THE IMPACT OF FINANCIAL MALPRACTICES ON THE PRODUCTIVITY OF THE PUBLIC SECTOR IN NIGERIA (A CASE STUDY OF FEDERAL INLAND REVENUE, ENUGU STATE)

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ABSTRACT: This study examined the Impact of Financial Malpractice on the Productivity of Nigeria Public Sector (A case Study of Federal Inland Revenue (FIRS), Enugu State). Financial Malpractice may occur when a financial professional fails to make suitable financial report or records of actual transactions or trades as ordered by the financial regulations/rules guiding the operations of Public Financial Management. For instance, charging excessive fees or commits theft or fraud/embezzlement of funds, misappropriation of funds, etc., these may also be considered as financial malpractice in the public services. The investigation was prompted because the researcher observed the poor state of Nigeria economy and the poor service delivery by public officials. The objective of the study was to examine if financial malpractice exists in the public sector and to know its effects on the nation's economy and the productivity of workers. It is hoped that the study will help to enlighten the government and the citizens on the danger of financial malpractice. The study was a descriptive in nature. The population of the study area was 140. The source of data was mainly secondary data with the aid of textbooks, journals, official publications, etc., and also observations made by the researcher. The method of data analysis was quantitative in nature. The researcher was guided by the crime opportunity theory as a theoretical framework of analysis. Findings from the study revealed that; financial malpractices exist in the public service and becoming a norm, most stakeholders are perpetrators of it; that the control system is weak, it affects both the national economy and the output of workers. The government has strategies to control malpractices but it is inadequate. The study therefore, recommends that government should establish more strategies of control, monitoring and evaluations of accounting procedures and also ensure offenders are brought to book by the law. Finally, advanced technological equipment, like CCTIVs should be installed in public offices to monitor activities.

Keywords: Financial Malpractices, Nations Economy, Public Services, Workers Productivities.

INTRODUCTION

The Nigerian public sector has been faced with so many challenges, among which include financial malpractice and mismanagement. The financial aspect of the public sector is very important and it plays a major role in the country's economy, because a good government is being judge from other ability to maintain good economic system, security of lives and properties basic health facilities, social amenities and high level of employment rate etc. All these can be achieved through a good financial management of the country income and expenditures. The financial aspect of the public sector is faced with different problems ranging from mismanagement of funds, misappropriation of fund, embezzlement of fund, fraud etc., which have made the country suffer from poor economic and social system. Examples, poor living standard characterized by abject poverty level of majority of the citizenry and also increased social crime rate among youths. These have made the researcher to embark on the study/work in order to find out how the public sector funds are raised controlled and managed, especially if there are malpractices and the resultant effect on the nation's economy and public sector productivity.

According to Emelewue, (2005) financial malpractice in the real sense, s the improper, illegal or negligent of professional activities carried out on finance. Also M.C. Jhingan (2004), sees financial malpractice as the mismanagement of fund or misappropriation of fund that have being set aside to achieve a special purpose. And this occur when the institution is not well managed, planned, controlled and organize. In Nigeria one of the appropriate government organs responsible for the collection of public finance is the Federal Inland Revenue Service (FIRS). Over the years there have been reported cases of financial malpractice in the public sector due to the problem of shortage of quality personnel, lack of assessment of tax, corruption among tax payer, corruption among tax officers and collectors, negligence of duties, inadequate supervision and inflation, etc. All these notwithstanding the government have come out with different strategies to combat these problems, but how these strategies have improved the financial management in the public sector is the source of concern in the study.

Finally, the focus of this work is to investigate the financial malpractice in the public sector with reference to Federal Inland Revenue, Enugu State, to find out its effect on the nation's economy and public sector productivity.

Statement of the Problem

Prior to the carving out of the Nigeria Inland Revenue as it was first called in 1943, the public sector is experiencing a lot of problems with regards to control and management of fund. These problems faced by the public sector usually result to poor economy system, poor productivity, insecurity of lives and properties, lack of basic health facilities and social amenities, poor employment rate and increase in crime rate etc. These situations do not augur well for the growth and development of the country and her citizens at large, as the federal government has tried different strategies and means to combat or fight these problems yet we still observed as if nothing is done and the result is that these problem increases day after day. The researcher therefore wonder why the measures put in place by government to check these malpractices are not yielding positive effect. These questions still linger in the mind of the researcher, what are the causes of financial malpractice? Have the government tried to control the financial malpractices? What are the impact of financial malpractices on the economy and public sector productivity and its impact on social lives of its citizens, etc.?

