

AN EVALUATION OF CONTRACT AUDITING PRACTICE IN NIGERIAN BUILDING CONSTRUCTION PROJECTS

Nuruddeen Usman 

Department of Building, Faculty of Environmental Technology,
Abubakar Tafawa Balewa University, Bauchi, Nigeria
ibnothman13@gmail.com

Abdulkadir Sani

Department of Building, Faculty of Environmental Technology,
Abubakar Tafawa Balewa University, Bauchi, Nigeria
arabs4u@gmail.com

Abstract

Construction projects are faced with an increase in financial fraud due to the number of people, companies and money involved. This is the reason why this article aimed at assessing the practice and approach used in contract auditing system in Nigerian building construction projects. The study adopted a well-structured questionnaire and the populations are practicing construction professionals within the study area, and the respondent were selected at random. Simple descriptive analysis and mean score were adopted and used in analysing the data. The study revealed that, the level of engagement of contract auditing practice during the contracts active life is paramount important than on the other stages, then all the construction contracts require prompt attentions of contract auditing practices. Moreover, site visitation for self-assessment identified as the most effective approach to be use, and the most important reasons of carrying out contract auditing is to check and prevent corruption. Therefore, the study recommends the adaptation of contract auditing systems in all construction projects and the government should make it as part of the requirement in executing projects.

Keywords: Constructions, Contract Auditing, Financial Fraud, Projects

INTRODUCTION

Auditing is a systematic and official examination and check of business accounts (Arah, 2000), or as seen by Cai et al. (2012) as a systematic and independent examination of data, statement, record, operations performance (financial or otherwise) of an enterprises for a stated purpose. Construction contract audit therefore is an essential internal control process to maximize capital program effectiveness. The first objective of audit is to obtain a documentation of cost incurred and paid for by the owner in completion of the project to justify if the request for reimbursement were in alignment with the applicable contracts. The scope of the financial audit here includes all cost involved by contractor including sub-contractor cost, in addition to direct cost paid for by the owner. The second objective of the audit is to obtain an understanding of the control environment surrounding a particular project to determine if any control deficiencies were noted. The role of contract auditing practice is paramount important in construction activities it serves as means of ascertaining how the financial transaction of construction contract is being handle by both parties to the contracts. Furthermore, the purpose of project auditing practice is to ascertain the fair administration of project cost and identifying lessons learned that can help improve the performance of a project or improve the performance of future projects by undertaking a forensic review to uncover problems to be avoided.

Construction contract auditing service is a popular aspect of services in the construction management and the engineering industry as a service support and purposed operation. Although not enjoying an outstanding recognition in the Nigeria's construction industry as compare to other aspects of services operating in project management, construction managers have always tried to ensure project success through accountability and technological advancement. Construction contract audits are an essential internal control process to maximize capital progress effectiveness in addition, with cost segregation studies are not an expense – they are necessary for sound, effective cost management that reduces total project cost and failure.

The operating sectors within both private and public services have continues to wage their support to contract auditing services for a number of advantages even with the little understanding on how best to constitute a dedicated appraisal system with a unit to undertakes the important role, with no statutory enforcement to strengthen it like that operating with financial, production, health, insurance and other institutions. The purpose of project auditing of ascertaining the fair administration of project cost and identifying lessons learned that can help improve the performance of a project or improve the performance of future projects by undertaking a forensic review to uncover problems to be avoided.

Construction managers performances indicates operating below satisfactory in carrying out effective contract auditing in Nigeria either because they see the role as cumbersome and confusing by indicating not getting adequate training on it or the operating environment does not facilitate conveniently the opportunity to do so. Therefore, the aim of the study is to assess the practices and procedural approach use in construction contract auditing system in Nigeria.

According to Bonderik and Tamkovich (1995), construction is an interrelated complex of operations where by buildings and installations are erected. Construction can also be defined as a process of forming buildings and building systems". Furthermore, According to Seeley (1997), construction work may be carried out by private contractors or Direct Labour Organizations (DLO's). In the past, local authorities have ended to use direct labour organizations for extensive areas of work. Therefore, the end project of construction and engineering work is a finished building and installations.

