

AUDITORS' ASSURANCE SERVICES: TOOLS FOR INFORMATION ON PROJECT EXECUTION AND RISK MANAGEMENT IN PUBLIC SECTOR OF NIGERIAN ECONOMY

¹Sani Alfred Ilemona (PhD)

Accounting and Business Administration Department,
Federal University, Kashere. Gombe State. Nigeria.

²Nweze Augustine Uchechukwu (Prof)

Accounting Department,
Enugu State University of Science and Technology. Enugu State. Nigeria.

ABSTRACT: *The study examined the role of audit firms in providing valuable information for project execution and risk management in the public sector of the Nigerian economy. The aim was to investigate the impact of auditing and assurance services of auditors (predicator variables) on project delivery (dependent variables). Data for the study were obtained through questionnaire administered on 350 top government officials at state and local government councils in Gombe, Nasarawa and Kogi states. The questionnaire was designed to reflect five (5) Likert scale. Response from 227 respondents representing approximately 65 percent responses rate were empirically analysed using multiple regression with diagnostic test of the predicator variables carried out using multicollinearity test. The result of the analysis suggests that the independent variables of the study have significant impact on the dependent variable. The study recommends engagement of independent audit firms by government officials in their project initiation and implementation programmes for the impactful nature of the services of auditors in public project execution and expenditure management there on.*

KEYWORDS: auditing and assurance, valuable information, project execution, public sector, risk management.

INTRODUCTION

The Nigerian government system is based upon the national constitution and salutatory laws that classified the level of government into three. The levels are the federal, state and local government. While the federal government is saddled with the responsibility of providing security and engages in a number of projects/ activities considered desirable for the promotion of the general welfare of the nation, the function of the state government is to provide amenities to cater for the needs of the people within her boundary. These functions include undertaking projects such as building of schools, hospitals etcetera. The local government is responsible for building and maintaining of streets, roads, motor parks and such functions allocated to the level as contained in the constitution. These projects undertaken by government at all levels upon collective want represent expenditure that place much demand on limited resources (Mamman & Ekeji 2014).

It should be emphasized that the nature of the projects to be provided and services to be rendered by government should be such that would do citizens the most good in all spheres of life (Fatai & Kayode 2014) thus, Dawudu (2014) observed that the outcome and performance of any public project depends on how impactful such project(s) is/are on the lives of the people the project(s) is/are intended to serve.

Generally, government projects involve capital/ funds outflow (expenditure) for expected benefits and as such, the outcome can be measured in qualitative, quantitative and monetary terms to determine the success of the projects. However, in most developing nations of Africa, where the challenging issue faced by government in project execution, is the problem in matching inputs (money spent) on projects and benefits derived.

In Nigerian for instance, evaluation of public projects is a compounding problem where cases of abandoned projects are abound due to the elephant nature of such projects. These are projects conceived, implemented and later abandoned without initial consideration of the economic viability and accruing benefits. Collaborating Dawudu (2014), Ezenwa and Oti (2015) stated that the public projects performance evaluation of public projects is a key problem in Nigeria where allocation of scarce resources and setting up of programmes are based on political patronage without clear rules or in outright disregard of the rules and necessary information that suppose to guide allocation and execution of programmes and projects. In this way, it becomes practically impossible for evaluating the efficiency, economy and effectiveness of operations of government projects and results thereon. Information is needed for determining and predicting economic conditions, monitoring performance and reports on government projects under terms of legal, contractual and fiduciary requirements for accountability (Morgans & Cyril, 2016). The needed information on efficiency, economy and efficiency in execution of public project and programmes can be provided professionally by audit firms through their audit and assurance services.

Audit and assurance services provided to government have been widened not only for ascertainment of how well the scarce resources have been utilized for the common good of the people, but also to satisfy the ever increasing demand of government for valuable information upon which to base decisions. Jane and Brown (2017) stated that assurance services offered by audit firms (auditors) do also assists in provision of information on public projects and expenditure management in five (5) key areas namely (i) procurement and tendering (ii) management of contracts/projects (iii) managing public assets (iv) managing risks and performance of public projects.

