

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 1. General information

The State financial statements for the year ended 31 DECEMBER 2020 were authorized for issue by the Accountant General on 24<sup>th</sup> January, 2021. Kaduna State Government's (KDSG's) principal activities are the provision of social, infrastructure, educational, housing, justice, transport, agricultural and health services, waste management and emergency services. The State's registered office is located at Independence Way, Kaduna North, Nigeria.

### 2.1 Statement of compliance with IPSAS and transitional explanations

The Federal Executive Council of Nigeria approved the adoption of International Public Sector Accounting Standards (IPSAS) in July 2010. Public Sector Entities were required to adopt, prepare and present 2016 Financial Statements using Accrual Basis IPSAS and Kaduna State was in compliance with Accrual Basis IPSAS from that date. IPSAS therefore became the National Standards in the Public Sector from 2016 and all references to National Standards, if any, refers to the International Public Sector Accounting Standards (IPSAS).

The financial statements have been prepared in accordance with accrual basis International Public Sector Accounting Standards (IPSASs). IPSAS 33 (First Time Adoption of Accrual Basis IPSAS) allows KDSG a period of up to three years to recognize and/or measure certain assets and/or liabilities. The Government views the exercise of identifying and measuring legacy assets as very strategic. Hence KDSG has chosen to be diligent in its approach and consequently require more time to fully accomplish the exercise. Based on the progress made so far, it is expected that the exercise would be concluded soon.

In its transition to accrual basis IPSASs, KDSG took advantage of this transitional exemption for its yet-to-be-valued and yet-to-be-recognized assets and liabilities. Coordinated efforts are currently being made to establish ***fair value assessment*** of all immovable assets controlled by the State. This is to be achieved, in part, through the constitution of a technical committee of relevant and experienced professionals from the Ministry of Works and other Infrastructure related MDAs.

As a result of the foregoing, KDSG is unable to make an explicit and unreserved statement of compliance with accrual basis IPSASs in preparing its transitional IPSAS financial statements for this reporting period.

The State financial statements are presented in Nigerian Naira, which is the functional and reporting currency and all values are rounded to the nearest thousand except where the thousand sign (N'000) is not indicated. The accounting policies have been consistently applied to all the years presented.

The State financial statements are prepared on an accrual basis, except for the Statement of Cash flows and the Statement of Budget comparison with actual amount.

## **2.2 Summary of significant accounting policies**

### **a) Consolidation**

#### *Controlled entities*

The controlled entities are all those entities over which KDSG has the power to govern their financial and operating policies. The entities are Kaduna State Property Development Company, Kaduna Investment and Finance Company Limited, Kaduna State Market Development and Management Company Limited, Kaduna State Transport Authority. These controlled entities are fully consolidated from the date in which control is attained by KDSG. They are de-consolidated from the date that control ceases. Inter-entity transactions, balances and unrealized gains and losses on transactions between members of the State are eliminated in full. The accounting policies of the controlled entities are consistent with the policies adopted by KDSG.

### **b) Interest in joint venture and associates**

Where the State has an interest in a joint venture which is a Joint Arrangement, whereby the venturers have a binding arrangement that establishes joint control over the economic activities of the entity, the State recognizes its interest in the joint venture using the equity method of consolidation. Under the equity method, on initial recognition the investment in an associate or a joint venture is recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of the surplus or deficit of the investee after the date of acquisition. The investor's share of the investee's surplus or deficit is recognized in the investor's surplus or deficit. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's equity that have not been recognized in the investee's surplus or deficit. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognized in net assets/equity of the investor.

KDSG has neither associates nor joint ventures as at 31<sup>st</sup> December, 2020.

### **c) Current versus non-current classification**

KDSG presents assets and liabilities in the statement of financial position based on current/non-current classification.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The State classifies all other liabilities as non-current.

#### **d) Revenue recognition**

##### *Revenue from non-exchange transactions*

###### *Fees, taxes and fines*

The State recognizes revenues from fees, taxes and fines when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably.

