



AUDITING PROCEDURES AND PROCESS IN THE PUBLIC SECTOR

Musa Success Jibrin¹⁺ ^{1,2}Accountancy Department Anambra State University, Uli, Nigeria
Ofor Theresa Nkechi² ³Banking and finance Department Kogi State University, Anyigba,
Success Blessing Ejura³ Nigeria



(+ Corresponding author)

ABSTRACT

Article History

Received: 13 October 2016

Revised: 14 December 2016

Accepted: 18 January 2017

Published: 6 March 2017

Keywords

Public resources utilisation

Accountability

Stewardship

Accounting officers.

This paper examines the impact of auditing in the public sector. It delved into the perspectives of functional auditing in the public sector in view of the continue quest for accountability placed on the accounting officer. The accounting officers must, as a matter of facts and professionalism, carry out his role and responsibility in such a way that affairs of resources placed under his control are properly accounted for and stewardship report rendered periodically to the public for performance assessment. Procedure in public sector brings out the essence of accountability in the public sector and the resultant stewardship accounting. The paper commences with the paper keywords, introduction, and the body of the presentation, observations, summary and conclusions in order for the researcher to drive home his point.

Contribution/ Originality: This paper examines the impact of auditing procedures and process in the public sector. It will serve as reference materials for future researchers and update the previous studies as well filling the existing gap in literature.

1. INTRODUCTION

The management and control of public sector fund has been a consistent concern to the masses. In recent times, the number and monetary value of public sector activities have greatly increased (Alastair, 2008). With this increase there is an added demand for accountability of the accounting officers. There is need for public officials and employees who manage such resources and activities to render adequate accounts of their stewardship to the public (Khan, 2006). The public is to receive reports of accountability so as to assess the performance of those officials entrusted with public resources/fund.

Accountability is an inherent concept in the governing process of any nation and her public investments is not an exception (Alastair, 2008). The need for public accountability has caused demands for more information about public sector programs, projects and services (Khan, 2006). In Nigeria, the law requires that accountability reports be produced by public officials and other persons entrusted with public resources. The citizens as well as the lawmakers entitled to know whether government resources are handled in compliance to lay down rules and regulations (Sen,

1999). Not only this, the public also deserves to know whether public expenditures, projects, program and services are carried out economically, efficiently and effectively to achieve stated objectives. Internal audit is a large and significant part of the financial control of State and its investment (Dike, 2002). Auditing is one of the elements of accountability. Its practices and procedures will ensure accountability in no small measure. In the Public Sector, efficiency accuracy and integrity can only be achieved through audit procedure (Dye and Rick, 1998). This article will attempt to examine the audit procedure in the Public Sector, its role and suggest improvements.

1.1. What is Audit?

The term 'Audit' originated from the Latin verb *audire* i.e to hear. Audit dates back to ancient time. In fact audit is as old as man. The first audit took place in the Garden of Eden when God asked man to give account of his stewardship towards God's commandment. (Gen.3v9-24) and man was driven out of the Garden.

According to Tanzi (1998) auditing is an act, it is defined as the examination by an auditor of the financial record and other evidences from which the financial statements and Balance Sheet has been prepared so as to be able to form an independent opinion as to whether the accounts under review have given a true and fair view of the organization/entity.

The American Institute of Certified Public Accountant (AICPA) defined Auditing as "an examination intended to serve as a business for an expression of an opinion regulating the fairness, consistency and conformity with accepted accounting principles or statutory prepared by a corporation or any other business entity for submission to the public or to interested pirated.

Auditing might therefore be seen as the scrutinizing or the examination of both accounts of business entity, including charities, trusts and professional firms in detail by an Auditor(s) in other to ascertain whether or not it presents a true and fair view of the policy statement for a given period (World Bank, 1997).

The person who examines the record is known and called the "Auditor". The auditor is a watchdog of the management and owners or stock holders as the case may be (Rose-Ackermam, 1999).

1.2. General Objective of Auditing

The primary objective of auditing in any firm is to produce a report by the auditor on the truth and fairness of the revenue accounts and the Balance Sheet as at a particular date, so that the users of such information can believe in them. However, the amount of such examinations carried out by the auditor depends upon circumstances surrounding each case.

1.3. Secondary Objectives of Audit include

- i. to show how errors and fraud can be detected
- ii. to prevent fraud and errors through the deterrent and moral effect of audit.
- iii. to provide constructive assistance to management. The Auditor through his work can make constructive suggestions to the managements which may assist them in improving efficiency and profitability of the business.

