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Auditing and Accountability Mechanism in the Public Sector*

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Abstract: The study examined the procedures and guidelines employed in the audit of public sector accounts in line with statutory and professional requirements. It also ascertained the extent to which accountability, effectiveness and efficiency of audit mechanism are being promoted in Osun state. Data were gathered through questionnaires administered to the staff of the state's Auditor-General's office, together with an interview with the Auditor-General of the State on the problems facing the audit and accountability system of the state. Cross tabulations and Chi-square were used to analyze the data. The study revealed that the internal control systems in the state are very weak; audit procedures and accountability are as well ineffective due to political interference and skills of some auditing staff. Based on the findings, an effective internal control system free from interference is needed. There is also the need for upgrading the skills of auditing personnel and also strict adherence to statutory and professional standards. Some of these changes require political will at both Federal and State government levels.

Key words: Public sector, accounting, audit mechanism

INTRODUCTION

Public sector audit has experienced considerable expansion throughout the world. The reason for this is closely related to changes in the structure of government and concern for more accountable and transparent governance, which has resulted in a large increase in the number of accounts and sophistication of financial reporting. The expansion has brought with it an added demand for accountability (Dowdall, 2003). Public sector accounting is quite distinct from commercial accounting in terms of objectives, sources of revenue and bases of recording accounts, responsibility and accountability among others.

It is useful however, to distinguish between audit and other forms of regulation and inspection. Public audit applies to almost every public sector body and is relatively wide-ranging, from certifying the accounts to examinations of economy, efficiency and effectiveness. The audit function and the form in which audit results are reported tend to reinforce the traditional line of public sector accountability to elected representatives rather than establish new forms of accountability.

With increasing democratization and concern about corruption people are demanding to be informed about what their government intends to achieve and what it has actually accomplished. In other words, the public is demanding audit reports in order to access the performance of those entrusted with public sector resources (Anonymous, 2001). Thus proper audit has a distinct role in promoting accountability and ensuring the best use of public money by providing credibility to the information reported by or obtained from management through objectively acquiring and evaluating supporting evidence.

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In Nigeria the appointment, the authority and the duties of the Auditor General are described in sections 85 and 86 of the 1999 Constitution of the Federal Republic of Nigeria (henceforth Nigeria). Briefly, the Auditor General or any person authorized by him or her the is to audit, without directions or control of any other authority, the accounts of the Federation of all Offices, the courts and all Federation authorities, including all persons and bodies established by law and entrusted with the collection and administration of public monies and assets. The Auditor-General or any delegated person authorized by him is permitted to have access to the books, records and other documents relating the accounts. The Auditor-General is required to submit the audit report to each house of the National Assembly for consideration by a committee responsible for public accounts.

The 1999, Constitution of Nigeria also requires each State to have an Auditor General, with functions and powers at the State level similar to the functions and powers of the Federal counterpart. Although the State Auditor General is not authorized to audit the accounts of statutory corporations, commissions or authorities, the State Auditor General has the power to conduct periodic checks of the accounts of these statutory bodies. In addition, the State Auditor is authorized to provide a list of external auditors from which these authorities must appoint their external auditors, together with guidelines on the level of fees to be paid these external auditors.

Because of rapidly changing technology and the increasing demand for good governance-transparency and accountability in the public sector it is important to revise auditing practices to assess their adequacy, reliability, efficiency and effectiveness in promoting these ends. Hence the objectives of this study, using *Osun* State as a case study, are:

- To ascertain whether the method, procedures and guidelines employed in the audit of public sector accounts are in accordance with statutory, professional and ethical standards.
- To ascertain the effectiveness and efficiency of audit mechanism and accountability as practiced by the public sector and to recommend ways of improving existing methods of auditing public accounts.

CONCEPTUAL FRAMEWORK FOR AUDITING PUBLIC SECTOR ACCOUNTS

Auditing of Public Accounts

The position of an Auditor General was first created in England in June 1866 with enactment of Audit Act of 1866. HRM Treasury, 1866 and all that: A Brief History of the Treasury, http://www.hrm.treasury.gov.uk/about/about_history/about_history_history.cfm. In Nigeria, the earliest Audit Act was the Audit Act of 1958, the basis for public auditing in the country.

