
Financial Crime in Nigeria Public Sector: a Study of Lagos State Ministries

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A b s t r a c t

This study investigated the existence of financial crime in the Nigerian public sector and the effects of government reforms implementation in Lagos state ministries. The study further examined the intensity and effectiveness of punishment against such crimes. Questionnaire survey was used as primary data collection method. Out of 160 copies of questionnaire, 83 were retrieved as response from accountant and auditors across 10 ministries. The t-test statistics was used in testing the hypotheses stated in the study. This revealed that contract fraud and payroll fraud were prevailing fraud in the ministries during the previous administration. Government reforms have also been brought into way to reduce and curb the effects of financial crime and to seal loopholes. The study recommends the effectiveness of the legal anticorruption agencies in charge of reducing the rate of financial crimes and there should be an increase in the level of their enforcement. There should be high profile penalties and charges involving fraud in order to discourage its reoccurrence in the public sector.

Keywords: Financial Crime, Fraud, Public Sector, Ministries, Department and Agencies.

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Background to the Study

Fraud and financial crimes has been seen as worldwide phenomena. It has to do with all human races irrespective of their communal and economical standing. It's common and rampant in public sector and its basis of slow development in Nigeria public sector environment. (Mukoro, Yamusa and Faboyede, 2013) posited that financial crime includes money laundering, bribery, looting, embezzlement, fraud; tax evasion, foreign exchange malpractice and oil bunkering. Financial crimes are aggravated by financial need caused by greed, gambling, debts, business reversals, poor investments or trying to maintain a lifestyle well beyond one's means. The first and most sophisticated way to carry out a financial crime in many companies is through the manipulation of financial records and accounting in government establishment. It is a recognized fact that the management of Enron-the celebrated energy company in United States of America (USA) defrauded by it top management used creative accounting to make the company look good and powerful on paper than it really was using special purpose entity. Management excluded these entities from Enron's balance sheet to hide these risky investment activities and financial loses as stated by in paper presented by Mukoro, Yamusa & Faboyede, 2013. Corruption and other financial and economic crimes are the bane of Nigerian development efforts. Corruption bestrides the lives of the citizens. The judgment of Transparency International is a reflection of what the nation has given to the world-419, money laundering, inflated contracts, scam mails, illegal oil bunkering, and disappearance of ships etc. All these crimes harm Nigerian economy in no small measure.

Ribadu (2004) stated that all these crimes continued in the system inspite of Government's landscape steps to tackle them, because many people in power want the old dispensation to continue. He reiterated that there are those whose lives thrive on corruption, while there are those even though they are paid to check the activities of the culprits, yet are willing to share in the proceeds with the event that they themselves become culprits. These economic and financial crimes are the greatest threat to national economic and development as the nation has nothing to show for its huge earnings from oil. Waziri (2009) stated that corruption afflicts virtually all parts of the Nigerian public establishment. It has eaten deep into Nigeria value system and is now threatening to spread to the culture as public adulation for wealth has increased. The society no longer asks questions as to how people came by their questionable wealth. In its 2004 report on worldwide corrupt practices, transparency International survey covered 146 countries, which rated Nigeria as the third most corrupt country, beating Haiti and Bangladesh to the second and last positions respectively.

The focus of the Transparency International 2004 report was more on the oil sector as a revenue source for most oil producing countries. According to Owolabi(2007), Peter Eigen, chairman of Transparency International Board of Directors observed in 2004 that in oil producing countries, public contracting in the oil sector is plagued by revenue vanishing into the pockets of western oil executives, middlemen and local officials. He suggested that oil companies could help fight corruption by making public details of payments made to government and state-controlled oil firms. That access to vital information will minimize the opportunity for the payment of kickbacks to secure oil tenders, a practice that has blighted the oil industry in transition and post war economies. That Eigen said further that reconstruction will be wrecked by a wasteful diversion of resources to corrupt elites unless there are strict anti-bribery measures.

