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Internal Revenue Leakages Prevention and Control in the Local Government System

Prof. N. Elekwa ^α & Eme Okechukwu ^σ

Abstract- The essence of fund control, cash flow management and fraud detection is to avoid wrong payment, improper and use of funds in the management of local government money. Funds Control Techniques are the products of statute (Acts, Decrees, Edict and Bye-Laws) and Regulations. They may be financial or administrative. The State funds are largely governed by the Public Administration Law and Financial Instructions issued from time to time through circulars. This paper argues that Local Government Fund Control is largely governed by the provisions of Financial Memoranda. All issues of inadequate fund in the local government revolve around this particular internal revenue leakage and pose very serious threat to the entire existence of local government. This calls for urgent attention to eradicate this unfortunate phenomenon in our body polity. We have strong conviction if all the suggestions we offered in this paper are strictly adhered to the issue of internal revenue leakage will disappear to a vanishing point. It is only then that we can bark of having the real impact local government.

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1. INTRODUCTION

The Government(s) at the various levels in the public sector have to generate resources (money) and provide certain goods and services which are mainly collective services, quasi-collective services and utilities for the well-being of the citizenry. The resources are limited and therefore they are aggregated as “funds” monies or cash and when the funds are voted or allocated for operations, programmes or projects, the resources (funds) have to be used for that purpose wholly and timely. This is the essence of control through statutes, and regulations. The management of the resources is also delegated to others on behalf of the government hence there is need for probity and accountability. The strategies and control techniques put in place must allow for enforceability, uniformity of practices and compliance. The citizens have to be informed about the results of operations through published financial statements of Government(s) for review and remedial action.

Financial malpractices such as deliberate and intentional embezzlement of local government

revenue, inflation of contracts; non availability to produce payment voucher for monies paid out. Non-retirement of impress advances collected by some local governments on behalf of other agencies; institutionalization of various forms of corrupt and fraudulent practices characterize the financial situation in most local governments in Nigeria. This has reduced drastically, the impact of local government in community development. It is gradually defeating the justification for the existence of local government. Hence, the phenomenon cannot be allowed to continue indefinitely if we want local governments to serve as a viable instrument for rural transformation and for the delivery of social services to the people. There is, therefore, the need to caution, control and application of appropriate sanctions so as to reduce this ugly phenomenon to a minimum.

The central focus of this paper is, therefore, to examine “Internal Revenue Leakages in the governments” with a view to:

1. Providing the need/justification for such control;
2. Ascertaining the main causes of such fraudulent acts;
3. Suggesting possible ways of prevention and detection of financial fraud in the local government system and offering solutions towards eradication of unfortunate practice.

a) Definition of Fund

“Fund” connotes different meanings to different peoples. It may be used to describe an asset set aside for a particular purpose. It may denote cash or securities entrusted with trustees. In the private sector it may be used to describe net current assets in fund flow statement i.e. Current Assets less Current Liabilities = Working Capital.

The general public uses the word “funds” to mean cash. In business, however, the word “funds” frequently has a broader meaning which involves economic resources that can be used to acquire assets, pay dividends, reduce debt, and finance similar transactions. Because working capital can be used for these kinds of transactions, the concept of “fund” is often used to mean working capital. However, some financing and investing transactions do not require the use of working capital. For example, the purchase of land and buildings might be financed entirely through the issuance of long-term debt or stock. Thus, although

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the word “funds” is sometimes used to mean cash, and is often used to mean working capital, a comprehensive list of the sources from which investing transactions are financed would suggest that the concept of “funds” include all financial resources.

b) Definition of Control

Fayol (1916) defined control as ‘verifying whether everything occurs in conformity with the plan adopted, the instructions issued, and principles established.’ It has for its object the pointing out of errors and weaknesses in order to rectify them and prevent their recurrence. It operates on every thing—things, people and actions.

In small-scale organization control springs from supervision itself, i.e., it is carried by the head of the organization and his principal lieutenants along the scalar chain in the course of the supervision exercised by them. But in large-scale organization where the volume and complexity of control operations is considerable, separate control units or officer becomes necessary. They are known by various designations control bureaus, inspectorates, controllers, inspectors and so forth.