CONTRACT

Contract can be defined as an agreement which the law will enforced or recognize as affecting the legal rights and duties of the parties (involved in the contract). A contract can also be seen as a promise or a set of promises the law will enforce. In addition, Seely (1997), say the law relating to building contact is one aspect of the law of contract and tort. It is desirable to have an appreciation of the law relating to contracts generally before considering the main characteristics and requirements of building contracts. Therefore, A simple contract consist of an agreement enter into by two or more parties, where by one of the parties undertakes to do something in return for something (reward) to be undertaking by the other. A contract has been defined as an agreement which directly creates and contemplates an obligation. A contract generally has certain provisions and allocates a balance of responsibility, reward and risk.

AUDITING

Construction projects potentially face increase fraud due to the number of people, companies and money involved. It conditions therefore demands predictive risk mitigation programs to improve project management effectiveness, safety program compliance, design specification compliance and non-traditional construction methods from a more competent professionals (Baker, 2014). According to Cai et al. (2012) an audit is a planned and documented activity by qualified personals to determine by investigation, examinations or evaluations of objectives evidence, the adequacy and compliance with established procedures, or applicable documents and the effectiveness of implementation. The auditor must carry out his work independently because the nature of the job demands doing so. If, for example, he allows himself to be

swayed by selfish popular opinion on a matter concerning the audit, this may make him overlook key areas in an audit which may negatively affect the entire audit work. Auditing has been defined by several authors; all the definitions tend to portray it as an act of verifying already prepared accounting records together with the policies and procedures that govern the preparation of such records. The point however is that the said verification must be by a qualified person who does the verifications with the view to providing a report to the authority that commissioned the audit. The definition emphasizes that an auditor has to be an independent of the management who are responsible for the preparation of the accounts (financial statements) and he must be responsible to the owner receives and utilizes the report (Damagum, 2005).

An audit can be characterized according to the nature of work undertaken and the method of approach to the work. By nature of work undertaken it comprises of statutory audits, Private audits, internal audits and Management audit. By Method of approach it includes Final or complete audits, Interim audit and Continuous audit. For conveniences, auditing is described with reference to the requirement of companies. Auditing can be classified as either Internal Audit which review or appraise within an organization of the accounting, financial or other operations as a basis for protective and constructive service to the management or external Audit undertaken by a qualified statutory auditor who conducts his work independently out of the organization. External audit is required by law and is mandatory on all Limited Liability Companies (Dandago, 1999).

Therefore, contract Audit practice is a particular kind of investigation, which is performed by a specialist auditor and consultants, if properly performed, a contract audit provides an opportunity to assess the management and control the contract, especially if the process begins during the pre-construction and early construction stages and extends to a post-completion review and verification.

METHODOLOGY

The populations for the study are mainly practicing construction professionals working in public sectors/institutions, consulting and contracting firms in Gombe State, and the respondents were selected at random. The study adopted a well-structured questionnaire and distributed to the targeted respondents in order to collect relevant data. A total of forty (40) questionnaires distributed to various construction managers across a number of organizations identified, and a total number of thirty-four (34) indicating 85% retrieved, and six numbers (15%) not returned. The thirty four (34) questionnaires were sorted out as appropriate and quite adequate enough for the analysis.

The data analyzed using percentages and mean score method that had been adopted from Assaf et al (1995) In this method weighting scale of 1 to 4 was adopted to calculate the mean score for each variables factor, which is then used to determine the ranking of each factor by assigning ranking to mean score, with low mean score assigned low ranks and high scores allocated high ranks. The mean score (MS) for each factor is computed by using the following formula:

$MS = \frac{\sum (F \cdot S)}{N}$ Where (S) is the score given to each factor by respondents and ranges from 1 to 4 in which "1" is not effective and "4" is very effective ;(F) is frequency of responses to each rating for each factor; and (N) is the total number of responses concerning that factor and (MS) is mean scored by each factor.

ANALYSIS & DISCUSSION OF RESULTS

In order to achieve the papers' aim, the following analysis carryout based on the retrieved questionnaires from the respondents within the study area;

Table 1: At which level of engagement is construction contract auditing practice consider ideal in project life cycle?

Levels of engagements	Frequency	Percentages (%)
Pre-contract activities through the projects life	04	12
During the projects active life	20	59
At post contractual assessment	07	20
At some instances during the projects as the needs arises	03	09
Total	34	100

In Table 1: The analyses revealed that, during the project active life attracted 59% response as the most ideal stage of engagement to employ contract auditing services, 20% have the opinion that contract auditing should take the form of post contract assessment, 12% as pre-contract activities through the project life and 9% that only when there is need.

Table 2: Which among these construction contracts nature requires more prompt project auditing practice attention?

