PUBLIC SECTOR ENGAGEMENT AND VALUE FOR MONEY AUDIT

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Abstract

By constitution creation, the federal, state, and local governments are saddled with the responsibility of public sector organizations to adopt the concepts of value for money audit and integrate both in government ministries and departments. The internal control mechanism in the public sector, on the other hand, is not strong enough to control wastages, embezzlement, fraud, and corruption. The primary goal of every organization is to maximize wealth to the maximum extent possible. Having a general understanding of the key features of value for money audit refers to the extent to which funds are used, spent efficiently, and the extent to which linked activities are successful in achieving their predetermined goals and objectives. This paper investigates the significance of the value of money audit effect on public sector engagement and assesses its goals and features. Using an exploratory research design, and reviewing related literature consisting of journals, periodicals, and other materials in Auditing and Accounting, the results show that failing to implement the value for money audit process has an impact on the smooth operation and growth of both private and public sector organizations. As a result, the paper advocates for auditing for proper value for money in public sector engagement and for Internal Audit to be independent of value for auditing functions.

Keywords: Value for money audit, public sector engagement, public sector organization.

Introduction

According to Okwoli (2004), a value for money audit is "a systematic evaluation of the methodologies used in the execution of programs, projects, and activities to confirm whether the stated objectives of the programs, projects, and activities were achieved and at what cost." According to him, this auditing approach has grown and has been discovered to be the best method to confirm whether resource managers are utilizing correct practices in the use and application of resources. A value for money audit, according to Oshisami (1992), examines if a corporation is effectively acquiring, managing, and utilizing its resources (Staff, building, spaces, and Materials) cost-effectively and efficiently, as well as the causes of any inefficiencies or unethical practices. He went on to say that it entails determining whether the company considers the best acquisition, methods, and practices, as well as the safekeeping of its assets, money, and other valuables, and public sector engagement when carrying out its responsibilities.

The public sector, where measuring the outcomes of public-sector organizations are more subjective than those of private-sector organizations, can benefit from a value for money audit. In the private sector, an enterprise's success is measured in terms of its profit. Its continued existence is entirely dependent on the company's ability to make a profit, without which it will shut down. Businesses in the private sector strive to make a profit to stay in business. In the public sector, this type of desire is not very common. Public sector enterprises are created to address a variety of issues, some of which are social and others which are economic. Profit, on the other hand, is rarely the primary motivation for forming such organizations. Even though many of these businesses are not strictly profit-oriented, they are not expected to place an undue burden on the government. Civil servants who work as managers are typically given resources in the form of Men, Materials, and Money to achieve stated objectives and the effectiveness of these resources is dependent on how they are used.

Auditors investigate whether an organization has made necessary preparations to achieve economy, efficiency, and effectiveness in value for money audits. Auditing has existed for as long as people have had to account for their actions.

In St. Matthew's Gospel (Chapter 25), the rich man goes on a trip and leaves his possessions in the care of a servant while he is gone. When he returned, he asked each of these servants to account for the goods entrusted to them and to look after them while he was away. Great landowners used to appoint stewards to manage their land for them instead of managing it themselves. These landowners' accounts were kept by having them called out by those in authority (Landowners) for hearings, also known as stewardship accounting.

According to Bechberger (2007), in recent decades, public sector organizations have been under pressure from the public to incorporate value for money principles into their management practices to combat global corruption and strengthen transparency and accountability in public sector organizations around the world.

According to the National Audit Office (2007), value for money means providing a service or a product in a cost-effective, efficient, and effective manner. As a result, a value for money audit is the type of audit that is used to evaluate a company's value for money system. It is an independent examination of the value for money criteria (Economy, Efficiency, and Effectiveness) to ensure that the organization's available resources are used entirely, necessarily, reasonably, and exclusively to maximize progress toward the chosen goal.

Value for money is also known as performance auditing, according to Intosai (an international organization of Supreme Audit institutions). At the end of the 1960s, value for money audits was implemented in the United States, Canada, the United Kingdom, Sweden, and a few other countries. In many ways, value for money auditing or performance auditing differs from financial auditing. Regularity or compliance auditing are terms used to describe financial auditing.

