

# IMPACT OF MISMANAGEMENT AND EMBEZZLEMENT OF PUBLIC FUNDS ON GOVERNMENT PARASTATALS

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## Abstract

This study examines the impact of mismanagement and embezzlement of public funds in government parastatals using Federal Inland Revenue Service (FIRS), Abuja as a case study. The study employs the survey descriptive research design. A total of 85 respondents were selected as the sample size comprising staff of Federal Inland Revenue Service (FIRS), Abuja. Seventy-one (71) responses were validated from the survey. The findings reveal that the nature of mismanagement and embezzlement of the funds in the public sector is prevalent at ( $\beta = 0.912$ ,  $R^2 = 0.948$ ,  $P = .000$ ) and show that there are factors that enhance mismanagement and embezzlement of the fund in the government parastatals at ( $\beta = 0.892$ ,  $R^2 = 0.937$ ,  $P = .000$ ). It is found that mismanagement and embezzlement have a significant effect on the public fund in government parastatals ( $\beta = 0.887$ ,  $R^2 = 0.936$ ,  $P = .000$ ). It is also found that the extent to which financial irregularities and corrupt practices affect public service delivery ( $\beta = 0.896$ ,  $R^2 = 0.952$ ,  $P = .000$ ). Therefore, the study recommends the establishment of a strong penal code system to enforce laws and rules as sternly as the need for adequate punishment for offenders on corruption and related matters on fund embezzlement is paramount and germane.

**Keywords:** Mismanagement, Embezzlement, Public Fund, Government Parastatals

**JEL CLASSIFICATION:** H19

## 1. Introduction

Financial misappropriation is gaining attention throughout the world, with many nations undertaking deliberate and significant attempts to

enhance the use of public funds. Financial misappropriation is a global issue that has a significant socioeconomic impact, particularly on poor countries (Tutino & Merlo, 2019).

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Mismanagement of public funds is connected with abuse and probable loss of funds, raising concerns about the integrity of those in control of the funds. Misappropriation is an intentional act of misusing money. It is the redirection of funds and other assets designated for a certain official purpose for personal use or for a purpose for which they were not intended. This is an illegal expenditure of money or other assets for personal benefit (Magaji & Musta, 2015). Misappropriation is thus the most serious kind of fraud in the public sector since people actively divert public funds for personal gain without regard for the consequences (Maimako, 2015). This sort of fraud is done by the following methods: outright misappropriation of business or government assets for personal use, payment of salary to ghost workers, unauthorized use of public funds or assets, payment against uncleared checks, and so on (Aramide & Bashir, 2015).

The scourge of public sector financial mismanagement in Nigeria since the oil boom, when fundamentally poor control mechanisms created a range

of vulnerabilities that tended to enable and prolong corrupt activities. This is compounded by the almost complete lack of the concept and principles of accountability in the behaviour of the country's public entities. Government parastatals are primarily formed to undertake economic or social development programs or to provide critical services to the people. While we acknowledge that government parastatals have not been able to satisfy their public's expectations owing to misappropriation and embezzlement of funds provided to the agency, several panaceas have been offered for the "chronic sickness" that continuously befalls our parastatal in the form of mismanagement (Mohammed, 2019).

In Nigeria, the report gathered from the Guardian Editorial Column on August 25, 2019 shows that most Ministries, Departments, and Agencies (MDAs) are guilty of financial wrongdoings and non-compliance with financial regulations despite having a government that has zero-tolerance for corruption. Examples include the non-retirement of overdue personal advances

of 4.87 billion dollars, no remittance of collected reductions in the sum of 3.79 billion dollars, and the existence of a doubtful cash balance of more than 315 billion dollars as of December 31, 2016 (Daniel, 2020). The sum of 60.39 million naira was claimed to have been used for the purchase of estacode and air tickets for some government officials without evidence, which is against the ethics of financial regulations accompanied by irregularities. (Ohigbega, 2017). These irregularities further include fraudulent financial reporting undertaken to render financial statements misleading (sometimes called management fraud) and misappropriation of assets (sometimes called defalcations) associated with manipulation, falsification, or alteration of public accounting records. These have implications on the MDA. Financial misappropriation, the unaudited and non-submission of audit reports to the respective authorities on government financial affairs have violated the breach in financial regulations and unethical professional practice in the federal public service (Akor, 2016). The detrimental

impacts of public sector corruption substantially lead to an increase in the cost of public goods and services, lead to the misallocation of public resources, weaken policymaking and implementation, and distort public sector outcomes (Magaji & Musa, 2015).

