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Examination of Auditing Practices and Procedures in the Nigerian Local Government Service System: A Study of Selected LGAS in Rivers-State

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Abstract:

This study examined auditing practices and procedures in the Nigerian local government service system using selected LGAs in Rivers-State as its study focus. The study was guided by two research objectives which where to identify how auditor's independence and the process of auditor's appointment affect the performance of public auditors in Nigerian LGAs. Data for the study was gathered using a five point liker scale from a sample of 265 members of staff drawn from a population 781 across 15 selected LGAs in Rivers-state.the data gathered was analyzed using the kruskawalis test (H) with the aid of 20.0 version of SPSS. The results of hypothesis one two (0.00 and 0.002 respectively) were less than the level of significance of (0.05), hence the conclusion that auditor's independence has a more significant impact on the auditing practice than auditor's appointment process.

Keywords: auditing; governance; grassroots; LGAs; practices; procedures; resources

1. Introduction

The structure of governance in Nigeria has placed the local government system closer to the people hence; the expectation is high that local governments should provide services or what may be regarded as the dividend of democracy to the grassroots. However, this is not often the case in Nigeria as the resources of most local government are controlled by the state governors through the joint account allocation committee (JAAC) who dishes out a certain percentage of the local government federal allocations to the LGAs at the whims and caprice of the state governors. How well the given resources is applied for the common good of the grassroots is a question begging for answers. In order to cover their inordinate tracks, governors expressly appoint auditors for the local governments and in some cases influence the deployment of cashiers in the LGAs, this has led to questionable service delivery on the part of public sector auditors at the local government level. Corroborating this view, Appah and Appiah (2010) argues that cases of fraud is prevalent in the Nigerian public sector that every segment of the public service, could seem to be involved in one way or the other in some of these nasty acts. To curb these financial malpractices and promote good governance, the local government in Nigeria requires an effective and efficient system of fraud detection and prevention. This calls for a re-examination of the auditing practices and procedures in the Nigerian local government service system.

Ihe and Umeaka (2006) defined auditing as a process carried out by suitably qualified auditors during which the accounting records and the financial statements of an organization are subjected to examination by an independent auditor with the main objective of expressing an opinion in accordance with the relevant terms of appointment purpose. They further stated that the objectives of auditing were grouped into two; (a) Primary objective: the auditor (one who carries out audit operation) is to report whether the financial statements shows a true and fair view of the financial affairs of the organization during the period under review. (b) Secondary objective: This concerns the detection of frauds and errors and the prevention of frauds and errors. In the view of Chukwu (2011) defined auditing as a process by which a competent. Independent person accumulates and evaluates evidence about various assertions contained in financial statements of an organization for the purpose of determining and reporting the quality of disclosure of financial information, judging them against the back drop of established criteria.

Therefore, an auditor in an ordinary sense is any person who is in charge with the responsibility of examining the books of accounts of an organization in such a detailed form as well as enabling him form an independent opinion as to the truth and fairness of the financial statement (okolo 2007). The avalanche of definitions above points to the fact auditing is a systematic process of financial record assessment with the intention of ascertaining its accuracy with a pre-determined standard while detecting fraud and proffering expert measures to guide against future fraud. From this definition it can be deducted that auditing is the process of accessing the financial statement of an organization to which the person undertaking the task is not a member with the aim of ensuring that these financial statement were truly prepared from actual records of financial transaction.

Objectives of the Study

The general objective of this study is to evaluate the audit practices and procedures in the public sector. The following specific objectives shall be examined;

i. the effects of auditors independence on the quality of audit report in the public sector

ii. the effects of appointment processes on the performance of public sector auditors

Research Questions

The following research questions shall serve as a guide to this study;

i. What are the effects of auditor's independence on the quality of audit report in the public sector?

ii. What are the effects of the appointment process on the performance public sector auditors in Nigerian LGAs?

2. Review of Related Literature

Auditing

According to Cyasi (2001), auditing is the independent examination and investigation of the evidence from which a financial statement has been prepared with a view of enabling the independent examiner to report on whether his own opinion according to the information and explanation obtained by him, the statement is properly drawn up and give a true and fair view of that which is supposed to show and if not to report in what respect he is not satisfied.

