AUDIT OF THE PUBLIC SECTOR AND AUTHORITY CONTENTS

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16.0 OBJECTIVES OF LEARNING

Following completion of this chapter, readers should be able to:

Recognize the auditing process in public sector organizations.

Recognize and comprehend the technical aspects of a value-for-money audit.

Recognize how to conduct audits of government-owned corporations and parastatals.

Recognize how to conduct contract, pension, and other audits in a government business setting.

Understand corporate governance in terms of the management/directors' and auditors' duties.

INTRODUCTION

The public sector is the primary engine of any country's economy, accounting for the majority of resources – human and material – devoted.

The magnitude of inputs — money, men, and materials – necessitates auditing in the interest of providing stewardship to taxpayers.

The Auditor – General for the Federation of Nigeria is at the apex of the verification process. Under section 85 of the 1999 Constitution, he is responsible for ensuring that the Executive arm of government performs its professed tasks with integrity.

efficacy, accountability, and efficiency. Section 125 of the Constitution provides for the nomination of State Auditors-General who bear the same emblem and perform the same function as their Federal counterparts.

Auditing in the public sector is valued in the following three primary areas:

(a) Audit of the Treasury Accounts, prepared by the Federation's Accountant-General.

(b) Auditing the financial statements of corporations, boards, agencies, ministries, and departments at both the state and federal levels of government.

THE AUDIT'S NATURE/EXTERNAL AND INTERNAL AUDITS

Chapter 14 of this study pack discusses the nature and importance of audit. The 1999 Nigerian Constitution mandates that the nation's managers act with diligence, candor, professionalism, and responsibility for independent review.

16.2.1 Audits, both external and internal

These are auxiliary systems for monitoring the prudence and caution of the stewards who oversee the country's affairs, in order to prevent irreversible damage to government.

External and internal audits have been discussed in detail in sections 14:4:1 to 14:4:3 of the study pack.

THE DIFFERENT TYPES OF PUBLIC SECTOR AUDIT

Auditing the public sector include the following areas:

16.3.1 Audit of the Federal, State, and Local Governments' financial statements.

The Auditor-General for the Federation completes his work within ninety days of receiving the Accountant-financial General's statements and delivers his report to each House of the National Assembly.

Section 85(4) of the 1999 Constitution allows the Auditor-General to conduct annual audits of all government statutory companies, commissions, authorities, and agencies, as well as all individuals and organisations constituted by a National Assembly Act."

At the state level, under section 125(5) of the constitution, the Auditor-General has the same number of days to report on the Accountant General's financial statements as the Accountant General.

Submitted yearly accounts to the House of Assembly for consideration by the appropriate public accounts committee.

According to Section 125(4) of the 1999 Constitution, the state Auditor-General "has the authority to undertake periodic audits of all government statutory corporations, commissions, authorities, and agencies, as well as all persons and bodies formed by law of the State House of Assembly."

There is an Auditor-General for Local Governments appointed in each State of the Federation, whose function, duties, and responsibilities are identical to those of the Auditor-General for the Federation and state, as stated above.

16.3.2 Auditing the financial statements of corporations, boards of directors, and government-owned enterprises.

Under their enabling legislation, organizations have the authority to appoint statutory (external) auditors who report to the State or Federal Auditor-General. Additionally, the latter has influence over the magnitude of fees owed to external auditors and the authority to appraise and comment on audited financial statements.

Internal auditors serve as a monitor over the agency's resources because they are constantly on-site. He keeps an eye on the effectiveness of existing internal control processes.

Additionally, the internal auditor serves as a "assist" by directing management's attention to areas of deficiency that require correction.

The statutory (external) auditor is an impartial analyst who is disqualified as a coroner since his work is essentially a post-mortem activity at the end of the year.

16.3.3 Audit of Value for Money

It is referred to as performance audit in the British categorization system. It is sometimes referred to as an audit of economy, efficiency, and effectiveness by some agencies.

" The audit is conducted to ascertain whether a public sector organization is efficiently acquiring and managing its resources, which include money, men, and materials, economically (cheaply, but not at the expense of quality), efficiently (to the appropriate specification for maximum output), and effectively (for the achievement of the set goals).

Value-for-money analysis is a procedural audit of management's attempts to obtain the best service or product for each naira spent by taxpayers.

