Fraud Unlimited

Contributed by Tobs Agbaegbu
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Contract splitting, inflation of contract sums and other forms of financial irregularities uncovered in many federal ministries, departments and parastatals

For more than one year, details of the massive fraud and contract scams discovered in the record books of federal government ministries, departments and agencies, MDAs, remained a guided secret. The details are contained in a 400-page document titled: “Annual Report of the Auditor-General for the Federation on the Accounts of the Federation of Nigeria for the year ended 31st December, 2009.” They were only known to a few privileged people in government. In fact, only two copies were sent to the clerk of the National Assembly on November 30, 2010, for distribution to the two chambers of the Nigerian parliament. Samuel Ukura is the auditor-general of the federation. It was not unexpected. The audit report showed that virtually all MDAs of the federal government bureaucracy, inclusive of the State House, Office of the Secretary to the Federal Government, Head of Service, Supreme Court, National Institute for Policy and Strategic Studies, NIPSS, the Armed Forces, Police and the Nigerian Customs were found to have contravened the civil service rules, financial regulations and due process procedures in spending government funds through contract awards. Billions of Naira which ought to have been used for development and service delivery went down the drain, and in some cases found their way into private pockets. Although the report failed to provide names of persons involved and companies used as conduit pipes for the massive fraud, the auditors were detailed on specific acts of complicity, negligence of duty and conspiracy to circumvent laid down rules. Indeed, the offence of fraud discovered among individual MDAs groups were so brazenly committed in many instances that the AGF recommended invitation of the Independent Corrupt Practices and Other Related Offences Commission, ICPC, and Economic and Financial Crimes Commission, EFCC, for further investigations and possible prosecution. Going by findings of the auditors, the most bizarre instance of mismanagement of public funds within the period under review, appears to have taken place at the Federal High Court, Lagos, where an unnamed chief judge held court as the chief accounting officer. Under the supervision of the chief Judge, a contract was awarded for the construction of the Federal High Court Headquarters Complex, Abuja, in April 2004, for N4.5billion. On March 16, 2007, the contractor was paid N3.7 billion, about 84 percent of the contract sum, after submitting three interim payment certificates for work done. The audit report said four days after the payment, the consultant to the project submitted a proposal for what was called “pre-commissioning estimate” on the Court Complex building, amounting to about N31.5 million. Surprisingly, the money was approved by the Chief Judge on March 22, 2007, two days after, while payment was made the following day, being March 23, 2007. While the transaction was going on, the Federal Judicial Tenders Board in its letter Ref.No.FJTB/CON/VOL.11/04 of 6th September, 2007 reviewed the Federal High Court, Abuja, building contract upwards by about N1.6 billion after the purported commissioning. That was after the contractor had been paid about N3.8 billion, which represent 85 percent of the initial contract sum, leaving an outstanding sum of about N879 million to complete the project. The AGF’s report condemned the practice. He explained in the report that “government did not derive any value for the sum paid to the contractor as pre-commissioning expenses since the project was yet to be completed as at the time.” He described the payment as “wasteful…and a make-belief.” The report demanded for “satisfactory explanation for the upward review of the contract which was at 85 percent completion by a whopping N1,573,152,600.19,” the report also directed that the money paid to the contractor for the purported commissioning of uncompleted project be recovered. It criticised the Federal Judicial Tenders board for not exercising due economy as required by extant rules in reviewing the project that was only 15 percent uncompleted. The directive was yet to be compiled with at the time as report was made public. It was almost the same story with the contract for the construction of Federal High Court Complex, Kaduna, done within the same period. After the contract was awarded for about N86 million, a variation of about N13milion was said to have been later introduced at a time the job was about 99 percent completed. The audit report said no reason was given for the upward variation. The report from the Federal Ministry of Works was another instance of how officials of government mismanaged public funds. Here, as in all ministries, a permanent secretary is the chief accounting officer. In one instance, it was discovered that a contractor who abandoned his job after collecting huge sums of money also went away with an over payment of a whopping sum of N40 million. The permanent secretary and his team of Directors and other officers through whom the contract was awarded, did nothing