

PN. ACT-441  
# 20908

Presentation To:  
**National Electric  
Power Authority**

# **RECOMMENDATIONS Unbundling NEPA Finance and Accounts**



**February 2001**

**23865-239-115-0004**

# ***Overview of Presentation***

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- **Introduction**
- **Bottlenecks for Decentralization of NEPA**
- **F&A Unbundling: Key Issues and Recommendations**
- **Lines of Authority and Reporting between HQ, Sector and Zones**
- **Recommended F&A Organization**
  - ◆ **HQ**
  - ◆ **Sector**
  - ◆ **Zone/Region**
- **Financial Management Functions at the BU Level**
- **Accounts Unbundling and Transfer Pricing**
- **Next Steps for NEPA**
- **Next Steps for Nexant Team**



# ***Introduction***

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- **Nexant Scope of Work**

- ◆ **F&A Functional Unbundling**
- ◆ **Accounts Unbundling**

- **Purpose of Presentation**

- ◆ **Recommend F&A organization at HQ, Sector and Zone/Region**
- ◆ **Recommend F&A reporting relationships and functions**
- ◆ **Present status report on unbundling accounts activities**
- ◆ **Recommend next steps for NEPA management**



# ***Bottlenecks for Decentralization of NEPA***

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## ***Bottlenecks:***

- **Unpredictable and inadequate revenues available to allocate from HQ to BUs**
- **Underdeveloped BU management capabilities at lower levels of organization**
- **Inadequate MIS and IT capabilities**

## ***Conclusions:***

- **NEPA is not ready for immediate unbundling to Zones and Regions.**
- **Unbundling the HQ organization into G, T and D/M Sectors is a first step towards regionalisation.**
- **Regional BUs should be phased in during pre-privatisation period and strengthened to meet higher standards of performance and reporting. Pilot unbundling of Lagos Zone is a first step.**
- **Need management training and basic hardware and software for MIS and IT.**



# ***F&A Unbundling***

## ***Key Issues and Recommendations***

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<b>Issue</b>	<b>Recommendation</b>
<b>What F&amp;A functions should be implemented at each level of the organization?</b>	<ul style="list-style-type: none"><li>▪ <b>Reduce size of HQ F&amp;A</b></li><li>▪ <b>Strengthen F&amp;A functions at Sectors</b></li><li>▪ <b>Gradually increase F&amp;A functionality at Zones and Regions</b></li></ul>
<b>What should be the reporting relationships between F&amp;A levels?</b>	<b>Maintain reporting relationships between <u>all</u> levels of F&amp;A from HQ to operating units.</b>



Recommendation	Issue
<ul style="list-style-type: none"> <li>▪ Maintain existing system whereby collections are transferred to HQ.</li> <li>▪ Approved operating budget (salaries and operating expenses) directly transferred by standing order from HQ treasury to operating units twice monthly.</li> <li>▪ HQ manages receipt and disbursement of capital project funds sourced from government, donors and loans.</li> <li>▪ Approved capital budget for projects funded by internally generated revenues (IGR) directly transferred from HQ treasury to Sectors on a pre-agreed schedule. Sectors allocate to Zones and Regions.</li> </ul>	<p>What level of the organization should manage funds?</p>

***Key Issues and Recommendations***

***F&A Unbundling***



# ***F&A Unbundling***

## ***Key Issues and Recommendations***

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<b>Issue</b>	<b>Recommendation</b>
<b>Who will be responsible for allocating budgets between Sectors and operating units?</b>	<ul style="list-style-type: none"> <li>▪ <b>HQ F&amp;A coordinates bottom-up budget requests from Sectors; Sectors coordinate for Zones.</b></li> <li>▪ <b>Working group consisting of the MD and EDs determines budget allocation with approval of Technical Board.</b></li> </ul>
<b>What is the process for handling unanticipated revenue shortfalls and surpluses?</b>	<b>Sector EDs meet with MD and ED F&amp;A on quarterly basis to agree on allocation between Sectors.</b>
<b>Do spending authority limits need to be revised?</b>	<b>Spending authority should be increased at each level of organization consistent with more autonomy.</b>



# ***F&A Unbundling***

## ***Key Issues and Recommendations***

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<b>Issue</b>	<b>Recommendation</b>
<b>Do Zones and Regions have the capacity (staffing, processes, IT systems) to support devolution of F&amp;A?</b>	<b>Need to increase staff capability, relocate staff from HQ, provide training and implement basic IT and reporting systems at Zones and Regions.</b>
<b>What are appropriate performance measures for each sector?</b>	<b>Need to plan for efficiency improvements and set targets for losses, collections, customers and sales per employee, heat rate, availability, customer service and safety.</b>