There are three areas in the public sector auditing, namely:

- Accountancy audit,
- Appropriation audit and
- Administrative audit.

Accountancy Audit

Deals with the rules or the principles of accounts by examining whether the accounts have been prepared in accordance with accounting concepts and postulation and that all expenditure payment vouchers, receipts and the like are treated accordingly.

Appropriation Audit

Involves a thorough scrutinization of estimates or budget in comparison with the yearly accounts prepared by the accounting officers of each agency of government.

Administrative Audit

Involves close monitoring whether the agency of government is being run according to the rules and regulations.

Concept of Public Accountability and Audit Accountability

There is not generally accepted definition of the term accountability. Adesola (2001), maintains that accountability is one of those terms employed in government studies, which suffers from frequent misuse and imprecise or varying meaning. Adesola however goes on to define it as the duty imposed on any person who holds power or authority or is in position of trust to act for and on behalf of another person to take responsibility for his action and to render account of stewardship whenever it is necessary to do so. Anonymous (2002), also considers accountability not to be a simple notion which is often not well understood and its effective application to the complexities of government today can be quite daunting.

Johnson (1974) argued that the definitional problem may be due in part to the fact that the traditional way of thinking about accountability in public administration represented an insufficient framework for analysis. Other writers such as Day and Klein (1987) viewed accountability as being directed at the community at large, rather than at the lines of constitutional accountability. In similar vein the Anonymous (2002) concedes that modern governance and management reflect contemporary pressures from various sources in society. These pressures involve:

- The emergence of essentially non-hierarchical relationships in many alternative delivery approaches being tried today, such as network, partnerships and arrangements between the federal and state governments, where responsibilities may not be conferred from a senior party to a junior one but agreement nonetheless assume accounting for results;
- The call for an increased focus on results and performance-based management by the public sector in addition to addressing concerns with the integrity of governance;
- The parallel call for providing greater flexibility and autonomy to government organizations and managers in order to achieve better results and
- The importance of transparency as an essential feature of public sector accountability.

These pressures determine which perspective of accountability is adopted. Consequently, accountability can be viewed from a number of perspectives. These are discussed below.

PERSPECTIVES OF ACCOUNTABILITY

The Traditional Perspective

This is the simplest model, with a coherent chain-from official to official in the bureaucracy, from official to minister, from minister to parliament, from parliament to the people. Under the traditional perspective, each official is technically accountable, through the hierarchical structure of the bureaucracy, to elected politicians and to the citizens. In the ideal traditional view, as under all other perspectives, honesty, integrity, impartiality and objectivity form the code the behavior of officers as they administer rules decided by the politicians.

The Democratic Perspective

This is closely related to the traditional perspective but incorporates the notion of the public being passive consumers of public services and that the traditional channels of accountability have been downgraded in favour of managerial notions. This perspective highlights both representative and

participatory forms of democracy as channels for holding public administration to account. These channels may have been downgraded in favour of others by recent reform initiatives; they do however, still exist and have the potential to impact on the activities of public administration.

The Professional Perspective

This is based on what Clarke (1994) described as the view sold to the public that in the 1960s and 1970s that both bureaucracy and professionalism represented transcendent sets of rules and knowledge (expertise) which guaranteed the neutrality of state intervention. However, in the 1980s and 1990s bureaucracy and professionalism have been identified as partisan interests which require the creation of new political disciplines (the market place, management and the evaluative state) to check their powers.

The Managerialist Perspective

Recognizes that accountability operates at two levels—the strategic level for which politicians are responsible and the operational level, which is the sphere of managers (Deakin and Walsh, 1996). The test of legitimacy of public service is the acceptability of the services it produces for the citizen. The shift in modern governments to setting clear objectives, measuring performance and separating policy from administration makes officials as much accountable for the end product (that is, policy outcomes) as politicians. However, Stewart and Stocker (1995), argue that this shift is the ideal, which may not always be achieved in practice.

The Governance Perspective

According to Rhodes (1996) it is difficult to define governance perspective because the term governance has acquired a multitude of different meanings. The governance perspective is, however, closely related to the managerialist frame of reference but moves beyond traditional institutions of government by emphasizing the external dependence and internal fragmentation of the state, which inhibit its capacity to effectively govern.