to stop the contractor from going away with public funds. The contract was for the construction of Mubi-Maiha-Sorau road in Adamawa State. The road which has a length of 91km and 10 bridges was awarded for N7, 067.604.852.00 with a completion date of 26th September, 2006. But the job was abandoned in 2008 after 36.62 percent level of completion. “When the 36.63 percent level of work accomplished is compared with the 57.63 percent total payments, it is clear that the contractor had been overpaid by 21.01 percent which amounts to N1,484,903,779.40,” the report said. The AGF’s report also noted that so many contracts initiated by the Ministry of Works were abandoned within the period of the audit enquiry. The Gusau-Talata Mafara road in Zamfara State is one peculiar case. It was abandoned despite full payment to the contractor and an upward review of N1, 500,347,681.79 granted the contractor. The permanent secretary was queried for what transpired and directed to recall the contractor back to site to complete the job or to compel him to return money equivalent to the abandoned job. The permanent secretary was further queried for illegal acts of virement in the ministry. Details of the offence as reported by the auditor-general showed that the ministry tampered with the one billion Naira released to the ministry in 2009, for activities of the Public Private Partnership, PPP, unit of the ministry. The report also said N958.6 million was transferred from the PPP account to the Road Sector Development Team of the ministry,

“the reason for this could not be established as at the time of writing this report.” The report act said the contravened financial regulations, as the ministry cannot indulge in virement of budgeted funds without the approval of the National Assembly. The findings on the National Primary Health Care Delivery Agency, NPHCDA, was also damning. At the end of 2007 fiscal year, three contracts for various sums totalling N26, 075,000.00 were awarded for the computerisation of the accounting system of the NPHCDA. The contracts which were for N9,125,000.00, N9,000,000.00 and N7,950,000.00 were awarded to three different contractors on 14th December, who got their payment on 30th December, 2007. The audit report noted that “curiously, on the same 30th Dcember, 2007, three personal advances ranging between N5,000,000.00 and N8,799,500.00 and totalling N22,500.000.00 were granted to three officers of the agency, purportedly for the computerisation of the same accounting system.” The auditors were convinced that the ministry duplicated the contracts, and that in actual fact, the computerisation programme was not executed. In their recommendation, the auditors said: “It is clearly evident that government funds have been cleverly siphoned under the guise of computerising the accounting system. Public funds to the tune of N48, 575,000.00 were frittered away on this fictitious project with absolutely no value to show for it. The full amount should be recovered from the members of staff and companies involved in this fraudulent scheme. In addition, severe disciplinary action should be imposed on the staff members for this gross misconduct while the companies should be blacklisted and referred to the EFCC and ICPC.” The audit query issued to the executive secretary, ES, of the agency as at the time the report was written was ignored. Irregularities were also reported in some contracts awarded at the Ministry of Education. In one instance, contracts worth N21.7million awarded to 30 contractors for the supply of provisions, stationeries, computer consumables, etc, were found to have been inflated by the sum of about N10million. The report recorded that the amount must be recovered from the contractors and approving authority, because the deal is a contravention of Financial Regulations, No 415 of 2009 which requires that officers responsible for expenditure must exercise due economy, and not spend money merely because it has been voted. So many other contracts awarded by the ministry were also queried. Affected mostly are the contracts for projects in the federal government colleges. At the office of the Secretary to the Government of the Federation, SGF, then occupied by Yayale Ahmed, some shady contract deals were also discovered by the audit enquiry. One of the deals was said to involve an unnamed Abuja-based company which was awarded a contract to supply three giant generators in 2008, at the sum of about N187 million. The contractor was paid N112 million in 2008, as mobilisation and the balance paid in 2009. As at June 2009 when the SGF relocated to a new building away from the Federal Secretariat, the generators were not supplied. This led to the hiring of a generator for the SGF at the cost of about two million per month. As at September 2010, the cost of hiring the generator had gulped about N26 million. The auditors also queried the deal. Officials of the Federal Ministry of Agriculture were also not left out of the contract scam in MDAs, widely believed to be carried out with the collaboration of the civil servants. During the examination of the financial transactions and other related records at the Federal Ministry of Education for the year ended 31st December, 2009; various contract irregularities were