



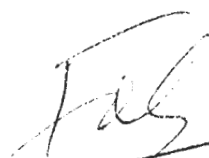
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# **PUBLIC ACCOUNTABILITY IN NIGERIA:**

*Perspectives and Issues*



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## Chapter Twenty-Five

# **A Critical Assessment of the Role of Local Government Audit in Ensuring Propriety and Validity of Expenditure**

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### **Introduction**

One of the cardinal factors that give credit to an organization is the strength of its finance. Associated with this is the confidence the public or its owners have on the accounting system of the organization. An imperative of any accounting system, be it public, private and non-governmental organizations, is an in-built and systematic auditing component.

Auditing is an examination or an expression of an opinion on a financial statement by an independent person, in keeping with relevant statutory obligations and guidelines. This independent person is usually referred to as an Auditor. The general focus and philosophy of his task is to examine the financial information available to him and to determine the propriety of such financial information or statement. Auditing, according to Ademola (1985) can be seen as a systematic process of getting and evaluating information regarding "assertions" about economic actions and events so as to ascertain the degree of reliability of the information and to communicate same to the "interested users". Audit however, may go beyond the description of work done by the accountants in examining financial reports to include work done in reviewing:

- Compliance with the applicable laws and regulations
- Efficiency and economy of operations, and
- Effectiveness in achieving programme results.

Auditing is internal control which ensures propriety and validity of expenditure. Internal control as defined by Millichamp (1984) is the whole system of controls financial and otherwise established by management in order to carry on the business of the enterprise in an orderly and efficient manner, so as to ensure adherence to management policies, safeguard the assets and secure, as far as possible, the completeness and accuracy of the records. Similarly, the purpose of internal control according to Aborishade (1980), include to;

- i. safeguard the assets;
- ii. secure the accuracy and reliability of the accounting records;
- iii. operate the organization in an orderly manner, and
- iv. obtain compliance with laid-down policies.

The Audit unit is like the quality control unit in a manufacturing outfit, which ensures that products meet specifications. The Local Governments are now facing tremendous financial problems to the extent that some of them cannot even pay salaries any more. This situation underscores the need for prudent management and accountability which can only be ensured by proper auditing of, accounts, claims, contracts, purchases, etc. The purpose of this chapter is to look into the critical role of the Audit Unit in the Local Government System, and also address the problems and promises of auditing in the system.

### **Auditing in the Local Government System**

There are two types of auditing system practised in the Local Governments. These are: External Audit, and Internal Audit.

Although this chapter is concerned mainly with the internal audit, it will be in place to talk about the two. In addressing them, we shall rely heavily on the Model Financial Memoranda For Local Governments, (1991). The memoranda stipulates that there shall be.

## External Audit Queries and Sanctions

There shall be established in each state the office of Auditor-General who shall be appointed by the Governor of the State. The Auditor-General shall:

- i have power to carry out, on regular basis, the auditing of Local Government accounts;
- ii have power to sanction and surcharge any officer as in Financial Memoranda 39.3 However, appeals against such decisions shall lie to the Public Accounts Committee;
- iii be the Chairman of the Local Government Audit Alarm Committee;
- iv have access to the State Governor through the Governor's representative on the Audit Alarm Committee;
- v notify the Public Accounts Committee and the Local Government's Council of audit alarms of significant importance and serious pre-payment audit queries for which the Accounting Officer of the Local Government is liable or responsible. In addition, any other sensitive issue which, because of its urgency, cannot wait until the Committee is convened, shall be dealt with by the Auditor-General of Local Government Audit;
- vi inform both the Public Accounts Committee, the Local Government Council and the Governor in writing where a Local Government Accounting Officer does not respond within the stipulated time to a query that affects his office;
- vii where the failure to answer the audit query is by an officer other than the Chairman of a Local Government, the Auditor-General of Local Government Audit shall impose, through the Local Government Service Commission, the necessary sanctions or punishment on the erring officer who shall have the right of appeal to the Public Accounts Committee;
- viii have access to sites for purposes of auditing or monitoring contract performance.

