

The Significance of Auditing in the Public Sector

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Abstract

Accounting system including the system of auditing in the public sector of the Federation was patterned to the system obtainable from the British system due to colonial influence before Nigeria's independence in October 1960. Because of this, there is no significant difference between the civil service operational systems in Nigeria from the system run by the British Government. In view of the above historical evolution, government at both federal and state levels established ministries and parastatals. Federal and state audit department were also established to ensure that public fund committed to these ministries/parastatals are judiciously accounted for and Auditor General heads the department. In recent times, regardless of the reasonable objectives, reasonable changes in the civil service structure and operations in the country have given rise to such problems for auditors in the public or government account. These problems gave rise to the research on the strategies for the abatement of audit problems in the public sector in Nigeria. The research will introduce questions that will provide solutions to these problems, how these problems have been affecting the performance of the ministries/department and how these problems have been obstructing the auditors from expressing valid opinion on the accounts audited. In the objective of the study, there's an expression of audit lapses that are obtainable in government accounts and also to address such problems that may arise from the statement of the problems. On the sources of data, observations, interviews and questionnaires are to be applied. Also, books, journals, papers presented at conference, magazines, unpublished handouts within the ministry/departments will be explored. The statistical method for data analysis will be the simple chi square methods which the researcher considers simple to use and easy to understand. In conclusion, this research identifies the problems associated with government audit, how to solve or minimize them, how efficiency will be introduced into government accounting/auditing and how the users of government financial Statements will benefit from improved auditing standards and practices.

Introduction

Having observed that Auditors in Nigeria have many problems in the audit of government accounts, this research work will identify these audit problems, which are inherent in the public sector of the economy and ways of minimizing them. The accounting system including the system of auditing in public sectors and specific organizations of the federation of Nigeria is an increasingly demanded part of accounting profession initially developed in the United Kingdom (Britain) and United States over hundred years ago (Rowan: September 1, 2010). In view of the historical background that Britain was Nigeria's colonial master prior to her independence on 1st October, 1960 (Atlan:1980) there is no significant difference between the system operational in Nigeria today from the system emulated from the British Government. Therefore, various Ministries and Parastatals were established by Nigerian Government at both the Federal and State level while in each Ministries/Parastatals, accounts units were created

which handles all accounting problems and systems of the Ministries/Parastatals, in order to ensure that the public funds committed to these ministries/parastatals are judiciously accounted for; the Federal/State Audit Department was established. This department is headed by the Auditor General of the Federation or State. The Audit Act of 1956 directs the Auditor General to prepare and transmit a special report to the National Assembly where it appears to him at anytime to be desirable and to make enquiries into any issue, programmed, project, activity, function or transaction concerning fraud or misappropriation of public funds and property. Recently, there have been several changes in the civil service structure and specific organizations operational in Nigeria which brought a lot of problems in the audit of government accounts. Though, the changes were effected with reasonable objectives in view but still it has given rise to problems for the auditors in the audit of public or government which made this research work to focus on the study of the “strategies for the minimization of Audit problems in Nigeria.”

Statement of the Problem

The problems that are inherent in the audit of government accounts are consequences of improper, poor and ineffective monitoring and accountability of funds. The accounting and auditing units in each level of governments whether Federal, State or Local government including each ministries/department in public service, introduces good accounting principles and guidelines for proper recording of funds. These principles and guidelines as established, became very necessary to ensure appropriate procedures for monitoring and proper accountability of public funds and properties.

In the crucial but narrow sense of Auditing as a control that ensures financial probity and guarantees against corruption, the Federal or State Audit Department must be fully involved in monitoring and accountability of funds. The Auditors demonstrates that these funds have been fully deployed having regard to economy efficiency and effectiveness. The traditional response to these problems have been to limit the role of accounting in the public service and in the country to matters of financial probity, the proper recording of transactions, the control of spending against the budget and the minimization of spending. However, the auditors have not been able to achieve this because of the problems apparently caused by the recent structural changes in the public service. However, in the course of carrying out this research work, the under listed questions will be addressed and determined whether:

1. The Internal Auditors in the public sector are independent.
2. The internal control system in the public sector is very effective.
3. There is lack of co-operation between the State Audit Department and the Financial Management Branch of Treasury Division in the area of investigation, inspectorate and monitoring of Government account in the State.
4. Public Sector Auditors can be skilled to cope with the present computerization of government accounts.
5. There are factors that constitute hindrances to internal audit efficiency in public service.
6. The level of competence of public sector auditors in doing their work.