# ***F&A Unbundling***

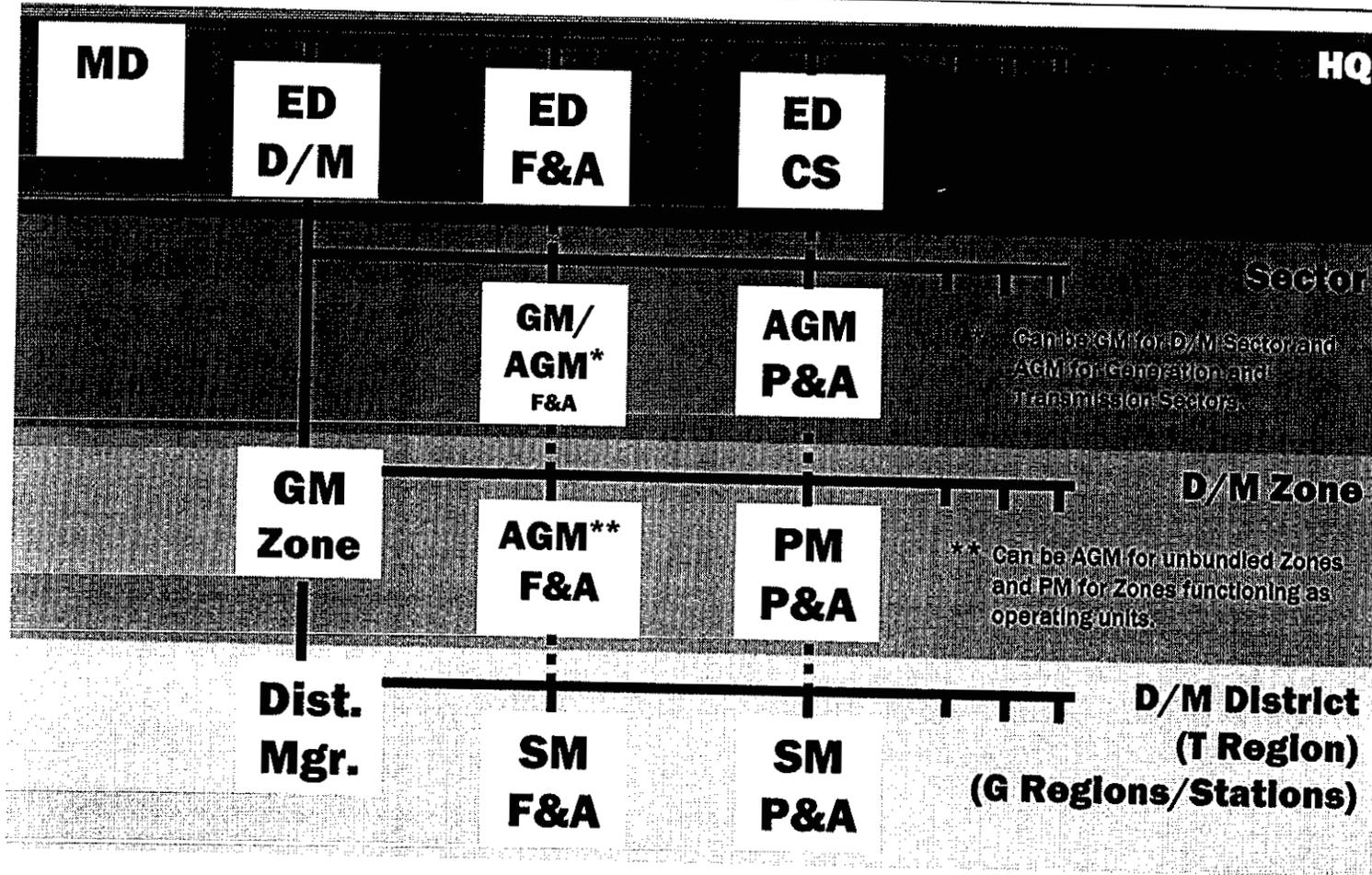
## ***Key Issues and Recommendations***

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<b>Issue</b>	<b>Recommendation</b>
<b>Should F&amp;A be combined with Personnel and Administration (P&amp;A)?</b>	<b>Each function is a major activity and should be kept separate at Sector level.</b>
<b>How should Internal Audit be structured?</b>	<ul style="list-style-type: none"><li>▪ <b>GM Audit at HQ plans and executes internal audits.</b></li><li>▪ <b>GM Audit should report to NEPA Board or Audit Committee appointed by the Board.</b></li><li>▪ <b>Internal Audit should be independent of operational management.</b></li></ul>