The broad specific objectives of this study are:

1. To find out various sources of revenue in the public sector
2. To find out their adequacy of internal control system on revenue collection in the public sector.
3. To find out the problems faced by the public sector in the course of carrying out these works
4. To find out the causes of financial malpractice in public sector.

CONCEPTUAL REVIEW

The conceptual reviews on these section are on: concept of finance in the public sector, meaning of public sector types of public finance and their revenue sources, importance of public finance and financial management. Financial malpractice in the public sector, types of financial malpractice, consequences of financial malpractice, measures to resolve financial malpractice impact of ICT on tax administration, Historical backgrounds of FIRS, Nigeria national tax policy FIRS ethical code and theoretical frame work.

Concept of Public Finance

The concept of finance in the public sector can be seen in the study of the conduct of the public sector in an economy predominantly organized around markets. The constitution of the federal republic of Nigeria sees public finance as revenue, income or return accruing to or derived by the government from any source, in other words it is the fund generated by the government to finance its activities for the fiscal year. Jhingan (2001) defined public finance as the studies of the collective satisfaction of wants and the principles which govern income and expenditure. Ayo Olowe (2009) finance can be referred to as the management of money. It is the management of the flows of money through an organization (where it is a private or governmental organization) and claims against money. According to Abba (2007) public finance can be defined as the study of government revenue, expenses and borrowings on their efforts on aggregate economic activities. Emelewue, (2005) defined finance as the art and science of managing money. All individuals and organization earn or raise money, spend or waste money. From the foregoing views of different authors, Finance is concerned with the process, institution, markets, government or private sector raises money, disburses and manages the money. These involves the instruments used in the collection, transfer and treasury of money within and among individuals, businesses and government.

Bhatia, (2008) stated that, public finance is the financing of state activities and can be narrowly defined as a subject who discusses financial operations of the FISC (or public treasury).

In conclusion following the views of the above named authors we can see that public finance has to do with how the government generates their revenue, expends, borrowings of public funds in order to meet the needs of the public and every activities of the government.

Meaning of Public Sector

Public sector is the part of the economy concerned with providing various government services to the people. Also the public sector contains that portion of the economic system that is controlled by national, state or provincial and local governments.

Types of Public Finance and their Revenue Sources

Public finance can be distinguished in two ways, public receipt and public revenue, Public income in the broad sense is referred to as public receipts; these are income received by the government from all sources. Public income in a narrow sense is called public revenue which excludes ‘receipts from public borrowing and from the sales of pubic assets such as stores.

The main sources or public revenue are taxes fees and rates, public receipts from public enterprises, receipts from special assessments, grants, etc. The following are the types of finance gotten by the government:

Revenue from Public Enterprises: Revenue received by the government from public enterprises is also an important source of public income

Special Assessment: According to Seligma; a special assessment is a compulsory contribution levied in proportion to the special benefits derived to defray the cost of a specific improvement to property undertaken in the public interest.

Fees: These are payment to defray the cost of each recurring service undertaken by the government, primarily in the public interest but conferring a measurable special advantage on the fee payer.

Fines: These refers to the use of printing press for the purpose of meeting public expenditure by the issue of new paper money. This is one of the important sources of public income which is knows as deficit financing.

Gift and Grants: Gift are voluntary contributions made by individuals and societies to the government for relief work in event of an earthquake, flood, famine or war etc.

Grants are given by the federal government to the state or provincial government to meet the cost of specific project, grants are also made y one country to another at governmental level**.**

Types of Grants: Formula or Block Grants: These are given to be distributed to community groups, charities and other social service providers.

(i) Discretionary Grants: This type f grant, s grant for which the federal awarding agency generally may select the program to be given the grants form many program applying for the grant, base on the content of the program.

Tax: Compulsory monitory contribution to the state's revenue assessed and imposed by the government on the activities of enjoyment, expenditure, income, occupation, privilege, property etc of individual and organizations.

Type of Tax

a. **Income tax:** This is a tax pay on your income or the level of your income
b. **Payroll Tax;** These are tax impose on employers or employees, and are usually calculated as a percentage of the salaries that employers pay their staff.
c. **Property tax:** This is a tax that is usually based on the value of property.
d. **Value added tax:** This is a type of consumption tax that is placed on a product whenever value is added at a stage of production an at final sale.
e. **Sale Tax:** This is a tax paid to a governing body for the sales of certain goods and services.