These five key services have been helpful for ascertaining the economic viability and management of public projects in advanced economies. Thus, Kalyn and Nerman (2016) observed that in US and UK, professional services of independent audit firms have been dependable means for government decisions on sensitive spending and discretionary expenditure. Comparing the rate at which government of developed nations like US and UK seek the services of audit firms for project initiation and extension with Nigerian government, Ogwuche and Adahi (2017) observed that though some government department and agencies patronize the services of audit firms yet, not many of government officials responsible for projects delivery at the local and state level engage

independent auditors for viability analysis and information provision on management of public projects and programmes they execute. Further, Ogwuche & Adahi (2017) discovered that many of these government officials expressed divergent views about the impact of audit services in project execution and delivery. While some are of the opinion that services and information provided by auditors(audit firms) can assist in viability assessment of public projects for execution, others expressed contrary view.

Objectives of the Study

The general objective of the study is to investigate the level of engagement of the services of auditors in public project evaluation and execution by government in Nigeria. The specific objectives however, are as follows:

1. To ascertain whether information provided by auditors on economic viability of projects has significant impact on public project execution and expenditure management.
2. To investigate whether auditor's services in terms of information on procedure for tendering and selection of contractors for project execution has significant impact on the selection and quality delivery of projects.
3. To ascertain whether information provided by auditors to identify any deviation from contractual agreement as part of the professional service can impact significantly on public project delivery.
4. To investigate whether information on risk management and project performance provided by audit firms can impact significantly on public project execution and delivery.

Hypotheses of the study

The following null hypotheses are formed to guide the study:

- H₁ information on economic viability of projects has no significant impact on projects extension and expenditure management in the public sector of the Nigerian economy.
- H₂ Information on tendering and selection process of of contractors has no significant impact on execution and expenditure management in the public sector of Nigerian economy.
- H₃ information on contract execution to identify any deviation from contractual agreement has no significant impact on project execution and expenditure management in the public sector of the Nigerian economy.
- H₄ information on risk management and project performance has no significant impact on project execution and expenditure management in the public sector.

LITERATURE REVIEW

Conceptual Clarification

Assurance services are those professional services of audit firms that provide an independent Objective assessment of financial statements or compliance efforts (Hayes & Glen, 2016). Part of the professional services of auditors in the public sector is provision of quality information on economic viability of public projects and management of associated risks. The essence of engaging the assurance services of audit firms in public project execution is for identification of projects and analysis of associated risks. This is necessary for quality delivery as part of reputation of public entity meeting the intended purpose.

All public projects for execution need to comply with necessary legal and applicable policies of government. Thus, the objective of assurance services of independent audit firms in relation to public project is to assure management, board, regulators and government officials that projects and programmes are executed in accordance with applicable rules (Lee & Anderson, 2014). Compliance with applicable rules of public projects will enable spending on projects stand up to the scrutiny of the parliament and public for transparency ascertainment and decisions there on. Thus, Fletz and Moore (2015) viewed assurance services in relation to public projects as an independent professional service of audit firms aimed at improving the quality or context of information on projects in a manner that would allow informed decision whether or not the projects are meeting the desired goals. Provision of information is a tool that allow for public verification of various assertions in the reports prepared by responsible officials in the execution of public projects and programmes (Fletz & Moore, 2015). Confirmation of the transparency in the manner in which public projects are executed and delivered will trigger public confidence. Thus, Carl (2016) stated that assurance services are means by which audit firms help clients (officials of government responsible for projects execution) navigate the complexities, risks and opportunities in public project investment decisions to increase transparency, relevance and value of information disclosed to the public for confidence winning.

