

# Effect of Fraud and Corruption in the Nigerian Construction Industry (A Case Study of Oyo and Osun State)

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**ABSTRACT:** *This paper is aimed at evaluating the effect of fraud and corruption in the construction industry. Fraud is given as an act or course of deception, an intentional concealment, omission, or perversion of truth while the corruption means a conspiracy or an attempt to engage in the taking or offering bribes, dishonestly using influence, fraud, theft, embezzlement, misuse of information. This study quantitatively determined the effects of fraud and corruption in the construction industry of Nigeria. Questionnaire were administered to Quantity Surveyors, Architects, Civil Engineers, Builders, and Contractors who have practiced and are still practicing in two South Western States of Nigeria (Oyo and Osun States). The Sixty well completed questionnaire retrieved from the respondents formed the data that were analysed by the Relative Importance Index (RII). The study showed the effects of fraud and corruption as loss of live and property (in case of collapse of structure), loss of material, loss of capital, rise in cost of infrastructure, substandard project, project abandonment and delay, extortion and blackmail, licenses withdrawal, psychological trauma, bankruptcy, embezzlement, misappropriation and money laundering and professional ethics circumvention, job insecurity, reduce life span of structure to reduce the incidence of fraud and corruption in the Nigeria construction industry. Conclusion and recommendation were obtained from the report.*

**Keywords:** Fraud, corruption, effect, construction, perversion.

## I. INTRODUCTION

Fraud and corruption have long pervaded the construction industry. It is regarded by many as synonymous with construction and engineering projects. However, the procurement and completion of such projects demands interaction between the participants; it involves a certain level of cooperation in order to coordinate the numerous activities which make up the construction process.

Fraud and corruption are criminal acts and could be a collusive practice which is an arrangement between two or more parties designed to achieve an improper purpose including influencing improperly the actions of another.

Fraud is one common corrupt practice. This happens in Nigeria regularly where people resort to it to gain illegal and unearned income. Fraud is viewed as an act of misrepresentation or deception. This includes charging for goods or services not supplied or changing the specifications of goods and services and their expiration dates, or even overpricing goods and services in order to cover the cost of bribes. Other forms of fraud include

over-invoicing and cybercrimes. Fraud results in a loss of state revenue and personal income. In Nigeria the loss of revenue through fraudulent activities runs into about forty billion dollars annually [1].

Fraudulent activities occur in both private and public sector. The private sector involvement in fraud is to gain illegal and extra unearned income through changing the contents of documents or providing incorrect information and documents. In the public sector, fraudulent activities include overlooking altered or missing documents or by receiving bribes to ignore illegal activities or practices. There are other different kinds of fraud. Fraud occurs in the Nigerian customs service through the-under or over declaration of the value of goods or misclassification to evade payment of tariffs. There is also electoral fraud, which is usually carried out by politicians with the active connivance of electoral officials. This involves illegal interference with the process of an election. Acts of fraud affect vote contents to bring about an election result, through either inflating the votes of the favored candidate, or deflating the votes of the rival candidate or even both. Electoral fraud also includes multiple voter registration, intimidation at polls, and improper vote count and collation of election results.

## II. LITERATURE REVIEW

The World Bank defines fraud as “any act or omission, including a misrepresentation that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation.” As used here, a “fraudulent bid” is a bid or proposal that contains knowingly or recklessly misleading information, submitted in order to gain an unfair advantage in the selection process. According to World Bank cited in [2] corruption is defined as abuse of office for private gains. Public office is abused for private gains when an officer accepts, solicits or extorts a bribe. It is also abused when private agent actively offers bribes to circumvent public policies and processes for competitive advantage and profit. Public office can be abused for personal benefit even if no bribery occurs, though patronage and nepotism the theft of state of assets or the diversion of state resources.

