International Journal of Economics, Commerce and Management
United Kingdom Vol. III, Issue 6, June 2015
http://ijecm.co.uk/ ISSN 2348 0386

VALUE FOR MONEY AUDIT: AN ACCOUNTABILITY TOOL IN THE NIGERIA PUBLIC SECTOR

Nwosu, M. Eze
National Institute for Legislative Studies, National Assembly, Abuja, Nigeria
mail4eze@yahoo.co.uk

Abstract
As a constitutional requirement, it is the responsibility of public sector organizations at federal, state and local government levels to embrace the concepts of value for money audit and integrate it in their organizations. However, determining how economical, efficient and the extent to which the related programmes are effective in meeting their objectives is still a subject of debate in most jurisdictions. Triangulating existing knowledge on the topic, this paper examines the importance of value for money audit as an accountability tool in the Nigeria public sector and evaluates its techniques and problems. Using the desktop approach the analysis shows that lack of the processes affects the promotion of accountability in the Nigeria Public Sector. The paper recommends for proper Value for Money Audit process in the Nigeria Public sector and suggests a need for a formal accounting system and associated controls. It further recommends that to make the system to be easily imbibed, there is a need to reward individuals who conform to the ethics and penalize those who undercut the process.

Keywords: Value for Money Audit, Public Sector, Accountability, Statutory Responsibility, Audit Best Practice, Economy, Efficiency

INTRODUCTION

In recent years, the number and money allocation to the public sector have increased substantially. This has led to increase in governmental programmes and activities and has brought with it an increased demand for accountability of public officers who manage the implementation. The public needs to know how public resources are managed in order to assess the performance of those entrusted with the resources. One of the avenues through which an assurance of the judicious use of such resources can be provided is the Value for

Money Audit which is a recent expansion in the scope of auditing. According to Oshisami (1992), Value for Money Audit determines whether the entity is acquiring, managing or utilizing its resources (staff, buildings, spaces, materials, etc) in an economic and efficient manner and the causes of any inefficiencies or uneconomical practices. He went further to state that VFM audit involves an inquiry into whether in carrying out its responsibilities, the organization gives adequate consideration to optimal acquisition, procedures and practices, safe keeping of its assets, money and minimum expenditure of effort.

This paper therefore, provides a conceptual analysis on value for money audit as an accountability tool in the public sector in Nigeria. The paper is structured as follows: Conceptual framework on value for money audit, Elements of value for money audit, Techniques for carrying out a value for money audit, Problems of value for money audit in Nigeria and Conclusion and Recommendations.

Conceptual Framework

The term value for money audit is a new entrant in public sector auditing literature, though the various aspects of the concept have been relatively observed in the process of accountability in the public sector. Johnson (1996: 72) noted that the concept is currently the subject of much discussion in the public sector, some taking the view that it presents a new concept aimed at checkmating the public office holders.

As public sector officers became more conscious of the need to ascertain the actual utilization of resources, the concept of value for money started to emerge. Ene (2000:10) indicated that value for money involves the appraisal of pursuit of the economy's efficiency and effectiveness in utilization of organizational resources.

In Nigeria, the concept became very pronounced because of the economic depression experienced since the 1980s. Government's emphasis shifted from expenditure control towards value for money as the need for effective utilization of economic resources became imminent (Ene, 2000:10). However, Okwoli (2004:80) stated that the concept of value for money audit has not gained the required level of recognition in Nigeria, though it lies within the jurisdiction of internal control, which is a management device for effective operation of the organization.

Objectives of the Study

Adeniyi (2004:210) gave the following as the objectives of value for money audit: Investigate a system or activity in the organization, Judge whether the objectives of the system are being achieved, and if not, why not, Judge whether the resources of the organization are being efficiently utilized in achieving the objectives and Judge whether the system is being operated economically, or whether there is over spending.

'Value for money' (VFM) is a term used to assess whether or not an organisation has obtained the maximum benefit from the goods and services it both acquires and provides, within the resources available to it.

Some elements may be subjective, difficult to measure, intangible and misunderstood. Judgement is therefore required when considering whether VFM has been satisfactorily achieved or not. It not only measures the cost of goods and services, but also takes account of the mix of quality, cost and resource use, fitness for purpose, timeliness, and convenience to judge whether or not, together, they constitute good value.

Achieving VFM is also often described in terms of the 'three Es' - economy, efficiency and effectiveness. The definition of the three Es approved by the Value for Money Committee is as follows:

- Economy - Careful use of resources to save expense, time or effort.
- Efficiency - Delivering the same level of service for less cost, time or effort.
- Effectiveness - Delivering a better service or getting a better return for the same amount of expense, time or effort.