The auditing standard (2004), defined auditing as the independent examination of an expression of opinion on the financial statement of an enterprise by an appointed auditor in pursuance of that appointment and compliance with any relevant statutory obligation. Therefore, an auditor in an ordinary sense is any person who is in charge with the responsibility of examining the books of accounts of an organization in such a detailed form as well as enabling him form an independent opinion as to the truth and fairness of the financial statement (okolo 2007). From this definition it can be deducted that auditing is the process of accessing the financial statement of an organization to which the person undertaking the task is not a member with the aim of ensuring that these financial statement were truly prepared from actual records of financial transaction. Explaining the importance of audit, institute of chartered accountants in England and Wales (2005) stated that Audits serve a vital economic purpose and play an important role in serving the public interest to strengthen accountability and reinforce trust and confidence in financial reporting. As such, audits help enhance economic prosperity, expanding the variety, number and value of transactions that people are prepared to enter into.

Factors Affecting Audit Report Quality

Some of the factors affecting audit report quality include;

- *Financial Literacy of Audit Committee Members:* According to Song and Windram (2000), a high degree of financial literacy is necessary for an audit committee to effectively oversee a company's financial control and reporting. The role of an audit committee in overseeing accountability of the management covers a wide scope to include the overall process of corporate reporting. This requires the audit committee to have accounting knowledge in order to acquire an in-depth understanding of financial reporting and improve compliance with regulatory requirements. The need to comprehend the overall financial and non-financial contents of corporate reports is greater considering that listed companies are operating as conglomerates with some having complex group structures and therefore, presenting technically advanced financial reporting contents. Financial literacy reduced fraud in corporate financial reporting. A formal recognition of this requirement was recently made in the U.S. with the passing of the Sarbanes-Oxley Act (2002) which requires each public listed company to disclose whether or not it has a financial expert in the audit committee.
- *Frequency of Audit Committee Meetings:* The effectiveness of audit committee depends on the extent the Committee is able to resolve issues and problems faced by the company and to improve their monitoring function of company activities (Abbott, Park and Parker 2000). A more active audit committee is expected to provide an effective monitoring mechanism. The more frequent the audit committee meets, the more opportunity it has to discuss current issues faced by the company. Since the level of audit committee activity reflects good governance, it should enhance the exercise of oversight function and hence, audit quality. The Code of Corporate Governance states that the provision of an institutionalized forum encourages the external auditor to raise potentially troublesome issues at a relatively early stage. As a best practice, audit committee meeting should be conducted at least once a year without the presence of executive board members. However, the total number of

meetings depends on the company's terms of reference and the complexity of the company's operation's operations. At least three or four meetings should be held in addition to other meetings held in response to circumstances that arise during the financial year (Finance Committee on Corporate Governance, 2001).

➢ *Multiple Directorships of Audit Committee Members:* Song and Windram (2000) argue that multiple directorship may cause limitations of time and commitment for audit committee members from performing effectively. Audit committee members who held directors' posts of too many companies may have limited time fulfilling their responsibilities.

➢ *Independence of audit committee:* It is an essential factor for an audit committee to ensure that management is held accountable to shareholders (Blue Committee 1999). The Code of Corporate Governance states that the majority of audit committee members must be independent and the chairman should be an independent non-executive director. It enhances the effectiveness of monitoring functions. It serves as a reinforcing agent to the independence of internal and external auditors. It is posited that the more independent the audit committee, the higher the degree of oversight and the more likely that members act objectively in evaluating the propensity of the company accounting, internal control and reporting practices. This indicates that an independent audit committee is able to help companies sustain the continuity of business although when they are faced with financial difficulties, they are expected to propose certain action plans to mitigate the problem.

➢ *Interactions between independence of audit committee and external audit:* External auditors, through their interactions with audit committees are able to influence the company's internal control strength as well as reporting quality (Goodwin and Seow 2000). The audit committee is expected to deal with the appointment and dismissal of external auditors. The Code of Corporate Governance (2001) spells out that it is the responsibility of the audit committee to discuss with the external auditors the nature and scope of audit before the audit starts and to review the findings of the audit subsequently. Such linkage is expected to produce an interaction effect between the external auditors and audit committees.