1.4. Purpose of Public Sector Audit

At the Public Sector level, auditing has the following broad objectives:

1. To determine the truth and fairness of the activities of the State each financial year.
2. It is to promote accountability, stewardship and transparency in discharge of public service.
3. Public Sector audit helps to install sanity in service by encouraging accountability, efficiency and effective record keeping.
4. It demonstrates the propriety or otherwise of the stewardship.
5. Auditing at the Government objects into the examination of:

- a. Whether the government is carrying out only those activities or program authorized by the legislature and is conducting them in a manner contemplated to achieve the objectives intended, i.e Budgetary provisions adhered to strictly.
- b. Where the program or activities are conducted and expenditure made in compliance with legal stipulations and requisitions.
- c. Whether the resources of the Public Sector and its agencies including funds, property and personnel are adequately controlled and utilized.
- d. Whether all revenues and receipts arising from the operations under examination are collected and properly accounted for and point out areas of weakness and financial loss.
- e. Whether the Government's accounting system complies with principles, standards and related requirements prescribed by regulations.
- f. Whether report by Government to legislature and other appropriate bodies disclose properly the information required for the purpose of the report.
- g. Errors and mistakes in Government financial transactions or the disbursement of funds as well as the financial records keeping by the staff are easily identified.

1.5. General Audit Standards

The general Audit Standard relates to competence, independence, professional care and quality control.

i. **Competence**

The auditor should possess adequate professional proficiency necessary for carrying out his work. He should have a wide knowledge and skill of the theory and practice of accountancy and should be able to ask intelligent questions from his clients and their staff when faced with transactions of a technical nature.

ii. **Independence**

The auditor (the audit organization) should be free from personal and external impairments to independence. The auditor should maintain an independent status and attitude in reality and appearance. The aim is to have conclusions, opinions, judgments and recommendations that are not biased by knowledgeable persons and third parties.

iii. **Due Professional Care**

As much as it depends on him, the auditor should act with due care, skill and diligence in conducting the audit and in preparing the related reports. The auditor is expected to observe the General Audit Standards and other relevant laws and regulations when carrying out audit work.

iv. **Quality Control**

It is the responsibility of the auditor to adequately plan and control his work. He must consider how the overall quality of the work carried out within the organization can be monitored and maintained.

1.6. Audit Procedure

The audit procedure is influenced by auditing standards which are drawn by the professional accountants and legal regulations. The auditing standards often covers the conduct of auditor, the planning, controlling, recording and reporting of actual audit work.

The audit procedure involves:

1. Obtaining a detailed and clear understanding of the organization.
2. Assessing the quality of financial reporting systems and controls to see whether the underlying accounting records form a reliable basis of the preparation of the statements. This is done by critically reviewing the system of book keeping, accounting and internal control.

- i. Making such checks, tests and inquiries as he considers necessary so as to form an opinion about the reliability of the records as the basis from the preparation of the accounts.
 - ii. Comparing the statement of income and expenditure and balance sheet with the underlying records to see whether they are in accordance.
 - iii. Verifying the existence, ownership and bases of valuation of the assets and assess whether liabilities are accurately and fully disclosed.
3. Checking a sample of transactions and balances in the accounting records to ensure that the accounts have been prepared on sound accounting principles and in accordance with the statements of accounting standards.
 4. Review of the present results against those of previous years current years' expected result and against the results of comparable organizations to ensure whether the result is reasonable and to determine if there are acceptable explanations for any unusual trends in activities/results.
 5. Discussing with management (executive) and directors on significant issues within the financial statements.
 6. In concluding, the auditor use his professional judgment to form opinion on the overall picture where the Accounts give the true and fair view of the position of the state of affairs of the council during the accounting period.

1.7. Types of Audit Relevant to Public Sector

1.7.1. Internal Audits

This type of audit implies that the work of audit is carved out by specially assigned staff (Internal Auditor); it will normally consist of a reviewing of the operations procedures and records of the business/organization. The main objective of the internal audit is to assure management that the accounting controls are both adequate and working effectively in practice. It is also to secure as much as possible the accuracy and reliability of accounts and to ensure the safeguard of its accounts.

Although the internal auditor is an employee of the organization, nevertheless, there should be an element of independence as he carries out his duties since the nature of his work requires it. The internal auditor directly reports to the executive of their organization.

The major purposes of the internal audit are:

1. To assure management on accounting matters that the internal check and the accounting system are effective in design and operation.
2. To ascertain and report whether the system of accounting and internal check are adequate and being strictly adhered to.
3. To ascertain that there have been proper authorization of transactions and that liabilities can only be incurred by legitimate operation of the business/organization.
4. To prevent and detect fraud and error through continuous day-to-day examination of the accounting records and the operation of the system of internal check.
5. To facilitate and expedient the annual audit and give information to and cooperate with the external auditor.