It is on this basis that this study examines the impact of mismanagement and embezzlement of public funds on government parastatal; it further x-rays the factors that breed these corrupt and unethical practices for a period of ten years (2010 to 2020) and how this would affect the service delivery and efficiency of the government agencies. The study is however delimited to Federal Inland and Revenue Service, Abuja. The paper is divided into five sections. Section One is the introduction, while Section Two is a literature review and theoretical framework. Section Three addresses the methodology and Section Four is data presentation and analysis. Finally, Section Five is a summary of major findings, the conclusion and recommendations.

This research is motivated to prove the impact of mismanagement and

embezzlement of public funds on government parastatals.

## **2. Literature Review**

### **2.1 Conceptual Review**

#### **2.1.1 Government Parastatal**

The government parastatal otherwise known as the public sector is a sector of the economy that is managed and controlled by the government on behalf of the public (Maimako, 2015). It is the sector of the economy that is publicly owned other than the sector owned, financed, and managed by individuals. Maimako (2015) posits that the public sector is all organizations that are not privately owned and operated, but which are established, run, and financed by the government on behalf of the public. This definition conveys the idea that the public sector consists of organizations where control lies in the hands of the public as opposed to private owners, and whose objectives involve the provision of services, where profit-making is not the primary objective. Mohammed (2019) posits the following significant characteristics of government parastatal: not for profit motive, taxation,

government operation in a non-competitive environment, high level of accountability, nature of government fixed assets and provision of essential services.

#### **2.1.2 Mismanagement**

One major encumbrance that mitigates the growth of Nigeria's economy is the misappropriation of available funds by the government at all levels. Nigeria, as a developing nation with a dwindling economy, which often survives on borrowing from both internal (through issuing of bonds, treasury bills, etc.) and external (from the London Club of Creditors, Paris Club of Creditors, International Monetary Funds, World Bank, Africa Development Bank, and through bilateral means) sources, is guilty of mismanagement, misapplication, and misappropriation of funds, which is a pivotal contributor to the high poverty rate of its citizens. According to Yadongha and Ogoun (2017), embezzlement and mismanagement of public funds is the biggest obstacle to achieving the Millennium development goals in

developing countries. They define public money as all the money received by a public body from whatever source. They further indicate that managing public funds should focus on public expectations. The public is concerned about the purpose of which money is allocated, the way it is spent, and the benefits realized. Langseth (2009), cited in Daniel (2020), states three specific examples of corruption and mismanagement of public funds. They are viewed as forms of internal mismanagement of public funds, and they are administrative, grand, and state-capture mismanagement of public funds.

### **2.1.3 Embezzlement**

Embezzlement is seen as a white-collar crime, and all levels of government are affected by it. Embezzlement, according to the Federal Bureau of Investigation (FBI), is the illegal misuse or misapplication of something for a criminal profit, such as cash, property, or other valuable items that have been entrusted to the criminal's care, custody, or control. In their list of financial crimes, Ugwuanyi and Ewuim (2018)

add embezzlement. When someone purposely utilizes property and/or money for a use for which it was not intended, it is an offence. The National White-Collar Crime Centre (NW3C) claims that the violation of financial trust between the owner of the asset or the source of the funds and the criminal is what distinguishes embezzlement from other forms of theft. They go on to say that although embezzlement technically falls under the category of theft in the uniform crime reports, it is impossible to estimate the exact number of instances and that figure can change depending on the source.

