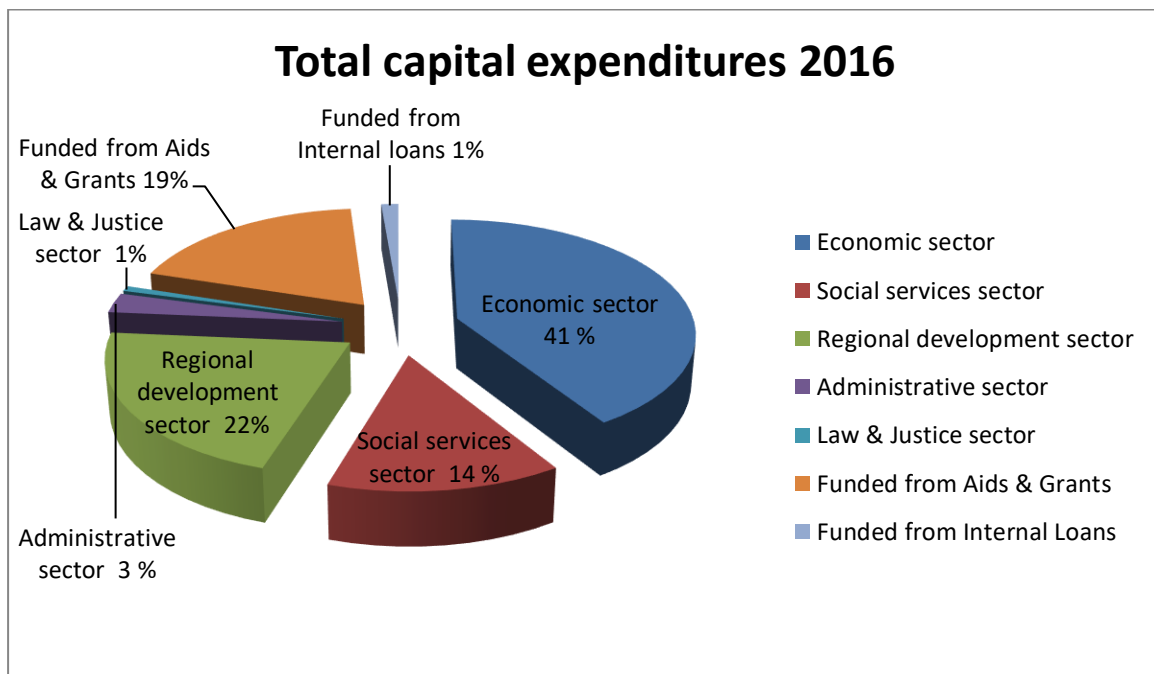


Figure 15: Capital Expenditure for 2016

4.1 Comparison of Total Revenue to Total Capital Expenditure 2012-2016

The table below compares total revenue to total capital expenditure of Ondo State during the years 2012 to 2016.

Table 8: Comparison of Total Revenue to Total Capital Expenditure in % 2012 to 2016

Year	Total Revenue(₦'m)	Total Capital Expenditure(₦'m)	Percentage of total capital expenditure to total revenue
2012	117,393	43,046	37
2013	99,285	27,538	28
2014	104,690	18,521	18
2015	94,018	30,337	37
2016	71,532	19,226	27
Grand Total	474,598	138,668	29

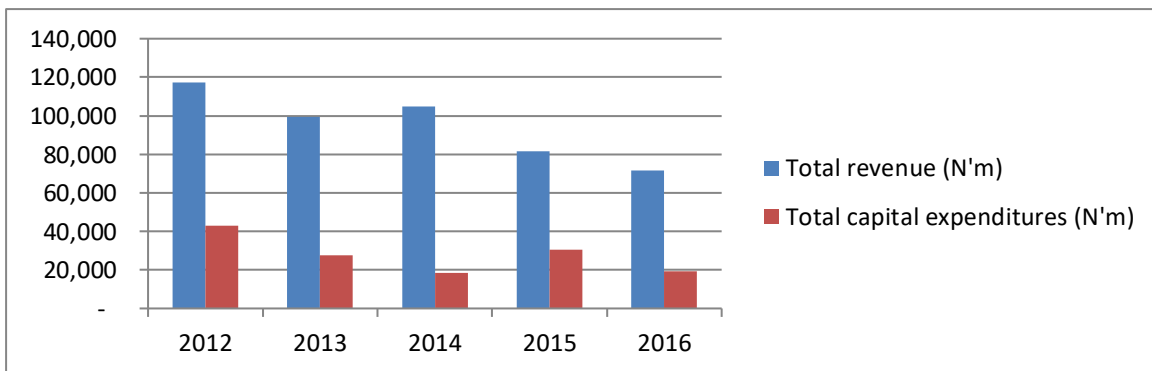


Figure 16: Comparison of Total Revenue with Total Capital Expenditure for 2012 to 2016

From the above chart, it is noted that capital expenditure as a percentage of total expenditure decreased between 2012 and 2014 and increased slightly in 2015 and a slight decrease was also noted in 2016.

Table 8.1: Comparison of Total Revenue to Total Capital Expenditure in Value 2012 to 2016

Year	Total Revenue(₦'m)	Total Capital Expenditure(₦'m)	Incurred on Recurrent Expenditure (₦'m)
2012	117,393	43,046	74,347
2013	99,285	27,538	71,747
2014	104,690	18,521	86,169
2015	81,698	30,337	51,361
2016	71,532	19,226	52,306
Grand Total	474,598	138,668	335,930

The table above shows the proportion of funds incurred on capital expenditure out of the revenue accrued to Ondo State during the period under review.