Purpose of the Study

The Researcher embarked on this study for expressing lapses that are present in the audit of government accounts and public service. The objective of this study includes the following:

1. To ascertain the extent to which Internal Auditors are independent in the public sector.
2. To assess if the Internal Control System in the public sector is very effective or deficient.
3. To explain and ascertain the need for co-operation between the State Audit Department and the Financial Management Branch of Treasury Division in the area of investigation, inspectorate and monitoring of Government Account and fraud prevention.

4. To ascertain the level of skill displayed by public sector auditors in order to cope with the on-going computerization of the State Civil Service.
5. To identify the factors those constitutes hindrances to internal audit efficiency in the State Public Service and recommend solutions.

Research Questions

This study has the following research questions from which hypothesis will be formulated.

1. Is the internal control system in the public sector very effective?
2. Are the internal auditors in the public sector independent?
3. Are the public sectors auditors skilled to cope with the present computerization of government accounts?
4. Are there factors that constitute hindrances to internal audit efficiency in public service?
5. What is the level of competence of public sector auditors in the course of their work?

To carry out the work efficiently, it was deemed appropriate to formulate the following tentative hypotheses as a guide to choice of data for proper statistical treatment and as a framework for conclusions:

H₀: There is no effective internal control system in the public sector.

H₀: There is no co-operation between the state audit department and the financial management branch (FMB) of Treasury Division in the State.

H₀: There are no factors that constitute hindrances to internal audit efficiency in public service.

H₀: Auditors in public sector are not competent in the course of their work.

Independence

The most important professional attribute of an auditor is the independence unless he is totally independent such that his ability to express his opinion is never subordinated to the will of a clients management, the objectivity and the value of his report to his clients is lost. It would be recalled that in both the private and public sectors, legislation have been made to secure auditors independence. In the case of private sector, certain people are disqualified from eligibility for appointment and controlling the auditor's removal in Nigeria. The fundamental concept of professional independence means not allowing oneself to be controlled, that is ability to take decisions alone without being influenced or controlled externally (Monwuba: 1995). Independence in relation to the auditor is a state of mind, such that auditor has no inhibitions and should be free to think the way he chooses, to ask questions or to make any observations he considers appropriate without the underlying fear of being misunderstood or being misinterpreted (Aguolu:2008).

The principles of independence places an auditor in such a position in which he is expected to give an honest and unbiased opinion. Independence requires an auditor at all times to perform his work objectively and impartially, free from influence by any consideration, which might conflict with this requirement.

In view of the above of professional independence, independence assumes that the auditor is:

- Professionally remote from his client.
- Independence of mind and outlook.

Evidence

Audit evidence has been seen as the basis which an auditor can express an opinion developed in the process of his examination (Aguolu:2008). This means that audit evidence must according to the Audit practice Committee (APC) be relevant, reliable and sufficient.

Therefore, it is the professional judgment of an auditor that determines the quality and sufficiency of audit evidence.

Audit evidence consists of any kind of information from any source, written or oral, which forms the basis of the opinion expressed by the Auditor. Furthermore, in the performance of his duty the auditor seeks to obtain evidence necessary for him to draw conclusion following the examination in order to express a valid opinion on the financial statements.

The methods of obtaining audit evidence are by inspection, observations, enquiry, computation and analysis. Also, the sources and extent of evidence the auditor needs in order to achieve his required level of assurance will depend partly on the judgment of the auditor and the circumstances of the particular matter under review. The materiality of the item under consideration will greatly affect the extent and quality of evidence, which the auditor requires.

The sources of audit evidence include

- The underlying documents.
- The accounting records.
- Non financial records and information relating to the organization.
- The tangible assets.
- The management and employees.
- The accounting system and controls.
- The customers, suppliers and other relevant third parties.

Responsibility

The basic responsibilities of both private and public sector auditors are to prepare a report under appropriate law whether in his opinion the accounts give a true and fair view of the state of affairs and to carry out his duties with skill and care. Furthermore, they should observe certain codes of conducts as stipulated in the auditor's operational standards.

Truth and Fairness

The auditor's report shows a truth and fairness of financial position of an organization in public sector, cash basis of accounting is applicable as opposed to accrual basis in the private sector. Previously, cash-based budgetary accounting systems developed for the purpose of control by government were the norm and were largely unquestioned in Nigeria. Now, every such system is being questioned and in significant cases radically changed towards accrual based systems (Rowan: September 1,2010) financial distress and fraud have been the clearest trigger for change toward accrual based system in public sector "Financial distress" usually means that government spending has become too high to be borne by leaders or tax payers.

Accounting convention in the public sector focus of government has been on internal financial control and the proper recording of transactions in public sectors.