discovered by the auditors. The most glaring was a case where contracts worth about N21million were awarded to 30 unnamed contractors for the supply of various items. Independent survey showed that the cost of the items was inflated by about N10 million. Approving authorities and contractors have been asked to return the inflated sum. A similar occurrence was also found at the National Sports Commission, NSC, where Patrick Ekeji is the director-general, DG. On account of so many suspicious contract deals noticed by auditors within the period under review, the DG was queried, especially over payment for contract for the construction of Mini Sports Centres in many parts of Nigeria valued at about N940 million. The Institute for Policy and Strategic Studies, NIPSS, in Kuru, near Jos, was also reported to have been involved in financial irregularities within the period under review. In one notorious case, when Ahmed Danfulani was the DG, 12 contracts were said to have been awarded for a total contract sum of about N83million, for the renovation of participants chalets in December, 2007. Surprisingly, 100 percent mobilisation fee was paid to all the contractors on the same date that is, 28/12/08, apparently in a bid to circumvent government directive on unspent funds. This action violates section 35(1) of the Public Procurement Act, 2007, which prescribes a maximum of 15 percent mobilisation fee on government contracts. The deal at NIPSS was deemed suspicious by the auditors. The DG was subsequently “asked to explain the breach of the Public Procurement Act and the suspicious nature of the payments.” The case at NIPSS was worsened by another revelation during the audit enquiry. It was found out that N52.5million from the capital account of the Institute was placed in a fixed deposit with a commercial bank. N20million accruing from the deal as fixed deposit was further found not to have been paid to Government Treasury, as required by Financial Regulations. In the query that followed, the DG was requested to pay N20 million that accrued as interest into the treasury. The State House, Abuja was among the MDAs where widespread irregularities were discovered. In one instance, the expenditure of about four million Naira on hiring an aircraft for First and Second Ladies trip to Katsina, home state of the late President Umaru Yar’Adua was queried. The auditors who looked into the account books of the State House discovered to their dismay that the officials of government couldn’t produce any receipt from the contractors to justify the expenditure. Bizarre activities of that nature were said to be a regular occurrence at the State House. “Several payments and transfers of amounts totalling N112, 372,553.55 were made by State House to companies/agencies abroad for purported repairs/maintenance of Presidential Air Fleet, PAF, aircraft, in February, 2009, without supporting documents such as quotations for the repairs/maintenance/bidding documents and invoices.” In another instance, an unnamed commercial bank was paid N100,259,547.52 for remittance to a company in France for additional works carried out on one of the aircraft in the fleet, Falcon 900(5N-FGE). This was followed by another payment of N4.5million to the same bank on February 4, 2009, for aircraft maintenance tracking services subscription. In all the payments, the auditors said they saw no evidence of subscription form, agreement/MOU or evidence of receipts for work done. The permanent secretary, State House was asked to offer official explanations but failed to comply. The Ministry of Finance was also involved in contract irregularities. The most glaring, going by details contained in the audit report,

was the contract given out for the construction of Phase 11 of the Ministry’s HQ building in Abuja. The initial contract was reported to have been awarded in November 2001, for N4.6 billion. The cost was later reviewed upward to N6.19 billion in 2009 with a completion period of two years. But the auditors were shocked with what they found when t hey came calling in March 2010. First, the Central air-conditioners were found to be leaking and also not functioning properly. Secondly, the 281 red chairs supplied to the Minister’s Conference Room were found to be of lower quality than those quoted for. Also, six lifts provided for in the bill of quantities and purportedly supplied amounted to N153, 155,006.89. During inspection, the auditors said they found that only four of the lifts were installed and the lift regularly breaks down. The remaining two lifts purchased were not accounted for by the authorities of the ministry. A N3million provided for in the priced bill of quantities for contingency, could not be accounted for. The auditors insisted that the permanent secretary should explain all the anomalies. The problems of the Permanent Secretary did not end there. The ministry where he was the chief accounting officer was also involved in splitting of three separate contracts between November 2008 and March 2009, for the same project. The auditors faulted the practice thus: “if there were plans to renovate the entire building by replacing every item in the building, there should not have been any need for the previous awards and payments in November and