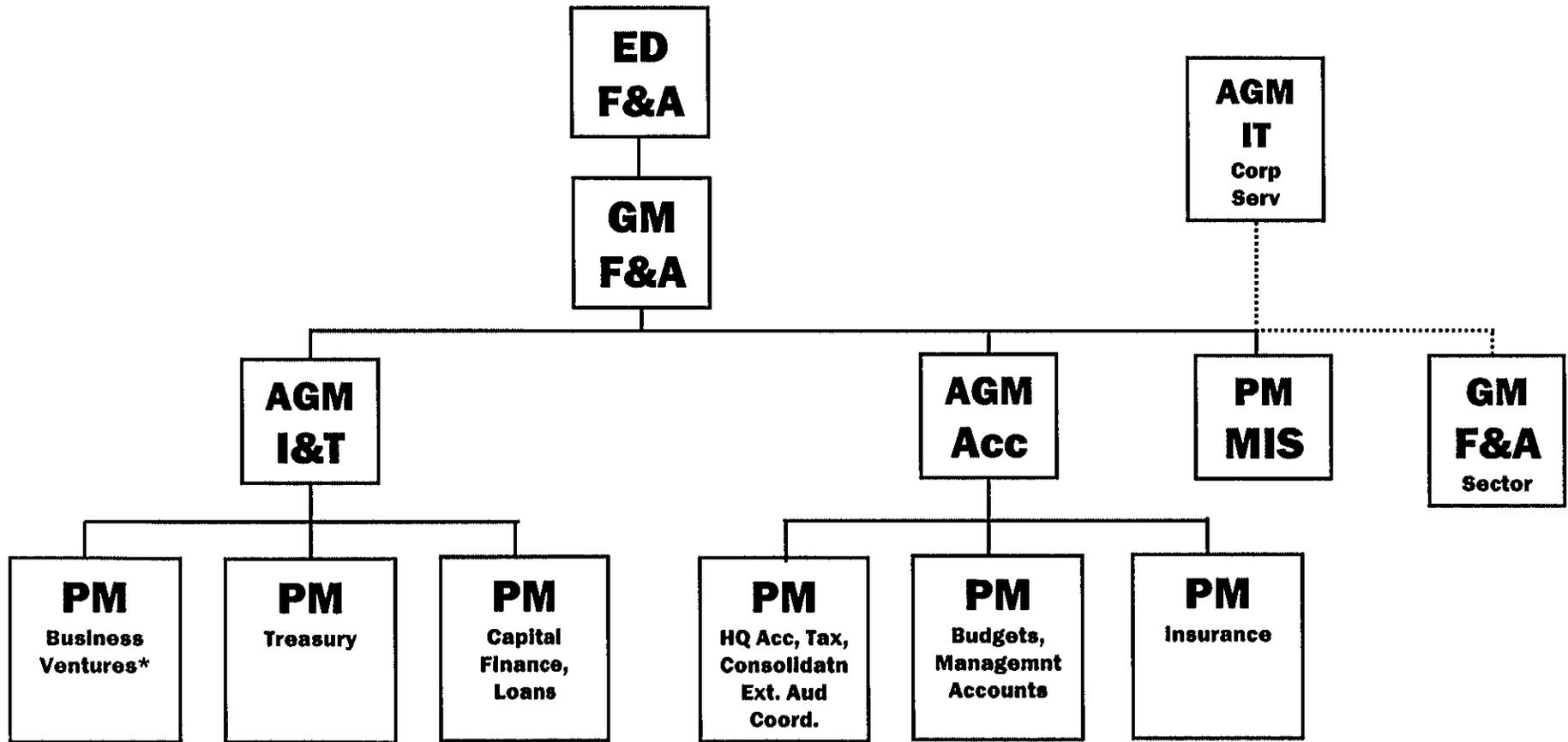
# Lines of Authority and Reporting between HQ, Sector, Zones and Districts