Control is essentially an administrative function, but to be comprehensive and effective, it must flow through several channels and take several forms. Fayol mentioned five such channels. Firstly, from the commercial point of view (in case of business administration), control must ensure the checking of incoming and outgoing material as to quantity, quality and price, and see that stores records are kept properly and promises duly honoured. Secondly, from the technical standpoint, control watches the progress, of operations, their results and shortcomings and ensures the proper maintenance of personnel and equipment. Thirdly, there is financial control the object of which is to secure compliance with the financial policy of the organization as expressed through the budget and to see that adequate funds are provided and economically used. Fourthly, there is control of security. It consists of procedures adopted for protecting property, funds, and personnel from damage and harm. Lastly, there is control of accounting to ensure that the essential documents and figures are quickly available, give a clear picture of the state of affairs, and that account books and statistics are adequately and properly maintained for purposes of audit.

A control system is a system built to maintain a desired state. For control to take place, a target or given condition or situation must exist. It may be in form of instruction.

Control techniques are the mechanisms by which control objectives are achieved. These include specific policies, procedures, plans of work or work flow, physical arrangements. Control techniques are to provide the coverage expected and to operate when

intended. The success of the control techniques depend on their compliance with a number of specific standard.

c) Fund Control

This is meant to ensure that approved funds are used for the purposes for which they were approved both in terms of expenditure ceiling and projects. According to Oshisanmi (1992), fund control involves appropriation monitoring and financial statements. This involves the issuance of warrants and subsequently assessing whether actual expenses have been justified in line with the proposed programmes and activities. Financial statement on the other hand provide the financial state of affairs monthly, quarterly and annually as published in the government official gazette.

II. OBJECTIVES OF FUNDS CONTROL

Ashiru: (1998:2) asserted that funds control system in local government is built to ensure economy, efficiency and effectiveness in the use of local government funds. The basic goals of such funds control at local government level are ensure:

1. that the desired programmes and activities are undertaken;
2. that resources are allocated only to the desired purposes;
3. that accurate and up to date accounts are kept for the receipts and disbursement of funds;
4. that results are assessed and reviewed;
5. that there is probity and accountability;
6. that there is uniformity and conformity of application, rules, regulations more so that public section is diverse and complex;
7. that there are effective means of communication

The above measures are aimed at ensuring that appropriations are not exceeded and what is released is used for the purpose for which it is voted and to ensure that money given or realized is used for the purpose of running the local government.

III. MAIN CAUSES OF FINANCIAL FRAUD AT LOCAL GOVERNMENT LEVEL

- a) It is no exaggeration or overstatement if we say, based on our experience and records available, that the actions and inaction of personnel of revenue departments have denied the local governments opportunity to raise reasonable amount of revenue from their different internal sources. This is because it is the revenue collectors that are directly responsible for most of the internal leakages in the local government because they collude with the members of the public (rate payers) to deprive the local governments of the revenue that should accrue to them. Although corruption in the local governments is not limited to personnel unit or revenue collectors; unfortunately, their own is more

noticeable because they are directly or indirectly, involved in local government funds.

Available records and experience shown that most revenue collectors in the various local governments often violate the approved rules and regulations to connive with some rate payers in order to deprive the local governments of the actual revenue that should occur to them for share personnel gains. The revenue collectors, for example, sometimes exempt their wives, children, relations, friends and church members from paying revenue to the local government, if they are, for instance occupying market stalls or hawking goods. They do this because of other personal gains they hope to enjoy from them in future. This behaviour of most revenue collector is a practical manifestation of corruption, which is of different dimension in the local governments, with its concomitant effect, which is revenue leakage.

Some revenue collectors, apart from colluding with some property owners so that their tenants are under-assessed or they completely escape valuation and rating, also collect revenue without issuing receipts, while others issue fake receipts to the payers and the revenue to collected is not paid into the councils' confers.