Purchasing things in bulk, for example, from producers rather than merchants, appears to be a technique to maximize value in terms of price reductions and quality acquisition.

This strategy is motivated by the goal of eliminating or severely reducing waste, extravagance, and fraud.

16.3.4 Conducting specialized audits of contracts and regulatory compliance

The Public Procurement Act, 2007 requires all public sector businesses to adhere to the law's provisions while procuring goods and services under set naira outlay thresholds by the respective government entities.

The Auditor-Office General's for the Federation has a project Audit Division that conducts value-for-money audits of government projects. This section performs compliance audits using data from the 1999 Constitution, the 2007 Public Procurement Act, Appropriation Acts, Budgets, and Financial Regulations.

16.3.5 Gratuities and Pensions Audit.

The purpose of auditing gratuity and pension payments is to guarantee that the claims are legitimate and free of errors and manipulation. The audit is being done by the Auditor-pensions General's Office's unit.

Completed pension forms, a certified true copy of the record of service, a debt clearance certificate, a photocopy of the letter of promotion to the last grade, and a photocopy of the letter of notice of retirement and acceptance are all required documents for verification and authentication.

16.3.6 Defense and Security Agencies Audit

The Defense and Security Division of the Auditor-Office General's is responsible for the transactions and accounts of the Ministry of Defense and security agencies, in accordance with the 1999 Constitution's sections 214 to 216 on the Police Force and 217 to 220 on the Armed Forces.

16.3.7 Fraud and Corruption Investigations

There may be panels of inquiry into alleged frauds and acts of corruption. There would be a demand for panels comprised of a cross-section of specialists to undertake incisive investigations and compile all the information and numbers necessary to identify and punish criminals.

16.3.8 Audit of Nigerian Embassies and Consulates

The Auditor-Office General's has a team led by a director that audits Nigeria's foreign missions and agencies.

The Federal Ministry of Foreign Affairs' Internal Audit Division assists in the prevention and identification of errors and frauds, as well as the removal of extravagance.

16.3.9 Audit of Due Process

With the passage of the Public Procurement Act of 2007, the Federal Government of Nigeria has made it a priority to protect taxpayers' money against waste and fraud. As a result, efficient, integrity-driven oversight, enforcement of openness, probity accountability, and cost-effective spending are often required.

There is a unit inside the Office of the Auditor-General for the Federation, led by a director, that collaborates with the presidency's budget Monitoring and Pricing Intelligence Unit.

AUDIT OF FINANCIAL AND REGULATORY SYSTEMS

The following sections examine the two audit ideas mentioned previously:

16.4.1 Financial Examination

Financial audits are conducted to ensure that financial and accounting controls are effective and that payments are made only for products and services bought and provided in the correct quantity and quality.

The technique determines whether the financial statements created are consistent with the underlying data and present a true and fair picture for the time being reviewed.

16.4.2 Regulatory Examination

This is referred to as a "Compliance Audit?" It raises the following questions: "Is the expenditure properly authorized and in conformity with financial regulations?" "Is there sufficient funding for the budgeted expenditures at the head and sub-head levels?" 336

The compliance auditor may require the 1999 Nigerian Constitution, civil service rules, treasury circulars, financial regulations, and appropriation acts in order to carry out his duty.

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16.5 EVALUATION OF VALUE FOR MONEY

Value for money is the concept that maximizes the benefit of finite resources in the goal of public well-being.

It guarantees that programs and activities are carried out at the lowest possible cost while reaping the greatest potential benefit.

Three precursors must be accomplished in order to accomplish these aims. These are efficiency, effectiveness, and economy, which are briefly explained below:

Economy

This section discusses how management economically obtains resources in the required amount and quality at the lowest possible cost.

Efficiency

There are two perspectives on "efficiency." The first application is to attain a specified or required level of production with the fewest possible inputs on resources. The second perspective is that the highest possible quality result is obtained with the fewest resources.

Effectiveness

The concept of effectiveness ensures that the output of a certain activity meets the specified objectives. There is a connection between the three principles stated previously. They form the tripod upon which the search of "value for money" is built.

Economy‟

deals with the subject of frugality and cost management. „Efficiency is concerned with "performing something well" at the lowest possible price.