The long years of military rule had entrenched corruption in Nigeria; almost becoming institutionalized. Corruption reached its zenith during the reign of General Abacha who was acknowledged to have stolen between 4 and 5 billion USD between 1994 and 1998, surpassing all records of state thieving within such a short period. Law and order collapsed and the rule of law took a back seat in the face of tyranny, despotism and impunity. All law enforcement and other watchdog institutions were so compromised that they now served the needs of the corrupt rather than those of the society they were set up for as stated by Akomaye, 2007. Nigeria was assessed by many risk rating agencies as too risky a jurisdiction for quality investment. Foreign Direct Investment (FDI) took flight in spite of ceaseless flow of petrodollars, the economy plummeted, and witnessing double digit inflation and poverty became pervasive particularly in the Niger Delta giving rise to crises that severely threatened state security by Niger Delta avengers and other societal vices created to threatening the security of the state.

Akomaye (2007) reiterated bold steps taken to address the problem like the expression of strong political will at the highest level. President Umaru Musa Yar'Adua & his vice president, President Muhamodu Buhari & his vice president Prof. Yemi Oshibajo publicly declared their assets upon assumption of office. That anti-corruption programme must not be approached in an ad hoc manner but addressed as part of a national economic reform programme. This was addressed under its National Economic Empowerment and Development Strategy (NEEDS). Appropriate legislation was enacted to criminalize all corrupt conducts including unjust enrichment, provision for interim restraints, forfeiture of tainted property, special or designated courts/judges were instituted to expeditiously try corrupt cases. Key institutions like Independence Corrupt Practices Commission (ICPC), Economic and Financial Crime Commission (EFCC) were established in 2002 and 2003 respectively to fight corruption. All these could not work effectively because of various challenges like politicization and blackmail, constitutional immunity as stated in section 308 of Nigerian constitution, public apathy and doubtful attitudes towards anti-corruption work, and slow justice.

In Nigeria, corruption, money laundering and mismanagement of resources and other related crimes have assumed alarming proportions and have become rampant both in the public and private sectors of the economy (Balarebe, 2009). Thorough, 2009 concluded that Financial reform in Nigeria put in place in Nigeria is perceived to have evolved to tackle fraud related cases and financial crimes. He proceeded that the integration and adoption of International Public Sector Accounting Standard (IPSAS) has significant effect on basic reduction of the corruption and financial crime in public sector in Nigeria.

Statement of the Research Problem

Economic and financial crimes are the greatest obstacles to national economic development as the nation has nothing to show for its huge earnings from oil, (Adegbie and Fakile, 2012). In the works of Akenbor & Oghoghomeh (2013), the effect of financial crime on any organization is usually unpleasant. Financial crime in any organization leads to economic loss, loss of goodwill, loss of staff and consequently, business closure. Abiodun (2006) posits that the most significant effect of financial crime is the economic loss to the organization. Financial crime also result to loss of valuable employees who are prosecuted, found guilty and terminated of their job or innocent employees who may voluntarily resign their employment due to humiliating experience they had during the fraud investigation (Akenbor & Oghoghomen, 2013). Few prior studies have tested empirical relationship between Nigeria public sector and financial crimes (Akenbor & Oghoghomeh, 2013); (Okolie, 2014). Since there is alarming rate

of financial crimes in Nigeria, this study will use primary data to test empirical relationship between forensic accounting and financial crimes.

Objectives of the Study

The broad objective of the study is to examine the effect of financial crimes in Nigeria public sector. The specific objectives are to:

1. Identify the manner in which payroll fraud will facilitate financial crimes in public sector.
2. Ascertain the extent of which contract fraud affect the performance of public sector.
3. Assess the manner in which public sector reforms will prevent financial crimes in Nigeria.
4. Ascertain if punishments of criminals reduced the rate of crime in public sector.

Literature Review and Development of Hypotheses

Economic and financial crimes serve as a bane to economic development of Nigeria that has huge earning from oil. In the works of Waziri (2009), corruption afflicts virtually all parts of the Nigerian society. It has eaten deep into Nigeria value system and is now threatening to spread to the culture as public adulation for wealth has increased. The society no longer asks questions as to how people came by their questionable wealth. Okolo (2007), financial crime has become really pervasive and the likelihood of corporate fraud occurring has also become more severe. Uche (2009) asserts that high level financial abuse was hindering tax collection, making enforcement of law difficult and discouraging foreign investment. These growing financial crimes are making it difficult for Nigeria to meet her welfare and social responsibility to the citizenry.