For confidence winning, it is important that execution of projects by contractors comply substantially with specified contractual agreement. The contractual agreement relating to execution of public projects are usually captured in the ancillary reports of auditors whereby any material non-compliance with specified contractual agreement are identified. Thus assurance service can also be viewed as an examination of schedule of performance indicators specified in contracts and reports on public projects (Nolly & Sheff, 2013). It is in relation to this compliance that Edward (2017) stated that assurance services of audit firms in the public sector is an examination that involves analysis of project output to identify areas in which government projects and investment outlay (expenditure) are not achieving the intended goal(s) and reports on sustainability mechanisms for projects that are yielding positive results. Candy and Hay (2018) viewed that the whole essence of assurance services in the public sector is to ensure that information on public projects by experts will enable government and citizens ascertain whether projects conceived, implemented or delivered is meeting or has met the intended goal(s) akin to Value For Money Audit (VFMA).

The four (4) key information provided by audit firms into which all other information necessary for PE & RM in the public sector can be subsumed according to Jane & Brown(2017) and Candy & Hay(2018) are information relating to economic viability of projects, tendering process, contract execution progress and that of risk management process.

Empirical Review

Flavianus (2016) carried out a study on theoretical aspect underpinning public sector audit and financial accountability in Tanzania local government authorities. The aim was to examine the contribution of auditing to accountability in the use of public funds. It was found that auditing

plays a vital role in enhancing transparency and accountability in the management/use of public funds.

Riga, Kulli, Cherlin and James (2015) did investigation on the impact of performance audit on public sector organizations: The case of Estonia. The aim was to examine the perception of officers in public organizations regarding the usefulness of performance audit in public establishments. The results of a survey of 118 Estonian officials indicated that performance audit is useful in promoting transparency in management of public functions in execution of projects in public sector.

Mihriban and Serkan (2017) conducted a study on the importance of auditing and assurance services. It was an explanatory review that made use of relevant literature on the subject matter. It was found that auditing and assurance services increases reliability of information need of users for decision making.

David and Carolyn (2017) did a study on the value of public sector audit: Literature and history. The study investigated ways in which auditing and assurance services have been of value. Evidence from the study indicated that auditing and assurance services of auditors have significantly impacted on transparency in the public sector.

Ogundara, Okere, Imeokokaia, Njogo and Adeoye (2017) investigated the impact of public sector auditing in promoting accountability and transparency in Nigeria. Evidence from exploratory review suggested that auditing is a veritable tool that enhances accountability and transparency in management of public funds. Edu And Smith (2018) carried out a study on the role of auditing and assurance services in management of public projects. The aim was to ascertain the impact of auditing and assurance services on quality delivery of public projects. Responses from 87 managers of public projects in three (3) states of south western states namely: Oyo, Osun and Ekiti were empirically analyzed using multiple regression. Results indicated that auditing and assurance services of independent audit firms impact significantly on efficiency and quality of projects.

Theoretical Framework

The study is anchored on the theory of inspired confidence also known as rational expectation theory propounded by Limperg in 1932. The theory stresses the social responsibility of auditors in the society. The auditors' social responsibility is as a result of his/ her function as an independent examiner of accounting records and expert opinion there on based on findings (Limperg, 1932 cited in Edu & Smith, 2018). The supply of audit function, according to the theory is a service that boosts/ inspires users' confidence and quality decisions there on. The theory assumes that the usefulness of audit function will cease if society lose confidence in the services rendered by auditors. That confidence in the service rendered by auditors is what the society expects. Continuous expectation is critical as it guarantees continuous relevance of audit function/ service in the society.

The theory is appropriate and relevant to the study for the fact that information provided by audit firms regarding project execution and risk management in the public sector assists in project

delivery. Projects muted, implemented and delivered to expectation of the citizens will trigger confidence of both the public (users of the projects) and public officials responsible for project execution (users of information provided by audit firms- auditors, on PE & RM).

METHODOLOGY

Data for the study were obtained primarily through questionnaire administered on 35 top government officials at the state and local government councils in Gombe, Nasarawa and Kogi states to express their opinion on the extent to which they engage the services of auditing firms and the impact of such services on the quality of the projects they (government officials) deliver. The questionnaire were designed to reflect five (5) point Likert scale.

