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# The Place of Auditing in Organizational Performance of Public Sector: Evidence from some selected Local Government in Zamfara State, Nigeria

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## **Abstract**

*This research work examines the place of auditing in organizational performance of public sectors in Nigeria, using some selected Local Government in Zamfara State, Nigeria as case study. Its specific objective among others is to determine if there is any significant relationship between internal audit department and the administration of the Local Governments and to also establish if there is significant relationship between effective internal auditing of accounts of public sectors and proper reporting of stewardship by accounting officers. Data were collected via a well-structured and tested questionnaire administered on 55 respondents in the selected Local Government councils in Zamfara State. The data collected were analyzed using Chi-square via SPSS statistical tools. The findings of the study revealed among others that there exist significant relationship between internal audit department and the administration of the Local Government. Also, there is significant relationship between effective internal auditing of accounts of public sectors and proper reporting of stewardship by accounting officers. Hence, the system of auditing public sector accounts in the State does not seem to enhance effective accountability. This may be attributed to the political interference experienced and non-independence of internal audit personnel and this prevents them doing their work as required by the constitution, for efficient performance and effective accountability in public sector it is recommended that political interference should be minimized and there should be clear information dissemination within the various departments in all local government on the control measures taken, so that each department would comply with the respective control systems.*

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**Keywords:** Auditing, Organisational performance, Public sector.

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## **1.1 Introduction**

The need for accountability and probity in the private and public sectors is the order of the day in every society and the drive for accountability often begins with an enthusiastic pursuit for probity and integrity on the part of public administrators. In recent times, the public sector, especially the local government system that is meant to draw attention of the government close to its citizens have suffered a lot of setback due to improper use of public funds. This practice has eaten deep into the local government system that public funds meant for development of the councils are converted into private use. This lack of transparency and accountability of funds in the third tier of government can be minimized through effective and efficient auditing of local government accounts.

The government, shareholders and other users of accounting information need to know whether funds are used properly in compliance with the government rules and policies, also whether the

organization are achieving the purpose for which it was set up. Auditors in the public sector ensures that funds have been expended in accordance with the terms by which such monies were appropriated and that accounts have been properly prepared. It is on this note that the need for auditing arose as a discipline due to the concept of stewardship and stewardship accounting. Stewardship is the practice by which productive resources owned by one person or group of persons are managed by another person or group of persons. In view of the fact that the management of the organization is in the hand of persons other than the owners, the owners would want to know the true position of the organization from time to time.

However, the stakeholders can effectively and efficiently assess the performance of management using the report prepared by an independent person called the auditor. Audit consists of a searching investigation of the accounting records and other evidence supporting those financial statements. Through the study and evaluation of the organization's system of internal control and by inspection of documents, observation of assets, making inquiries within and outside the organization and by other auditing procedures, the auditor will gather the evidence necessary to determine whether the financial statements provide a fair and reasonably complete picture of the organization's financial position and its activities during the period being audited.

In the local government system, the government functionaries perform their jobs in the absence of much of the public and the need to report their performance and conduct to the public if they are to continue to enjoy the support of the public in the procurement of necessary resources. Therefore, it has become common knowledge in Nigeria that public officers would not report their performance and conduct fairly to members of the public. It is on the basis of this that the researchers evaluate the place of auditing in organizational performance of public sectors, using some selected Local Government in Zamfara state, Nigeria, as case study.

## **1.2 Objective of the Study**

The main purpose of this study is to establish the place of auditing in organizational performance of Nigerian public sector, using some selected Local Government in Zamfara State. The specific objectives are;

1. To examine if there is any significant relationship between internal audit department and the administration of Gusau Local Government.
2. To ascertain if there is significant relationship between effective internal auditing of accounts of public sectors and proper reporting of stewardship by accounting officers.

## **1.3 Hypotheses**

The following hypotheses were formulated for the purpose of this study;

1. There is significant relationship between internal audit department and the administration of the Local Government.
2. There is significant relationship between effective internal auditing of accounts of public sectors and proper reporting of stewardship by accounting officers.