According to Rhodes (2000), this perspective is more contemporary in recognizing the reality of partnerships and networks of arrangement in today's joined up public sector and the changing scale, character, scope and complexity of public service delivery. According to Pierre and Stoker (2000) the governance perspective thus highlights the apparent tension between new forms of political coordination and steering on the one hand and a powerful legacy of channels and instruments for political accountability on the other.

The Regulatory Perspective

Emphasizes the use of authority, rules and standard setting, particularly displacing an earlier emphasis on public ownership, public subsidies and directly provided services. Consequently, accountability is no longer ensured through line management relations within clear hierarchical structures but through increased surveillance and audit and hands off regulation (Hood, 1999).

The Rational Choice Perspective

Is based on rational choice theory, which explains social phenomena from the beliefs and goals of individuals (Ward, 1995). Thus, the rational choice perspective on accountability emphasizes psychological and behavioral factors in public administrators that result in individuals by highlighting the potential for public administrators to evade traditional, democratic and other channels of accountability. According to this perspective only by focusing on individual political strategies of these actors could a true picture of accountability emerge. Dowding (2000) have however argued that rational choice perspective is not a rival to other perspectives in politics. Rather it is a method of study, which

may illuminate other approaches and provide a dynamic explanation of their descriptive and categorical forms. This is more so if it is recognized that accountability goes beyond rendering stewardship. This is so because governing is a very complex process in which assessments are made whether ones use of allocation of resources is better or yields more benefits than another. This complexity has very serious consequence when decisions taken by public officers are brought under open and public scrutiny particularly by those who were either not parties to those decisions or are even incapable of appreciating the intricacies of such decisions.

Principles of Effective Accountability

The preceding sections discussed the various perspectives of looking at accountability. However, Anonymous (1997 and 2001) contend that there are five principles of effective accountability with each principle referring to an aspect of accountability especially to the newer forms of accountability relationships, such as through alternative service delivery mechanisms. The five principles are as follows:

- Clear roles and responsibilities: The roles and responsibilities of the parties in the accountability relationship should be well understood and agreed upon. Such an understanding provides the context within which both parties will respond and perform. Without this understanding and the required clarification, the basic underpinnings of an effective relationship would be absent.
- Clear performance expectations the objectives being pursued, the accomplishments expected, this is, what each party is expected to contribute to the result, including the inputs and outputs to achieve the desired outcomes and the constraints to be expected should be explicit, understood and agreed upon. Without a clearly spelt out expected outcomes, it would be impossible to determine whether these outcomes have been realized.
- Balanced expectations and capacities: The performance expectations need to be clearly linked to and in balance with the capacity, that is, authorities, skills and resources of each party to deliver. The absence of a plausible link between what is expected and the authorities and resources supplied will tend to undermine the effectiveness of accountability. Consequently, expectations that are well beyond what is reasonable for the resources provided will not be believed. Accordingly effective accountability is enhanced by clarity of the links and balance, between resources and expected results.
- Credible reporting: Effective accountability requires reporting what has been accomplished to bodies to whom the parties are responsible (such as parliament) and to the other parties in the accountability relationship. For the report to be useful, it must be seen as credible and must be timely. It must describe results accomplished, resources and actions taken in light of the agreed expectations. The report must also attribute responsibility in some manner for shortcomings. Depending on the circumstances, reporting can be ongoing, periodic or both. In some situations, external audit can be used to enhance the credibility of performance information.
- Reasonable review and adjustment: A credible review and feedback on the performance achieved should be carried out by the accountable parties. Where achievements are below agreed levels, the causes of the under performance are recognized and necessary corrective actions are taken and possible adjustments to the accountability arrangement made and lessons-learned noted. An accountability relationship without follow-ups is clearly incomplete and unlikely to be effective.

Research Method

As previously stated the objective of this study is to examine the mechanism of audit and accountability in the public sector using Osun State as a case study. Primary data was mainly used and

was obtained through a questionnaire survey. It was administered to 90 members of staff of the three audit departments in the headquarter office of the Auditor General and 81 responses were retrieved giving a response rate of 90%.