- b) *Lack of Adequate and well-qualified Financial Officers:* Most of the revenue officials like market managers, valuation officers and host of others lack professional training. The Finance Department of most local governments are not adequately staffed with well qualified and experienced financial managers, accountants, auditors and property valuation officers.
- c) *Lack of Adherence to financial Memorandum:* the most crucial figure in the financial management of the local governments is the local government Chief financial officer, generally known as the treasurer. He is responsible for formulating plans and devising strategies for effective revenue generation and accounting. As the Chief Financial Officer of the local government, he is expected to ensure that all the financial transactions of the local government are made in accordance with laws and the Financial Memorandum (FM). A Financial Memorandum as the name implies is a body of financial rules and regulations which governs all financial transactions of the local government. A serious investigations reveals that these financial rules and regulations are violated with impunity. Lack of strict adherence to FM is a contributory factor to internal revenue leakage.
- d) *Irregular/Improper Auditing:* Auditing of local government accounts is a crucial aspect of the financial management as well as an effective financial control mechanism. The final accounts which are given in annual statements of accounts of the local government are subject to audit. In Nigeria,

in the past, this was carried out by the state government Auditor General and his staff but accounts of local government Auditor General and his staff but accounts of local government Auditing general of a state and his staff.

The auditors have duties and power of semi-judicial nature. They conduct audit of local government accounts, annually our investigations revealed that the process of careful examination of the local government accounts to ensure that all expenditures are made according to Law are no longer being carried out satisfactorily. As a result of that, it has not been possible to detect embezzlement, irregular payments, loss of local government funds, fraud and general misappropriation of local government funds. The auditing of local government funds is powerful financial control mechanism which ensures that scares financial resources are prudently and judiciously managed to effectiveness fulfil the functions allocated by the local governments.

- e) *Appropriate Supervision:* Most revenue collectors are not closely supervised and controlled. They are allowed to be with the council's money longer than the law permits. There is temptation in money and such collectors will not know when he/she has crossed from personal to local government money. It is this failure to supervise, monitor closely and control effectively personnel of revenue department that has let to internal revenue leakage.
- f) *Obsolete Laws dealing with Perpetrators of Financial Fund:* Law dealing with perpetrators of financial frauds are not harsh or not instill enough fear into the minds of such offenders. This has failed to prevent perpetration of atrocious financial frauds.
- g) *Attitude of Nigerians towards Wealth:* In Nigeria, the tendency is for every one to get rich quickly. The reason is that wealth is highly regarded and worship in the country. Infact, wealth in Nigeria is not only the basis for recognition and respect for an individual, but also an index for measuring his hardwork and success. The attitude of Nigerians towards wealth is one of the reasons why most revenue collectors are not content with their job.

IV. PROVISION FOR PREVENTING REVENUE LEAKAGES IN THE LOCAL GOVERNMENTS

The Revised model of Financial Memorandum for local governments made adequate provision for financial transactions at the local government level, including revenue collection, disbursement and control of expenditure. These are as follows:

- a) All revenue and other monies due to a local government shall be received either by the cashier in the treasury or by a Revenue Collector.
- b) A local government shall appoint, in writing, such employees as it thinks fit to be revenue collectors for

the local government to discharge the duties and responsibilities set out in financial Memorandum 1.20. where appropriate local government may appoint a person other than an employee as a revenue collector and such person shall receive an appropriate proportion of the tax or fees he collects, as commission.

- c) At intervals prescribed by this Executive Committee, or immediately when the maximum sum prescribed by the executive committee is held by him, a revenue collector shall pay all local government monies he/she collected into the treasury, or if so authorized in writing by the treasurer, into the nearest branch of the local government's bankers.

Where such authority is given, it shall:

- i. Specify the name and branch of bank at which payment is to be made;
- ii. Direct the revenue collector;
 - a. to record separately on the bank paying in slips details of every cheque received by him as revenue;
 - b. to enter against each cheque to shown on paying in slips, the number of the receipt issued by him when the cheque was received.
- d) Payment to the bank revenue collector and the handling of the recipient bank paying slips to the treasurer or cashier for which a receipt must be obtained, will be paid by him personally, or by his accredited representative by the revenue collector himself or an accredited literate representative, so that the receipt issued by the cashier may be signed by the payer.
- e) The revenue collector shall record all collect made by him in a revenue collector's cash book (from LGT 15A). The revenue collector's cash book shall:
 - i. be kept in a bound volume;
 - ii. have a separate page for each type of payment of revenue;
 - iii. show the date of receipt, receipt number, from whom received, amount and daily total.
- f) Before payment to the treasury at the revenue collector shall total the receipt under each type of revenue as shown in revenue collectors cash book and inert such totals in a revenue collector summary cash book (from LGT 16) recording the under-mentioned information:
 - i. Date
 - ii. Type of revenue
 - iii. Number of receipts issued last payment (first and last receipts to be quoted for each type of revenue);
 - iv. Total amount for each type of revenue;
 - v. Grand total of all revenue collected.
- g) When making payments to the treasury or presenting to the treasury a paying in slips in respect of cash paid direct to a bank, the revenue collector shall produce all direct to banks, his revenue collectors cash book and revenue

collector's summary book. The treasury cashier shall then.