## **2.1 The Conceptual Framework**

Auditing is an independent examination of, and the expression of an opinion on the financial statements of an enterprise by an appointed auditor, in accordance with his terms of engagement and the observance of statutory regulations and professional requirements (Dandago, 1999). This definition clearly stated that there must be someone (auditor) responsible for expressing an opinion on the entire financial statement of an organisation. The

auditor here may mean an individual or firm carrying out the audit of an enterprise. The auditor should be approved and must have personal and operational independence in order to perform his duty effectively. Akpata (2001) and (Sabari, 2003), classifies audit into four: private, statutory, management and internal audit, even though all the types of audit focus on regulations, which lead to control of expenditure or revenue. Millichamp (2000) defined internal auditing as “an independent appraisal function within an organisation for the review of system of control and the quality of performance as a service to the organisation.

Unegbu and Obi (2012) see internal audit as part of the internal control system put in place by management of an Organization to ensure adherence to stipulated work procedure and as aid to management for smooth administration, control cost minimization; ensure capacity utilization and maximum benefit derivation. By measuring and evaluating the effectiveness of organizational controls, internal auditing, itself, is an important managerial structure and the general rules of the business. Internal auditors are concerned with the entire range of an organization’s internal controls that includes operational, financial, and compliance controls (Simmons, 1997). Contemporary internal controls and well-functioning internal audit systems are meant to deliver key assurances to all stakeholders against corruption, waste, and inefficiencies in public services. In the absence of a control system with internal audit as a safeguard for checking efficiency and effectiveness of that system, government offices are vulnerable to waste, corruption, and inefficiencies.

The goal of internal audit function should be to add value and improve an organization’s operations and control structure. Effective and efficient audit of accounts ensures the proper reporting of the activities of an organization (Okezie, 2008; Nwaorgu, 2003). Internal auditing ensures that funds have been expended in accordance with the terms by which such monies were appropriated and that accounts have been properly prepared (Johnson, 2004). It provides both governments and related parties with a powerful tool for understanding the extent to which the public institution has delivered on-budget and effective services.

Akinbuli (2010) reported that several theories of auditing were made to specify and determine the audit functions. Some of these theories include:

**The policeman theory:** This theory of auditing was purely on the arithmetical accuracy and on the prevention and detection of fraud. This theory makes the auditor to detect and prevent errors and fraud in organizations.

**The lending credibility theory:** This theory of auditing regards the primary function of auditing to be the addition of credibility to the financial statements. Akinbuli (2010) states that audited financial statements can enhance stakeholders’ faith in management’s stewardship.

**Theory of inspired confidence:** This theory states that stakeholders demand accountability from the management in return for their contribution to the organization.

**The moderator of claimant’s theory:** This theory states that it is important that all vital participants in an organization continue to contribute. In order to continue these contributions, it is important that each group believes it receives a fair share of the organizations income.

**Agency theory:** This theory is associated with conflicting interests of shareholders and management of organizations, suggesting that the less informed party will have to demand for information that monitors the behaviour of better informed manager (Akinbuli, 2010). According to Hayes (1999), agency theory can be used to explain the supply side of the audit market. The contribution of an audit to third parties is basically determined by the probability that the auditor will detect errors in the financial statements and the auditor’s willingness to report these errors.

## **2.2 Overview of Nigeria Local Government**

Local government is the third – tier of government. According to Elayelagha (2007), local government is a key institution in local governance. The primary level of grassroots political mobilization and a major references point in the distribution by government of certain economic and social service. Local government has been recognized as a critical factor in national development. Elayelagha (2007) argues that local government provides a veritable platform within which the momentum for sustainable grassroots transformation could be created.