Statement of the Problem

A country's economy is made up of both public and private businesses. Subjectivity based on politics or customs may emerge in decision-making, leading to lack of efficiency and lack of effectiveness. The public firms are not profit-oriented; they are established for the welfare of the people (Eze, 2015). Waste in the public sector includes insufficient staff, bad purchasing and material management, as well as inefficient asset and treasury management, (Okekeocha, 2013; ICAN,2006). Mismanagement of public funds stifled economic growth while also encouraging crime and unrest. There are a few limitations to value for money audits that have to do with how government organizations operate. As a result, audits in public organizations place insufficient emphasis on accounting and stewardship. Similarly, there are several inconsistencies in government goals. Comparing input resources to expected and actual outcomes, this aids in identifying any performance gaps.

a) To what extent is political and economic instability responsible for inconsistency in public sector goals?
b) How well does the public sector deal with diversity in accounting records or a lack of uniformity in accounting records systems?
c) To what extent did cash basis accounting replace accrual accounting in the public sector?
d) To what extent does the public sector place insufficient emphasis on accounting and stewardship?

As a result, the external auditors' responsibilities in the public sector should include management auditing, also known as value for money auditing, in addition to investigating the books of accounts' true and fair value.

The Objective of the study

The paper delves into the components and key features of the Value for Money audit, as well as its impact on public sector engagement. The extent to which funds are expended economically and efficiently, as well as the effectiveness of related programs in meeting their objectives, is the subject of a value for money audit. The term "value for money" as a desirable characteristic of public business conduct has only recently gained popularity. Value for money audits help to ensure that government services are more responsive to public needs and are more accountable as well as reduce waste. An exploratory research design was used to achieve the study's goal, with previous literature, journals, periodical articles, and other related material in the Auditing, Accounting, and public sectors being reviewed.

Literature Review

History of the value for Money Audit

Early articles, according to Flesher and Zarzeski (2002), cited 1667 Act that charged special commissioners with the "care, fidelity, and good husbandry in the management of the Royal Navy. In recent decades, the concept of value for money has grown in popularity. The emphasis on the value of money in society, according to Butt and Palmer (1985), is due to changes in the economic and social climate. The value for money audit began in 1827 at the Baltimore and Ohio Railroad in the United States of America.

Leaders of the railway firm organized a committee to keep an eye on assets and ensure good cash utilisation. The committee examined treasury reports on a regular basis, identifying and correcting financial flaws in the railway system. The railway company pioneered the value for money audit, and many other railroad companies followed in their footsteps (Flesher, Samson, and Previts , 2003). Value for money auditing has not been formally incorporated into public sector auditing over the years. The role of the government auditor was to examine financial statements from the public sector and determine their true and fair value. Governments in both developing and developed countries have begun to include value for money in the functions of their Auditor General's office. (Ugwu, 2013). A value for money audit is an independent assessment of management's performance in terms of ensuring economy, efficiency, and effectiveness in the use of resources available to it.

The Auditor-General of the Federation (Nigeria) introduced value for money auditing in the early 1980s as a way of ensuring efficiency in the federal government's expenditures, which was later adopted, (Ugwu,2013). The value for money audit has become more significant than it was in the twentieth century as a result of the recent global economic slump, which has motivated the need to save money and boost productivity. According to Butt (2001), auditors are expected to perform these functions to ensure that funds are used efficiently and effectively.

Concepts of Value for Money Audit

The initial concept of auditing was based on the belief that if the employers, suppliers, or dealers made mistakes or committed frauds, such faults or frauds would be detected, hence all transactions needed to be validated. In today's commercial world, it is necessary to demonstrate a similar notion in a different version. A value for money audit (VFM) is an objective, professional, and systematic review of management's processes and procedures to ensure that resources like financial, human, and physical resources are managed with the economy, efficiency, and effectiveness in mind.

Economy: The acquisition of resources of poor quality and quantity at the lowest possible price.

Efficiency refers to the maximum output or minimum inputs for a given quantity and quality of goods or services provided.