Legal considerations involving Auditors in the Public Sector

The various legislations enacted by the Federal and State Governments such as the Audit Act of 1956, the 1979 Constitution (Section 79 – 83) contain the detailed requirement of Auditor's engaged in the public sector auditing. The legislation enacted is aimed at:

- a. Ensuring the competence and securing the auditor's independence in the public sector.
- b. Defining the auditor's duties in the public sector.

- c. Giving the auditors in the public sector the right needed to carry out their duties.

Appointment of Auditor General

The 1979 Federal Constitution of Nigeria, Section 79(1) and Section 80(1) provide that the appointment of the Auditor General for the Federation shall be appointed by the President on the recommendation of the Federal Civil Service Commission subject to Senate approval.

In the same vein, the State Auditor General shall be appointed by the State Governor on the recommendation of the State Civil Service Commission subject to the approval of the State House of Assembly.

Independence of Auditor General

The provisions of Section 79(4) in an effort to ensure the independence of the Auditor General for the Federation and to eliminate undue influence stated as follows. "In the exercise of his functions under the constitution, the Auditor General shall not be subject to the direction or control of any other authority or person."

Furthermore, he is responsible for the audit and report on the public accounts of the Federation including all persons and bodies established by law entrusted with the collection receipt, custody, issue, sale, transfer or delivery of any stamps, securities, stores or other property of the government of the Federation. Also, the Auditor General is appointed by the President subject to two third (2 /3) majority of the Senate and he is paid straight from consolidated revenue fund.

Right

Section 79 (2) of the 1979 Constitution gave the Auditor General the following rights to perform his duties effectively:

1. The right to have access to all books and records.
2. Free access to books of accounts, safes, security document and information.
3. The right to have access to other documents relating to those accounts.

Removal of Auditor General

In relation to Section 81 of 1979 Constitution, a person holding the office of the Auditor General shall be removed from the office by the President or Governor in case of State, acting on an address supported by 2/3 majority of the Senate and the House of Assembly respectively hoping that he so be removed for inability to discharge the functions of his office whether arising from infirmity of mind or body or any other cause or for misconduct.

With reference to Section 81(2), the Auditor General shall not be removed from office before such retiring age as may be prescribed by law.

Thus, the constitutional provision on the appointment and removal of Auditor General Makes it impossible for the Auditor General to be appointed and removed by one person, (say the President or the Governor). The procedure for selection through the State Civil Service Commission and confirmation by the State House of Assembly by final approval by the

Governor guarantees Auditor Independence which is required for efficient performance of audit work.

Duties of Auditor General

According to Section 79(2), 82 and 117(2), the duties of the Auditor General and State Directors of Audit are as follows:

- To report on collection and administration of public monies and assets (section 79(2)).
- To audit and report on all offices, courts under the authorities of State, accounting officers and of all persons entrusted with collections, receipts and other organization where Government has interest (Section 117(2)).
- To conduct investigations as will enable him to form an opinion as for whether accounting records have been kept and the accounts are in agreement with the records (Section 82).

Public Sector Auditing

Public sector organization embraces local authorities, government departments, public corporation where government has substantial interest.

Government may be defined as an organized entity which in addition to having governmental character has sufficient discretion in the management of its own affairs to distinguish it as separate from the administrative structure of any other governmental unit (Aguolu: 2008). Government and governmental entities may be distinguished and into 26 two categories; general-purpose government and special purpose government.

Role of Financial Management in Ensuring for Accountability and Fraud Prevention

The financial management Branch (FMB) is housed in the treasury division of Ministry of finance. The controller of the branch derives his function from the commissioner for finance and accountant general by delegation in the light of operational requirement. The branch consists of:

- Investigation unit
- Inspectorate unit; and
- Management unit

The establishment of FMB in the treasury is because of the need to provide and develop efficient management services, which will involve the introduction of new and improved accounting systems and techniques with the objective of increasing productivity and promoting high standard of efficiency in the administration of State Government's finance.

To ascertain the appropriate possible cooperation between the FMB and State audit department, it becomes necessary to discuss in detail, the duty of each unit as it affects investigation and inspectorate – a function also performed by the State Audit department. This research will enable one understand how the co-operation between the FMB and state audit department will help to prevent fraud and ensure good standard accounting practices in the public sector.