..... Functional Relationship



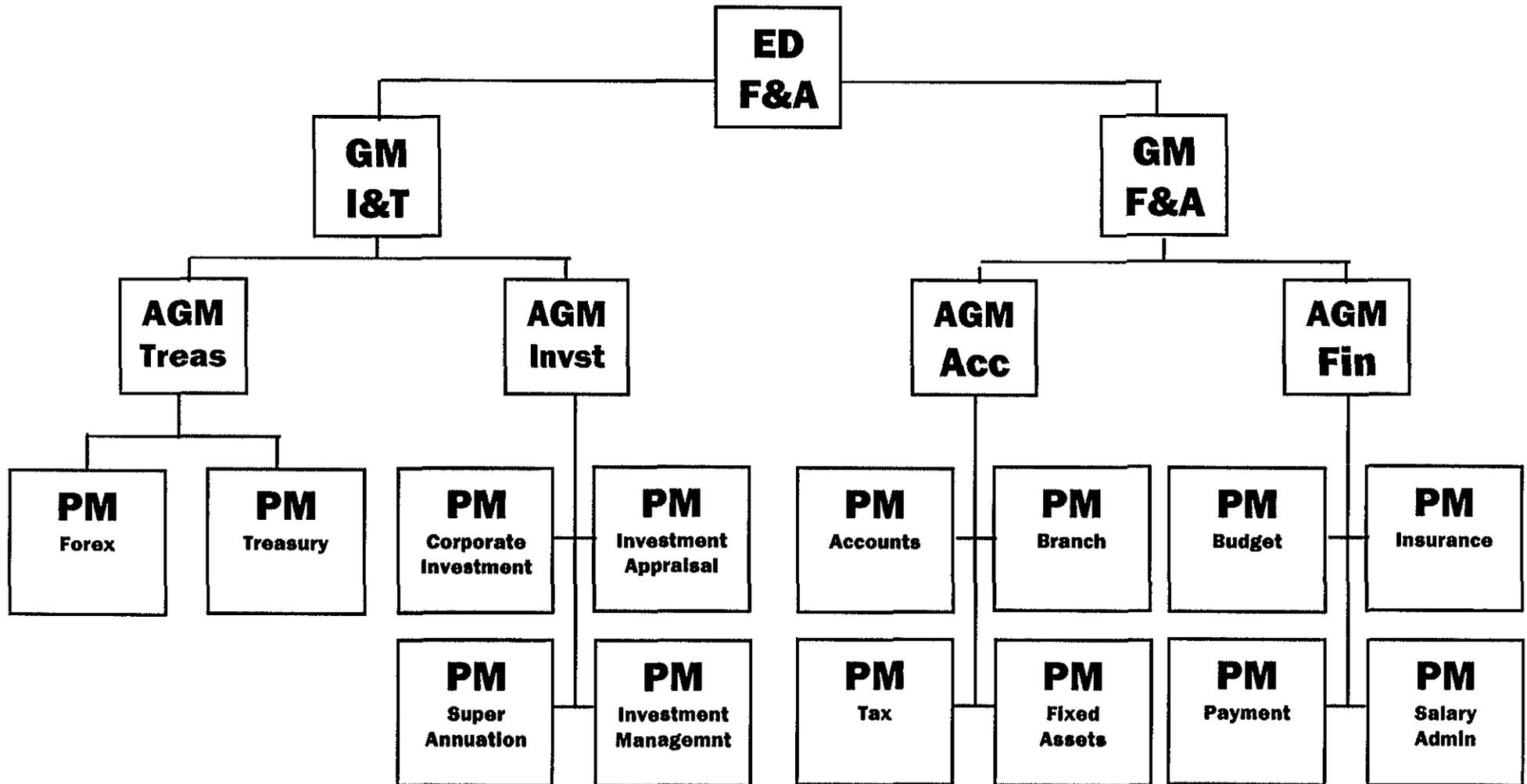
# Recommended F&A Organization at HQ



\* Non-core business ventures should be divested.