There shall be established a Local Government Audit Alarm Committee in each state comprises the following:

Auditor-General for Local Government;

- (a) Director for Local Government matters representing the State Governor's office.
- (b) Representative of the State Accountant-General's Office.

The work of the Audit Alarm Committee shall be facilitated by the following Local Government Officials:

- (a) Auditor-General for Local Government.
- (b) Director for Local Government matters representing the State Governor's office.
- (c) Representative of the State Accountant-General's Office.

The work of the Audit Alarm Committee shall be facilitated by the following Local Government officials:

- (a) Head of personnel Management;
- (b) Treasurer to the Local Government;
- (c) Internal Auditor to the Local Government.

It shall be their individual and joint responsibility to alert the Local Government Audit Alarm Committee before irregular or illegal payments are made. Failure to do so promptly will make them liable to appropriate share of punishment as provided under Financial Memorandum 39.3. Local Government Officials are hereby encouraged to take a look at the various offences and sanctions contained in the FM Section 39.3.

## **Internal Audit and Checks**

**0.0.1** There shall be established in each Local Government an Internal Audit headed by an Internal Auditor to provide a complete and continuous audit of the accounts and records of revenue, expenditure, plant, allocated and unallocated stores where applicable. Notwithstanding the existence of an Audit Unit in a Local Government, the individual Officer's responsibilities shall subsist and Departmental checks shall continue.

## The Internal Auditor shall

- (1) be directly responsible to the Chief Accounting Officer;
- (2) submit to the Accounting Officer and the Auditor-General for Local Government, a detailed audit programme and, therefore, he shall report monthly to the Accounting Officer as well as the Auditor-General, on the due progress of the audit;
- (3) issue special reports, if necessary, where, in his opinion, the attention of the Auditor-General should be drawn to any irregularity or apparent departure from earlier internal audit reports/communications;
- 4) where a system of stores stock verification does not exist, the Internal Auditor shall assume the control of stock verification staff and direct their programme of inspection;
  1. facilitate the work of the Audit Alarm Committee.

**1.1.3** The Internal Auditor shall be responsible for carrying out an independent appraisal of the accounting, financial and other processes of the Local Government with the following objectives:

- to assist in protecting the assets and interests of the Local Government by carrying out a continuous examination of activities in order to detect fraud, misappropriation, irregular expenditure and losses due to waste, extravagance and maladministration;
- to ensure the continued maintenance of soundly based systems of control within each area of departmental responsibility;
- i to review and, where necessary, make recommendations for the improvement of systems, controls and procedures to ensure that they are both efficient and effective, and that they remain adequate in the light of changing circumstances and are adhered to in practice;
- to monitor the use of resources in the pursuit of the defined objectives of the Local Government.

**1.1.4** The Internal Auditor shall prepare audit programmes which, when not in use, shall be carefully kept under lock and key, to guide

those undertaking internal audit duties in accordance with the provisions in 2.2.2 above.

**0.1.5** The audit programmes shall be so prepared that:

- (a) The entire area of audit activities referred to in 2.2.3 above is effectively and promptly covered;
- (b) Where routine checks are essential they are not carried out at exactly the same time and in the same manner on each occasion.

**0.1.6** The Internal Auditor shall report to the Chairman at least four times each year on the progress of the internal audit work. These reports shall specifically indicate the Internal Auditor's findings with respect to:

- (a) the collection of revenue;
- (b) recurrent and capital expenditure;
- (c) the protection of physical and other assets of the Local Government;
- (d) the efficiency and effectiveness of system, controls and procedures relating to (a), (b), (c) above
- (e) the use of the resources of the Local Government in achieving its objectives;
- (f) any instances of –
- (g) fraud
- (h) misappropriation
- (i) irregular expenditure
- (j) waste or extravagance
- (k) maladministration
- (l) any other matters revealed by internal audit to which it is considered the Chairman's attention should be drawn.

**0.1.7** Wherever circumstances necessitate it, a special report shall also be submitted by the Internal Auditor to the Executive Committee through the Chairman on such other matters, including those set out at (a)-(e) of 2.2.6 above as are appropriate.