➢ *Audit-Firm Tenure:* For effective and quality financial reporting, the audit-firm tenure is also considered because it is of great influence. Audit-firm tenure is the length of the audit-firm-client relationship as of the fiscal year-end covered by the audited financial statements. Following prior research (e.g., St. Pierre and Anderson 1984; Stice 1991), audit tenure is defined as short when the same auditor has audited the financial statements of a company for two or three years. Audit tenure is defined as long when the same auditor has audited the financial statements of a company for nine or more years. On the basis of definition of short and long term tenure, we define audit tenure as medium when the same auditor has audited the financial statements for four to eight years.

The Audit Process

In planning a combination of audit objectives and the evidence that need to be accumulated to meet these objectives, the auditor will follow an audit process. Elder et al., (2010) define the audit process as a well-defined methodology for organizing an audit to ensure the evidence gathered is sufficient a competent and that all audit objectives are met.

The audit process has four specific phases. In 'planning and designing an audit approach' (phase I), the client's business strategies and processes are studied. The auditor assesses the risk of misstatements in financial statements, and evaluates internal controls and their effectiveness.

In phase II of the audit process, tests of controls and substantive tests of transactions are conducted. In phase III, analytical procedures and tests of details are performed. The auditor assesses whether account balances or other data appear reasonable and performs procedures to test for monetary misstatements in account balances. In phase IV at last, evidence is combined and an overall conclusion concerning the financial statements is formulated.

Audit services have been changing rapidly since the early 1990s. Audit practices have been evolving in response to growing public expectations of accountability and to the complexities in economic and technological advances implemented in business organizations. The main goal of a financial statement audit however, is still to reduce the information risk; the risk that the financial statement information may be inaccurate, incomplete or biased. To address the complexity of the information needs of users, auditors nowadays are expected to provide value-added services, such as reporting on irregularities, identifying business risks and advising management on internal control weakness as well as consideration of other governance issues (Cosserat, 2009).

Methodology

The population of the study comprises of 781 members of staff drawn from fifteen local government areas of rivers-state. The researchers used the Yaro Yamene's formular to select 265 members of staff as the sample size. A five point likert scale questionnaire that covered the different areas of auditing practices and procedures in the local government service system was used to elicit response from the respondents. The statistical tool used for data analysis is the kruskawalis test (H) using the 20.0 version of statistical package for social sciences (SPSS). kruskawalis which is a non-parametric equivalent for one-way ANOVA may be described thus: $T = H = \frac{12}{N(N+1)}\sum_{i=1}^{k}\frac{R_i^2}{n_i} - 3(N+1)$. The decision rule is to reject the null hypothesis if H $\geq \chi^2_{(k-1)}$, where k is the degree of freedom.

Results and Discussions

In this section, the researchers presented the result of the data analysis.

Kruskawalis test output for hypothesis one

Descriptive Statistics

	N	Mean	Std. Deviation	Minimum	Maximum
VAR00001	50	53.0000	15.60089	18.00	89.00
VAR00002	50	3.0000	1.42857	1.00	5.00

Ranks

	VAR00002	N	Mean Rank
VAR00001	1.00	10	13.25
	2.00	10	43.30
	3.00	10	27.00
	4.00	10	32.85
	5.00	10	11.10
	Total	50	

Test Statistics[a,b]

	VAR00001
Chi-Square	34.396
df	4
Asymp. Sig.	.000

a. Kruskal Wallis Test

b. Grouping Variable: VAR00002

Kruskawalis test output for hypothesis two

Descriptive Statistics

	N	Mean	Std. Deviation	Minimum	Maximum
VAR00001	20	53.0000	24.68965	10.00	108.00
VAR00002	20	3.0000	1.45095	1.00	5.00

Ranks

	VAR00002	N	Mean Rank
VAR00001	1.00	4	2.75
	2.00	4	7.63
	3.00	4	9.13
	4.00	4	18.50
	5.00	4	14.50
	Total	20	

Test Statistics[a,b]

	VAR00001
Chi-Square	17.194
df	4
Asymp. Sig.	.002

a. Kruskal Wallis Test

b. Grouping Variable: VAR00002

Discussion: Results obtained from the data as presented in tables above shows that hypothesis one was 0.00 while hypothesis two showed a 0.002 outcome

Conclusions and Recommendation

From the analysis of the data obtained, it can be concluded that auditor's independence has a more significant impact on the performance of public sector auditors in the Nigerian local government service system. The researchers therefore recommends that the process of appointing auditors to the local governments in Nigeria should be depoliticized in order to promote the independence of the auditors and the integrity of local government audit reports

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