Effectiveness: This refers to the extent to which any activity achieves the above-mentioned objectives. Ensuring effectiveness is the most difficult task because effectiveness is often difficult to measure when discussing the consequences of policy and the mechanisms by which policy decisions are made.

A VFM audit, according to the VFM Auditing Manual of Canada (2000), is a methodical, targeted, well-organized, and objective review of government activity. It gives lawmakers a report on how well activities are going, as well as information, observations, and recommendations aimed at promoting accountable, honest, and productive government, as well as best practices. Its scope includes an examination of government activities' vis-à-vis economy, efficiency, cost of efficiency, cost of effectiveness, and environmental effects; procedures for measuring effectiveness, accountability, and relationships; and procedures for measuring effectiveness, accountability, and relationship.

Compliance with authorities and the protection of public assets: A government entity or activity (business line), a sectoral activity, or a government-wide functional area can all be audited. The concept of value for money in public sector organizations is based on the principle that public funds should be put to the best possible use, and that those who conduct public business should be accountable for the economic, efficient, and effective use of the resources entrusted to them. Managers in the public sector must demonstrate that resources such as people, goods, and money are used as efficiently as possible, with due consideration for VFM in obtaining the intended goals. The results of an objective assessment and the recommendations that follow can be advantageous to the organization being assessed..

The scope of a VFM audit is much broader than that of a financial statement audit. It necessitates a wide range of techniques. A multi-disciplinary audit team may be required to examine both financial and management controls. A VFM audit can be conducted by internal auditors reporting to management or external auditors delivering an independent report to those to whom management is accountable. Legislators, elected officials, senior administrators, and members of the general public are all possible candidates.

