

A CRITICAL ANALYSIS OF VALUE FOR MONEY AUDIT IN THE NIGERIA PUBLIC SECTOR

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ABSTRACT

This study critically analyzed value for money audit in the Nigeria public sector. The study intends to explore the essential characteristics of value for money audit by identifying the effect of the composition of the public accounts committee of the national assembly on the audit reports. It is expected that the committee should consist of members who are intellectually sound in the field of Accounting, Finance or Economics to make meaningful recommendations from the observations raised by the Auditor-General of the federation. A secondary method of data collection was used in this study. Data on performance indices of government institutions were examined. It was found that the Nigeria political system is bedeviled with issues of corruption, nepotism, favoritism and tribal bigotry. These factors affect both the composition of the public accounts committee and the procedure for award of contracts in Nigeria. Nevertheless, the impact of due process and certification of contracts was reviewed. And the study concluded that lack of due process has accounted for poor performance of value for money audit in Nigeria. Therefore, the composition of the public accounts committee should reflect the contemporary issues affecting the economy of the nation. Thus, to qualify as a member, one should have expertise in Accounting and Finance or Economics. This would lend credence and reasonable assurance to the reports emanating from the observations raised by the Auditor-General's report submitted to it.

Keywords: Economy, Effectiveness, Efficiency, Public Account Committee, Value for Money Audit.

INTRODUCTION

In recent times, all sectors of the Nigerian economy have been undergoing significant industry-wide transformations. Some notable ones include consolidation of the financial service sector, expansion in the communication and technology sector, restructuring of the power sector and increased public-private partnership in the economy (Accenture Nig., 2008). These transformations are not unconnected with the fact that the general public is becoming increasingly interested in knowing how the resources entrusted in the hands of public office holders are utilized.

It therefore becomes imperative that public office holders exercise a high level of accountability and Due care in expending public funds. However, this is only achievable when public office holders are made to understand that the general public will demand a value for the resources entrusted in their hands, which, by implication, calls for value for money audit.

Value for money audit is an independent evidence-based investigation which examines and reports on whether economy, efficiency and effectiveness has been achieved in the use of public funds (NIAO, 2016). It can also be defined as an objective, professional and systematic examination of systems and procedures that management has established to ensure:

- Financial, human and physical resources are managed with due regard to economy, efficiency and effectiveness; and
- Accountability relationships are served.

With increased awareness from the public and shareholders, there has been increasing demand for the public sector to demonstrate their accountability and regard for economy, efficiency and effectiveness in the use of public funds and resources. But the question being asked frequently by everyone is whether government's development vision and their desired outcomes of activities or performances are achieved in a cost effective manner.

There is a clear indication that politics in Nigeria has been the opposite of what it is in the developed countries of the world. Nigerian politicians are very backward in terms of their values such as greed, political corruption, unfulfilled promises, violence, nepotism and tribalism, etc. These negative values affect the composition of vital committees of the National Assembly. Thus, the premise of this research study is on how the composition of the Public Accounts Committee (PAC) of the legislative houses affects audit report and practice in the Nigerian Public Sector. Corruption is said to manifest through fraud, embezzlement, misappropriation of public funds, mismanagement of resources or utilities, inflation of contracts amounts and others (Taiwo, 1998).

The above mentioned vices are the reasons for the appointment of external auditors. He is expected to give reasonable assurance to the financial statements prepared by management and where possible, uncover all fraudulent practices in the public accounts. But the practice that should worry or bother an intellectual mind is the requirement that the reports of the external auditors be submitted to the public accounts committee (PAC) by the Auditor General of Federation.

LITERATURE REVIEW

The term value for money as a desirable characteristic of the conduct of public business has only come to public knowledge. The concept of value for money promotes a public service that is more responsible to public needs and is more accountable. In the opinion of Ene, (2000), value for money, in contemporary usage, summarizes the separate but inter-related values of efficiency and effectiveness. He clarifies that taken together; these values include the traditional values of prudence, due diligence, regularity, integrity and equity. He expands those values as follows:

- i. Economy: This refers to the terms and conditions, under which the government acquires financial, human and physical resources in appropriate quality and quantity at the lowest or minimum cost.
- ii. Efficiency: This is a measure of productivity. Maximum output for any given set of inputs or minimum inputs for any given quantity and quality of goods and services provided.
- iii. Effectiveness: Extent to which any activity achieves the intended results, which can be either quantitative or qualitative.

Value for money is about achieving the right balance between the 3E's in order to reduce wastages, extravagance and inefficiencies. It is an independent evident-based investigation which examines and reports on whether economy, efficiency and effectiveness has been achieved in the use of public funds. It is an objective, professional and systematic examination of systems and procedures that management has established to ensure; financial, human and physical resources are managed with due regard to economy, efficiency and effectiveness and accountability relationships are served.

With increased scrutiny from the public and shareholders, there has been an increasing call for the public and private sector to demonstrate their accountability and regard for economy, efficiency and effectiveness in the use of public funds and resources.