The questionnaire is thematic in nature with three sections. Section A consists of five questions, which focus on the internal control in operation in the Osun State audit system. Section B consists of eleven questions which relate to the system of auditing, while section C consists of five questions, which relate to accountability in the public sector. On the whole, the questions discussed the systems of auditing and accountability in the public sector. The data collected were analyzed, using cross tabulations and the Pearson Chi-square test.

RESULTS AND DISCUSSION

Internal Control Systems

Credibility of an audit depends, among other things, on internal controls. However, the survey results on effectiveness of internal controls, reported in Table 1, show that 70% of staff in the Auditor General's office do not perform any test on the internal control systems when auditing public sector accounts. Only about one quarter (26%) of the Auditor General's office reported that they perform such test control. A small number (4%) perform internal control tests occasionally. The main conclusion from Table 1 is that internal system control tests of Osun state are generally not performed when auditing public sector accounts.

Effectiveness of Internal Control System

Information in Table 2 shows that many of the staff of the Auditor General's Department who were interviewed did not think the internal control systems were effective. Approximately one-third of the interviewees believed the internal control systems were effective compared with 38% who did not consider the internal control systems were effective and 27% could not tell whether the control systems were effective. This finding may explain why 70% of interviewees did not perform these control checks.

Table 3 presents information on the mode of confirming the values of stores and stocks in the public sector during the course of an audit. According to this information, just over 50% the respondents acknowledged that stores and stock are physically counted the during auditing compared to 22% who contended that stores and stocks are confirmed by observation. Sixteen percent of the

Table 1: Use of internal control systems

Response	No. of respondents	
	No.	%
Often	21	26
Sometimes	3	4
Not at all	57	70
Total	81	100

Source: Survey, 2004

Table 2: Effectiveness of internal control systems

Response	No. of respondents	
	No.	%
Very effective	23	35
Not effective	36	38
Cannot assess	22	27
Total	81	100

Source: Survey, 2004

respondents were of the opinion that stores and stocks are confirmed by studying the storekeeper's book only. The remaining 6% contend that stores and stocks are confirmed by all the three methods stated earlier. Ideally, stores and stock should be physically checked to confirm that they agree with the No.s entered in the bookkeeper's book.

The method of confirming the accuracy of entries is even worse where auditing of salaries and wages is concerned. As shown in Table 4, only 38% of the respondents were of the opinion that salaries and wages are audited against comprehensive staff lists.

Thirty one percent of respondents believed that auditing of salaries and wages was done using performance evaluation card compared with 25% who believed it was done by checking the personal emolument cards. Only 5% of respondents believed that all the above-mentioned methods were used. In a situation where corruption is rife and the possibility of ghost workers cannot be underestimated, the credibility of the auditing system would have been enhanced by using personal enrolment cards which are more effective than using comprehensive list of employment or staff performance evaluation cards.

Table 5 reports the opinion of respondents regarding whether the auditing process conforms to statutory, professional and ethical standards. While 52% thought the auditing and accountability procedure in the state public sector was in accordance with statutory professional and ethical standard 48% believed that this was not the case. The large No. of respondent believing that the system of audit and accountability in the state is not in accordance with statutory professional and ethical standard if true should be a worry. Similar views about were expressed in Table 6 by respondents on the adequacy of audit and accountability process in the State where almost half of the respondents believed that the system of audit and accountability was not satisfactory.

Table 7 presents information on the perception of respondents on the extent to which accountability enhances efficiency in government operations. According to information in the

Table 3: Mode of auditing stores and stocks

Response	No. of respondents	
	No.	%
Physical counting	45	56
Observation	18	22
Examining the storekeepers books	13	16
All the above	5	6
Total	81	100

Source: Survey, 2004

Table 4: Mode of auditing salaries and wages

Response	No. of respondents	
	No.	%
Obtain comprehensive staff list	31	38
Obtain performance evaluation card of each staff	25	31
Check personal emolument card	20	25
All of the above	5	6
Total	81	100

Source: Survey, 2004

Table 5: Adherence to statutory, professional and ethical standards

Response	No. of respondents	
	No.	%
Yes	42	52
No	39	48
Total	81	100

Source: Survey, 2004

Table 6: Adequacy of audit and accountability

Response	No. of respondents	
	No.	%
Yes	45	56
No	36	44
Total	81	100

Source: Survey, 2004

Table 7: Effect of accountability on efficiency in government operations

Response	No. of respondents	
	No.	%
Strongly agree	28	35
Agree	23	28
Disagree	30	37
Total	81	100