An operation is efficient if it uses lower costs to produce a certain quantity of output at a particular cost level.

Effectiveness entails identifying the appropriate course of action and carrying it out effectively. There is little point in producing bicycles meticulously if the market demand is for automobiles.

16.5.1 Audit of Economy and Efficiency

This is an assessment of economy and efficiency, intended to bring to light instances of waste, over-invoicing, or unsatisfactory resource expenditure.

16.5.2 Audit of Effectiveness

This is an assessment of whether programs implemented to accomplish stated policy aims have actually accomplished those goals. Additionally, the notion is referred to as program results auditing.

16.6 THE CONCEPT OF THE AUDITOR, ACCOUNTING, AND INTERNAL CONTROL

These may be discussed quickly as follows: As previously said, an auditor is an expert in his area, preferably a Chartered Accountant, who evaluates the accuracy and integrity of accounting records and provides his judgment on the truth and fairness of the financial statements created from them.

Accounting is, in general, the art of exercising stewardship over the resources entrusted to one's care or handled on behalf of another person or group of people. There are two other accounting definitions:

(a) Accounting is both a science and an art that involves the recording, classification, and summarization of financial facts and information. It entails the interpretation of data acquired for the purpose of decision-making and performance control.

(b) Accounting is the process of finding, quantifying, and disseminating economic data to the general public.

Internal control has been defined as "not just internal control and internal audit, but the entire system of control, financial or otherwise, established by management to conduct business in an orderly manner, safeguard its assets, and ensure the accuracy and reliability of its records to the greatest extent possible."

It is an all-encompassing phrase that refers to safeguarding assets, maintaining the correctness and trustworthiness of records, and conducting business in compliance with the law and morality.

16.6.1 Internal control consisted of the following components:

(a) Internal verification:

This is the distribution of responsibilities in such a way that no single individual executes an operation from start to finish.

Custody, authority, distribution, and recording methods are distributed in such a way that the work of one individual complements or can be cross-checked with the work of another, thereby preventing or detecting errors and frauds early.

(b) Internal Audit

It is an independent appraisal department within an organization that is responsible for reviewing financial accounting and other operations for the purpose of providing constructive and protective advice to management.

Internal audit determines the sufficiency or inadequacy of current internal controls, emphasizes apparent deficiencies, and makes recommendations for change.

(c) Administration and Controls Over Personnel:

Everyone should adhere to laws and regulations. Appropriate personnel should be employed in sufficient numbers and of the appropriate caliber.

Throughout the organization, merit should be the criterion.

Compensation and benefits should be proportional to the level of responsibility assumed, technical proficiency, and academic achievement. The philosophy of motivation should be "carrot in front, stick behind." Employees should be made joyful, but not at the expense of discipline. Facilities for recreation and training should be offered.

d) Security Measures

The computer room and other critical areas should be protected from indiscriminate access and exit; burglary-proof systems should be installed. Patrol officers and other security staff should be on hand to monitor the organization. Indenture and inventory all movable property.

e) Administrative Controls

These include system evaluations in general and comparisons of budgets to actual performance; exposing discrepancies and implementing corrective actions. Additional 339

Segregating administrative, staff, and disciplinary units is one component. No official should supervise two units concurrently in order to eradicate tyranny and oppression.

f) Financial Controls

Avoidance of spending beyond the allotted amount. Promptly publishing ledger entries and extracting trial balance. Final accounting prepared on time. Receipt and payment of money electronically. Bank reconciliation statements are prepared promptly.

16.7 AUDIT PLANIFICATION

Audit preparation entails examining past years' work, meticulously outlining how he will handle the current year's job, and preparing a basic strategy or approach for the anticipated nature, scope, and logistical personnel and materials required.

It entails an appreciation for aspects such as the environment, as well as the political, economic, legal, and social issues that may exist.

Audit planning enables the auditor to ascertain the reliability of controls.

The auditor's planning enables him or her to develop audit programs and budgets.

16.8 AUDIT OF COMPUTER SYSTEMS

It is worth noting that traditional auditing concepts apply regardless of the system for recording and processing transactions. The auditor's recognition of the existence of a computer environment enables him to investigate the following unusual occurrences:

The critical nature of employing personnel with information technology knowledge and abilities.

The risk of being forced to rely on existing internal controls and the usage of specialized computer-assisted approaches.