In many areas of activity there is recognised 'good practice' or 'best practice', although this may be contested. In general terms, all organisations want to adopt such good practice as appropriate to their own circumstances, as a recognised way not only of achieving value for money but also of demonstrating that value for money has been both sought and achieved. Good practice will often require a well-planned, thorough and clear approach to an activity. The use of good practice is rarely seen as a waste of effort by those who adopt it, provided that it is adapted to their own circumstances. However, procedures by themselves are not necessarily sufficient, since the achievement of VFM requires an attitude and culture that seeks continuous improvement. The main benefits of promoting VFM principles include:

a. The Clarification of Objectives. Rather than acting on assumptions about what is required, VFM principles will give managers a proper assessment of the objectives of an activity. This will maximise their chance of achieving the desired ends without unnecessary expenditure and effort. An 'assessment' should also demonstrate that the proposed activity fits in with the organisation's strategies and policies. Where this does not happen, an activity is, by definition, not achieving what the organisation has set out to do. An assessment will also help end-users to get what they need (which may be different from what they want) to do their job properly.

b. Planning is an Essential Part of all Well Managed Processes. Good planning minimises the risk of an activity failing to deliver the intended outcome, at the right time and at the right price.

c. Openness and Transparency of Process. Through properly documented planning and assessment, and the adoption of open processes involving all interested parties, organisations can publicly demonstrate a commitment to achieving propriety as well as VFM. This is increasingly important in a world of growing accountability and responsibility, and is absolutely essential for organisations that receive public funds. Such organisations have a special responsibility to show that they operate honestly, fairly and without bias.

d. Compliance with Statutes and Regulations. All organisations need to comply with legal and other associated requirements. By adopting good practice, the risk of failing to identify and comply with such requirements is significantly reduced.

e. Risk Assessment. All activities have risks attached. These include, for example, a reputational risk, control risk, financial risk (including financial health risk), health and safety risk, and a business risk. Risk assessment is an area that can often be improved. Although it is often not necessary to undertake a full risk assessment for every activity, an inadequate risk assessment, particularly for significant activities, can result in poor value for money.

ELEMENTS OF VALUE FOR MONEY AUDIT

Value for money audit basically involves a review of the following aspects of an organization's nature and functioning of its managerial systems and procedures, the economy and efficiency with which its services are provided and the effectiveness of its performance in achieving objectives.

Johnson (1996:72) in examining auditing, accountability and control, identified three basic elements of value for money audit to include – economy, efficiency and effectiveness. Also Oshisami (1992:189) classified these elements into two Managerial responsibility for efficiency and economy of operation, and Managerial responsibility for effectiveness.

a) Auditing of Economy of Operation

This requires an in depth examination of the achieved target and related resources utilized for the purpose. Johnson (1996:72) stated that it is the achievement of a certain results with the smallest expenditure of resources. In essence, the auditing of economy of operations entails the minimization of expenditure in the process of achieving a set of goal. Therefore, to achieve this, there is the need to avoid use of costly procedures and waste of resources.

b) Auditing Efficiency of Operation

The focus here is to ascertain that the best result is achieved from the available resources (Ene, 2000:10). While Johnson (1996:72) noted that the efficiency of operations is the relationship between the level of service provided and the resources used to achieve that level. To achieve this, it means that resources need to be properly planned for, organized, utilized and controlled.

c) Auditing Effectiveness of Operation

In this case, effort is made to determine the extent to which set targets for programmes or activities are actually achieved. Oshisami (1992:193) described it with the following words: Determine whether the objectives established by law and other authorizing bodies are being met and whether the organization, has considered other alternatives which might yield desired results at a low cost. This will involve an inquiry into the results or benefits achieved and the programmes or activities to determine their achievement of established objectives.

In conducting value for money audit, some important questions should be asked: Are there alternative course of action that can minimize cost?; Are the results achieved in alliance with overall objective?; Are the output achieved up to the set targets?; Can results be improved without incurring additional cost?; Are expenditure incurred justified and commensurate with the result processed?; Are there unnecessary duplication of efforts, process or procedures?; Are there redundant staff, unnecessary equipment and materials?; and Are there adequate safeguard for assets?

TECHNIQUES FOR CARRYING OUT VALUE FOR MONEY AUDIT

Value for money audit requires effective execution. Some of the essential ingredients necessary for effective execution include;

a. Analytical Disposition

There is a great need for analytical skill, which will involve observing performance indicators, statistical trends and accounting variance (Ene, 2000:11). Johnson (1996:73) observed that the auditor should seek to explain trends and major difference from other authorities. The results of this initial analysis should give some guidance to those areas requiring a specific study.

b. Discovery of Control Assets

The auditor should be able to determine and evaluate the various control areas in place in the organization, and determine the strength and weakness.

c. Foresight

The auditor should foresee the areas of potential opportunities and impending threats that will arise in the near future and bring this to bear on their planning and control of organizational resources.

d. Unequivocal and Measurable Target, Defined Responsibilities and Commensurate Authorities

There is the need for clearly defined targets which can be measured and which are dysfunctional, to the corporate objectives. The targets and performance evaluation criteria should have been well communicated to the operatives and they should be motivated towards its achievements. Responsibilities should have been well defined and commensurate authority assigned for feasible execution of responsibilities.

e. Reporting Freedom

The result of value for money audit must be reported to the top level management and should not be treated with levity. This will give creditability and ensure that organizational resources have been economically, effectively and efficiently utilised.