	Frequency	Percentage of frequency (%)
All newly signed construction contract	10	29
Only to public contract (own by government)	05	15
Renovation and expansion of existing property	05	15
All of the above	14	41
None of the above	-	-

Base on Table 2 all the nature of the construction contracts require prompt auditing for their effective delivery, although the output of this analysis pointed out that “all newly signed projects” needs much more attention than others.

Table 3: How effective can these approaches be justify as tools in contract auditing practice?

	Very effective (4)	Effective (3)	Fairly effective (2)	Not effective (1)	$\sum Fx$	Mean score	Ranks
Interview with personnel on site	7	14	5	-	80	3.08	2 nd
Questionnaire administration	3	14	8	1	71	2.73	5 th
Site visitation for self-assessment	16	8	2	-	92	3.54	1 st
Scrutinizing check book	8	11	5	2	77	2.96	4 th
In-depth research	7	15	2	2	79	3.04	3 rd

Table 3 analysis of the effectiveness of some appraisal approach as tools in contract auditing vindicated that, Site visitation for self-assessment is the most effective tool in construction contract auditing, followed by Interview with personnel on site ranked as second approach tool, then the in-depth research as third effective approach, Scrutinizing checkbooks was scored fourth and Questionnaire administration got the least scoring.

Table 4: Using a score of 0 – 11, rate the important of each of the following reason for carrying out contract auditing.

s/no	Variables important	$\sum fx$	Mean scored	ranks
1	To ensure policies and directives adherence to best practice in contract procurement and management.	145	5.58	11 th
2	To check & prevent corruption.	233	8.96	1 st
3	To ensure accountability & probity.	223	8.58	2 nd
4	To minimize cost overrun.	201	7.75	5 th
5	TO checkmate unnecessary claims by contractors.	188	7.23	7 th
6	To understand the control environment of a project.	158	6.08	10 th
7	To analyze areas where problems are identified and improved on future contracts.	167	7.19	8 th
8	To ensure the compliance of all practice and procedures.	204	7.85	4 th
9	To prevent project failure cause by time and cost overrun.	174	6.69	9 th
10	Evaluate to understand performance opportunities, penalties, incentives, rights and obligations.	193	7.42	6 th
11	To ensure efficiency, economic consistence and standard to actualize targeted quality.	216	8.31	3 rd

Based on Table 4, the most three important reason for carrying out contract auditing practice were identified as follows; to check and prevent corruption as first then to ensure accountability and probity and followed with to ensure efficiency, economic consistence's and standard as the third most important reasons but based on the analysis it revealed that, to prevent project failure cause by time and cost overrun, to understand the control environment of a project, to ensure policies and directives adherence to best practice in contract procurement and management were identified as the lowest important reason as ranks by the respondents.

Table 5: Is the application of contract auditing in construction contract prompt system that can enhance performance relatively at a more economical cost?

	Frequency	Percentage of frequency (%)
Very economical	21	62
Attracting extra cost (compromise able cost)	10	29
Attracting uncompromised cost	03	09

Table 5 revealed that, despite extra engagement for additional service to probe or appraises the project, construction contract auditing was considered of economic advantage to contract administration.

CONCLUSION

In conclusion base on the research carried out, the following were major findings of the study:

- 1- The respondents agreed that, the level of engagement of contract auditing practice during the contract active life cycle and at the post contract assessment are considered as more ideal than any other levels of projects life cycle.
- 2- Based on the perception of the respondents almost all the constructions contract require more prompt attention of contract auditing practice in assessing the financial management of projects activities.
- 3- The most effective approach of contract auditing system were identified as site visitation for self-assessment and coupled with interview with personnel's on sites.
- 4- The study revealed the most important reasons for carrying out contract auditing practice as to check and prevent corruption, and also to ensure accountability, efficiency, economic consistency and standard of projects activities.
- 5- Finally, the respondents viewed the application of contract auditing practice in construction activities as an economical to contract administration.

Therefore, it is recommended that professionals should adapt contract auditing practice in all construction projects, and government should incorporate construction auditing practice as one of the requirement in carrying out construction projects.

However, this study is limited to practicing professionals operating within institutions, agencies, and ministries in Gombe state. Further studies needs to be carried out in a wider perspective so as to assess the perception of contractors, clients, and other professionals in both private and public sectors on contract auditing practice, in which the findings may give room for the development of a best practising contract auditing framework.

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