1. **Taxation:** The consumption of cigarette, alcohol, opium and other commodities that fall within hat general category need to be discourage. The government often levy axes to discourage the consumption of these harmful commodities.
2. **Protection of Infant Industries: If** the infant and newly started firm or industries in developing nations are allowed to struggle with foreign firm especially from those technologically advanced countries they may not survive due to many reason and factors. These industries need protection and government often levels duties in order to protect them.
3. **Provision of pubic Goods:** Government provides public good, the government finance items and devices such as streetlight.
4. **Side effects of a market economy:** Public finance also enables governments to correct side effects of a market economy. These side effects are called spill overs or externalities. Example, households and industries may generate pollution and release it into the environment without considering the adverse effect pollution has on others.
5. **Re-distribute of Income:** Government redistribute income by collecting taxes from their wealthier citizens to provide resources for the needy ones.
6. **Equity:** Public finance plays a great role in eliminating or reducing the inequalities of income and wealth in a capitalist economy. This s achievable by transferring the purchasing power from the rich to the poor.
7. Subsidies and Grants: In modern times, subsidies and grants are inevitable for producing essential goods and services meant for the masses. T has a prominent place in the governmental expenditure of developing countries example; subsidy on fuel, transportation could be seen in Nigeria.
8. **Optimum utilization of Resources:** The natural resources of developing counters are underutilized or over utilized the proper utilization of natural resources is imperative not only for the present generation, but also for the unborn generations. The state can direct the flow of production consumption and distribution in the economy by framing a suitable budget policy.

9. **Economic Planning:** Government usually have rolling plans for more than a year, a times the implementation of say five years plan tends to require a huge fund. Thus, government need to combing resources, taxation and public borrowing effectively.
10. **Providing employment Opportunities:** The government has to spend huge amount of public expenditure to provide the purchasing power to the general masses and reduce the problem of unemployment in the economy. The SURE-P of the federal government of Nigeria is a move in that direction.

Financial Malpractice in the Public Sector

The Nigerian society is filled with stories of wrong practices such as stories of ghost workers on the payroll of ministries, extra ministerial departments and parastatals, frauds, embezzlements, etc., are found everywhere in the country (Okwoli, 2004).

According to Bello (2002), huge amount of naira is lost through one financial malpractice or the other in Nigeria, which to say the least drain the nationals' meagre resources through fraudulent means with far-reaching and attendant consequences on the development or even socio-economic or political programmes of the nation. Billions of naira is lost in the public sector every year through fraudulent means. This represent only the amount that is find out and made public, indeed much more substantial or huge sums are lost in undirected means.

Appah and Appiah (2010) argue that cases of financial malpractice is prevalent in Nigeria public sector, that every segment of the public service, could seem to be involved in one way or the other in some of these nasty acts.

The bane of public sector financial mismanagement in Nigeria since the oil boom years, a period under which there existed structurally weak control mechanism, which created a variety of loopholes that have tended to facilitate and sustain, corrupt practice. This is coupled with the fact that there are few or total absence of the norms and ethics of accountability in the conduct of public affairs in the country (Bello, 2001).

Types of Financial Malpractice

The public sector faces a lot of financial malpractices, among which are the following:

Fraud: This involves the alteration of financial statement data, usually by a firm's management to achieve a fraudulent result.

Embezzlement: The act of withholding assets for the purpose of conversion (theft) of such assets, by one or more persons to whom the assets were entrusted either to be held or to be used for specific purpose.

Financial Mismanagement: This is a management of fund that deliberately or not is handled in a way that can be characterized as wrong, bad, careless, inefficient or incompetent' and will reflect negatively upon the financial standing of the sector.

Financial mismanagement: This means an intentional, illegal use of the funds of another person or purpose for one's own use or for another task that may be authorized.

Money Laundering: Any act or attempted act to conceal or disguise the identity of illegally obtained process so that they appear to have originated from legitimate sources.

Causes of Financial Malpractice in the Public Sector

The following are some of the factors that are responsible for financial malpractice in the public sector.

1. **Poor salary/wages**: This has to do with measures, regularity and reliability of incentive accorded to workers, Emphasis should be made on this in order to make workers have no reason to engage in financial malpractice
2. **Poverty**: This is the lack of means necessary to meet basic need such as food, clothing and shelter. Due to the state of living of workers which s cause by poor incentive, workers are forced to engage in financial malpractice in order to meet up with their basic needs.
3. **Greed**; This is the excessive or rapacious desire especially for wealth or possession. This has to do with the desire to acquire wealth thereby robbing the country's revenue.
4. **Corrupt personnel**: This has to do with the mind state of some persons or group of persons who are willing and ready to steal from the country without minding the consequences to which their action would cause.