- i. Check the cash or paying in slips handed over by the revenue collector against the records so produced;
- ii. When the cash or paying in slips has been reconciled with the records, date, stamp and sign the duplicate or counterfoil or at the last receipt issued in each receipt book;
- iii. Prepare treasury summary revenue on form LGT 18, the original of which will be posted on the appropriate page of the revenue collector's summary book.
- h) The revenue collector shall record all collections made by him in a revenue collectors cash book on (form LGT 15A) or where more than one type of revenue is collected in a column revenue collector's cash book on form LGT 15B. The revenue collector's cash book shall:
 - i. be kept in original and duplicate
 - ii. be entered in indelible ink/pencil, using double sided carbon to make the duplicate. When paying in cash to the treasury, or presenting to the treasury a paying in slips in respect of cash paid direct to a bank, a revenue collector shall hand his revenue collector's cash boo ruled and cash after the last entry to the cashier. In this case of a revenue collector who is paying in more than one type of revenue, he shall also hand to the cashier, a completed revenue classification slip on form LGT 19.
 - i) The Cashier in the treasury receiving a remittance from a revenue collector shall:
 - i. In the case of a direct payment, count amount shown to be paid in accordance with the revenue collector's cash book; or
 - ii. Where a bank teller's slip is presented, check that the amount shown on it agreed with the amount shown to be paid in accordance with the revenue collector's cash book, and that the number of the receipts issued have entered as required by financial memorandum 6.3 (b) (ii)
 - iii. Immediately issued a treasury receipt (from LGT 17) for the among paid in and hand the original to the revenue collector;
 - iv. Where relevant, check the revenue classification slip (form LGT 19)
 - v. Detach and retain the original pages of the revenue collectors cash book'
 - vi. Where relevant, paste a copy of the revenue classification slip to his own copy of the receipt.
 - j) The following additional procedures shall be followed;
 - i. The original pages from the revenue collector cash book, detached in the treasury, shall be filled for audit and record purposes. A separate file shall be opened in respect of each revenue collector.

- ii. The revenue collector shall paste the original copy of the treasury receipt issued by the cashier in his revenue collectors' cash book.
- k) The Form of receipts to be issued by a local government shall be as follows:

Rpr MP _____ Description

Where Appropriate

LGT 17 Treasury Receipt

LGT 19A Departmental Receipt

LGT 18 Treasury Summary Receipt

LGT 20 M Fixed Fee Receipt, Tax Receipt etc.

- l) The Form shown in Financial Memorandum 6.1 shall be used as follows:
 - i. The treasury receipt on form LGT 17 must be prepared in triplicate, the original being handed to the payer, the duplicate detached as the Treasury receipt book;
 - ii. The Departmental receipt in form LGT 19A will be issued by Revenue Collectors of the public, except when specific or fixed fee receipts (See 5 below) are available for the particular type of revenue, form LGT 19A must be prepared in duplicate, the original being handed to the payer and the duplicate retained in the receipt book;
 - iii. Where appropriate, a treasury summary prepared in triplicate on form LGT 18 shall be issued for payments made by a Revenue Collector, to the Treasury, the original being handed to the Revenue Collector, the duplicate detached as the treasury receipts voucher and the third copy retained in the receipts book.