Corruption could be defined as the act of impairing integrity, virtue or moral principle; dishonest, illegal or immoral behavior especially from someone with power. Corruption, according to [3] implies using one’s power in

a dishonest, illegal or immoral way to get an advantage for oneself. According to [3] from socio political – cum – financial perspective, [4] perceives corruption as “any action taken in socioeconomic, political and financial realms which is morally unacceptable, bad and or illegal. Expanding Boeninger’s conception, [5] explains that corruption is immoral and dishonest or exploitation of power in economic financial and political spheres for personal gains. According to [3] an examination of these definitions and others not stated here indicates that corruption is a manifestation of one or a combination of:

- i. **Fraud** – a reflection of any instance in which one party deceives or takes advantage of another commonly regarded nowadays as advanced fee fraud (419)
- ii. **Bribery** – an illegal influence on any person in the exercise of public duty
- iii. **Forgery** – a fraudulent alteration of a written document or seal with the intent of injuring the interests of another person
- iv. **Embezzlement** – a wrongful acquisition of property by a person who has been entrusted with such property.
- v. **Extortion** – a crime of obtaining something such as money from somebody using illegal methods or persuasion.

#### A. EFFECTS OF FRAUD AND CORRUPTION

Since bribe-paying firms must find a way to recover these illicit payments and, where possible increase profits, they will often resort to defrauding the project, thereby threatening its development effectiveness.

Charges for goods, works, and services are inflated and rise in cost of infrastructure, abandonment of construction work due to lack of proper management and planning. Goods and services are invoiced but never delivered (or quantities greatly reduced).

Contract specifications are not met, resulting in substandard work or hazardous conditions. Sometimes resulting to collapse of structure which may lead to loss of life and properties.

Products are substituted for inferior, less expensive and lower quality material than specified in contracts. For consulting contracts, the project is billed for the cost of senior consultants, when lower paid employees are actually performing the work, or billing for “ghost employees” is found. Competition is often reduced, leaving less capable companies to bid, resulting in higher prices and lower quality.

Government officials often play a central role in corruption schemes by being in a position to influence the award of contracts, the processing of invoices for payment, and the signing of licenses and approvals. Local and international companies (contractors and sub-contractors) organize or participate in illicit arrangements in order to win contracts. They divert project funds to project officials, with the bribes usually disguised as ‘legitimate’ payments for goods, works or services.

Frequently, subcontractors— actual or fictitious—are used to channel funds to project officials.

Contractors’ independent agents may play a role in brokering the illicit arrangements and shielding the contractors from legal action.

Supervision consultants may be corruptly induced or pressured to sign-off on substandard work. Senior government officials may provide protection or seek their share of the corrupt payments.

High cost of construction projects as result of inflated price of bill of Quantities and un-realistic claims during the course of execution of the project. Poor quality workmanship as a result of poor supervision thereby leads to collapse of projects. Low labour productivity and output which was caused through the effect of fraud and corruption on the construction project along with ineffective utilization of the resources such as material and labour [6].

Corruption also represents a threat to construction and engineering companies, as well as those institutions companies which are financing, guaranteeing or insuring construction projects, by resulting in wasted tender expenses, tendering uncertainty, increased project costs, economic damage, blackmail, criminal prosecutions, fines, blacklisting, and reputational risk [7].

In developing countries corruption in construction is of particular importance for poverty reduction strategies for two main reasons. Firstly because it diverts resources from poverty-focused infrastructure projects as well as health and education programmes towards large capital-intensive infrastructure projects and secondly because the poor lack the necessary resources for benefiting from corruption - finance, information, literacy, ability to access the legal system and connections to those with power [8]. [9] Define it as a dishonest or illegal behaviour especially of people in authority and the act or effect of making somebody change from moral to immoral standards of behaviour. [10] see corruption as including three important elements, namely, morality, behaviour and authority.

### III. RESEARCH METHODOLOGY

A well organised questionnaire was developed to sample respondents’ opinions on the probable causes, effects and solution to the project abandonments in tertiary institutions in Nigeria in Nigeria. Eighty (80) questionnaires were distributed, sixty (60) were collected back for analysis. The data collated were presented in tabular form and simple statistical tools were used for the analysis to include percentage among other methods.

Data sourced from various professionals within the built environment in the tertiary institutions in Nigeria were analyzed using arithmetic mean and ranking by descending value methods of statistical analysis. For assessment purpose, mean score was used to examine the causes, effects of project abandonment and to suggest

possible remedial actions and results were ranked from which conclusions were deduced.