### **2.1.4 Fraud Triangle Theory**

A classic idea, Cressey's Fraud Triangle idea defined the tendency for fraud as a triangle of perceived opportunity, perceived pressure, and perceived justification. Every fraud executor faces a pressure or "need" of some sort. Financial pressures, vices (drugs, gambling, and alcohol), work-related pressures (high pressure for good results at work or a need to cover up someone's poor performance or to report

results that are better than actual performance compared to those of competitors), and other pressures (frustration with the nature of work, or even a challenge to beat the system) are all factors that influence people to commit fraud (Robert, 1986). This "need" or "greed" typically involves several additional elements, such as the chance and mindset to engage in fraud (mismanagement and embezzlement). According to Alhaji and Fauna (2019), the fraudster must believe that they can carry out the scheme without being discovered. An employee's access to resources and knowledge that enable them to both commit and cover up the crime creates the chance for fraud (mismanagement and embezzlement). Weak internal control environments, a lack of internal control procedures, a failure to enforce internal controls, as well as several other elements including apathy, ignorance, a lack of sanctions, and inadequate infrastructure all present opportunities. Therefore, access must be restricted to only those resources, systems, and tools that are required for a worker to perform his or her duties. The

ability of fraudsters to justify their conduct as legitimate is the third factor that contributes to fraud. People's perspectives on their labour, performance, and contributions at work are referred to as rationalization or absence of guardians. As a result, they assign a value to the rewards they should receive from the organization for being productive or providing something of worth. On the other hand, the absence of guardians describes a situation in which the organization has few or no systems in place to verify the accuracy of its financial data or operations. To prevent financial mismanagement and embezzlement in government parastatals, the integrity process must be present. This involves the presence of internal auditors, external auditors, the board of directors, and reporting requirements such as banks, regulators, and adequate management review.

## **2.2 Empirical Review**

In a study conducted by Osakede, Ijimakinwa and Adesanya (2015) on Corruption in the Nigerian Public Sector and the Challenges of Good Governance

and Sustainable Development, the paper used a qualitative approach to analyze issues by adopting secondary data. They observe that Nigeria is faced with a myriad of dilemmas. Prominent among these are poverty, insecurity, kidnapping, ethno-religious crisis, and bad governance. They suggest that the government should urgently initiate moves to work with the National Assembly to review Nigeria's constitution and legal order to empower the anti-corruption agencies to work assiduously without being molested or interfered with by the government. Their finding shows that the entrenchment of constitutional principles will allow citizens in their respective constituencies the power to recall at any point in time any elected official who has been found by due process to corrupt, abuse or betray the people's mandate. This study was conducted on the public sector generally with regards to corruption and embezzlement and it did not take any parastatals as a case study.

However, Akomolafe, Eluyela, Ilogho, Egharevba and Aina (2017)

conducted a study on “Financial Crime in Nigeria Public Sector: A Study of Lagos State Ministries.” The study looked into the presence of financial crime in Nigeria's public sector and the results of implementing reforms in the state ministries of Lagos. The study also looks at how harshly and effectively such offences are punished. The primary approach for gathering data was a questionnaire survey. The study's hypotheses were tested using t-test statistics. According to the study's findings, payroll and contract fraud predominated in the ministries under the previous government. Additionally, government changes have been implemented to lessen the effects of financial crime and close loopholes. According to the report, the efficiency of the legal anti-corruption institutions in charge of lowering the incidence of financial crimes should be improved, and the level of enforcement should be raised. Only Lagos State was the subject of this investigation.

Furthermore, Alhaji and Faruna (2019) carried out a study on Financial

Crime in the Nigerian Economy: Issues and Challenges. The study aimed to examine the impact of financial crime on the Nigerian economy, to investigate the various facts of corruption such as advance fee fraud, money laundering and looting and its impact on our society. The study adopted survey research and a structured questionnaire in gathering data. The study was geographically limited to the Bauchi State Ministry of Finance, Nigeria. To facilitate the study, an empirical hypothesis was drawn on financial crime specifically identifying its root cause on how it has affected the growth and development of the Nigerian economy. The study discovers that the role played by the government and its anti-corruption agency (EFCC) and (ICPC) in fighting against corruption to curb its negative impact on our economy cannot be overlooked. By this, the research recommends that certain facilities should be put in place to check the cause of financial crime and also ensure that credible and qualified personnel are in the committee for implementing policies for the betterment of the economy. This study concentrated

on financial crimes in the Nigerian economy generally not on parastatals and agencies of government.

It is on this premise that this study intends to look at the Analysis of the Impact of Mismanagement and Embezzlement of Public Funds on Government Parastatals in Nigeria using a survey descriptive research design.