###### *Transfers from other government entities*

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the State and can be measured reliably.

##### *Revenue from exchange transactions*

###### *Rendering of services*

The State recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labor hours or cost incurred to date as a percentage of total estimated labor hours or total cost.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

###### *Sale of goods*

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the State.

### *Interest income*

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

### *Dividends*

Dividends or similar distributions are recognized when the shareholder's or the State's right to receive payments is established.

### *Rental income*

Rental income arising from operating leases on investment properties (from irrigations and other properties) is accounted for on a straight-line basis over the lease terms and included in revenue.

## **e) Investment property**

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time the cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property. Investment properties primary comprise irrigation assets and other rental yielding buildings.

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a 40-year period.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use.

## **f) Property, plant and equipment**

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the State recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major overhaul is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

Depreciation on assets is charged on a straight-line basis over the useful life of the asset. Depreciation is charged at rates calculated to allocate the cost or valuation of the asset less any estimated residual value over its remaining useful life:

Buildings	45 - 55 years
Infrastructure assets water	20 - 22 years
Infrastructure assets – others	20 – 22 years
Plant & Machinery	5 - 12 years
Furniture & Fittings	5 - 7 years
Vehicles	5 – 7 years
Office & Other Equipment	4 – 5 years

The assets' residual values and useful lives are reviewed, and adjusted prospectively, if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount, or recoverable service amount, if the asset's carrying amount is greater than its estimated recoverable amount or recoverable service amount.

The State derecognizes items of property, plant and equipment and/or any significant part of an asset upon disposal or when no future economic benefits or service potential is expected from its continuing use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the surplus or deficit when the asset is derecognized.

## **g) Leases**

### *State as a lessee*

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the State. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The State also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the State will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the State. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

#### *State as a lessor*

Leases in which the State does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term.

Rent received from an operating lease is recognized as income on a straight-line basis over the lease term. Contingent rents are recognized as revenue in the period in which they are earned.

#### **h) Intangible assets**

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed as either finite or indefinite.

Intangible assets with a finite life are amortized over its useful life:

Software	10 - 15 years
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Intangible assets with a finite useful life are assessed for impairment whenever there is an indication that the asset may be impaired. Intangible assets with indefinite useful life are tested for impairment at least once year regardless of impairment indicators.

The amortization period and the amortization method, for an intangible asset with a finite useful life, are reviewed at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on an intangible asset with a finite life is recognized in surplus or deficit as the expense category that is consistent with the nature of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the surplus or deficit when the asset is derecognized.

#### *Research and development costs*

The State expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the State can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

## **i) Impairment of non-financial assets**

### *Impairment of cash-generating assets*

At each reporting date, the State assesses whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the State estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets.

Where the carrying amount of an asset or the cash-generating unit (CGU) exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

Impairment losses of continuing operations are recognized in the statement of financial performance in those expense categories consistent with the nature of the impaired asset.

### *Impairment of non-cash-generating assets*

The State assesses at each reporting date whether there is an indication that a non-cash-generating asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the State estimates the asset's recoverable service amount. An asset's recoverable service amount is the higher of the non-cash-generating asset's fair value less costs to sell and its value in use.

Where the carrying amount of an asset exceeds its recoverable service amount, the asset is considered impaired and is written down to its recoverable service amount.

In assessing value in use, the State has adopted the depreciation replacement cost approach. Under this approach, the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The depreciated replacement cost is measured as the

reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

In determining fair value less costs to sell, the price of the assets in a binding agreement in an arm's length transaction, adjusted for incremental costs that would be directly attributed to the disposal of the asset is used. If there is no binding agreement, but the asset is traded on an active market, fair value less cost to sell is the asset's market price less cost of disposal. If there is no binding sale agreement or active market for an asset, the State determines fair value less cost to sell based on the best available information.