Consequences of Financial Malpractice

Financial malpractice has a negative effect on the social, political environmental and economic development of a country. It is necessary to tackle these effects before it becomes too much for the nation to amend, which could have dire consequence on its citizens for illustrative purpose three consequences of financial malpractice would be discussed.

First, in term of the economy, financial malpractice result in a reduction of public spending as public funds are being diverted to the personal account of some public officials, consequently government spending on goods and services is reduced which has negative effect on the economy. Public officers often allocate government spending towards big expenditures. Big and difficult to manage project like the construction of airports and highways, without allow some bureaucrats process on how much funds are going into the project to be accessed. (Okoye, 2005). Also, it leads to poverty and income inequalities which negatively influence government officials to engage in corruptible acts so they can amass much wealth while in their position. Project like hospitals, dams, and irrigation are among the service government tries to provide to citizens but the mismanagement and embezzlement of funds by government officials reduces the funds that would have been allocated to these government services, therefore government hospitals are ill-equipped to treat patient, hospital building are not up to standard, this is not because government cannot fund these expenditure but because government officials are diverting the money reserved for the project into their own personal accounts, thus causing citizens to suffer unnecessarily.

Secondly, regarding the environment, financial malpractice has a negative impact due to the actions of public officials for example; in a corrupt society there are evidence of ravages and degradation on infrastructures and communities as a result of the exploitation. In Nigeria the citizens of the Niger Delta experience negative environment impact since the discovery of oil in their region due to the fact that funds allocated to maintain the drilling of oil and the environment of that area are misuse and the administrator are bribe to allow the improper drilling of it without properly implementing the necessary measures to protect the citizens and their properties.

Thirdly, is the poor state of government building and roads in the country, most of the infrastructure are not built up to standard and the roads are not constructed correctly as a result of financial malpractices.

Measures to Resolve Financial Malpractices

The following measure has been adopted by the government to tackle financial malpractices:

a. **Paying Civil Servants:** If public sector wages are too low, employees may find themselves under pressure to supplement other income. Van Rijickeghem & Weder (2001), carried out some empirical work showing that in a sample of less develop countries, there is an inverse relationship between the level of public sector wages and the incidence of corruption. Hence, the civil servants wage and salary needs to be increased.
b. **Creating Transparency and Openness in Government Spending:** Subsidies, tax exemptions, public procurement of goods and services, soft credits, extra-budgetary funds under the government managers should be properly accounted for. Government collects taxes, tap the capital markets to raise money, receive foreign aid and develop mechanism to allocate these resources to satisfy a multiplicity of needs.
c. **Cutting Red Tape:** The high correlation between the incidence of corruption and the extent of bureaucratic red tape as captured for instance by the doing business indicator suggests he desirability of eliminating as money needless regulations while safeguarding the essentials regulatory functions of the state.
d. **Replacing Regressive and Distorting Subsidies with Target Cash Transfers:** Subsidies are another example of how government policy can destroy incentive and create opportunity for financial malpractice; these subsidies are very regressively distributed, with over 60 percent of total benefits accruing to the richest, 20 percent of household in the case of gasoline. Subsidies often lead to smuggling, to shortages and to the emergence of black markets.
e. **Deploying Smart Technology:** Just a government induced distortions provide many opportunities for corruption, it is also the case that frequent, direct contact between government officials and citizens can open the way for illicit transactions ne way to

address this problem is to use readily available technologies to encourage more arm-length relationship between officials and civil society.

Historical Background of FIRS and Taxation in Nigeria

This history of modern taxation in Nigeria started with the stamp duties proclamation in 1903 in the then northern protectorate which later became part of amalgamated British colony of Nigeria, It was the native revenue proclamation of 1906 that systematizes all exiting pre-colonial taxes, this bringing into place a new regime of tax rate. The amalgamation of the northern and southern project orates to form the colonial federation of Nigeria in 1914 led to the native revenue ordinance 1917, which was extended from the northern territories to the western and eastern territories in 1918 and 1927 respectively.