Inspectorate and Investigation Unit

It is the duty of the inspectorate unit of the FMB to carryout checks on the accounts and records of public officers. The reorganization of the Treasury Division of Ministry of Finance by

circular No.18 of 1971 on September 1971 reviews the authority to inspect the account records of public officers. Obviously, this is one of the control measures introduced to see that government fiscal orders are complied with and thereby complement the efforts of the State Audit Department in detecting and prevention of fraud. It is also aimed at streamlining the accounting techniques in the public sector so that public monies are not only collected as at when due, but are also properly accounted for.

Need for Cooperation

Obviously, there is need for both the staff of FMB and State Audit department to liaise with each other to ensure that accurate records are kept with good internal control procedures that will provide confidence in financial reporting process, even though they report to different authorities. To achieve this, advance copies of investigation and inspectorate report of FMB, when completed and written should be sent to the auditor general for his information in and necessary action. In this way, it is hoped that both arms of government department will be of immense help regarding the information about errors, irregularities, illegal acts, internal control structure related matters all of which are constituents of audit risk.

The Professional Conduct of Auditors and their Approach in the Public Sector

In order to uphold auditing standards, auditing generally poses an ethical obligation in reporting on financial statements. These standards provide overviews of audit process. Public sector auditors are also required to uphold these standards issued by audit practice Committee (APC) as a guide to best practice.

Planning, Controlling and Recording

The specific reasons for carrying out audit planning are to assist the auditors to achieve the following (Muonwuba: 1995)

- Achieve the objectives of audit
- Direct, control and supervise the audit
- Ensure that attention is directed to critical aspect of the audit.
- Complete the audit work in time

Planning also entails understanding the accounting system and the nature of the clients business.

Control is ensuring that work is performed to acceptable standard and is achieved by ensuring that:

- Work is given to audit staff that has the experience.
- Evidence of work done is recorded in the audit working papers/observation notes book.
- Staff understands the objective of the audit.
- Staff understands the objective of the audit.
- Senior audit personnel renew work.
- Consultation is made where technical knowledge is needed.
- The use of audit completion checklist is made.

Empirical Literature

The empirical literature in this research covers subjects such as:

- Legal considerations involving auditors in the public sector.
- Role of Financial Management in ensuring for accountability and fraud prevention.
- Public sector auditing.
- The professional conduct of auditors and their approach in public sector fraud.
- Computer auditing systems.
- Internal audit in the public sector and obstacles to its efficiency.

Theoretical Conceptual

The theoretical conceptual which forms the basis of the practice of the auditing generally may be stated as follows:

- Independence
- Evidence
- Responsibility and finally
- Truth and Fairness

In reporting on financial statement, auditors are required to abide by the above concepts. The nature of these concepts shall be examined individually for clearer understanding.

Research Methodology and Design

Presented in this chapter is the research methodology and procedure adopted in obtaining the requirement of the study. Examined herein includes sources of data, sample size, sampling technique and the method of data analysis.

Research Population

In Nigeria, the number of officers in the public sector Audit Department is infinite. Therefore, to aid this research, the researcher included the staff on Grade Level 04-17 while she excluded staff on Grade Level 01-03 from the population since by virtue of their position, information from them may not be accurate, valid and reliable for the purpose of this study. Hence, the purpose of research is to discover answer to questions through the application of scientific procedures.

Sample Size

The sample population size was arrived at by the application of the understated statistical formula.

$$\text{Formula: } x = \frac{pd}{2^2}$$

Where:

x = Sample size

p = Success rate

q = Failure rate

e = Error margin

$$x = \frac{0.8 \times 0.2}{0.052}$$

$$= \frac{0.16}{0.025}$$
$$= 64$$

Methodology

In search of secondary data about the topic of study, the researcher made enquiries and investigations about several other publications and unpublished articles.

To aid this research, the oral interview method of data collection was applied by means, which there was need to meet face to face with respondents asked them relevant questions and recorded their responses spontaneously. The interview was of the structured kind.

Then, the item of information that was collected emanated from the primary and secondary sources and was equipped with the correct data, which was analyzed, and from which these reports were compiled and results were produced.

Data Analysis

Hypothesis Testing: With respect to the situations set up in the statement of hypothesis, an evaluation was done then the Chi-square technique was adopted to test the difference between the observed frequency distribution of responses with the null hypothesis. Therefore, to test this hypothesis, Chi-square method of hypothesis testing will be applied.