Source: Survey, 2004

Table 8: Effect of auditing of public sectors on effective accountability

Response	No. of respondents	
	No.	%
Very effective	31	38
Not effective	35	43
Cannot assess	15	19
Total	81	100

Source: Survey, 2004

Table 7, 63% of respondents either agreed strongly or agreed that accountability enhances good governance. The remaining 37% disagreed that accountability has any impact on the efficiency of government operations.

Table 8 also paints the not-flattering opinion of the respondents about auditing and accountability process in the State, with 38% of respondents contending that auditing enhances effective accountability while 43% held the opposite view. The remaining 19% of respondent could not say whether auditing and accountability of public sector has any effect on effective accountability.

Testing of Hypothesis

Here, we use Chi-square statistics to test two hypotheses using our survey results. The hypotheses are to establish whether based on the survey results we can conclude that:

- Internal control systems in operation in the state regarding auditing of public sector accounts are effective,
- Whether auditing of public sector accounts in the state enhances accountability.

Hypothesis one

H₀: The internal control system in operation in the state regarding auditing of public sector account is not effective

H₁: The internal control in operation in the state regarding auditing of public sector account is effective.

The Chi-square is calculated from information in Table 9:

Computed Chi-square	3.448
Chi-square tabulated (5% level of significance)	9.49

Since the calculated Chi-square is less than tabulated Chi-square the null hypothesis that internal control systems in auditing public sector accounts are not effective is accepted.

Hypothesis two

H₀: Auditing of public sector accounts in the state does not enhance effective accountability.

H₁: Auditing of public sector accounts in the state enhances effective accountability

The Chi-square for testing hypothesis 2 is based on information in Table 10.

Computed Chi-square 3.9728

Chi-square tabulated (5% level of significance) 9.49

Since the calculated Chi-square is less than tabulated Chi-square the null hypothesis that auditing public sector accounts in the State does not enhance efficiency is accepted.

Concluding Comments

The guarantee of complete independence and non-interference in the work of audit department is essential for a quality audit work to be performed as well as effective line of accountability. According to our results the internal control system in the State is not considered to be effective by a sample of the staff of the Auditor General's Department.

Furthermore, 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. This factor was confirmed in an interview with the Auditor General. The failure of the audit system could also partly be results of large proportion of staff in the Auditor General's Department who do not have adequate skills needed to do the job of auditing properly.

Another important reason why the audit system is ineffective is that staff of the government audit department inform the Ministries and other public sector institutions of their visit ahead of time, which give sufficient time for covering up of any irregularity that the auditor may otherwise have noticed in the course of the audit work. Lack of appropriate equipment, such as computers, also impedes the work of auditing staff.

Some of these problems can be easily remedied while others are more intractable. For example, the staff of the State's Auditor General's Department could be given adequate training over time,

Table 9: Opinion on effectiveness internal control system by departmental. Expected and actual frequencies

Variables	Responses			Total
	Dept 1	Dept 2	Dept 3	
Very effective	11 (10.790)	6 (3.691)	6 (8.519)	23
Not effective	16 (16.889)	4 (5.778)	16 (13.333)	36
Cannot assess	11 (10.321)	3 (3.531)	8 (8.148)	22
Total	38	13	30	81

Note: The expected frequencies are in parenthesis, Source: Computed by the author from survey result

Table 10: Opinion on the effectiveness of auditing public sectors to enhance effective accountability, expected and actual frequencies

Variables	Responses			Total
	Dept 1	Dept 2	Dept 3	
Yes	12 (14.543)	6 (4.975)	13 (11.482)	31
No	19 (16.420)	3 (5.617)	13 (12.963)	35
Cannot access	7 (7.037)	4 (2.407)	4 (5.556)	15
Total	38	13	30	81

Note: The expected frequencies are in parenthesis, Source: Computed by the author from survey result

computer equipment could be upgraded but these alone would not lead to an effective auditing and accountability system because they can still be prevented from performing their duty by political interference.

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