Ugwu (2002) perceives local government as the third tier level of government created for the purpose of efficient and effective administration for the localities. Coleman Elayelagha (2008) stated that local government has three main characteristics, namely: It operates in a restricted geographical area within a state; it operates through local election of its functionaries and it enjoys a measure of autonomy including the power of tax. Ebohon (2011) argue that local government in Nigeria contributes to the development of the grassroots. This tier of government ensures that those people living in the villages and communities are provided with the necessary social amenities and bringing development closer to the people at the local level.

## **2.3 Concept of Auditing**

Awe (2008) defines auditing as an independent examination of the books and accounts of an organization by a duly appointed person to enable that person give an opinion as to whether the accounts give a true and fair view and comply with relevant statutory guidelines. The American Accounting Association (1971) in its Statement of Basic Auditing Concepts in Hayes, Schilder, Daseen and Wallage (2009) described auditing as: a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between these assertions and established criteria and communicating the results to interested users.

Auditing is the examination of accounting records with a view to ascertaining their accuracy and compliance with relevant statutory provisions, accounting standards, professional pronouncements, and the organisational policies. The Chartered Institute of Public Finance and Accountancy (CIPFA), as cited by Johnson (1996), defined internal audit as “an independent appraisal function within an organisation for the review of activities as a service to all levels of management. It is a control which measures, evaluates and reports upon the effectiveness of internal control, financial and otherwise, as a contribution to the efficient use of resources within an organisation.”

Jocelyn (2003) traces the definition of internal auditing given by the Institute of Internal Auditors as “an independent appraisal function established within an organisation to examine and evaluate its activities as a service to the organisation.” The objective of internal auditing is to assist members of the organisation in the effective discharge of their responsibilities.

## **2.4 Concept of Organizational effectiveness**

Organizational effectiveness has a very broad and often vague definition, so much so that most sources explain the concept by example rather than definition. Basically, the effectiveness of a business constitutes its ability to perform a function with optimal levels of input and output. Companies use organizational effectiveness to measure any number of things, from the relationship between employee performance and company profits to the correlation between manufacturing processes and production volume. No set parameters exist for organizational effectiveness and it follows no definitive mathematical formula. Each organization creates its

own method of measuring effectiveness. Measuring effectiveness can help a small business without the ability to absorb ineffective processes modify its approach to avoid loss.

Mitchell (2012) defines organizational effectiveness as the efficiency with which an organization achieves its objectives. It is usually expressed by calculating the difference between the net profit and the target profit. Other methods of measuring organizational effectiveness include results from customer satisfaction surveys and monitoring growth data. It is also the efficiency with which an association is able to meet its objectives. The main measure of organizational effectiveness for a business will generally be expressed in terms of how well its net profitability compares with its target profitability. Additional measure might include growth data and the result of customer satisfaction surveys.

According to Richard (2009), organizational effectiveness captures organisational performance plus the myriad internal performance outcomes normally associated with more efficient or effective operations and other external measures that relate to considerations that are broader than those simply associated with economic valuation (either by shareholders, managers, or customers), such as corporate social responsibility. Kaplan and Grossman (2010) define organizational effectiveness as an abstract concept and are difficult for many organizations to directly measure. Instead of measuring organizational effectiveness directly, the organization selects proxy measures to represent effectiveness. Proxy measures may include such things as number of people served, types and sizes of population segments served, and the demand within those segments for the services the organization supplies. It degrees to which objectives are achieved and the extent to which targeted problems are solved. In contrast to efficiency, effectiveness is determined without reference to costs and, whereas efficiency means "doing the thing right," effectiveness means "doing the right thing."

### **3.0 Methodology**

This study, adopted primary data to ascertain if auditing has significant effect on organizational performance of public sector and to establish is there exist any significant relationship between internal audit department and the administration of the selected Local Government (Gusau, Tsafe, Bungudu, Maru and Zurmi). The population size for this study is centred on the staffs in the audit department of the selected Local Government. From this population, a random sampling technique was used to select a sample of 55 staffs from the five selected Local Government i.e. 11 staffs from each Local Government. The choice of this sample is because the respondents have rudimentary and substantial knowledge of auditing and its role in organizational performance. Copies of questionnaire were administered to find out the opinions of the selected staffs in the local Government. All copies of the questionnaire were retrieved and three were not well filled, thereby making only 52 copies available for the analysis. These opinions were later tested using the Chi- Square method of data analysis.