The pervasion of corruption in Nigeria has attracted criticisms from various quarters and has been widely reported. Nigeria economy was reported to have lost an estimated sum of £205 million (N105.4 billion) in tax revenues between 2005 and 2007 to the United Kingdom, the European Union and Ireland, as a result of corruption in the form of trade mispricing (Chriatrain Aid, 2008; Otusanya, 2010). More so, the joint audit conducted by the central bank of Nigeria(CBN) and the Nigeria deposit insurance commission (NDIC) on the five indicted banks in 2009 revealed how corrupt practices have led to loss of huge funds in non-performing loan. It showed that the five banks had a total loan portfolio of N2.8 trillion. Aggregate of non-performing of these loans represents 40.81 per cent of the total loans (Otusanya, 2012).

With an upsurge in financial accounting fraud in the current economic scenario experienced, financial accounting fraud detection has become an emerging topic of great importance for academic, research and industries. In this age of high technology, fraud investigators can no longer be satisfied with just auditing or accounting skills, these investigators should be trained as forensic accountants and this training should include an extensive knowledge of accounting information systems (Bressler, 2006; Manning, 2005; Ramaswamy, 2005). The failure of internal auditing system of the organization in identifying the accounting frauds has led to use of specialized procedures to detect financial accounting fraud, collective known as forensic accounting (Kranacher and Stern 2004).

Ojaide (2000) notes that there is an alarming increase in the number of fraud and fraudulent activities in Nigeria, requiring the visibility of forensic accounting services. Therefore, many foreign investors have lost several billions of dollars to fraudsters thereby leading to reduction or even dis-investment from Nigeria and its attendant negative consequences on economic growth and development.

Appropriate legislation was enacted to criminalize all corrupt conducts including unjust enrichment. Key institutions like Independence Corrupt Practices Commission (ICPC), Economic and Financial Crime Commission (EFCC) were established to fight corruption. Ribadu (2004) asserted that corruption and economic crime cases are usually very complex and complicated. Some involve documents or subjects that are very technical requiring a well-schooled investigator to unravel. Therefore, forensic accountants are required to compliment the effort of anti – corruption agencies.

Ojaide (2000) submits that there is an alarming increase in the number of fraud and fraudulent activities in Nigeria emphasizing the visibility of forensic accounting services. Okoye and Akamobi (2009), Owojori and Asaolu (2009), Izedomin and Mgbame (2011), Kasum (2009) have all acknowledge in their separate works, the increasing incidence of fraud and fraudulent activities in Nigeria and these studies have argued that in Nigeria, financial fraud is gradually becoming a normal way of life. As Kasum (2009) notes, the perpetuation of financial irregularities are becoming the specialty of both private and public sector in Nigeria as individual perpetrates fraud and corrupt practice according to the capacity of their office. Consequently, there is a general expectation that forensic accounting should be able to stem the tide of financial malfeasance witnessed in most sectors of the Nigerian economy. However, there has not been adequate emphasis, especially survey evidence on how forensic accounting can help curb financial crimes beyond the several anecdotal views that abound.

To examine the effect of financial crimes in Nigeria public sector, the following four null hypotheses was tested in the study.

H₀: Payroll fraud does not facilitate financial crimes in public sector

H₀: Contract fraud does not significantly affect the performance of public sector.

H₀: Public sector reforms does not prevent financial crimes in Nigeria

H₀: Punishments of criminals does not reduce the rate of crime in public sector.

Methodology

Primary data source was used as data for analysis. A survey approach was used, through the administration of questionnaire to the various ministries. Lagos state have over twenty eight (26) ministries, of which twenty (20) were in common with that of Ogun state. Out of a common population of twenty (20) ministries ten (10) where sampled, which represents 50% of the total population and is consistent with the 5% requirement of sample size suggested by krejcie and Morgan,(1970).

Data analysis approach used was the test of each hypotheses, and ANOVA was the method used for the testing of the stated null hypotheses, a method previously used by Uwuigbe, Adeyemo & Anowai, (2016).

The ten (10) ministries where selected based on Judgmental sampling, this is because not all the ministries had their main offices at the central location; they only had representative at the location the researcher surveyed. In the process of distributing the questionnaire, an unplanned unstructured interview was conducted with one of the auditor, reason being that the auditor further took time to explain the Nitti gritty behind the answers he provided and proper notes where taking by the researcher.