Data Analysis

Responses obtained from two hundred and twenty seven (227) representing approximately 65% responses rate were analyzed empirically using multiple regression. Further diagnostic test of the predictor variables were carried out using multi co linearity test.

Model Specification

The economic form of the multiple regression equation to investigate the impact of the independent variables ($X_1 \dots X_4$) on the independent variable (y) is as follows:

$$1. PE\&RM = a + \beta_1 InfEvt + \beta_2 InfTp + \beta_3 InfCEP + \beta_4 InfRM + \varepsilon$$

Where:

PE&RM = Project Execution and Risk Management

a = intercept

InfEVP = Information on Economic Viability Of Projects

InfTP = Information on Tendering Process

InfCEP = Information on Contract Execution progress.

InfRM = Information on Risk Management

ε = Error Term

RESULTS

Table 1: Analysis of Variance (ANOVA)

Source of Variation	DF	SS	MS	F –Test value	Pr (>F)
InfEVP	1	7.647	7.647	17.364	0.0432
InfCEP	1	73.422	73.422	157.043	0.0365
InfCEP	1	136.356	136.356	221.159	0.0448
InfRM	1	19.952	19.952	36.956	0.0821
Residual	1	0.475	0.475		

Source: Computation using R-statistical package

Table 2: Summary of Multiple Regression Model

	Estimate	Standard error	T – value	z- test pr (>/t)
Intercept	-175.132	10.231	13.389	0.0301
InfEVP	13.225	2.162	2.36	0.0481
InfTP	46.72	3.761	2.65	0.052
InfCEP	115.095	5.121	2.43	0.0345
InfRM	-45.482	3.533	2.34	0.063
$R^2 = 0.8934$	Adjusted $R^2 = 0.836$			

Source: Computation using R-Statistical package

Table 3: Multicollinearity test among predictor variables

	InfEVP	InfTP	InfCEP	InfRM
InfEVP	1.00	0.621	0.442	0.675
InfTP	0.621	1.00	0.923	0.842
InfCEP	0.442	0.923	1.00	0.821
InfRM	0.675	0.842	0.821	1.00

Source: Computation using R-Statistical package.

FINDINGS AND DISCUSSION

The empirical result of ANOVA shows that InfEVP, InfTP and InfCEP have significant impact on PE&RM at 5% level of significance while that of InfRM is at 10% level. Therefore all the null hypotheses of the study are rejected. This therefore means that the assurance service of audit firms in provision of information in the area of EVP, TP, CEP and RM have significant impact on PE&RM of public projects. The results collaborates the findings of Fletz & More (2015) Riga, Kulli, Cherlin & James (2015), Flavianus (2016), Edward (2017) and Edu & Smith (2018) in their separate studies discovered that opinion and information of independent audit firms on public projects have impacted positively on execution and management of public projects.

Further the result of multiple regression analysis showed similar pattern of ANOVA. The values of 0.0481, 0.052, 0.0345 and 0.063 for InfEVP, InfTP, InfCEP and InfRM respectively are indicative of the significant impact of the explanatory variables on PE& RM in the public sector. This implies that expert opinion and information on viability or otherwise of public projects by audit firms can inspire confidence in decision making regarding project investment and associated risks (Limprg, 1932 cited in Edu & Smith, 2018). Reliable decision based on credible information can assist public officials navigate the complex risks and opportunities that are abound in public project execution (Carl, 2016).

The results of the empirical analysis further revealed a high value of co-efficient of determination (R^2) of 0.8934 indicating that about 89% variation in the rate of PE&RM are explained by the predictor variables considering that the maximum value of R^2 stand at 1.00 or 100%. This therefore implies that a greater percentage in variation of PE&RM in the public sector can be explained by assurance service in terms of InfEVP, InfTP, InfCEP and InfRM. Similarly, the adjusted R^2 value of 0.836 shows that approximately 84 of changes in PE&EM are explained in

the model after all necessary adjustment are taken care of. This therefore complements the high predictor power of R^2 and a confirmation of the fitness of the model of study.