For each asset, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the State estimates the asset's recoverable service amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable service amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable service amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in surplus or deficit.

## **j) Financial instruments**

### **Financial assets**

#### **Initial recognition and measurement**

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The State determines the classification of its financial assets at initial recognition.

The State's financial assets include: cash and short-term deposits; trade and other receivables; loans and other receivables; quoted and unquoted financial instruments.

#### **Subsequent measurement**

The subsequent measurement of financial assets depends on their classification.

#### ***Financial assets at fair value through surplus or deficit***

Financial assets at fair value through surplus or deficit include financial assets held for trading and financial assets designated upon initial recognition at fair value through surplus and deficit. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through surplus or deficit are carried in the statement of financial position at fair value with changes in fair value recognized in surplus or deficit. KDSG does not have any 'financial assets at fair value through surplus or deficit' as at 31 DECEMBER 2020.



### ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit. KDSG does not have any 'loans and receivables' as at 31 DECEMBER 2020.

### ***Held-to-maturity***

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the State has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit. KDSG does not have any 'held to maturity' as at 31 DECEMBER 2020.

### ***Available-for-sale financial assets***

The State classifies available-for-sale financial assets as non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity or financial assets at fair value through surplus or deficit.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with gains or losses recognized directly in net assets through the statement of changes in net assets until the financial asset is derecognized, at which time the cumulative gain or loss is recognized in surplus or deficit.

### ***Derecognition***

The State derecognizes a financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets when:

- The rights to receive cash flows from the asset have expired or is waived
- The State has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party; and either: (a) the State has transferred substantially all the risks and rewards of the asset; or (b) the State has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

## **Impairment of financial assets**

The State assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or a group of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g., changes in arrears or economic conditions that correlate with defaults)

### ***Financial assets carried at amortized cost***

For financial assets carried at amortized cost, the State first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the State determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in surplus or deficit. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or transferred to the State. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in surplus or deficit.

## **Available-for-sale financial assets**

For available-for-sale financial assets, the State assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of financial assets classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value was below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the surplus or deficit – is removed from the reserve in net assets and recognized in surplus or deficit.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in surplus or deficit.

## **Financial liabilities**

### **Initial recognition and measurement**

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The State determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

The State's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, financial guarantee contracts.

### **Subsequent measurement**

The measurement of financial liabilities depends on their classification.

Financial liabilities at fair value through surplus or deficit

Financial liabilities at fair value through surplus or deficit include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through surplus or deficit.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the State that are not designated as hedging instruments in hedge relationships as defined by IPSAS 29.

Gains or losses on liabilities held for trading are recognized in surplus or deficit.

### **Loans and borrowing**

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

### **Derecognition**

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in surplus or deficit.

### **Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the State statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

### **Fair value of financial instruments**

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

### **k) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. For the purpose of the State's statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

### **l) Inventories**

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- Raw materials: purchase cost
- Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the State.

#### **m) Provisions**

Provisions are recognized when the State has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the State expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement. The provisions primarily arise from ongoing litigations and from long-term environmental obligations for which there is present obligations, outflow is probable and reliable estimates could be made.

#### **Restoration / Decommissioning liability**

Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognized as part of the cost of that particular asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the restoration/decommissioning liability. The unwinding of the discount is expensed as incurred and recognized in the statement of financial performance as a finance cost. The estimated future costs of decommissioning are reviewed

annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

### **Contingent liabilities**

The State does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

### **Contingent assets**

The State does not recognize a contingent asset, but discloses details of a probable asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the State in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

## **n) Changes in accounting policies and estimates**

The State recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

The State recognizes the effects of changes in accounting estimates prospectively by including in surplus or deficit.

## **o) Employee benefits**

### **Retirement benefit plans**

The State provides retirement benefits for its employees and political officer holders.

**Defined contribution plans** are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

**Defined benefit plans** are post-employment benefit plans other than defined-contribution plans. The defined-benefit funds are actuarially valued based on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis. The contributions and lump sum payments reduce the post-employment benefit obligation.