The following hypothesis is formulated to guide this study:

**H<sub>1</sub>:** The nature of mismanagement and embezzlement of funds in the public sector is prevalent.

**H<sub>2</sub>:** There are no factors that enhance mismanagement and embezzlement of funds in the government parastatals.

**H<sub>3</sub>:** There is no significant effect of mismanagement and embezzlement of funds in the public sector.

**H<sub>4</sub>:** The extent to which financial irregularities and corrupt practices affect public service delivery is low.



### 3. Research Methods

#### 3.1 Conceptual Review

Research designs are perceived to be an overall strategy adopted by the researcher whereby different components of the study are integrated logically to effectively address a research problem. In this study, the researcher employed the survey research design. This is due to the nature of the study whereby the opinion and views of people are sampled. Since they are often used to describe and explore human behaviour, surveys are therefore suitable for social and psychological research.

#### 3.2 Population of the Study

This study was carried out to examine the impact of mismanagement and embezzlement of public funds on government parastatals using Federal Inland Revenue Service (FIRS), Abuja as a case study. Hence, the entire staff of the Federal Inland Revenue Service (FIRS), Abuja headquarters form the population of the study.

#### 3.3 Sample Size Selection Technique and Procedure

In this study, the researchers adopted the convenient sampling technique to determine the sample size. Out of the entire staff of Federal Inland Revenue Service (FIRS), Abuja, the researchers conveniently selected 85 participants as the sample size for this study.

#### 3.4 Method of Data Collection

The method of data collection used is the primary source. The primary source included oral interviews and questionnaires.

#### 3.5 Research Model

This study adopts the model of Musa, Magaji and Titus (2022). Following this model, the variables included were Gross Domestic Product (GDP), Monetary Policy Rate (MPR), Inflation Rate (INF) and Broad Money Supply ( $M_2$ ).

$$GDP=f(MPR, INF, M_2)$$

$$GDP=\alpha_0 + \alpha_1 MPR + \alpha_2 INF + \alpha_3 M_2 + \epsilon$$

where:

GDP = Gross Domestic Product

MPR = Monetary Policy Rate

INF = Inflation Rate

M<sub>2</sub> = Broad Money Supply

ε = Error Term

In this study, changes were made by dropping all the variables, both dependent and independent, and introducing mismanagement and embezzlement as the dependent variable and Corruption Perception Index (CPI), Control Corruption (CC), and Government Effectiveness (GE) as explanatory variables.

$$\text{MISEMB} = f(\text{CPI}, \text{CC}, \text{GE}) \dots\dots\dots 3.1$$

$$\text{MISEMB} = B_0 + B_1\text{CPI} + B_2\text{CC} + B_3\text{GE} + e \dots\dots\dots 3.2$$

where:

MISEMB = Mismanagement & Embezzlement

CPI = Corruption Perception Index

CC = Control Corruption

GE = Government Effectiveness

B<sub>0</sub> = Slope

e = Error margin.

#### 4. Results and Discussion

For the survey, a sample of 85 was calculated for this study. A total of 77 responses were received, while a total of 71 were validated. This was due to irregular, incomplete and inappropriate responses to some questionnaires. For this study, a total of 71 were validated for the analysis.

#### 4.1 Results

##### 4.1.1 The nature of mismanagement and embezzlement of funds in the public sector is prevalent

**Table 4.1: Test Results Hypothesis 1**

<b>Model 1</b>	<b>R = 0.912</b>	<b>R<sup>2</sup> = 0.948</b>	<b>Adj.R<sup>2</sup> = 0.725</b>	<b>Std. Error estimation = 0.310</b>	<b>Durbin-Watson = 1.711</b>
	Sum of Square	Df	Mean Square	F	Sig.
<b>Regression</b>	6089.246	1	6089.246	328.315	.000 <sup>b</sup>
<b>Residual</b>	2744.947	70	18.547		
<b>Total</b>	8834.193	71			

Constant nature of mismanagement and embezzlement of fund	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
	-12.612	2.949		-3.888	.000
	.914	.018	.830	18.124	.000

Source: developed in research (2023)

Table 4.1 above shows that the nature of mismanagement and embezzlement of the fund in the public sector is prevalent at ( $\beta = 0.912$ ,  $R^2 = 0.948$ ,  $P = .000$ ). Furthermore, the result reveals that the nature of mismanagement and embezzlement of

the fund has 95% decisive prevalence in the public sector. The P-value of 0.000 is less than a significant level of 0.05. The result shows that the nature of mismanagement and embezzlement of funds in the public sector is prevalent. Therefore,  $H_{01}$  is rejected.