#### **3.1 Restatement of Hypotheses**

1. There is significant relationship between internal audit department and the administration of the Local Government.
2. There is significant relationship between effective internal auditing of accounts of public sectors and proper reporting of stewardship by accounting officers.

### 3.2 Findings:

**Table 1. There is cordial and good relationship between internal audit and organizational performance of the local Government.**

	Observed N	Percentage (%)	Expected N	Residual
Strongly agreed	17	32.69	17.3	-0.3
Agreed	33	63.46	17.3	15.7
Disagree	2	3.84	17.3	-15.3
Total	52			

Source: field survey (2019)

**Table 2. There is significant relationship between effective internal auditing of accounts of public sectors and proper reporting of stewardship by accounting officers.**

	Observed N	Percentage (%)	Expected N	Residual
Strongly Agreed	15	28.85	17.3	-2.3
Agreed	31	59.62	17.3	13.7
Disagree	6	11.54	17.3	-11.3
Total	52			

Source: field survey (2019)

#### Chi- Square Result

	There exist significant relationship between internal audit department and the administration of the Local Government.	There is significant relationship between effective internal auditing of accounts of public sectors and proper reporting of stewardship by accounting officers.
Chi-square (a)	27.73	18.50
Df	2	2
Asymp.Sig.	.005	.005

Source: Author's Computation.

**A 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 17.3**

From the table above, 17 respondents, i.e 32.69% of the respondents strongly agreed that there is cordial and good relationship between internal audit and organizational performance of the local Government., also 63.46% also agreed and those that disagree were 3.84% of the respondents.

The first question relating to hypothesis 1 has a calculated value of 27.73 and a critical value of 5.99 at 0.05% level of significance and a 2 degree of freedom. The second question also relating to hypothesis 2 has a calculated value of 18.50 and a critical value of 5.99 at 0.05% level of significance 2 degree freedom. Based on the above analysis, for which all the calculated values are above the critical value, the alternative hypotheses which states that there is significant relationship between internal audit department and the administration of the Local Government and that there is significant relationship between effective internal auditing of

accounts of public sectors and proper reporting of stewardship by accounting officers are accepted.

#### **4.0 Conclusion**

Haven presented the results of a questionnaire survey addressed to respondents in the audit departments of five selected Local government in Zamfara state i.e Gusau, Tsafe, Bungudu, Maru and Zurmi, this study provided evidence of existence of significant relationship between internal audit department and the administration of Government parastatals. However, the results of the study support the postulation that there exist a significant relationship between effective internal auditing of accounts of government parastatals and proper reporting of stewardship by accounting officers. The study notes that the general belief that the public sector can do without the internal audit function might not have helped matters, and that the general impression among public sector management that internal auditors do not have the liberty to exercise the unbiased and independent attitude so necessary to an auditor should be corrected.

#### **4.1. Recommendation**

Based on the findings of this study, the following recommendations are therefore suggested. Firstly, the system of auditing public sector accounts in the State does not seem to enhance effective accountability. This may be attributed to the political interference experienced and non-independence of internal audit personnel and this prevents them doing their work as required by the constitution, for efficient performance and effective accountability, political interference should be minimized.

Secondly, more auditors with the required professional knowledge and skill should be employed to minimize the rate of inadequate qualified manpower in audit department. The practice of engaging the services of auditors in the civil service on the basis of family or personal relationship, rather than on merit, should be discouraged.

Furthermore, remuneration and fringe benefits of internal auditors should be improved as this would enhance their efficiency and honesty in the discharge of their duties and uphold integrity, objectivity and transparency in the conduct of their respective audit functions.

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