### **Short and long-term employee benefits**

The cost of all short-term employee benefits, such as leave pay, is recognized during the period in which the employee renders the related service. The State recognizes the expected cost of performance bonuses only when the State has a present legal or constructive obligation to make such payment, and a reliable estimate can be made.

The State provides long-term incentives to eligible employees, payable on completion of years of employment. The State's liability is based on an actuarial valuation. The projected unit credit method has been used to value the obligation. Actuarial gains and losses on the long-term incentives are fully accounted for in the statement of financial performance.

### **p) Foreign currency transactions**

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Payables and receivables denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

### **q) Borrowing costs**

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment.

Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

### **r) Related parties**

The State regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the State, or vice versa. Members of key management are regarded as related parties and comprise the State Executive Committee Members and Heads of Ministries, Departments and Agencies.

### **s) Service concession arrangements**

The State analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the State recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through

ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the State also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

#### **t) Budget information**

The State intends to prepare accrual basis budget in the nearest future when all planned costs and income are presented in a single statement to determine the needs of the State. As a result of the adoption of the accrual basis for budgeting purposes, there would be no basis, timing or entity differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts. Pending the transition to accrual basis budgeting however, the State would prepare statements of budget comparison on cash basis.

#### **u) Significant judgments and sources of estimation uncertainty**

The preparation of the State's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

#### **Judgments**

In the process of applying the State's accounting policies, management has made judgments, which have the most significant effect on the amounts recognized in the State financial statements.

#### **Operating lease commitments – State as lessor**

The State has entered into property leases of certain of its properties. The State has determined, based on an evaluation of the terms and conditions of the arrangements, (such as the lease term not constituting a substantial portion of the economic life of the commercial property) that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

#### **Estimates and assumptions**

In accordance with IPSAS 1 P. 140, the key assumptions concerning the future and other key sources of estimating uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The State based its assumptions and estimates on parameters available when the State financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the State. Such changes are reflected in the assumptions when they occur.

#### **Useful lives and residual values**



The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the State
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

### **Impairment of non-financial assets – cash-generating assets**

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change, which may then impact management's estimations and require a material adjustment to the carrying value of tangible assets.

The State reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Cash-generating assets are stated at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates of expected future cash flows are prepared for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

### **Impairment of non-financial assets – cash generating assets**

The State reviews and tests the carrying value of non-cash-generating assets when events or changes in circumstances suggest that there may be a reduction in the future service potential that can reasonably be expected to be derived from the asset. Where indicators of possible impairment are present, the State undertakes impairment tests, which require the determination of the fair value of the asset and its recoverable service amount. The estimation of these inputs into the calculation relies on the use of estimates and assumptions. Any subsequent changes to the factors supporting these estimates and assumptions may have an impact on the reported carrying amount of the related asset.

### **Fair value estimation – financial instruments**

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, judgment is required in establishing fair values. Judgment

includes the consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

### **Provisions**

Provisions were raised and management determined an estimate based on the information available.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

Provision is made for the estimated cost to be incurred on the long-term environmental obligations, comprising expenditure on pollution control and closure over the estimated life of the landfill. The provision is based on the advice and judgment of qualified engineers.

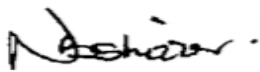
The increase in the restoration provision due to passage of time is recognized as finance cost in the statement of financial performance.

The cost of ongoing programs to prevent and control pollution and rehabilitate the environment is recognized as an expense when incurred.

### **Held-to-maturity investments and loans and receivables**

The State assesses its loans and receivables and its held-to-maturity investments at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the State evaluates the indicators present in the market to determine if those indicators are indicative of impairment in its loans and receivables or held-to-maturity investments.

Where specific impairments have not been identified the impairment for receivables, held-to-maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.



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**Accountant General, Kaduna State**

**30<sup>th</sup> January, 2021**