



Research Paper

Assessing the Efficacy of Budget in Detecting Fraudulent Personnel Cost Figure in Borno State Civil Service, Nigeria

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I. Introduction

There is always a contractual agreement between an employer and employee as to remunerations. Remunerations are agreed benefits in terms of cash the employer is supposed to pay the employee in a given circle as per the terms and condition of service usually monthly or twice a month. The process entails listing of staff according levels and preparing what is due to employee and paying on cash basis or through their accounts in a designated bank. This process is known as pay rolling or payroll. In a situation where the total benefit of an employee exceeds the agreed remuneration or the total of the employees benefit exceeds the legally allowed amount, it is said that there is payroll fraud. In other words, payroll fraud is where employees collaborate to hike their emoluments in order to benefit unjustly without the consent of the employer. However, another type of fraud may also occur in the organization. This takes the form of unremitted tax by the employer himself to the relevant tax authorities. Tax is usually deducted from the taxable income of employees for onward remittance to tax authorities and this is the duty of the employer and in some instances this is not effected, hence it becomes tax fraud from the payroll system.

The Borno State Government in its effort to rid the state civil service of the ghost worker syndrome made a lot of efforts such as verification of staff by consultants and physical head count of staff by committee. The present administration and its predecessors have all made that effort, but the syndrome seems far from over. It is in light of the above that this study seeks to investigate the Personnel Cost Budget of the state government in respect of education and health sectors to see if it assisted in controlling fraud in personnel cost.

Statement of the Problem

In the past twelve (16) years, precisely from the year 2004 to date, the Borno State government have been battling with how to eliminate payroll fraud and reduce personnel costs which is largely attributed to ghost worker syndrome. The fact still remains that despite huge amounts employed apart from the waste of manned hours to put this syndrome, government is yet to succeed. This is evidenced by repeated employee verification or biometric of the state civil servants.

Despite the various verifications and biometric data of the state civil servants, no tangible report was produce to indict any employee or employees. No discoveries as far as the financial implications are concern was made public, no any suspect paraded or punished for such crime as payroll fraud.

There are very many studies on fraud in the public sector of Nigeria, including that of payroll fraud by such authors like Olaleye 2008, Babalobi 2008 and Adongoi and Victor 2016. These studies were conducted in different states or clime. Similarly, no study was conducted on payroll fraud in Education and Health sectors of Borno State of Nigeria, more so that the analysis is conducted on budgeted and actual Personnel Cost using Forensic Accounting technique thus necessitating this very study.

Objective of the Study

It is the main objective of this study to investigate payroll fraud in the Education and Health sectors in Borno State of Nigeria. However, the specific objectives are to Investigate:

- i) whether proper staff records are being maintained in the Education and Health sectors
- ii) Whether budgets are prepared regularly on personnel costs in line with government policy

II. Methodology of the Study

Both primary and secondary data were used for this research. Closed ended questionnaire was administered to personnel department of the education and Health sectors, while the Borno state budget figure for these sectors are extracted from the State budget document of 2015 to 2019. These data were analysed by the use of Benford's Law.

III. Review of Related Literature

Staff or employee remuneration or emolument is a known package or benefit that every employee enjoys from his employment. However, there are instances when these benefits overshoot the benchmark set by the employer thereby the employees or their collaborators or those entrusted with the responsibility of paying out these emoluments take undue advantage by enriching themselves from this proceeds, hence committing payroll fraud. This type of fraud can be committed through Pay As You Earn Tax, Buddy Punching, Pay cheque diversion, unauthorized hours and Ghost employees. The payroll process involves process information about the number authorized hours to be worked, approval of the hours worked, calculation and authorization of pay and calculation of deductions and subsequent remittance to authorities or organizations concerned and create payments.

The Transparency International (TI) ranking placed Nigeria the 149th position out of 179 countries polled in 2020 in their corruption perception index (CPI). This indicates that the level of corruption is high in Nigeria. According to Olaleye (2008), ostentation, affluence and high profile living standard by any means leads to financial malpractices in the public sector of Nigeria.

However, Babalobi (2008), presents weak government institutions, inadequate employee remuneration, secrecy and lack of transparency as main causes of financial corruption in the public sector.