#### 4.1.2 Factors that enhance mismanagement and embezzlement of funds in the government parastatals

**Table 4.2: Test Results Hypothesis 2**

Model 2	R = 0.892	R <sup>2</sup> = 0.937	Adj.R <sup>2</sup> = 0.698	Std. Error estimation = 0.319	Durbin-Watson = 1.701
Regression Residual Total	Sum of Square	Df	Mean Square	F	Sig.
	6089.247	1	6089.247	328.316	.000 <sup>b</sup>
	2744.948	70	18.547		
	8834.194	71			
Constant factors that enhance mismanagement and embezzlement	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
	-11.418	2.855		-3.999	.000
	.911	.021	.830	18.120	.000

Source: developed in research (2023)

Table 4.2 above shows that there are factors that enhance mismanagement and embezzlement of the fund in the government parastatals at ( $\beta = 0.892$ ,  $R^2 = 0.937$ ,  $P = .000$ ). Furthermore, the result reveals that factors that enhance mismanagement and embezzlement of

the fund have 94% decisive influence on government parastatals. The P-value of 0.000 is less than the significant level of 0.05. The result shows that there are factors that enhance mismanagement and embezzlement of funds in government parastatals. Therefore,  $H_{02}$  is rejected.

#### 4.1.3 Effect of mismanagement and embezzlement of funds in the public sector

**Table 4.3: Test Results Hypothesis 3**

Model 1	R = 0.830	R <sup>2</sup> = 0.936	Adj.R <sup>2</sup> = 0.687	Std. Error estimation = 0.307	Durbin-Watson = 1.679
Regression Residual Total	Sum of Square	Df	Mean Square	F	Sig.
	6089.246	1	6089.246	328.315	.000 <sup>b</sup>
	2744.947	70	18.547		
Constant mismanagement and embezzlement of fund	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
	-11.417	2.936	.830	-3.888	.000
	.887	.016		18.119	.000

Source: developed in research (2023)

Table 4.3 above shows that mismanagement and embezzlement of funds have a significant effect on the public sector at ( $\beta = 0.887$ ,  $R^2 = 0.936$ ,  $P = .000$ ). Furthermore, the result reveals that mismanagement and embezzlement of funds have a 94% decisive effect on

the public sector. The P-value of 0.000 is less than a significant level of 0.05. The result shows that there is a significant effect of mismanagement and embezzlement of funds in the public sector. Therefore,  $H_{03}$  is rejected.

#### 4.1.4 The extent to which financial irregularities and corrupt practices affect public service delivery

**Table 4.4: Test Results Hypothesis 4**

<b>Model 2</b>	<b>R = 0.831</b>	<b>R<sup>2</sup> = 0.952</b>	<b>Adj.R<sup>2</sup> = 0.688</b>	<b>Std. Error estimation = 0.308</b>	<b>Durbin-Watson = 1.688</b>
<b>Regression Residual Total</b>	Sum of Square	Df	Mean Square	F	Sig.
	6089.247 2744.948 8834.194	1 70 71	6089.247 18.547	328.316	.000 <sup>b</sup>
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
<b>Constant financial irregularities and corruption practices</b>	B	Std. Error	Beta		
	-11.418 .896	2.943 .017	.830	-3.999 18.120	.000 .000

Source: developed in research (2023)

Table 4.4 above shows that financial irregularities and corruption practices affect public service delivery at ( $\beta = 0.896$ ,  $R^2 = 0.952$ ,  $P = .000$ ). Furthermore, the result reveals that financial irregularities and corruption practices have a 95% decisive influence on public service delivery. The P-value of 0.000 is less than a significant level of 0.05. The result shows that the extent to which financial irregularities and corrupt practices affect public service delivery is high. Therefore,  $H_{04}$  is rejected.