**0.1.8** The Council or the Executive Committee as may be appropriate, shall consider the report of the Internal Auditor at the next meeting following the date of the report.

**0.1.9** A copy of the Internal Auditor's reports under 2.2.6 and 2.2.7 above shall be sent to the Auditor-General.

**0.10** Before any payment is made, a prepayment audit of vouchers and supporting documents shall be made by the Internal Auditor on all payment vouchers to verify that the provisions of these Financial Memoranda have been followed in all respects, the payment is one properly authorised and correctly charged to the stated sub-head or account, and that sufficient funds are available to meet it.

**0.11** Notwithstanding the Internal Auditor's responsibilities as set out, the Treasurer shall ensure that the checks of financial books, accounts and records are carried out in accordance with the provisions of Financial Memoranda.

**0.12** Queries raised by the Internal Audit shall, like those of the Auditor-General, be recorded in a Register of Audit Correspondence kept in the Finance Department.

## **Practical Problems of the Audit Units of the Local Governments**

Some of the problems that inhibit the effectiveness of the Audit units are:

- a. The Local Government Audit unit in most of the Local Governments is part of the Executive Chairman's Office, and as such the Auditors work directly under the Chairman. This arrangement places enormous constraints on the freedom and free will of the officers. The chance of their discharging their duties objectively becomes slim.
- b. Presence of low calibre staff who may be unable to challenge higher officers and also assert their rights.

- c. The audit units are, at times, handled by unqualified staff with no professional training. This affects the quality of work and the extent of control.
- d. Lack of the needed freedom to work as an Auditor. Some Local Government Chairmen do not take kindly to situations where their financial activities are copiously sanctioned by the Auditors. Since the Auditors are responsible to the Chairmen, the overbearing attitudes of some of these Chief Executive constrain the necessary freedom of the Auditors.
- e. For fear of victimization it is not common to experience the employment of "audit alarm" in the Local Governments. Where there are audit reports, delays are always experienced in implementing or taking disposal actions.

## Recommendations

The Audit unit of the Local Government has the potential of harnessing the resources and making the Local Government credible. It saves the Local Government Chairman a lot of headache and facilitates accountability. For these promises and more, it is recommended that:

- (a) The Audit Unit of each Local Government should be well established with sufficient paraphernalia of office, adequate personnel and space.
- (b) The Local Government Internal Auditors should be sufficiently of considerably seniority. Indeed, as much as practicable, he or she should be of the same lateral rank with other Heads of Department, including the Treasurer.
- (c) The Local Government Service Commission should make robust effort to ensure that it picks people of high and impeccable integrity before posting them as Local Government Auditors. In addition to this trait, the Auditors should be qualified Accountants.
- (d) Local Government Chairmen should always be given to understand, in regular fora, that the Auditors serve their interest and facilitate their accountability. They should, therefore, give the Auditors maximum co-operation.

- (e) The Local Government Service Commission should give adequate protection to the Auditors, especially those found to be working under a hostile environment. The Commission should meet with Auditors regularly for situation analysis. Any of the Auditors found wanting should also be disciplined.
- (f) All audit reports should receive accelerated attention to enable disposal action to be taken. This will help to sensitize the system and encourage prudent and judicious spending of public money.
- (g) Internal Auditors should, from time to time, be encouraged to attend, trainings and workshops that are relevant to their functions.

## Conclusion

The Internal Audit of any organization ensures that financial information, accounts, procedures, and other finance-related matters, accord with plans and extant guidelines. It is not a witch-hunting outfit. Indeed, if the unit is effective, work is made easier for the Chief Executive and the organisation will enjoy public confidence.

The Local Government Internal Audit Unit should be facilitated to carry out this delicate and critical function by giving it the freedom it deserves and by ensuring that Accountants of high integrity are posted to the unit. If the unit exercises its functions properly, the promise is that the much needed funds will not only be conserved but peoples' attitude towards public money would change drastically in the interest of the Local Government System.

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