The Public Accounts Committee (PAC)

The public accounts committee is a committee of the national assembly responsible for the public accounts in accordance with the constitution. It was established to promote accountability and transparency in public governance. The constitution enjoins the Auditor General of the Federation to submit his annual report to the house which in turn will pass it to the committee. The committee examines the public accounts on the basis of the observations raised in the Auditor-General's report. During the civilian administration, the committee is always that of the National Assembly while during the military administration, members are appointed by the Head of State from distinguished members of the public (Adams, 2005).

Composition of Public Accounts Committee

The committee comprises members of all the political parties in the Houses and the chairman is usually appointed from the opposition party. The Auditor-General, Accountant-General, representative of the Ministry of Finance and Budget office are usually in attendance during the deliberation of the committee (Constitution of FRN, 1999).

However, our political leaders and constitution drafting committee of the federation failed to place importance in the composition of the committee. The constitution is completely silent on the educational and professional qualifications of the members of the committee. By and large, we are talking about a set of individuals that will examine the public accounts on the basis of the observations raised in the Auditor-General's report. To start with, how could someone who does not have knowledge or expertise in finance and accounting understand an audit report prepared or written in an audit or accounting parlance?

It is worthy of note that, these audit reports are prepared by external auditors appointed by the public entities on the recommendation of the Auditor-General of the federation. They are professionals to the core due to their acquisition of professional qualifications and mandatory continues professional development (MCPD). What is most worrisome is the requirement that the audit reports prepared by these professionals be submitted to the Public Account Committee for examination. This practice is inappropriate, crude and is in stark deviation of ethical code and professional practice. The following are the reasons for the inappropriate composition of the Public Accounts Committee:

- **Corruption:** This is understood to mean the misuse of public power for private gain in form of bribery, fraud, stealing and embezzlement by a public official who is depraved (Transparency International, 2015). Corruption is the factor that causes the Senate President and the Speaker of the House of Representatives to appoint members who are professionally ill-suited into the function or role of the Public Accounts Committee.

- **Emergence of Low Quality Lawmakers:** Legislators are supposed to be knowledgeable, intelligent and discipline. But the reverse is the case in Nigeria where thugs and people of low self-esteem are made to win elections into the National Assembly by their political God-fathers. Hence, when the process that leads to the emergence of legislators is manipulated, the end result is the emergence of money mongers, less intelligent and inarticulate lawmakers. Such situation makes the hallowed chambers to be filled with those who produce Bills of questionable quality.
- **Neptotism and Favoritism:** The Senate President and the Speaker of the House of Representatives have the constitutional powers to appoint members of the committees. Thus, appointments to sensitive offices are given to political loyalists and friends. Unfortunately, these loyalists may not possess the requisite credentials or qualifications to examine audit reports and make useful recommendations. This becomes a case of placing square pecks in round holes.

Composition of Public Accounts Committee of the United States

Contrary to the composition of the public accounts committee of National Assembly of federal republic of Nigeria, the US public accounts committee comprises members appointed based on qualifications and expertise in the field of Economics, Accounting and Finance. The quality of the members of the US public accounts committee helps to contribute to the development and review of auditing practice. For instance, in the wake of the Eron collapse in 2002, the US Senate passed the “Sarbanes Oxley Act” that forbid the provision to audit clients of:

- i. Bookkeeping and financial statement audit preparation services;
- ii. Financial information system design and implementation;
- iii. Legal services; and
- iv. Appraisal and valuation services, etc. It was debated that the provision of non-audit service to audit clients will potentially influence all of the threats to independence.

Criteria Used in Value for Money Audit

These are the objective benchmarks that help auditors decide whether something is acceptable or whether it should be identified as a deficiency. Criteria are reasonable standards against which management practices, controls and reporting system can be assessed. They are used to judge the degree to which an audited organization conforms to expectations that have been explicitly articulated and sanctioned. In value for money audit, criteria are defined as reasonable and attainable standards of performance and control against which the adequacy of the system and practices, and the extent of economy, efficiency and effectiveness of operation, can be assessed

in the particular circumstance of the audited organization. The following are some value for money audit criteria presented by Ene, (2000):

- I. Clearly define and communicate responsibility and accountability;
- II. Base final approval on full information; and
- III. Properly control project implementation and review completed project

The Procedures of Value for Money Audit

According to Ene, (2000), the process of conducting value for money audit in Government accounting system is divided into three phases:

- I. Planning the Audit: This means determine audit scope, timing, objectives criteria, methodology to be used, and resources required to ensure that the audit covers the most important organizational activities, system and control.
- II. Execution Phase: This involves collecting, testing and analyzing evidence that is appropriate in quality and quantity based on audit objectives, criteria and methodology development on the planning phase.
- III. Reporting Phase: This is the final phase in the audit process. It involves communicating the results of audits to management and reporting to the legislature or Board of Directors.

METHODOLOGY

This research study involves gathering information from people for proper study. Therefore, this study utilized survey research design. This is necessary since the study intends to critically analyze value for money audit in Nigerian public sector.