Conceptual framework

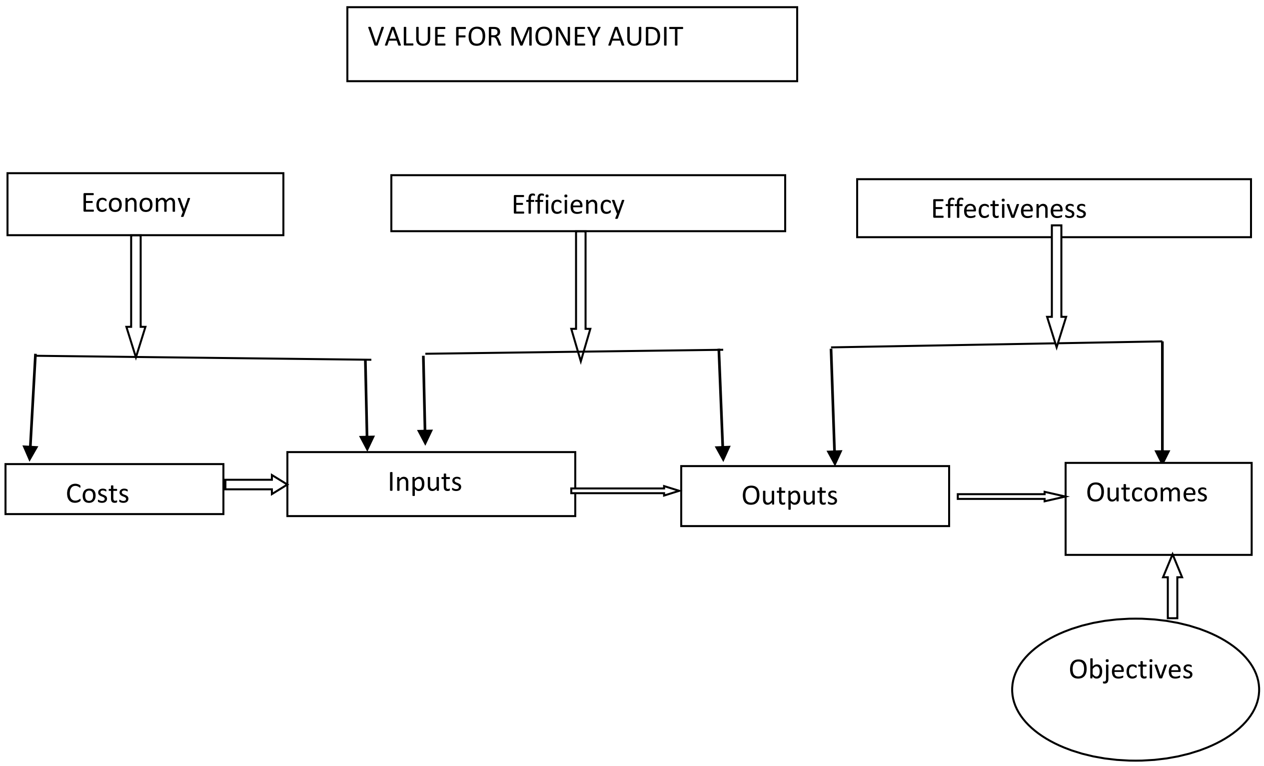


Fig.1. Defining and understanding VFM

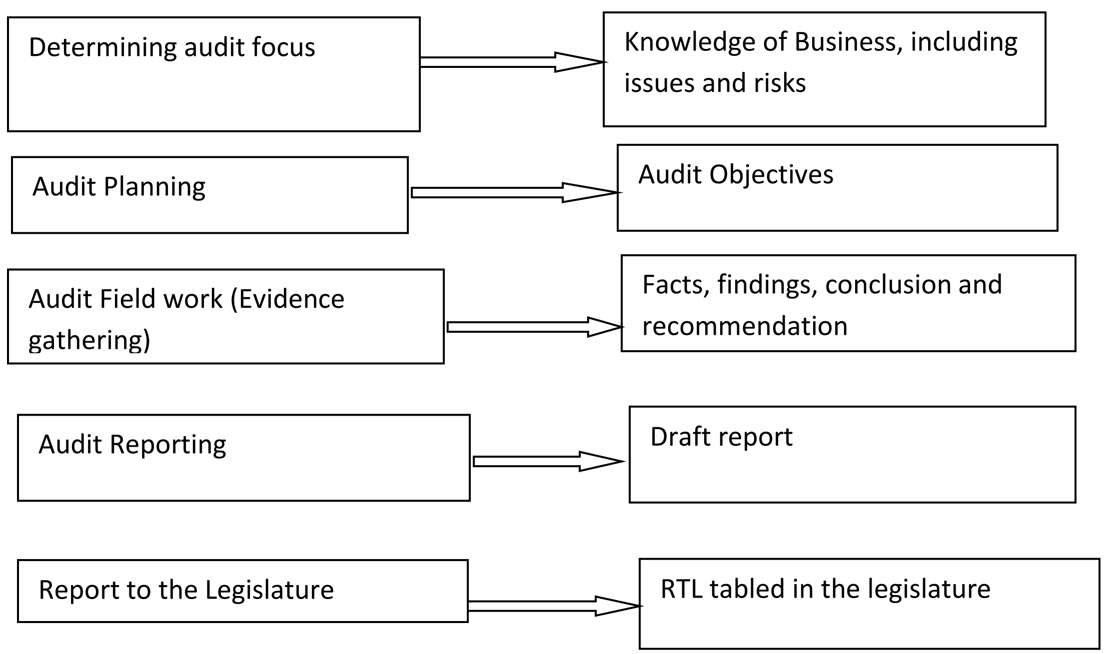
There are two reasons to ensure a value for money audit: value for money audit is an essential tool of good management and public demand. A value for money audit examines the ability of government entities to perform their responsibilities and control at the lowest level, as well as the efficiency with which their activities are conducted. This focuses on accountability and tries to measure organizational performance using three criteria: economy, efficiency, and effectiveness.

The purpose of a value for money audit is twofold. It provides information and assurance to entities and stakeholders about the quality of public-sector resource management, as well as assisting public-sector managers in identifying and promoting better management practices. As a result, value for money auditing may lead to improved accountability, increased economy and efficiency in resource acquisition, increased effectiveness in meeting public sector programmed objectives, higher quality in public service delivery and better management planning and control.

Value for Money Auditing Process

The value for money auditing process is practically a very dynamic one that necessitates an awareness of the issues that are the audit's focal point, the development of an acceptable audit strategy for conducting the audit, the audit's actual execution, and finally reporting.