- i. The auditor's independence was fully guaranteed in the public sector before the reform of Civil Service in 1988 by Decree 43. However, the introduction of Decree 43 of 1988 on Civil Service reform has threatened the position of Auditor-General of the state in terms of appointment that affects the independence of auditors in public sector.
- ii. The internal control system is adequate except that Civil Servants in an attempt to show faithfulness and obedience to their boss ignorantly and purposely break the already designed control measures, which often results to loss of government resources in terms of material, money etc.
- iii. The reorganization of the treasury division in 1971 by Circular No. 18 of 1971, gave the Financial Management Branch (FMB) authority in these areas that is in the public interest and therefore brings out the need for cooperation between the Auditor General's office and the FMB for promoting efficient accounting practice and fraud minimization. In the meantime, there is no cooperation between the two and this has aided fraud being buried unnoticed.
- iv. Auditors in the public sector have not been exposed to computer hardware and its complexities in processing accounting information. Consequently, this lack of knowledge of computer knowledge of computer operation and training on computer auditing suggests their inability to cope with the audit procedures associated with computerization of accounting system.
- v. In Nigeria, the major hindrances to efficient functioning of internal audit unit in public sector are the attitude of non-auditing officers who obstruct the flow of the already designed control system. In addition, they hinder others from performing their job effectively by introducing inadequate accounting system, non-recognition of internal audit procedures.
- vi. Furthermore, the officials in whom such authorities are vested abuse authorization controls. In the public sector, a situation where an official fails to perform an expected

control or performance such control to the detriment of the establishment will be disastrous.

Findings and Recommendation

The essence of auditing practice is the appreciation of the system of internal control. Therefore, it is recommended in this study based on the above findings and discussions that a good system of internal control requires that in the public sector each person in the course of performing his duties acts as a check on another whom also automatically check the earlier person in the performance of his own duties. This arrangement prevents one person or both to commit fraud and conceal their actions by falsifying the records.

In addition, in order to prevent friction and ensure the smooth running of organizational structures, the internal auditor should supervise the duties and responsibility of each officer. It is an essential feature of internal control that responsibilities must be well defined together with the officials in whom such responsibilities are vested.

However, there should be understanding and cooperation between the State Audit Department and the Financial Management Branch despite seeming duplication of duties between the two governmental establishments.

Furthermore, specific duties should be assigned to staff with the relevant skill and competence to avoid drastic or frequent alterations in the system for whatever reason that can lead to a total breakdown of the internal control system.

The auditor's operational standards require the auditor to ascertain the system of recording and processing of transactions in order to assess their adequacy as a basis for preparing the financial statements. This is vital in view of section 331 of the Companies and Allied Matters Act, which requires companies to keep proper accounting records in order to maintain good internal control and auditing system.

Therefore, for efficient performance and functioning of internal audit sections of Ministries/Departments in public sector, qualified Accountants by training and profession should head the section as opposed to the present situation of deploying incompetent officers to head the unit. Thus, the Auditor General should be placed in charge of the internal audit units of Ministries/Extra-Ministerial offices and other arms of government.

Conclusion

This research examined the strategies for the minimization of Audit problems in public sector in Nigeria and conclusions were drawn based on the findings of the study that the Auditor-General is not completely independent by virtue of Decree 43 of the 1988 Civil Service reforms.

The Federal Republic of Nigeria Financial Regulations of 2009 requires that the head of internal audit shall submit to his accounting officer a detailed annual audit programme with copies to the Accountant-General and Auditor-General of the Federation which contains a comprehensive audit programme and cover all the records of the ministry, departments or units, to ensure that the safeguards introduced for the prevention or the prompt detection of fraud and loss of cash are adequate. In this regard, safeguards mean compliance with extent rules and regulations and the existence of internal checks.

Also, to ensure that the system for the control of the collection of revenue is adequate and that moneys received are promptly and accurately brought to account under the correct heads and sub-heads, that the system for the control of expenditure is adequate and that all payments made are properly authorized for the correct amounts are paid to the right persons, classified to the correct heads and subheads and made for the purpose for which they were authorized and the system for the control of the issue and consumption of stores is adequate.

Furthermore, there is no cooperation between the Financial Management Branch and the State Audit Department as both reports to different persons on the outcome of their investigation and inspectorate activities. Also, given the skill of Audit Department that they cannot cope with computer techniques to carry out their job in a computerized environment. Thus, the introduction of computers to replace manual operations is known to have caused severe disruptions in the system of auditing.

We conclude that where a good system of internal control is in place and the auditor understands this, he can reasonably expect to carry out a valid audit but his ability to carry out a good audit is greatly impaired if he does not understand the system of internal control. However, the auditor may not at all times and in all circumstances rely on a system of internal control even in a situation where he has been able to establish that the system is efficient and operating all the year round. Therefore, auditors should be conscious to the effectiveness of internal control, adopt the objectives, and implement these strategies for the minimization of Audit problems and efficient functioning of the Internal Audit in the public sector.

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