December 2008 before awarding the main contract of N1,300,000,000.00 in early 2009.” Describing the acts as waste of public funds, the auditors directed the permanent secretary to account for the payments made therein. The Armed Forces were also not left out of the reported contract mess in the Federal Government bureaucracy. One unique thing about the contracts in these institutions is that the managers of the budgeted funds gave out the contracts in tiny bits, so small that some of the recipients rather see them as handouts, instead of as jobs meant to be executed and accounted for. To cover up their messy deals, a number of the military institutions blocked all avenues at auditing their institutions. The auditors, specifically pointed this anomaly out when they attempted an auditing of the Nigerian Air Force Station in Port Harcourt. They said in their report: “it is regrettable to note that the station persistently refused the routine audit inspection of its accounts since 2004. All efforts to get authorisation for the audit inspection proved abortive. The Nigerian Air Force Headquarters is yet to cite and produce copies of superior authorities exempting it from the statutory obligation of the Auditor-General of the Federation.” Some military formations, however, subjected themselves to audit. But they were not found to have operated a clean record. At the Defence Headquarters, Abuja, for instance, a total of N4.8 million was found to have been paid to an officer as out of pocket expenses for the repair of 19 photocopiers, 43 computers, 36 split air-conditioners and 63 refrigerators. The list of items repaired, the location of the items and the certificate of completion of repairs certifying that they had been repaired were not attached. The auditors observed that the repairs purportedly done were doubtful as all the items were repaired at a uniform price which gave the indication that all the items had identical faults. “It is tempting to ask what the annual salary of the officer is that he would incur out of pocket expenses of such an amount on behalf of government.” The audit report was not about contract scams alone. It also found out large-scale fraud in revenue calculation, collection and remittance to the Federal Government by some revenue-generating agencies and oil firms in the country. “Wrong basis of calculating royalties and failure of Department of Petroleum Resources, DPR, to raise assessment,” were some of findings. Ukura said: “During the audit examination of accounting and other records at the DPR the computation of royalties payable by oil companies was based on actual crude oil lifted by them and not calculated on actual production figures contrary to the provisions of the Memorandum of Understanding, MoU, with the relevant oil companies.” He said the MoU stipulates that payment of royalties should be based on production volume multiplied by the prescribed royalty rates. According to him, “the DPR had shirked its responsibility of raising the assessments on royalties and sending the demand notices to the oil firms for prompt settlement. Rather, the oil companies are allowed to engage in the self-assessment of royalties’ payable by them. This action is obviously detrimental to the interest of the country.” The report said oil companies in Nigeria owe the government huge sums of money in local and foreign currencies. “Audit investigation revealed that the sum of N1.148 billion on penalty on gas flared and $795.309 million on royalties on crude oil were owed by various oil companies as at December 2009,” he said. The report also revealed that there were several instances of late remittance and non-payment of penalties by banks to the Federal Inland Revenue Service, FIRS, “Audit examination of the accounting records maintained for the Federation Account at the FIRS, revealed that the collecting banks were in the habit of late remittance of actual collections to the Central Bank of Nigeria, CBN, thereby contravening the agreement between FIRS and the collecting banks. Also, there was no documentary evidence to authenticate the payment of penalties and interests totalling N172.655 million to the Federation Account,” the report said. Also, money generated from over-recovery was not remitted to the Federation Account. “About N3.307 billion being the balance in the CBN statement for over-recovery in respect of the Petroleum Support Fund, PSF, account as at December 31, 2009, which should have been paid back into Federation Account by Petroleum Product Pricing Regulatory Agency, PPPRA, was yet to be transferred to the Federation Account as at December 1, 2009. However, this amount was inclusive of N1.765 billion owed to a private oil company, which was said to be under litigation,” the report stated. Figures of revenue remitted to the Federation Account by the Nigeria Customs Service, NCS is also a subject of the report. Specifically the report states: “Audit examination of the records maintained for the Federation Account at the NCS revealed discrepancies between the figures of revenue generated obtained from the Customs and figures of revenue remitted to the Federation Account...” But an official of NCS told Newswatch that all issues raised by the Accountant- General’s office have been resolved.