Value for Money audit process steps: **Process output**



Source: Conceptual model of the researchers

Auditing firms have also aided in the definition and comprehension of the value for money audit approach from the diagrammatical presentation of one of the approaches developed by KPMG based on the five core values of the public service, as recommended for statutory boards by the Ministry of Finance in 2006 as well as the three enablers; people, process and tools to implement and sustain value for money in the organization

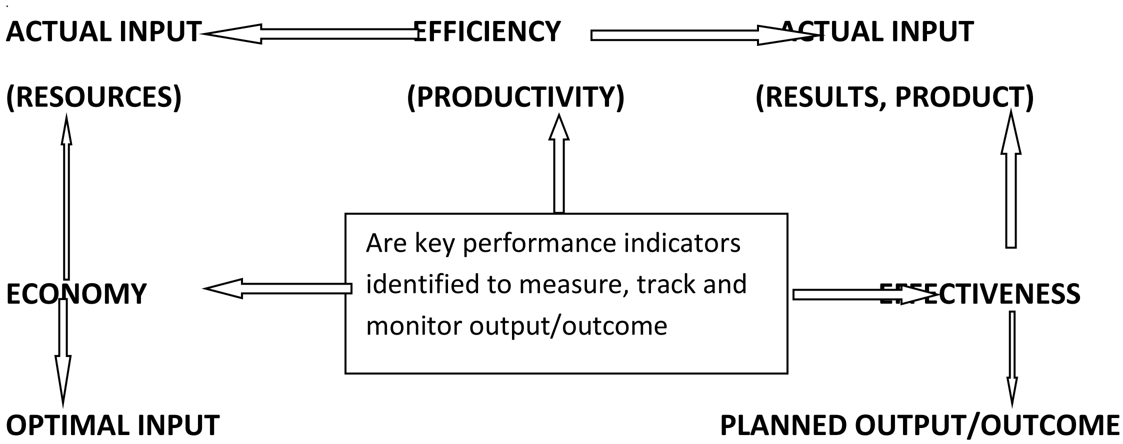


Fig.3.KPMG`s approach to Value for money auditing

Source: KPMG Value for money audit procedure

The Public Sector

Any country's economy can be conveniently classified into two categories: The public and private sectors, to be precise. Financial experts agree that the public sector in countries all over the world controls a sizable asset base. This is likely to be the case in the majority of countries around the world, particularly in socialist-communist economies where the national government plays a dominant role. In today's Nigeria, there are few endeavors in which the government does not play an important role, both directly and indirectly.

Public Sector Definition

The government or its agencies can be defined as the public sector, which is the sector of the economy that they established and operate. It is different from the private sector in that it is organized on behalf of all citizens.

The Effectiveness

If the auditor wants to focus on effectiveness, he or she will first identify the program's goals and then operationalize those goals to measure effectiveness. The auditor will also need to determine the program's target audience and look for answers to questions like:

1. Were the objectives met at a reasonable cost and within the time frame set?
2. Was the target group properly defined?
3. Are people happy with the education or equipment they've received?
4. How well does the equipment meet the needs of the target audience?
5. Is the equipment in use by the general public?

Usefulness of the Economy, Efficiency, and Effectiveness for the Audit

If the auditor wants to concentrate on effectiveness, he or she will first identify the program's objectives and then operationalize those objectives to assess effectiveness. The auditor will also need to figure out who the program's target audience is and look for answers to questions like:

1. Were the objectives met at a reasonable cost and on time?
2. Was the target audience well-defined?
3. Are people satisfied with the education or tools they've received?
4. How well does the equipment cater to the target audience's requirements?
5. Is the equipment available for public use?

A model is a representation of reality that is simplified. The model is used to describe, understand, organize, measure, and explain various situations and purposes, as well as to describe, understand, and organize thoughts and observations. The input-output model has several advantages: it is simple to use for the auditor, and it demonstrates the concepts of economy, effectiveness, and efficiency pedagogically. The input-output model is based on the assumption that it is possible to organize activities into chains and determine how they interact. The rationalistic theories are also used in the input-output model to analyse organizations set goals, have clear ideas about what they want to achieve, and so on.