In computing the arithmetic mean, the following formula was used:

$$\text{Mean score} = \frac{\sum w_i f_i}{\sum f_i}$$

Where  $\sum w_i$  = the summation of the weights.

$\sum f_i$  = the summation of responses

The Likert scale involving rating on interval scale of 5 and 1 developed for application in social sciences and management researches for quantification of qualitative variable were used. It elicited information from the building construction professionals concerning the effects of fraud and corruption in the Nigeria construction industry. 1- Represents; least responsible, 2- Represents; fairly responsible, 3- Represents; averagely responsible, 4- Represents; Responsible, 5- Represents; highly responsible.

#### IV. DATA PRESENTATION AND ANALYSIS

This research work was based on three main possible contributory factors whose causes, effects and solution to the project abandonment in Nigeria tertiary institution which were subsequently identified and scored within the identified causes, effects and proffer solutions.

**Table 1: Professional background of respondents**

Professions	Frequency	Percentage (%)	Percentage cumulative (%)
Architecture	11	18.3	18.3
Building	21	35.0	53.3
Quantity Surveying	14	23.3	76.6
Engineering	9	15.0	91.6
Urban and Regional	5	8.3	100
<b>Total</b>	<b>60</b>	<b>100</b>	

The table above shows the professional background of respondents, 18.3% of the respondent are Architect, 35.0% are builder, 15% are Engineer, 23.3% are Quantity surveyor 8.3% are Town planner.

**Table 2: Types of respondents**

Types of respondent	Frequency	Percentage (%)	Percentage cumulative (%)
Contractor	26	43.3	43.3
Architect	6	10.0	53.3
Consultant	23	38.3	91.6
Personnel	5	8.3	100
<b>Total</b>	<b>60</b>	<b>100</b>	

From the table 2 above, larger percent of the respondent are contractors followed by consultants with 43.3% and 38.3% respectively.

**Table 3: Effects of fraud and corruption in the construction industry.**

S/N	Effects of fraud and corruption in the construction industry.	Mean	Rank
1	Loss of life and property (collapse of structure)	3.73	2
2	Loss of material	3.08	11
3	Loss of capital	3.47	6
4	Rise in cost of infrastructure	2.72	13
5	Substandard project	3.58	3
6	Project abandonment and delay	3.52	5
7	Extortion and blackmail	2.47	14
8	Licenses withdrawal	3.15	10
9	Psychological trauma	3.43	7
10	Bankruptcy	3.02	12
11	Embezzlement, misappropriation, and money laundering	3.76	1
12	Professional ethic circumvention	3.22	9
13	Difficulty in securing job by qualified and legitimate contractors	3.40	8
14	Reduced life span of structure	3.53	4

It shows the effects of fraud and corruption in the construction industry. Embezzlement, misappropriation, and money laundering was ranked first followed by collapse of structure which results to loss of life and property and substandard project. Extortion and blackmail was ranked least with the mean score of 2.47.

#### V. CONCLUSION AND RECOMMENDATION

##### A. Conclusion

Nigerians have surely learned from and surpassed their foreign counterparts in fraud and corruption. In Nigeria fraud and corruption have reached epidemic state and the construction industry carry a lion share of it. While the proceeds of corruption in developed nations remain in their countries, those pertaining to Nigeria are taken out of the economic activities of our nation and deposited in foreign accounts thereby dealing a ‘double blow – double tragedy’ on our Nation. Each profession and their professional bodies should be made to focus on the areas of its core competence and not allow one person to be the designer, cost manager, project manager, constructor; valuer etc. Each professional body represented in the built environment should be allowed to carry out tasks relating to his profession. Strongly believe this will reduce fraud and corruption in construction projects

##### B. Recommendation

Governments of Nigeria (Federal and States) should approve a wage that will make the Civil Servants to live

conveniently. Contractors and public servants should be well counseled to be contented with what they have. Contract procedures should follow due process as outlined in the public procurement Act put in place by Federal Government of Nigeria (2007), close monitoring and scrutiny of contracts should be enforced and prosecution and confiscation of property of guilty parties should be thoroughly enforced. The construction professionals in practice should be closely monitored by their respective professional bodies and any erring professional should be brought to book.

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