Survey was carried out on the field and ten ministries where sampled with questionnaire. Each ministry had a finance and audit department with irregular and unequal staff population across each ministry. The Accountant and audit staffs were used in the study based on their suitability due proper recognition and understandability of terms used in the questionnaire, this staff could easily relate to these questions and could give appropriate feedback. Little questionnaire were given to administrative staff and it was observed they were reluctant to put pen to paper as a result of the sensitive terms used such as 'fraud'. Out of a total of 160 questionnaire, 83 were successfully distributed and 83 were received which hold a response rate of 100%. The design of the questionnaire was made in such a manner that the research title was not expressly pronounce of the questionnaire. This is to avoid a first take bias due to preconceived notions as to what the study expects from the respondent.

Findings and Results

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	55.461	8	6.933	1.279	.268 ^a
	Residual	401.190	74	5.421		
	Total	456.651	82			

- a. a. Predictors: (Constant), IP, CP, GR, GW, CQU, SP, GRE, OP
b. b. Dependent Variable: MIN

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	3.993	1.084		3.685	.000
	PF	-.127	.274	-.059	-.465	.644
	CF	.476	.248	.233	1.917	.059
	GR	-.095	.356	-.036	-.267	.790
	SP	.277	.317	.107	-.875	.384

- a. Dependent Variable: MIN

Test of Hypotheses

H₀: Payroll fraud does not facilitate Financial Crimes in Public Sector

The hypotheses was tested using the t-test values. The results show that the significance level is .644 and the calculated value is -4.65 < than the critical value of 0.05 level of significance. Therefore the null hypotheses is rejected. The result shows that payroll fraud facilitate financial crimes in public sector. However, this has been reduced in Lagos state as a result adoption and implementation of central payment system, for instance e-payment system which was adopted in 2016.

H₀: Contract Fraud does not Significantly affect the performance of Public Sector

The hypotheses were tested using the t-test values. The results show that the significance level is .059 and the calculated value is 1.917 > than the critical value of 0.05 level of significance. Therefore the null hypotheses is accepted. This is as a result of implementation of

International Public Sector Accounting Standards (IPSAS) in Lagos state in January 2016. International Accounting Standard Board (IASB), the governing body of IPSAS issued guidelines on contract procedures. Also, the chief executive officer of Lagos State who has previously work in all the ministries in Lagos state and also held the position of accountant general of the state was able to use his wealth of experience to reduce the occurrence of contract fraud in Lagos state.

H₀: Public Sector Reforms does not Prevent Financial Crimes in Nigeria

The hypotheses was tested using the t-test values. The results show that the significance level is .790 and the calculated value is $-2.67 <$ than the critical value of 0.05 level of significance. Therefore the null hypotheses is rejected. This means that public sector reforms prevent financial crimes in Nigeria public sector. This is as a result of establishment and implementation of budget monitoring and price intelligence unit by the federal government of Nigeria.

H₀: Punishments of Criminals does not Reduced the rate of Crime in public Sector

The hypotheses was tested using the t-test values. The results show that the significance level is .384 and the calculated value is $-.875 <$ than the critical value of 0.05 level of significance. Therefore the null hypotheses is rejected. This shows that punishments of criminals reduced the rate of crime in public sector.

Conclusion and Recommendations

Contract fraud and payroll fraud where prevailing fraud in the ministries during the previous administration of Lagos state, Nigeria. Government reforms have also been brought into way to reduce and curb the effects of financial crime and to seal loopholes. This study reveals that the current administration has embraced the fight against financial crime in Lagos by the effective implementation government reforms such as the establishment of the central payroll system (e-payment), implementation of IPSAS. However the level of financial crime in the ministries is also determined by the political support of the Government in power. The current Government administration in Lagos has a wealth of experience in the ministries and as the accountant general of the state so this makes it easy for monitoring and enforcement of strict financial pronouncements and procedures.

The study indicates existence of payroll fraud and contract fraud which facilitates financial crime. However there has been a reduction payroll fraud in Lagos state as a result of the adoption and implementation of central payroll system managed Contract fraud does not significantly affect the performance in public sector this is as a result of implementation of IPSAS in Lagos state by January. The study recommends the effectiveness of the legal anticorruption agencies in charge of reducing the rate of financial crimes and there should an increase in the level of their enforcement. The legal anticorruption agencies (such as EFCC and ICPC) should also be properly facilitated with necessary finance, technology and know-how (proper training) in other to detect potential fraud and investigate existing fraud cases. There should be high profile penalties and charges involving fraud in order to discourage its reoccurrence in the public sector.

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