Since then there has been steady progress in the tax regime with various attempt to modernized, expand, reform and improve the process , procedure and sanction inherent in the system of taxation in Nigeria. In 1943, the Nigeria Inland Revenue department was carved out from the Inland Revenue Department of British West Africa. This Department was later renamed the Federal Board of Inland Revenue under the income Tax Ordinance No 39 (1958). This was followed by the companies and Income Tax Act No 22 (1961) which established the federal Board of Inland Revenue (FBIR). The Act No. 3 and Decree No. 104 establish the federal Inland Revenue service (FIRS) as the operational arm of the FBIR and reviewed the function of the joint Tax Board (JTB), respectively. However, the history of tax administration in Nigeria changed dramatically in 2007 with the granting of financial and administrative autonym to the Federal Inland Revenue Service through the passage of the Federal Inland Revenue service (Establishment) Act 2007.

FIRS Ethical Code

Prior to the reform era, there was no policy framework of ethics or value defiling the operations of the FIRS staff. However, in December, 2005, the value and Doctrine Division was established. The Division, which was build, the aim of projecting the image of the Federal Inland Revenue Service in positive light. The new division was placed directly under the FIRS chairman with a mandate to ensure that all FIRS staff adhere strictly to the rules and regulations and other guidelines and administrative circulars of the federal government. Also, in 2004, the investigation and intelligence Division was created, the division consisted of three units namely intelligence, criminal investigation and civil investigation units. The division adopted the surprise-spot-strategy. Some staff members were apprehended over charges ranging from illegal possession and/or processing of documents (including tax clearance certificate) and illegal tax consultancy service for taxpayer.

THEORETCAL FRAMEWORK

In the course of this research work, the researcher was guided by Crime Opportunity theory. This theory was developed by Lawrence E. Cohen and Marcus Felson. In the year 1979, Lawrence was a professor of sociology in the University of South California while Marcus was a professor at the school of Criminal Justice at axes state university in San Marcos, he also served as a professor at Rutgers University and University of South Califonia.

The theory of crime opportunity suggests that offenders make national choice and thus choose target offer, a high reward with title effort and risk. The occurrence of crime depends on two things. The presence of at least one motivated offender who is or is willing to engage in a crime and the conditions of the environment in which that offender is situated. All crime requires opportunities but not every opportunity is followed by crime. Similarly, a motivated offender is necessary for the commission of a crime but not sufficient. A large part of their theory focuses on how variations in life-style or routine activities affect the opportunities for crime. Opportunities thus becomes the limiting factor that determines the outcome in an environment prone to crime because the offender generally has little or no control over the condition of the environment and the conditions the permit particular crime are often near, unlikely or preventable.

The relevance of this theory to the study points to the fact that an offender of financial malpractice must be willing or is willing to commit the offence either because of the environment he found himself or as a result his personal desires. But the offender still happens to be opportune for the malpractice because the necessary control measures are not in check.

METHODOLOGY

The study adopted a descriptive research survey. The study area is limited to FIRS, Enugu State headquarters, with a total population of 140 staff. The method of data collection was mainly observational, aided with secondary data from textual materials, journals and official publications. The analysis was mainly quantitative in nature.

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

Summary of Findings

i. The study revealed that; financial malpractice exists in the Public Sector Services and it has become the order of the day as if it is a norm; the masses, workers and stakeholders are the perpetrators of financial malpractice in the public sector this undermines their productivity and affects the nations' economy negatively.
ii. that the control system is weak, both by the EFCC and other regulatory agencies, it affects both the national economy, productivity and the output of workers.
iii. The government has strategies to control malpractices but it is inadequate, hence government revenues are diverted into personal accounts.

Conclusion

This research study was concerned with assessing the effect of financial malpractice in the public sector of Nigeria with a focus on Federal Inland Revenue Services, Enugu state. In doing this secondary data was utilized extensively. The analysis was guided by the theoretical framework propounded by Lawrence E. Cohen and Marcus Felson in the year 1979.The study revealed that most of the perpetrators of financial malpractice do it willing for personal reasons thereby undermining the efforts of the government towards supply if goods and services to the citizens. Financial malpractices affect both national economy, productivity level and workers output. It reduces provision of basic infrastructure, employment opportunities security of lives and properties, provision of effective and efficient healthcare services, etc.

Recommendations

From the findings drawn on the data collected the researcher recommends as follows:

i. There is need for proper control of the means of revenue collection in the public sector and this can be done through the external and internal means, also these means should be reliable and regular.
ii. The study therefore, recommends that government should establish more strategies of control, monitoring and evaluations of accounting procedures and also ensure offenders are brought to book by the law. Finally, advanced technological equipment, like CCTIVs should be installed in public offices to monitor activities.
iii. These means of revenue collection should be strictly monitored in order not to give room for manipulation of records, finance and necessary information pertaining finance.

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