The unwillingness in the part of government to scout for and arrest and prosecute culprits and their collaborators, including syndicates if any is in part encouraging fraudulent financial practices in the public sector. This idea is also supported by Ukoko, (2014)

According to Obinna (2013), payroll fraud is an organized crime in the civil service of Nigeria. This assertion can carry some weight, because for a fraud to take place there must be some collaborators within the system, more especially where there is segregation of duty.

Faustinus (2013) observed that those in administration, finance and the banks are in collaboration to encourage ghost worker syndrome or payroll fraud even in the digital period. Most of these ghost workers operate bank accounts for salaries and employee entitlements which constitute employee remuneration.

Abba (2019) conducted a study in Katsina state of Nigeria. He analysed the budget statement for a period of 10 years using descriptive statistics and correlation and concluded that the senior management should train the lower cadre so that there is proper implementation of budget. The study therefore indicates that senior officers are not carrying their subordinates in the implementation. This may cause budget variance favourable or unfavourable. Which ever is achieved does not mean a success in budget. This will erode one of the objectives of budget as a document for control purpose.

Mohammed & Mohammed (2016), conducted a study on Government Financial Management Information System (GFMS) and effectiveness of budget in public sector. The study was conducted using primary data and concluded GFMS does not affect the effectiveness of budget in public sector. This for the budget to serve as guide in achieving government policy, financial information is generally required by the operators of the system. The more the available the financial information, the accuracy and avoidance of variance in implementation, inclusive of personal cost.

Albert, Mziu & Brahim (2015), conducted a study on General Financial Information System (GFIS). They related their study to implementation budgets and internal control system. The right use of GFIS will bring better implementation and good internal control. When budget is properly implemented, it curtails over provisions in the budget for various expenditure heads thereby controlling accountants and financial officers in trying to exhaust amount budgeted for that head at all cost.

Oladele, P. O. & Olaoye, F. O., (2016) studied financial control and public sector budgeting in South Western Nigeria. They concluded that there is significant relationship between budget performance and implementation. Hence leading to financial control and budget performance. This will curtail variance in expenditure against budget. Thus controlling fictitious or uncertain figures in the various heads.

Obara, L. C., (2013), reviewed the negative budget performance in Nigeria. The study advocated Value for Money Audit in order to achieve positive budget performance. Revealed expenditure head by head will go along way in curtailing budget surplus or deficit, which can affect implementation. It will make both administrators and accountants sit and be accountable to all actions.

Osibote (2005) believes that budgetary control as the budget or budgets to control activities of the organization. It is a means for planning and controlling Functions in accounting. Budget and budgetary control is also a technique for the establishment of budget, relating the responsibilities of executives to the requirement of a policy, it is a management function, which is essential if control is to be established over the different sections of the business. The question is whether Borno State government utilizes this function of budget to detect or control the level of fraud in the State Civil Service.

According to Chartered Institute of Management Accountants, budgetary control is the establishment of budgets relating to the responsibilities of executives of a policy and the continuous comparison of the actual with the budgeted results, either to secure by individual action the objective of the policy or to provide a basis for its revision.

In light of the above assertions, budget as produce every financial year by government is one of the tools of controlling public expenditure including personnel cost. It is expected therefore that government shall compare personnel cost (budgeted against actual) of previous year before embarking on current year budget. This subjects the implementation process into scrutiny from the appropriate authority, thus eliminating wastages, errors, misrepresentation and outright fraud by employees and their associates.

IV. Data Analysis and Discussion

It is worthwhile to take a critical look at Table 1 which analysed the budget figure of the period under review using Benford’s Law. Comparing the Benford and observed probability, in almost all instances except in figures “2” and “7”, the digits 1-9 are higher than the Benford probability. This indicates that the budgeted figures do not follow the law. The observed chi-square from the Benford indicate that a statement that “there is no significant relationship between the budget figures of personnel cost by Borno State Government” cannot be rejected as in Table 1 either at 95% or 99% confidence level.