2. FINANCIAL AUDIT

It is a type of audit that is often conducted in the public sector. It involves the audit of the financial statements so as to provide reasonable assurance on whether the financial statements audited presented fairly the financial position, results of operations and cash flows in conformity with generally accepted accounting principles and applicable laws and regulations, it also evaluates the soundness of internal control system of the audited organization.

3. PERFORMANCE AUDIT

It is an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of public sector organizations program projects and services in order to improve public accountability.

It includes the assessment of the economy, efficiency and effectiveness with which the resources of an entity had been used in achieving results. It is otherwise known as value for Money Audit.

4. BOARD OF SURVEY AND BOARD OF ENQUIRY

The functions of a board of survey are to make a physical examination of stores and stores records to recommend how deficiencies or serviceable stores should be dealt with and to assess their causes. Any stores house which is not regularly inspected by a stock verifies should be inspected by a board of survey at least once in each financial year.

The senior representative of a ministry in a section is responsible for asking for the convening of board of survey at the appropriate time. When applying for a board of survey, he confirms that stores ledgers, tally cards and other records are properly maintained and are up to date. He also confirms that all supporting documents such as issue and receipt vouchers, Loans Registers etc. and the particulars of the date of acquisition and the original cost of stores are readily available for inspection.

5. CASH SURVEY

This is one of the many ways by which Audit are carried out. Cash survey is the supervision by an Auditor on the ways the Accountants generally receives or collects revenues on behalf of the state or Public Sectors. The Auditor finds out first and foremost, areas of revenue generation. He (Auditor) then proceeds to find out the number of receipts printed by the government and those issued out to the Accountants and Book keepers (Revenue Collectors).

The Auditor investigates into the revenue collector's forms in which revenue receipts collected are recorded. The receipts used in collecting revenue are recorded in other columns and the unused receipts are also tabulated in different columns.

5.1. Problems of Public Sector Audit

The following are the problems facing effective Public Sector Audit:

1. Insufficient staffing
2. Ineffective and Inadequate Internal Control
3. Financial Difficulties
4. Training Incentive
5. Operational Vehicles Materials and equipments
6. Accommodation/working Environment
7. Auditors Independence

1. Insufficient Staffing

Staff insufficiency is one of the major problems confronting audit at the Public Sector. Many of the State and Government haven't enough staff and so we have less qualified staff. Auditing requires more resources and is labour intensive at a tremendous rate and so, the Government will need a large number of qualified audit staffs that are capable of carrying out audit duties.

The quality of audit work done depends on the quality of audit staff and that organization.

2. Ineffective and Inadequate Internal Control System

To assess the efficiency of an accounting system, the auditor must make a detailed study of the methods by which the accounting data are originated and their flow through the system, including the internal control that are incorporated into the procedures. He now issue a report but before he can do so he must satisfy himself that the system of record-keeping maintained by an organization is adequate to ensure that all transactions are correctly recorded, allocated and summarized and that accounting statements prepared from the records are in agreement with such records and correct in principle.

Internal control system is the whole of controls, financial and otherwise established by the management in order to carry on the activities of the organization in an orderly manner, safeguard its assets and secure as far as possible the accuracy and reliability of its records and that it includes internal check and internal audit.

In Government, there is inadequate plan of the organization which should signify a forum for establishing distinct lines of responsibilities for the staff so as to ensure coordination of efforts.

For the auditor to be able to assess the effectiveness and adequacy of internal control system, there should be an efficient managerial supervision and review of the organizations financial operations and position at regular and frequent intervals by means of interim accounts and reports but this is lacking in the Public Sectors thus indicating a deficiency in the internal control system. Also, a good system of internal control should promote operational efficiency this has not been the case with the Public Sector.

3. Financial Difficulties

For concrete achievement of any organization, financial resources are fundamental. Inadequate funding may lead to a break down or cause a temporary disaster of organizational activities. Annually, it has been discovered, that the State Audit Department(s) complains of meager finance for the day to day operations up till this millennium the request for favorable funding have not been met. The problem funding has affected the effectiveness of the audit practice.

4. Training Incentive

Training can be regarded as the reaching and practice given to an individual in order to bring a desired standard of behaviors, (Performance). Training is used to develop and improve both the mental and physical skills of employees to increase their knowledge.

Despite the fact that people are the most valuable resources of an audit institution and well trained employees and key ingredients to an efficient and effective audit department, very few numbers of officers are sent on courses (Heidenheimer *et al.*, 1993). Even when they go on courses on their own they are never encouraged many of them will not be permitted to go. This is another contributing factor to the ineffectiveness of auditing practice in the Public Sector.

5. Operational Vehicles, Materials and Equipments

At present in most departments, there are no enough vehicles for the auditors who are on out-door work especially when there is need for inspection to the entire unit.