However, the Treasury will not issued form LGT 18 where the Revenue Collector himself has already issued a Departmental summary receipts to another revenue collector, in such cases the revenue collector will be issued with a treasury receipt on from LGT 17 and he duplicate copy of the Departmental Summary Receipt issued by him will be attached to the treasury receipt voucher (this duplicate copy of the treasury receipt);

- iv. Where appropriate, when payments are made by one revenue collector, for example, market or slaughter slab fees collected by a village Head and paid to District Head, the receiving revenue collector shall issue a Departmental Summary Receipt in triplicates. The top co shall be handed to the revenue collector making the payment, the duplicate to the local government cashier when the receiving revenue collector is paying the money to the treasury and the third copy retained in the receipt book;
- v. Fixed Fee Printed receipts shall be used for market or motor park fee or other revenues of fixed amount accruing to the local government. A fixed Fee receipt shall be dated when issued and the revenue

collector must properly account for the number of all fixed fee receipts which he issues;

- vi. Tax receipts of various types shall be issued solely for tax and rate revenue on the basis of the procedures set out in Financial Memoranda chapter 10, 11 and 12;
- vii. Where authorized to do so by the executive committee, a local government may issue machine printed receipts for specified types of revenue.
- m) The under-mentioned procedure shall be followed when issuing receipts and licenses;
 - i. Receipt and Licenses must be completed in indelible pencil or ball point pen and double sided carbon paper used to make copies.
 - ii. Receipts must be issued in strict numerical order and a separate receipt issued for each individual payment.
 - iii. All receipts, other than machine printed receipts and certain fixed fee receipt shall be signed by the receiving official and, where possible, by the payer. Where, however, the payer is illiterate the receipts should be signed by a witness other than the receiving officers.
 - iv. In no circumstances shall alteration be made to the amount of money shown on a receipt, whether to the words or figures, if the amount is incorrectly entered, the original and all copies of the receipts shall be marked "Cancelled" in red ink, left in the receipt book and a new receipt or license issued.
 - n) If money tendered by a payer is of the stated amount or includes obsolete or counterfeit currency, the revenue collector must take up the matter at once with the payer and, also, if possible a witness;
 - o) The action to be taken when counterfeit money or suspected counterfeit money is tendered to a revenue collector is prescribed in financial memoranda 2.9
 - p) If shortages are found in the amounts actually received by the treasury cashier, the following procedure will be followed.
 - i. The treasury receipt or treasury summary receipt must be made out for the full amount stated to be remitted.
 - ii. The full amount shown on this treasury receipts or treasury summary receipt will be debited in the cash book and credited to the appropriated revenue sub-head.
 - iii. A payment voucher will be made out for the amount of the deficiency, debiting a personal advance account in the name of revenue collector or other person and crediting the cash book;
 - iv. The treasury must formally notify the amount of the deficiency to the revenue collector or other concerned and to the Executive Committee. The procedure regarding loses of funds as set out in financial memoranda chapter 8 will then apply.

- q) Payment on account should not be accepted for amounts of less than N10,00 due to the local government. Poor Larger debts, if a payment on account is accepted, the receipts should be made for the amount paid and clearly marked "on account only, balance due N....."
- r) Fixed fee receipts or licenses must not be issued until the full amount is paid.
- s) Cheque drawn on banks in Nigeria other than cheque drawn by individual may be accepted in payment of amount due to the local government provided that the revenue collector has no reason to suspect the standing of the drawer or that the cheque might not be met.
- t) Cheque must be carefully examined to ensure that before acceptance:
 - i. the cheque is made out to "The...Local government" and crossed;
 - ii. the cheque is signed by the drawer and the name and the address of this drawer is written in flock capitals on the back of the cheque (unless his name is printed on the front of the cheque)
 - iii. the cheque is not post-dated. The acceptance of post-dated cheque is forbidden;
 - iv. the cheque is not dated earlier than two months before the date on which it is presented;
 - v. the amount in words and figures agree;
 - vi. any alternative on the cheque is signed in full by the drawer;
 - vii. the cheque is marked "Commission to Drawer's account" and signed in full if the cheque is drawn on a bank other than the local government's bank or a branch of the local government's bank other than one where the amount or the local government is kept.
- u) Before they are paid into the Bank, cheque must be suitably endorsed by an official of the local government so authorized by the local government;
- v) Revenue or other monies overpaid or incorrectly received, must be refunded to the payer as soon as possible. Refunds of revenue should not be treated as expenditure but deducted from this relevant revenue head and sub-head. The deduction should be made in this year in which the refund was collected. Where, however, a refund if made in respect of a revenue item no longer collected, the refund should be changed to Head 1008 sub-head 2 recovery of losses and overpayment.
- w) Excess discovered in the heads of revenue collectors during an examination of their records should not be refunded to the revenue collector, but placed on deposit until the revenue collectors book have been scrutinized and the source of the excess identified.
- x) Where revenue becomes due to the local government as recurrency fixed intervals, for eg, rent or plot fees, a register of recurring revenue

must be kept by the appropriate department. The register shall be kept on form LGT 21 for revenue receivable on an annual basis. The "remarks" columns in the two register will be agreed to record.