RESULTS AND DISCUSSIONS

The composition of the public accounts committee which is a critical and sensitive committee of the national assembly of the federal republic of Nigeria has been the major drawback in the value for money audit. The set of individuals who politically constitute the public accounts committee are by qualifications, education and expertise unfit to examine the accounts on the basis of the observations raised by Auditor-General's report.

First and foremost, they do not have knowledge in economics, accounting and finance. Secondly, the audit reports submitted to it for examination are written in accounting and auditing parlance. Thus, the conclusion or recommendation reaches by committee will not be of economic value to the wide range of users. Furthermore, corruption is the bane of our government and political institutions. Public office holders have devised many ways of cutting corners in contracts

procurement and execution. Sometimes, the job will be done but quality of job done is a far cry from what is stipulated in the terms of the contract. This is the reason why roads constructed today get spoilt in less than a year and many cases of collapse buildings in Nigeria. All these happen because contracts execution does not meet their required specification.

Moreover, the Nigerian system is bedeviled with issues of nepotism, favouritism and tribalism. These factors affect both the composition of the public accounts committee and the procedure for the award of contracts. Government contracts and projects are in most cases, awarded to people who do not have the experience to execute them. This situation results in the people reselling the contracts to contractors who have the money to pay and the cycle continue until the contract is abandoned.

However, it is also discovered that the conduct of value for money audit face many obstacles or challenges. Firstly, the poor implementation of the public procurement Act, 2007, has negative impacted on the conduct of value for money audit. If the public procurement Act is effectively implemented, not just in theory, but in practice, due process will be enhanced in the public sector. Secondly, the poor implementation of the fiscal responsibility Act, 2007, is another factor that impede on the successful conduct of the value for money audit. Political office holders and government functionaries who are guilty of the mismanagement of the nation's resources are made to face the law. Thirdly, there is poor compliance of with the rules and guideline in procurement and award of contracts. These rules are violated to favour a few and the privilege ones in the society. More so, the ICPC and the EFCC are mere stooges of the government of the day. They fight institutional corruption with vested interest. And finally, Due process is completely lacking in the system. Everything in Nigeria centres on political affiliation and tribal hegemony. In fact, one must come from a certain part of the country to handle a particular contract or be in a particular position. Nowadays, people scramble from one political group to the other in a bid to have pardon for their corrupt practices and save their heads. Our national or common wealth or resources is at the centre of it all. They squander it without retribution and leave our infrastructure in ruin and dire need of attention.

CONCLUSIONS

The paper investigates the value for money audit in the Nigerian public sector. The research is conducted by evaluating the composition the public accounts committee of Nigerian legislative houses. Other parameters such as the effect of institutional corruption, nepotism and favoritism were examined as variables that affect the value for money audit.

Furthermore, the research highlighted the challenges of value for money audit. These challenges stemmed from weak or poor implementation of enabling laws established to regulate, promote,

and enhance popular participation, prudent management of the nation's resources and a fair public procurement process. Nonetheless, the impact of Due process and certification of contracts was reviewed. And the study therefore found that lack of due process has accounted for poor performance of value for money audit.

It is hoped that this study will help to stimulate further study of these issues, as the study opined that there are many exciting avenues of inquiry that would repay serious research efforts. However, in future research, it will be of interest to extend this analysis across different countries and continents in different political spheres.

RECOMMENDATIONS

In the light of the above findings, the following recommendations are hereby made:

- The composition of the public accounts committee should be reviewed in the constitution of the federal republic of Nigeria. Thus, to qualify as a member, one should have expertise in accounting or finance and the chairman of the committee should be unequivocally a qualified accountant with many years of accounting and auditing practice. This would lend credence and reasonable assurance to the reports emanating from the observations raised by the Auditor-General's report submitted to it.
- The committee should have the mandate to participate actively in fine-tuning solutions to our socio-economic problems. They should not be seen as mere political constituency representatives. They should emulate what their counterparts in the US Senate are doing which lead to the enactment of the "Sarbanes Oxley Act" of 2002.
- Corruption must be fought at all levels of government. Insofar as corruption still prevails in the country, the economy, efficiency and effectiveness of our national resources will never be achieved. Unfortunately, corruption has become an institutional factor, deeply rooted in the fabrics of our national life.
- The ICPC and EFCC should be independent of the Executive arm of government. They should be empowered to operate and function in same way and manner in which the FBI in the US does. Anti-corruption Agencies should not be used as political tools to witch-hunt against perceived opponents. Instead, they should function in compliance with the status establishing them.
- Due Process and all extant laws established to enforce effective implementation of public procurement and award of contracts should be enforceable; such that, all violators of such laws be made to face the book.
- All Accountants and Auditors in public practice should not only be independent, but should be made seen to be so. They should be accountable and transparent in handling public resources.

- Political parties should, as a matter of necessity endeavour to identify candidates with requisite knowledge in accounting or finance during their primary election, so that when they eventually win they will be appointed as members of public accounts committee (PAC). As a matter fact, this is the only way the observations raised in the Auditor-General's report can have reasonable positive impact in the economy of the nation.

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