#### 4.2 Discussions

For the analysis of data carried out by the researcher, the following findings were made:

The findings in Table 4.1 reveal the nature of mismanagement and embezzlement of fund in the public sector which comprises remiss of public necessities, less or no attention to major financial responsibilities, appointment or selection of unqualified personnel for delegate positions, siphoning of funds allocated for public projects, alteration of the public budget, lack of fair play in budgeting, and poor allocation of fund to critical public budgets.

Table 4.2 reveals that bad leadership, payment for fictitious purchases and contracts, overstating of the contract price, immunity of office, weak governance, jumbo pay of politicians more civil servants, extreme and excessive materialism, payment against uncleared cheques and cheque fraud are the factors that enhance mismanagement and embezzlement of fund in government parastatals.

Furthermore, the findings in Table 4.3 reveal the effect of mismanagement and embezzlement of funds in the public sector. Among the findings include: it weakens policy formulation, weakens public policy implementation, distorts public sector performance, damages public integrity, leads to the self-perpetuating organizational culture of corruption, and destroys public confidence in government.

Additionally, the findings in Table 4.4 reveal the extent to which such irregularities and corrupt practices affect public service delivery and efficiency, which include misallocation of

resources, increase in the price of public goods and services, inadequate provision of basic amenities, demoralization of civil servants and unavailability of adequate facilities for effective service delivery.

More so, the hypotheses tested using linear regression at 0.05 significant level disclosed that the nature of mismanagement and embezzlement of the fund in the public sector is prevalent; there are factors that enhance mismanagement and embezzlement of fund in the government parastatals; there is a significant effect of mismanagement and embezzlement of fund in the public sector; and the extent to which financial irregularities and corrupt practices affect public service delivery is high.

### **4.3 Implications of Findings**

The findings of this study will proffer information on the structure and administration of parastatals and relate those variables to funding, embezzlement, mismanagement, and how they have crippled the efficiency of parastatals. The findings from the study will serve as a veritable source of

information for stakeholders to proffer interventions which will address the problem. The findings will also serve as a wake-up call to the incumbent government on the need to never relent in the fight against corruption and ensure that the established commissions continue to do their job to curb irregularities in the public sector.

## **5. Conclusion**

This study examines the impact of mismanagement and embezzlement of the public fund on government parastatals using Federal Inland Revenue Service (FIRS), Abuja as a case study. The study specifically was aimed at determining the nature of mismanagement and embezzlement of funds in the public sector.

The study adopted the survey research design and conveniently enrolled participants in the study. A total of 71 responses were validated from the enrolled participants and all respondents were drawn from the staff of the Federal Inland Revenue Service (FIRS), Abuja. Having critically examined the research

questions, tested the hypothesis, and the research findings, the following conclusion was made based on the information gathered:

The nature of mismanagement and embezzlement of funds in the public sector—which comprises remiss of public necessities, less or no attention to major financial responsibilities, appointment or selection of unqualified personnel for delegate positions, siphoning of funds allocated for public projects, alteration of the public budget, lack of fair play in budgeting, and poor allocation of fund to critical public budgets—is prevalent. Some factors enhance mismanagement and embezzlement of funds in the government parastatals. The effect of mismanagement and embezzlement of funds in the public sector include: it weakens policy formulation, it weakens public policy implementation, it distorts public sectors performance, it damages public integrity, it leads to the self-perpetuating organizational culture of corruption, and it destroys public confidence in government.

In the light of the findings and conclusions, the following recommendations are hereby proposed:

There is a need to create the National Council of Public Procurement (NCP) (both at the federal and state levels), which should be a team of verified and certified economists and accountants who will transfer the awarding of contracts from the hands of politicians to a body that will ensure fair and impartial selection of contractors, give due consideration to experience and knowledge of the project, and demonstrate objectivity and fairness in the award of contracts. This will drastically lessen the issue of corruption, favouritism, and nepotism, which will encourage accountability.

It is crucial to address the issue of accountability in the state's public financial management system. Therefore, it is important to promote the effective application of IPSAS, or International Public Sector Accounting Standards.

The use of the accrual basis of accounting should be encouraged across

all levels of government to hold public managers accountable for recording and protecting public assets, managing public cash flows, and disclosing and paying off public liabilities.

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