- i. Date when demand notes or reminders are dispatched to the debtors.
- ii. Where appropriate the dates when special reports concerning outstanding amounts are submitted to this Executive Committee.
- y) Where payment is not made at the time services are rendered or good supplied by a local government, an invoice must be issued immediately to the debtor on form LGT 23. A register of invoices issued must be kept of form LGT 23A.
- z) The following procedures shall be followed when amounts shown in the register of invoices issued are not paid promptly;
 - i. At the end of each month a return should be submitted to the treasurer listing all items of recurrency revenue on any invoices which have been outstanding for more than three months.
 - ii. Accounts which have been outstanding for more than twelve months, and which after all possible actions has been taken to obtain payment with financial memoranda 8.9-8.12 considered to be uncoverable, may subject to the agreement of the Auditor General be written of agreement of approval of the Auditority indicated in financial memoranda 8-13.
- aa) Where any amount has become irrecoverable through the neglect of the responsible officials, he may be held liable for the less incurred.
- bb) Where an officer controlling a vote is responsible for revenue arising therefrom, he must ensure that the Departmental Revenue Collector has full details of the revenue to be collected in that department. The recurrent controlling the vote will maintain, as necessary, a register of recurrent revenue.

From the discussions, it is quite clear that financial memorandum made necessary arrangement towards ensuring Fraud-Free in the Financial Transactions in the local government. The document made adequate provisions for checks and balances in the collection and remittance of revenue that accrue to the local government by the revenue collectors and other officers concerned with finance at local government. Inspite of all these provisions, internal revenue leakage still persists. This raises the question what should be done in the light of what is being done.

V. WAYS AND MEANS TO ERADICATE INTERNAL REVENUE LEAKAGE

- a) The revenue collectors and other revenue staff of the local government should be bonded with guarantors. If this is done, the guarantors would be held responsible for any misappropriation such

cashier may commit. With this method, he will be determined from engaging in fraudulent act since he is aware that he is under bond.

- b) The revenue collector and cashiers not be long at a particular revenue section. They should be reassigned at regular intervals so as to prevent them from developing perfect strategy for embezzling local government revenue.
- c) Dishonest staff or those with suspicious character should not be recruited as 'revenue collector or cashier' rather only those with transparent honesty and proven integrity should be post there.
- d) There should be regular inspection and auditing of the revenue records of the local government. This will help to prevent diversion of local government funds to private pockets by revenue collectors and cashiers.
- e) Efforts should be made to avoid posting people with chronic financial problem there. By this we mean, a person known to be always applying for loan, overdrafts or salary advance should not be allowed to be a revenue collector because he will constitute a serious threat to local government revenue.
- f) The revenue collectors and cashiers should be adequately paid and rewarded to avoid the temptation of tempering with the revenue collected or colluding with the members of the public to defraud the local government of its revenue as Nwankwo (1997:18) noted, the urge to convinced with members of the public to defraud the local government of its revenue is usually high where the revenue collectors are impoverished and generally exploited by the authority concerned.
- g) Use of financial transaction recording and classification. One of the major fund control technique is through the mechanics of recording and classifying financial transactions from the books and records of accounts. This entails recording and classifying and makes it possible for bank reconciliation statement to be prepared either monthly or quarterly.

VI. CONCLUSION

It has been established that internal revenue leakage has contributed to huge financial loss at local government councils in Nigeria. This has crippled local government's efforts towards providing essential services to rural and urban communities. All issues of inadequate fund in the local government revolves around this particular internal revenue leakage and pose an serious threat to the entire existence of local government. This calls for urgent attention to eradicate this unfortunate phenomenon in our body politic. We have strong conviction if all the suggestions we offered in this paper are strictly adhered to the issue of internal revenue leakage will disappear to a vanishing point. It is

only then that we can bark of having the real impact local government.

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