PROBLEMS OF VALUE FOR MONEY AUDIT IN NIGERIA

One of the basic factors that affect value for money audit in Nigeria is the nature of the corporate objectives of the public sector. The corporate objective of the public sector is generally accepted to be the maximization of the welfare of the public. Welfare can be highly subjective and can vary depending on socio-cultural, political, economic and religious conditions. All these make the application of value for the money audit difficult.

A complete pursuit of “value for money” may not be in consonance with the welfare objectives of the public sector. This might well be the reason for its unpopularity in the Nigerian public sector. Other problems affecting the growth of this concept in the Nigerian public sector include:

a. Accounting Basis

The cash basis of accounting practiced in the public sector does not give a complete view of the activities and state of affairs of the sector. This provides loopholes for manipulations and makes value for money objectives difficult to achieve in some aspects of the public sector.

b. Professional Skill Requirements

Value for money audit requires professionals with cognate experiences. However, the public sector in Nigeria has not been able to employ and retain this category of staff that indirectly finds private sector more lucrative.

c. Authority and Responsibilities

Adequate delegation of authorities with associated commensurate authorities is sine-qua non for an effective achievement for value for money. However, in some public sector organizations we find these lacking. Issues like violation of chain of command, “money” syndrome, collusion of staff, etc, arise often. These features, to a reasonable extent, affect achievement of value for money audit.

d. Lack of Adequate Internal Control System

For feasible value for money audit, there must be sound internal control system. This is not obtainable in some public sector organisations.

e. Effect of Stewardship Consideration

In the public sector, the emphasis has been on custodianship and stewardship reporting. However, the economic situation has placed an obvious demand on the sector to improve operations. Public officers on are still reluctant to break old jinx and focus on the new concept.

CONCLUSION

The concept of “value for money audit” shows that the topic is becoming more acceptable in the public sector despite the sector’s peculiarities which can hinder its achievement, for economy and efficiency of operations of the sector. An understanding of this concept and its implementation will, therefore, enable an optimal achievement of accountability for the public sector in Nigeria. Chandler (1985:3) concerns about value for money audit centered on achievement of economy, efficiency and effectiveness depends upon the existence of sound arrangement for the planning, appraisal, authoritisation and control of its use of resources. It is management’s responsibility to establish these arrangements and to ensure that they are working properly. The auditor’s responsibility is to verify independently that these arrangements are in place and are effective.

One way of ensuring the ascendancy of the concept, practice and utility of value for money audit is through regular review of the entire application of the process. The implication of this is an extensive research work into the practice and utility of value for money audit.

RECOMMENDATIONS

The following are some of the recommendations that will enable improvement in the practice of value for money audit in the Nigerian public sector:

There should be a formal accounting system and the associated controls to ensure completeness, accuracy and validity of the data obtained through the system. International Public Sector Accounting Standard Part 1 and 2 are strongly recommended.

The objectives on which the concept is demanded must be quantifiable in terms of money or other units as may be applied. The objectives should be communicated to concerned individuals who will also be informed of the relevant performance indicators. This should be carried out by professionals with the requisite experiences.

There should be well-articulated organizational structure with a unified chain of command and well-delegated authorities to achieve value for money giving room for adequate internal control system.

To make the value of money to be easily imbibed, there is a need for rewarding individuals who conform to the ethics of value of money and penalize those who undercut the ethics. However, the rules and regulations should be clearly defined and communicated to the operatives before it is used for their assessments.

To change from the old practice of more custodianship to the contemporary value for money, there is need for a reorientation of the public sector staff. This will involve awareness campaign which should be carried out on both the public offices and in the media.

REFERENCES

Adeniyi, A.A. (2004) Auditing and Investigations; El-Toda Ventures Ltd. Lagos.

Agboroh, F.O. (1999) Advanced Professional Accounting, Humble Tutors Publications, Lagos.

Chandler, R.A (1985) Value for Money Auditing: Its Potential and Its Problems, ACCA Students Newsletter, December.

Ene, E. (2000) Value for Money Audit in the Public Sector, ICAN Student Newsletter, December.

Johnson, I.E. (1996) Public Sector Accounting and Financial Control, Financial Training Nigeria, Lagos.

Nwosu, M.E (2013) Principles of Accounting with Questions and Suggested Solutions. Petra Digital Press, Abuja.

Okwoli, A.A. (2004) Value for Money Auditing in the Nigeria Public Sector : Its Problems and Prospects in the Next Millennium, Go-go Int'l Ltd. Jos

Osisioma and Okorie (Eds) Problems and Prospects of Accounting Profession in the Next Millennium, Benin City, Nigerian Accounting Association.

Oshisami, K. (1992) Government Accounting and Financial Control, Spectrum Books Ltd; Ibadan.

Willington, O.R. and Panny, K. (2001) Principles of Auditing and other Assurance Services, McGraw Hill, New York.

Woolf, E. (1994) Auditing Today, Prentice Hall International (UK) Limited.