Table 1: Analysis of Five Years Personnel Cost Using Benford’s Law
First Digit Tests - Comparing Observed to Benford Probabilities

Digit	Benford Probability	Observed Probability	Number of Data Points	192							
1	30.10	34.90	ChiSquare Value	15.109							
2	17.61	10.42									
3	12.49	13.02	Critical Thresholds for Chi-square Tests (8 degrees of freedom)								
4	9.69	10.94	95%	15.5073							
5	7.92	3.13	99%	20.0902							
6	6.69	8.33									
7	5.80	5.21									
8	5.12	6.77									
9	4.58	5.21									
Critical Thresholds for Chi-square Tests (8 degrees of freedom)											
95%	15.5073										
99%	20.0902										
Testing goodness of fit to Benford's law											
Null hypothesis: data is described by Benford's law											
Results											
Cannot reject Null Hypothesis at 95% level											
Cannot reject Null Hypothesis at 99% level											

Source: Field Work Analysis 2021

In Table 2, budgeted and actual figures for 5 years is presented. Observation of the figures if not for 2017, is on incremental basis. Throughout the period under study the budgeted figures are higher than the actual. The percentage of the variance rose from 10.29% in 2015 to 34.73% against the budgeted figure to the actual.

Table 2: Borno State Personnel Cost

Year	Budget	Actual	Variance	% Variance
2015	15,244,833,300	13,675,466,920	1,569,366,380	10.29441483
2016	29,374,343,405	23,572,157,340	5,802,186,065	19.75256429
2017	41,462,191,739	29,083,546,853	12,378,644,886	29.85525937
2018	32,106,400,000	23,419,124,029	8,687,275,971	27.05777032
2019	33,587,331,375	21,923,077,032	11,664,254,343	34.72813667

Source: Borno State Financial Statements 2015-2019

To collaborate to the figures on the financial statement, questionnaire was administered to accountants and administrators who are supposed to handle or make input in the preparation of budget and subsequent implementation. Their response is presented in Table 3. The following are the questions 1-6 administered: That

they have staff personnel record in your Departments, they are updated regularly and Audited on regular basis according to the responses (38 out Of 47). The records serve as a guide in the preparation of personnel cost budget in the Departments. Preparation of staff emoluments such as salary of is not done by them in the departments. It is also accepted by majority (31 out of 47) that the final personnel cost budget is returned for final input before being sent to the chief Executive for presentation.

Table 3: Analysis of Questionnaire Administered on Accountants and Administrators

Question	Response	Frequency	Percent	Cumulative Percent
1	YES	47	100.0	100.0
2	NO	9	19.1	19.1
	YES	38	80.9	100.0
	Total	47	100.0	
3	NO	9	19.1	19.1
	YES	38	80.9	100.0
	Total	47	100.0	
4	YES	47	100.0	100.0
5	NO	41	87.2	87.2
	YES	6	12.8	100.0
	Total	47	100.0	
6	NO	16	34.0	34.0
	YES	31	66.0	100.0
	Total	47	100.0	

Source: Field Survey 2021

V. Findings of the Study

The study found out that budget is being prepared annually on incremental basis using the previous year's budget figure as basis. It also found out that the budgeted figure is always higher than the actual giving rise to favourable variance, and do not usual follow the pattern of Benford Law in which figures are supposed to appear in a numeric data setup in line with it's rule. Even though, accountants, auditors and administrators are available in all MDAs, staff emolument such as salary is not prepared departmentally, living them with no knowledge of personnel cost. Since the departments do not prepare their personnel, there is every tendency of over payment or under payment, since it can oly be detected if compared to the personnel record.

VI. Conclusion and Recommendation

The budget reveal the figures are not in line with Benford Law, indicating that it is abnormal are prone to fraud. The conclusion therefore is that the budget is prepared centrally and without recourse to those who are in charge of administration and finance at the grass root level. It is recommended from the findings and conclusions that; if incremental budget is to be adopted, it should be based on the actual of the previous year and not the budgeted figure. Since audit of personnel files are being conducted, the budget department of the state government should liaise with the administrators and accountants in the MDAs to ascertain the actual personnel cost than adopting incremental budget more so that there is embargo on employment in the state. Triangulation of preparation of personnel cost budget and expenditure among the accountants/administrators, auditors and central budgeting will prevent fraud. Furthermore, it makes employees responsible to actions of fraud.

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