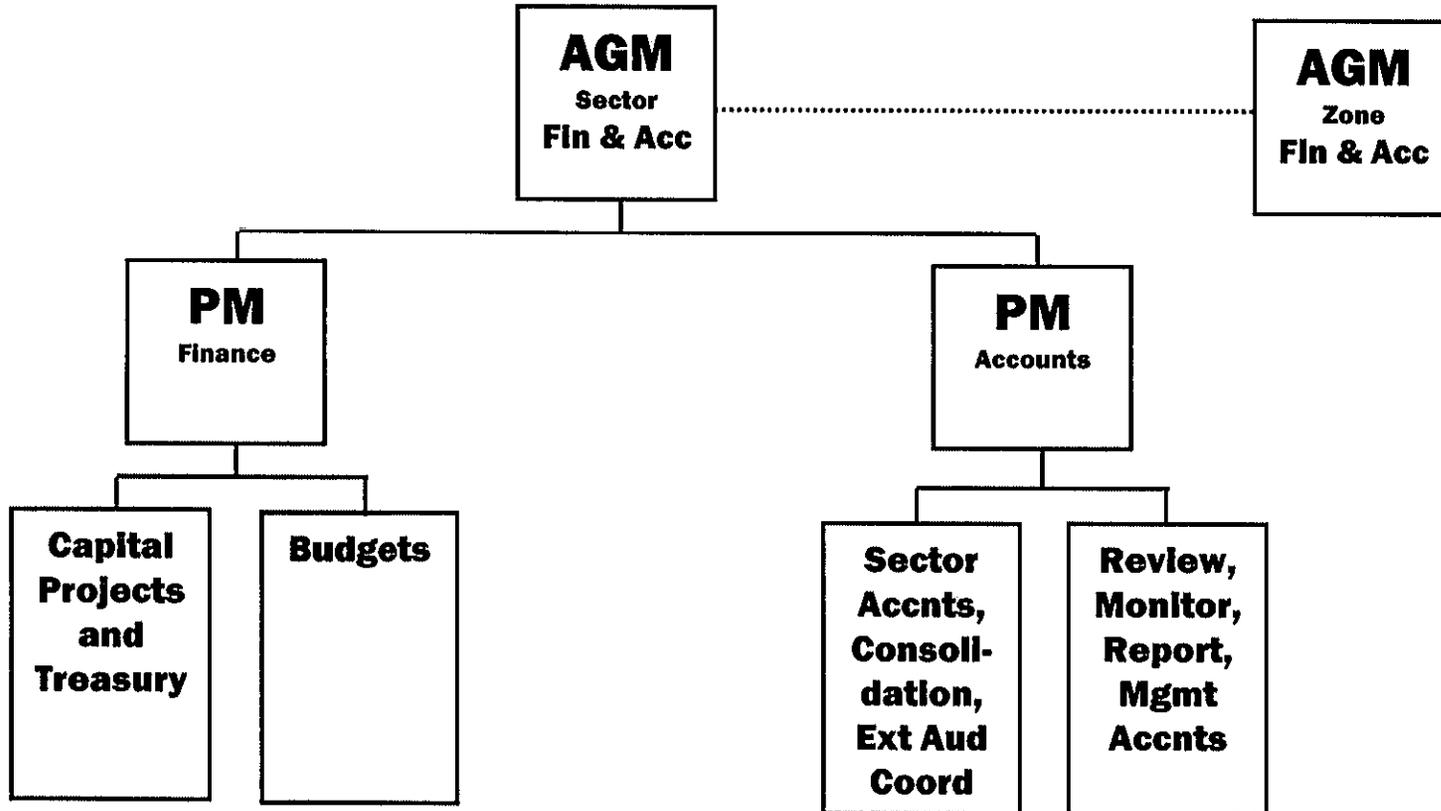


# Existing F&A Organization at HQ

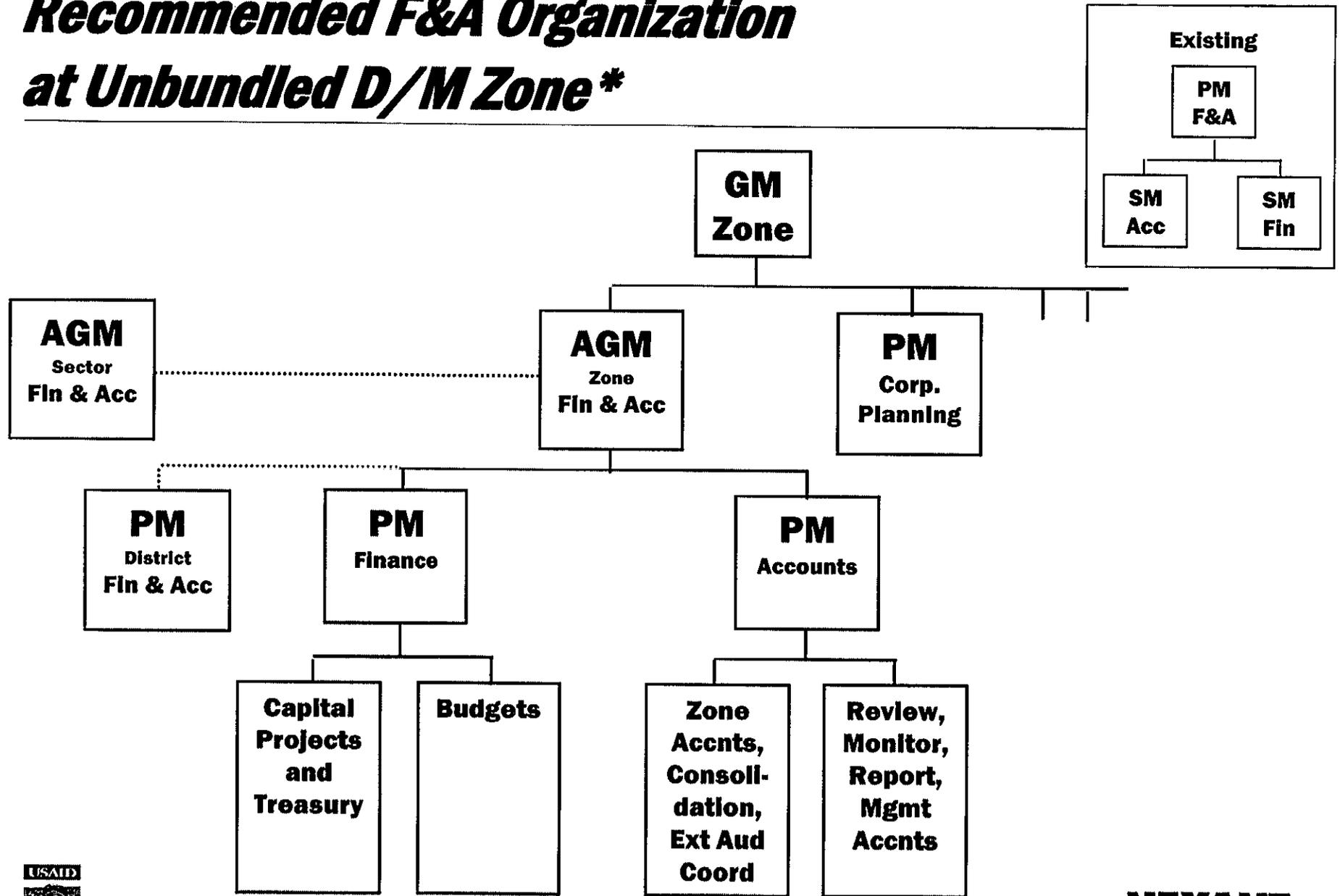


# *Recommended F&A Organization at Sector*

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# Recommended F&A Organization at Unbundled D/M Zone\*



\* Candidate Zones at the present time based on size may include Lagos, Ibadan and Benin.



## ***Financial Management Functions at BUs\****

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- **Consolidate and review operating unit budgets**
- **Justify requests for funds for capital investment projects**
- **Account for unbundled costs, assets and liabilities**
- **Consolidate trial balances monthly**
- **Manage imprests**
- **Report treasury activities to Sectors and HQ**
- **Revenue Accounting**
- **Cash Receipt Accounting**



### **Financial and Management Reporting**



Note: \* Is defined as D/M Zones, Transmission Sector and Generation Sector

# ***Status Report: Accounts Unbundling and Transfer Pricing***

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## ***Nexant Activities:***

- **Demonstrate methodology for allocating HQ and Sector costs, assets and liabilities to D/M Zones**
- **Present profit and loss by Sector and Pilot Zone (Lagos)**
- **Determine cost-based transfer prices**

## ***Status:***

- **Modeling for unbundling the accounts is near completion**
- **Most data collected**
- **Results and recommendations will be reported in early March**



## ***Next Steps for NEPA***

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- **Authorize NEPA F&A Counterpart Team to work on implementation**
- **Evaluate staffing requirements**
- **Implement new F&A staffing**
- **Provide required staff training to strengthen the BU level**
- **Unbundle accounts and determine transfer pricing**
- **Implement pilot unbundling of Lagos Zone F&A**
- **Identify performance measures for BUs**
- **Develop a performance monitoring and reporting system**
- **Appoint PM for MIS and authorize Task Team**
- **If advisable, commission IT Master Plan**



## ***Next Steps for Nexant***

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- **Issue Interim Report early March**
  - ◆ **F&A Unbundling**
  - ◆ **Accounts Unbundling and Transfer Pricing**
- **Next trip: early March**
  - ◆ **Pilot implementation of functional unbundling at Lagos Zone**
  - ◆ **Performance measures, commercial incentives and transfer pricing**
  - ◆ **HQ Corporate Planning Department: organization, functions and staffing**