Benefits of Value for Money Audit

Clarification of objectives: The principles of Value for money will provide managers with a proper evaluation of an activity's objectives, rather than acting on assumptions about what is required. This will increase their chances of achieving their goals without wasting time and effort.

Planning is a crucial component of well-run processes: The risk of an activity failing to deliver the desired outcome at the right time and the right price is reduced with good planning.

Process Openness and Transparency: By ensuring proper documentation planning and assessment, Organizations can publicly demonstrate their commitment to achieving both propriety and value for money by adopting open processes including all interested stakeholders.

Compliance with statutes and regulations: All organizations must comply with the legal and regulatory framework to ensure good practice, reduce the risk of identity failure, and comply with such requirements.

Risk assessment: Every activity entails some level of risk. No organization can achieve its full potential without taking risks. Financial risk, control risk, health, and safety risk, and an array of other risks are all possible.

Approaches for Carrying Out Value for Money Audit

The following are some of the essential ingredients for a successful value for money audit:

- Discovery of Control Assets: The auditor should evaluate and determine control areas such as the organization's weaknesses and strengths.
- Reporting Freedom: To ensure credibility that an organization's resources have been used economically, effectively, and efficiently, a value for money audit report must be reported to top-level management and should not be taken lightly.
- Foresight: As an organization's watchdog, the auditor must be able to anticipate potential opportunities and impending threats that may arise shortly.

Problems of Value for Money Audit In Nigeria

In Nigeria, the nature of the public sector's corporate objectives is a major factor influencing value for money audits. Corporate objectives in the public sector are widely accepted, to maximize public welfare. Welfare is highly subjective and is influenced by socio-cultural, political, economic, and religious factors.

➢ Accounting Basis: The cash basis of accounting in the public sector does not provide a complete picture of the sector's activities and state of affairs. This creates opportunities for fraud and makes achieving value for money audit objectives difficult in some areas of the public sector. This has the potential to misrepresent the entity's true financial state (Eze, 2015).

➢ Inadequate internal control mechanisms: A value for money audit must be accompanied by an adequate internal control system at all times. Some public sector organizations are exempted from this rule.

➢ Stewardship's impact: The emphasis in the public sector is on custodianship and stewardship reporting. However, the current economic situation necessitates increased demand on the sector, while the public officer remains reluctantly focused on old ways of doing things.

➢ Professional skill requirement: In a Value for Money audit with cognate experiences, professionalism is required. However, the Nigerian public sector has yet to be able to hire and retain these types of employees who find the private sector more lucrative.

- Authority and Responsibilities: A successful value for money audit necessitated an adequate delegation of authority. Many public sector organizations are lacking in this area, with violations of the chain of command and staff collusion. According to Oshisami (2004), there is a severe shortage of professional skills and competence among local government auditors who are typically assigned to this role in the public sector.

Theoretical Review

This study is underpinned by several theories namely:

1. Stakeholder Theory
2. Theory of Lending Credibility
3. Policeman Theory

Stakeholder Theory:

Stakeholder theory is a 1984 theory proposed by Freeman. A stakeholder, according to him, is anyone who has or can be influenced by the organization's business to achieve its goals (Freeman, 1984). Traditional stakeholder management approaches tend to think of distributional contests in terms of gross role-based categories (Wolfe and Putler2002), such as the tension between investor and employee outcomes or management and employee outcomes (Freeman1984; Pfeffer1994).

Within the group, this role-based stakeholder group is assumed to have similar priorities and interests. Ironically, Freeman (1984), the doyen of stakeholder theory, has argued that rather than assuming homogeneity of interest among ostensibly homogeneous groups, stakeholder theory should find specific points of divergence among such groupings. However, few studies have gone beyond generic role-based definitions; the majority assumes that all role-based stakeholder groups have the same interests and priorities (Wolfe and Putler2002). The concept of stakeholder management promises insight into how managers should behave, while executives may be able to balance their responsibilities to stakeholders and other interested parties who have a legitimate stake in the company (Freeman 1984). Reconciling competing claims has proven difficult.