There are no adequate adding machines, in some cases the available ones have to be shared between officers and this will be causing delay in work and prompt report.

There is lack of working tools and equipment to carry out the audit work. The auditors going out to agencies and units to carry out Audit may not be given or fully equipped with their working tools and materials e.g working papers.

6. Accommodation/Working Environment

Lack of enough accommodation is another problem facing Public Sector Audit. Due to this problem many of the officers are not given good office accommodations.

Even the available office rooms are not partitioned, well equipped and without carpets, Vans, cabinets and other things to make the working conditions attractive.

7. Independence of Auditor

The auditor is not an ordinary employee of the organization because he is expected not to have any connection whether financially or otherwise with the organization. But this is not always the case. How independent is the work of somebody on the payroll of the Government.

6. CONCLUSION

In summary, the significance and need for audit in Government Department cannot be overlooked. The practice of Auditing have not been adequately achieved due to the problems mentioned earlier, however, if the suggestions for improvements in this paper are implemented the merits of audit practice will be enjoyed.

Public sector auditing allows for guided and effective savings and application of resources for greater benefit of mankind. It's not only discovered that effective use and application of best auditing techniques can afford the society the required stewardship and accountability of persons entrusted with public resources, but part of a modern management methodology to help the societies accomplish the desired progress and development in the scheme of things.

7. RECOMMENDATION

It has been discovered in this article that many problems are confronting Public Sector audit and there is need for improvement.

As a matter of necessity and urgency there should be more recruitment of qualified and experience accountants to the Government Audit Department. The working condition should also be attractive.

There should be procurement of more motor vehicles, adding machines, and availability of working materials/tools such as audit working paper, audit guideline etc. If these are made available to the auditors this will improve their performance. All these may not be possible without improvement in the funding of the Auditor General Offices. The Government Executives should therefore support them financially and otherwise to enhance smooth operation of the audit practice.

There should be a provision for training facilities. If proper training is given to the staff it will enhance their efficiency and productivity. It is important to point out that well trained staffs are the key ingredients to an efficient and effective audit system in an organization. Auditing staff can be trained going on short courses or full time studies.

Regarding the problem of internal control system, there are no absolute standards of internal control but in this case, the plan of organization should be defined and procedures involved should be in writing. Each member of staff should be clearly made aware of the scope and the limitations of their responsibilities. Particular attention should be paid to cash transactions as it is the most readily convertible of assets and thus prone to misappropriation. Direct observations should be enforced where necessary, for instance, at the time of stock-taking or payment of wages in order to observe the operation of the prescribed procedures.

Funding: This study received no specific financial support.

Competing Interests: The authors declare that they have no competing interests.

Contributors/Acknowledgement: All authors contributed equally to the conception and design of the study.

REFERENCES

- Alastair, E., 2008. The role of supreme audit institutions in combating corruption. U4 Helpdesk, Transparency International. Available from aevans@transparency.org
- Dike, V., 2002. Corruption in Nigeria: A new paradigm for effective control. Elliott: Washington Institute for Urban Economics.
- Dye, K.M. and S. Rick, 1998. Pillars of integrity: The supreme audit Institutions in curbing corruption. Washington: EDI, The World Bank. pp: 25.
- Heidenheimer, J.A., M. Johnston and T.L.V. Victor, 1993. Political corruption. New Jersey: Transaction Publishers.
- Khan, M.A., 2006. Role of audit in fighting corruption. Paper Prepared for Ad Hoc Group Meeting on Ethics, Integrity, and Accountability in the Public Sector: Re-Building Public Trust in Government through the Implementation of the UN Convention against Corruption, pp: 1-32.
- Rose-Ackermam, S., 1999. Corruption and government: Causes, consequences, and reform. Cambridge: Cambridge University Press. pp: 30-31.
- Sen, A., 1999. Development as freedom. New York: Anchor Books.
- Tanzi, V., 1998. Corruption around the world: Causes, consequences, scope, and cures. IMF Working Paper: 1-39. Retrieved from <http://ssrn.com/abstract=882334>.
- World Bank, 1997. World development report: State in a changing world: New York: Oxford University Press.

BIBLIOGRAPHY

- Banfield, E., 1961. The moral basis of backward society. Chicago: Free Press
- Lipset, S.M. and G.L. Lenz, 2000. Corruption, culture, and markets, in culture matters, Lawrence E. Harrison, and Samuel P. Huntington, (Eds). New York: Basic Books. pp: 112.
- World Bank, 1997. Corruption and economic development. Retrieved from <http://www.worldbank.org/>.

Views and opinions expressed in this article are the views and opinions of the author(s). Financial Risk and Management Reviews shall not be responsible or answerable for any loss, damage or liability etc. caused in relation to/arising out of the use of the content.