Table 9: Analysis of Recurrent and Capital Expenditure 2012 to 2016

Year	Total Recurrent Expenditure(₦' m)	Total Capital Expenditure(₦' m)	Total Expenditure (₦' m)
2012	70,798	43,046	113,844
2013	66,169	27,538	93,707
2014	77,235	18,521	95,756
2015	78,146	30,337	108,483
2016	60,585	19,226	79,811
Grand Total	352,933	138,668	491,601

From the table above, it can be concluded that the State incurred the total sum of N492 billion as expenditure from 2012 to 2016, made up of recurrent expenditure of N353 billion and capital expenditure of N139 billion.

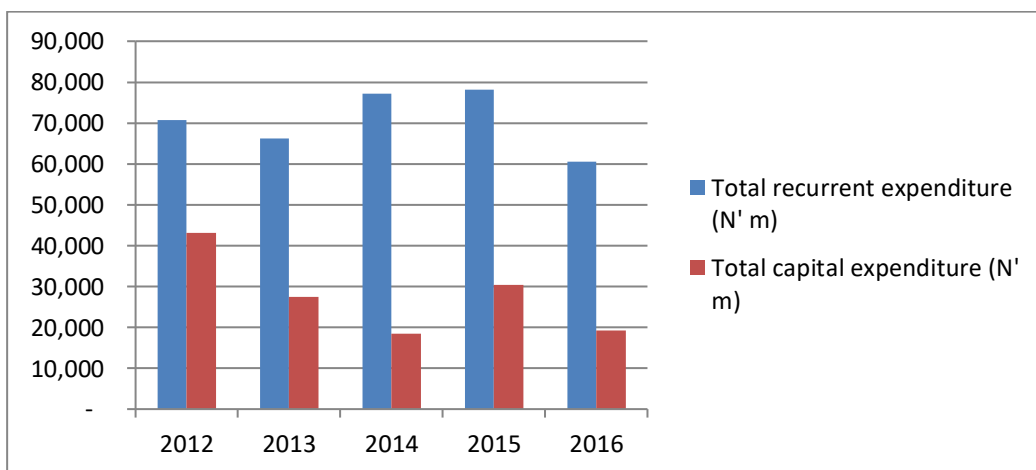


Figure 17: Comparison of Recurrent Expenditure with Capital Expenditure from 2012 to 2016

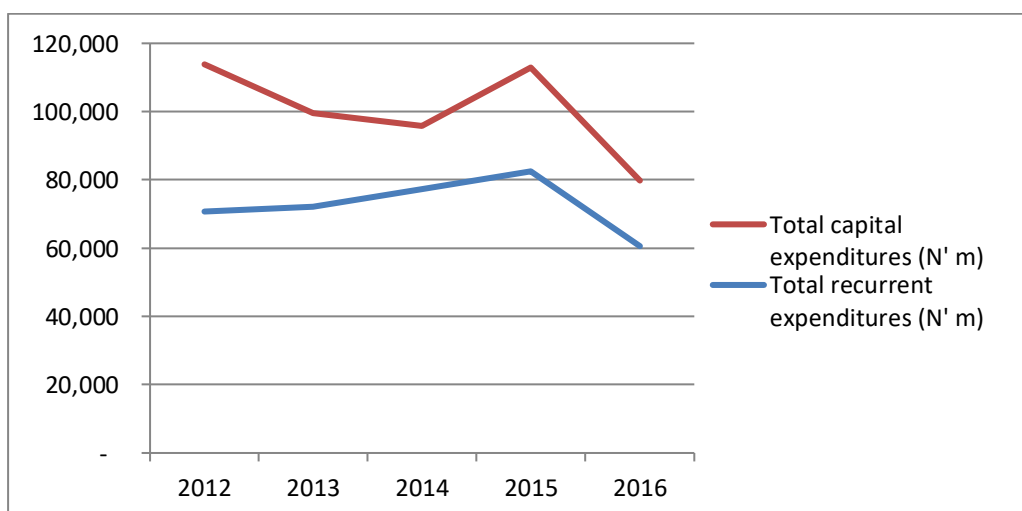


Figure 18: Trend between Recurrent Expenditure and Capital Expenditure from 2012 to 2016

5.00 RECOMMENDATIONS AND CONCLUSION

5.1 Key Findings

- The State budgeted for and spent the larger part of its resources (71%) on recurrent expenditure. This is detrimental to some key sectors in need of capital investment that would have facilitated economic development and consequently result in improved standard of living of Nigerians in the state.
- The State has not maximised the opportunities that abound within to achieve sufficient inflow through internally generated revenue as it relied largely on domestic and foreign loans, as well as salary bailouts to meet the needs of recurrent and capital expenditure.
- The State's financial management information system is deficient and does not adequately allow for transparency as it currently operates manual financial information system. As such, adequate records of the State financial transactions are not readily available and accessible.

5.2 Recommendations

- We recommend that the State reconsider its approach to expenditure in order to achieve effective and efficient allocation of state resources such that, sectors in need of capital investment are given the required level of attention.
- The State should pursue alternative strategies to increase its internally generated revenue; for instance, availability of unique topography and landscape that create opportunity for the state to develop into a top tourist destination.
- We recommend that the State prioritise the computerisation of its financial management information system, operationalise and enforce financial and accounting procedural manuals in line with best practice, to ensure transparency and accountability of its resources.