How audit work might be scheduled to ensure that data is easily available for entry.

The possibility of observable evidence disappearing and systematic errors.

16.8.1 THE AUDITOR'S PRIMARY PROBLEMS

The primary issues linked with computer auditing can be summarized as follows:

(a) The auditor must comprehend and master the manner in which the system processes and procedures accounting data, as well as the operation of the controls.

(b) The danger of losing a visible audit trail as a result of reduced printed output. The audit trail is a mechanism for tracing all transactions that occur within a system, from their inception to their conclusion

(that i, inclusion in a summary figure in the accounts).

Due to the fact that management does not exercise control over the processed items by verifying them individually, computer produced totals analyses and balances are not printed.

16.8.2 TECHNIQUES APPLIED BY THE AUDITOR TO RESOLVE PROBLEMS

Among the techniques are the following:

(a) Manual or clerical reconstruction of totals from source documents such as cash books and bank statements.

(a) Obtaining information printouts solely for the auditor's use.

(c) Rather than tracking individual objects, conducting testing on a totals basis (for example, comparing analyses with those of previous periods and budgets).

(d) Using computer-assisted auditing procedures.

e) Adopting non-traditional ways (for example, when movements making up stock balances cannot be evaluated, stock taking procedures may be tested).

(f) Using programmed interrogation facilities, which enable selective printing of records maintained on file in response to a direct request.

16.9 DIFFERENT KINDS OF COMPUTER AUDITS

Computer audits are classified into two types. These are referred to as "auditing around the computer" and "auditing the area." These are mentioned briefly below:

16.9.1 Computer Auditing

Historically, auditors were assumed to be capable of performing their tasks without having complete knowledge of what occurred inside the computer.

This 341 is "inspecting the computer."

Auditors would focus exclusively on the input and the resulting output under this technique or notion.

Audit methods included authorization verification, coding, controlling input totals, and vouching for output against source documents and clerical controls.

"Computer Auditing" This has a number of disadvantages, including the following:

Consumption of a great deal of paper, computer, and printer time.

The technique has lost its significance as a result of modern technological advances.

The intricacy of the computer system has resulted in a loss of audit trail. The loss is unfathomable with a simple "computer audit."

Without control totals, it is difficult to determine the completeness of output.

16.9.2 "Computer-Assisted Auditing" This approach entails an evaluation of the details of the computer system's processing elements in order to determine the extent to which the system's controls are sufficient to generate correct and complete processing of all input data.

CAATS are required to bolster the computer audit exercise. They are comprised of computer programs that an auditor utilizes to

Conduct auditing of the file's contents.

Magnetic files can be read.

Extract specified data from files.

16.10 PROCEDURES FOR COMPUTER AUDIT

The uniqueness of a computer-operated accounting environment is that auditors are provided with possibilities to use the organization's computer or another to aid the audit process.

The acronyms CAATS (Computer Assisted Audit Technique) and CAATS (Computer Assisted Audit Technique) refer to the instruments used in this manner. The following are the primary categories of computer-assisted audit techniques:

16.10.1 Audit Software:

These are computer programs that are used for auditing reasons, namely to verify the contents of a company's computer file.

16.10.2 Test Data:

Data are used by auditors for computer processing in order to analyze the operation of the organization's computer programs.

16.10.3 The Audit's Approach:

The approach can be summarized as follows: a) Audit Planning The reporting partner's planning methods include the following:

Consult with the computer audit team to determine the best course of action.

Determining the frequency and timing of audit testing.

Establishing audit objectives for individual tests.

Considering the usage of the computer audit section's specialized services.

Considering the approaches that regular audit professionals can employ.

b) Supervising audit work

There should be protocols in place for:

Time allotted for the application of specialized techniques.

Controlling the outcomes of numerous tests undertaken and following up on areas requiring more assurance.

(b) Maintaining Records of Audit Work Completed

Computer auditing entails the following:

A file containing information about the "background to the installation," including the software, hardware, and data processing standards in use, as well as the staffing of the data processing unit.

A permanent file for each system program that contains, among other things, the following information:

I The output and input files and operations of the system.

(ii) The system's goals and objectives in a non-technical and comprehensible language.

FRAUD TYPES

(a) Transactions without substance, reason, or logic are recorded.