However, empirical evidence is mixed in support of this viewpoint (Berman et al.1999; Donaldson and Preston 1995; Hillman and Keim 2001; McGuire et al.1988). Stakeholder theory critics also point out those managers in such systems "have no way to make principled or purposeful decisions" (Jensen 2002). Furthermore, stakeholder theorists, particularly those who advocate for normative and instrumental approaches, are frequently drawn into acrimonious debates over the primacy of shareholder wealth maximization versus a more expansive view of business ethics (Freeman et al.2004; Sundaram and Inkpen2004).

Theory of Lending Credibility

The theory represents a shift in emphasis from the auditor's perceived role as a Police man to that of a verifier of the financial statements' truth and fairness. According to the theory, the primary function of auditors is to add credibility to financial statements or reports prepared by an entity's management (Shaw 1980). As a result, the auditor's main service selling point, according to this theory, is credibility (Okpala 2015). As a result, users of financial statements can make more informed decisions about the strength of financial statements that have been reviewed or audited by knowledgeable, independent third parties acting on behalf of auditors. This theoretical work is based on the assumption that there is a conflict of interest, resulting in an expectation gap between management's roles and what users of financial data want.

Policeman Theory:

The auditor is responsible for searching for, discovering, and preventing any fraudulent activity, according to the theory proposed by Professor Theodore Limperg in 1920. Auditors, on the other hand, are responsible for providing reasonable assurance as well as an independent, true, and fair view of financial statements. Following recent reporting scandals such as Enron, auditors have been under increased pressure to detect fraud. It is safe to assume that in modern societies, state users want auditors to be in charge of detecting fraud because they rely on audit reports to analyze and make decisions. Auditors, on the other hand, are in charge of uncovering all fraud, but they should do so with caution to gain public trust, they must improve their detection rate. The primary responsibility for fraud prevention and detection rests with an organization's management and governance; it is more important that an emphasis be placed on fraud prevention. Auditors, on the other hand, owe a duty of care to audit report recipients and should factor in the risk of material misstatement due to fraud when calculating audit risk.

Summary

The analysis of value for money audits in the public sector of an organization is the subject of this paper. Value for money audits is beneficial to public sector organizations because they enable them to demonstrate accountability and efficiency, effectiveness, and economy in the utilization of public funds and other services. This aids in the analysis of budgeting and budget control, human resource management, and development of a management information system, which is required to run and control an organization. The value for money audit report provides new ideas to lawmakers, particularly the National Assembly's Public Account Committee and the legislature in carrying out their oversight functions, especially in formulating fiscal and monetary policies.

Conclusion and Recommendation

The purpose of this paper is to argue that a value for money audit should be made a legal requirement and that the public sector should have an audit policy memorandum that contains standing issues that could aid in achieving value for money audit goals. This can be accomplished through a value for money audit, which looks into whether an organization's use of public funds is efficient, effective, and economical. According to Chandler (1985), a value for money audit focuses on achieving economy, efficiency, and effectiveness depending on the existence of a sound system for planning, evaluating, authorizing, and controlling its resource use. It is the responsibility of management to ensure that adequate arrangements are in place and that they function properly. The auditor is responsible for independently verifying that these arrangements are properly implemented and effective.

The recommendations that follow will help to improve the practice of value for money auditing in the Nigerian public sector.

A formal accounting system, as well as the accompanying controls, should be in place to assure the completeness, correctness, and validity of the data obtained through the system.

To transition from the old practice of more custodianship to the modern value for money, the public sector staff must be relocated. This will entail an education awareness campaign that will be done in both public offices and the media.

Parts 1 and 2 of the International Public Sector Accounting Standards are highly recommended.

To achieve value for money, a well-articulated organizational structure with a consistent chain of command and well-delegated authorities, as well as space for an acceptable internal control system, should be present.

To make value for money more easily absorbed, individuals who adhere to ethical standards must be rewarded with monetary value to punish those who violate ethics. However, the rules and regulations must be clearly established and presented to the operatives before they can be used for evaluations.

The goals for which the concept is being demanded must be quantified in terms of money or other units as appropriate. The goals should be communicated to the appropriate individuals, who should also be informed of the relevant performance indicators. This should be done by professionals with the necessary experience.

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