(b) Inappropriate application of accounting principles.

(c) Theft of property such as cash and merchandise.

(d) Forgery or tampering with records or papers.

(e) Omission or obfuscation of transaction consequences from documents or records.

(f) Tax and revenue evasion by certain government agencies. Individuals and businesses fake their tax returns in order to avoid paying the Revenue Services.

(g) Insider dealings: In some companies, members of the top management float businesses that receive items as wholesalers at or below cost, damaging the organizations' economies.

(h) Fraudulent collection of advance fees:

Individuals that are dishonest dupe the public into putting money for items that are never delivered.

I "Round tripping": This is accomplished by purchasing foreign currency at the official rate using falsified documents and directing the funds to the "black" or parallel market, where they are sold for a large unlawful profit.

(j) Unauthorized withdrawals or transfers of monies from customer accounts, and in some institutions, deposits made by members of the public are being diverted to the accounts of fraudulent clients with the knowledge of bank personnel.

(iii) System descriptions that include the following:

(1) A listing of the source programs

(2) Flowcharts for administrative systems

(3) Schematic schematic and (or decision tables)

(4) Computer system flow charts (Overview charts).

(iv) Specimen layouts for each of the above-mentioned items.

(v) Questionnaires for internal control. Specially developed questionnaires will become an integral part of any system's permanent file in the future. They are used to determine and assess the system's performance.

16.11 CORRUPTION AND FRAUD

The Auditing Practice Committee of Accountancy Bodies in the United Kingdom defines fraud as "the use of deception to acquire an unjust or illegal financial benefit and/or theft, whether or not accompanied by falsification of accounting records or accounts."

"Malpractice" refers to unethical or improper behavior that may or may not entail the usage of

being deception with the intent of obtaining an illegal advantage. Malpractices are deceptive acts. „Corruption is a term or trait that refers to (impure) dishonesty or debasement. Corruption and fraud are considered to be malpractices.

As a result, they are criminal and despicable. A corrupt system is not remunerative. Merit: Its affairs are handled by mediocrity, as the wrong people are at the right places.

16.12 FRAUD AND CORRUPTION PREVENTION

Preventing fraud and conception is challenging because to a variety of issues such as an unjust social justice system, disparities, ethnicity, and tribalism. Nonetheless, fraud and corruption can be significantly minimized if the following expectations are met:-

(a) The divide between the rich and the poor should be bridged. There should be chances for employment, social security, and a decrease in the cost of living.

(a) Organizations' internal control systems should be strengthened to secure both human and non-human assets.

c) Efficient and effective personnel management through the following:

I Recruiting the appropriate number and quality of personnel

(ii) Appropriate screening of job seekers. References should be contacted and employment gaps should be checked.

(iii) Examination of an individual's idiosyncrasies, notably their lifestyles.

(iv) Annual vacation should be taken and no lone overtime should be authorized.

(v) Implementation of electronic receipt and payment measures.

(vi) Appropriate remuneration and incentives for employees.

(vii) Staff rotation on a regular basis

(viii) Establishment and promotion of internal control processes.

(d) There are no outstanding bank reconciliation preparations.

(e) "Not for myself alone, but for others" should be the workforce's guiding principle.

(f) Justice and fair play should be administered fairly.

16.13 BUSINESS MANAGEMENT

(a) The management and directorship roles

(a) The Auditor's Role Corporate governance is defined as "a collection of procedures designed to protect outside investors from expropriation by insiders comprised of management, family interests, and/or governments.

" The term "expropriation" refers to the act of "taking someone's property and using it without their consent.

" Corporate Governance is the mechanism by which producers of financial resources in businesses and government agencies are guaranteed an acceptable rate of return on their investments.

Some members of boards of directors and/or high management have been observed to be expropriating. To summarize, corporate governance is primarily concerned with preventing theft by management, auditors, and board members. The following sections will detail the roles of each of the aforementioned significant players:

16.13.1The Management and Director roles

Directors and management are trustees who govern enterprises and public sector organizations on behalf of stakeholders.

Their responsibilities include the efficient and effective administration of corporate assets in accordance with applicable legislation and risk management standards.

They are to produce high-quality goods and services at the lowest possible cost and to earn a profit at a rate of return that is competitive.

invested. Regrettably, many corporate board members forego their jobs to engage in "board room politics." Indeed, some individuals view their appointments as "boys' jobs" and "ego vacations." There are instances of boards that are too heavy.

They do not provide their CEOs with the necessary „free hand to operate. On the other hand, some CEOs and top management do not maintain healthy interpersonal relationships with their board members.

As a result of the foregoing negative occurrences, directors whose primary strength is their relationship with the Chief Executive Officers are unable to execute oversight tasks or act as watchdogs.

To ensure the viability and synergy of board and management collaboration efforts, only those with a sense of integrity, transparency, and responsibility should be appointed Chief Executive Officers and board members.

16.13.2The Auditor's Role Auditors of all types are verifiers and unbiased pronouncers. Emile Woolf edifies the auditor's position in his book "Internal Auditing" by stating that the auditor's office confers on him authority over others' reputations.

However, exercising this authority requires intellectual honesty in reporting. Three ethical principles that apply to auditors considerably in their professional and day-to-day interpersonal relationships are briefly outlined as follows:

(a) The fairness/rationality principle:

Whatever standard of behavior the auditor uses to evaluate his or her own activities should be the same yardstick utilized to evaluate the conduct of others. This principle corresponds to the concept of "placing oneself in the shoes of another.

" However, ethical experts argue that the concept of justice prevails when different persons are treated differently to conform to the logic and rationale of emergent situations.

(a) The Principle of Refusing to Inflict Willful Harm on Another Being:

The premise is that it is wrong to intentionally damage another being, regardless of the national context of the deed. When harm is inflicted wilfully, it is done for the sole purpose of inflicting it. However, an example of unintentional injury is the death of civilians as a result of attacks on legitimate military targets.

(c) The Role Responsibility Principle:

Men's comfort is not distributed evenly. "It takes a diverse range of people to build a world." The assigned role automatically assigns obligations for various aspects of men's well-being.

Thus, physicians and nurses care for the sick. Accountants oversee finances and interpret financial statements. The impregnable and natural dispersion of the "unseen hand" in man's affairs is the "role responsibility arrangement.

" The implication is that the auditor is merely a particle amidst creations. He should approach his role with pride rather than arrogance.

16.13.2.1 THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA'S CODE OF PROFESSIONAL CONDUCT

The Nigerian Institute of Chartered Accountants published "Rules of Professional Conduct for Members." Members are admonished in the code to abide by its provisions and spirit.

Members are further reminded that the absence of a specific act of conduct from the list of prohibited acts does not preclude it from constituting misconduct. Among the virtues envisioned by the Institute are the following:

Integrity:

According to Section 110.1 of the International Federation of Accountants' 2009 code of ethics for professional accountants, the virtue of integrity exceeds simple honesty.

A member is required to conduct himself or herself fairly and honestly in all commercial and professional engagements.

Objectivity:

According to the International Federation of Accountants' statement, "the principle of objectivity imposes a duty on everybody."

Professional accountants are cautioned not to jeopardize their professional or business judgment as a result of "bias, conflict of interest, or undue influence by others. The chartered accountant, who may also be an auditor, should focus only on the task at hand.

Confidentiality:

Unless with the knowledge and approval of his principal or client, no confidential information about a client discovered while completing professional assignments should be disclosed to third parties.

The exception to this rule is when it is required by law. Regardless of the exception noted previously, the chartered accountant should acquire approval from his employer prior to making the disclosure.

Consultancy:

Under statement No.5 of the Institute of Chartered Accountants of Nigeria's Rules of Professional Conduct, all affiliates, employees of practicing companies, and members engaged in auditing, accounting, and all other forms of consulting are covered.

The rule states that "if a member in practice, that is, the practitioner, seeks advice from another member (that is, the consultant on a consulting basis on behalf of a client), the consultant or any practising firm with which he or his consultancy organization is associated should not accept from that client, without the practitioner's consent, any work that was, at the time the consultant was first retained, within one year of the conclusion of the consulting assignment."

16.14 RECAPITULATION AND CONCLUSION

The chapter discussed public sector auditing, including external and internal auditing, several forms of public sector auditing, computer auditing, and fraud and corruption detection and prevention.

It explored corporate governance, with an emphasis on the directors' and auditors' roles.