On the T-test criteria, a positive, strong relationship exists between the predictor variables and the independent variables. The calculated t-statistical values of 2.36, 2.65, 2.43 and 2.35 for InfEVP, InfTP, InfCEP and InfRM respectively all greater than the critical t-value at 2.31 are indicative of the significant impact of the explanatory variables at 5 percent level of significance. The result of the multicollinearity test carried among the predictor variables shows that with exception of InfEVP, InfCEP pair having low correlation of 0.442 implying no multicollinearity, all other pairs have 0.6 and above implying high/severe correlation confirming existence of multicollinearity. Existence of multicollinearity impairs the predictive ability of the independent variables to predict the likely future changes in the dependent variable (PE&EM). However with high R^2 even a severe/high multicollinearity can produce great prediction (Kock & Lynn 2012) cited in Multab & Khalif (2014). Therefore, there exists a severe/high multicollinearity among greater number of pairs of the independent variables of this study, the high value of R^2 and adjusted R^2 implies high predictive ability of the independent variables of likely future changes in PE&EM and thus a significant impact on the dependent variable. Therefore, all the null hypotheses of the study are rejected. This implies therefore that professional assurance service of audit firms in terms of PE&RM is a function that can positively impact on project execution in the public sector.

CONCLUSION AND RECOMMENDATION

Auditing and assurance services have gained tremendous acceptance across the globe. The acceptance of the services is as a result of the need for accountability, probity and transparency in management of public resource for project delivery. Auditing and assurance services of audit firms are sacrosanct services as they are viable mechanisms that guide proper disclosure of how well public funds/resources have been utilized by those responsible for mobilizing and spending the funds via projects they undertake. Performance in public sector is measured by the quality of projects delivered by government for the welfare of the people. Increased accountability with reduced rate of likelihood of misappropriation, misapplication, outright embezzlement of public funds and poor project delivery are some of the multiple benefits of engaging the services of independent auditors in public projects execution. It is quite unfortunate however that the rate at which government officials at all levels patronize the services of independent audit firms in Nigeria left much to be desired. Therefore the study recommends that government officials at all levels in the Nigeria should as a matter of necessity, engage the services of independent audit firms for projects and programmes they intend to execute right from initial conception through implementation and delivery. The services of the firms have significantly impacted on public project execution and expenditure management across the globe. The rampant abandonment of public projects in Nigeria will reduce to the barest minimum if the services of are engaged.

References

Candy, W.A & Hay, O (2018). Auditing and assurance services: The theoretical approach. Research. *Journal of Management and Humanities* 4(1) 78 -93.

- Carl, W. P (2016) Accountability issues in the public sector. *Journal of Contemporary Studies in Governance* 3(2), 119 – 132.
- David, H. & Carolyn, C. (2017). The value of public sector audit: Literature and history. *Journal of Applied Sciences* 1(5), 96 – 108.
- Dawudu, M. H. (2014). Challenges of project delivery in the public sector of Nigerian economy. *Journal of Economy and Contemporary Review* 1(4), 36 - 49.
- Edu, P.T & Smith, D.S (2018). Public sector audit for transparency. *Journal of Commerce and Economics* 3(4), 46 – 55
- Edward, B. R. (2017). *Auditing made simple*. 2nd Ed Lagos EML Publishers.
- Ezenwa, K. Y. & Oti, R. (2015). Public project evaluation: Performance indicators to watch. *Journal of Applied Studies* 2(3), 101 – 113.
- Fatai, G. & Kayode, A. E. (2014). *Intricacies of public finance*. 1st ed. Abuja Edison publishers.
- Flavianus, B. N. (2016). Theoretical aspect underpinning public sector audit and financial accountability in Tanzanian local government authorities. *International Journal of Finance and Accounting*, 5(1), 46 -53.
- Fletz, N.S & Moore, M.C (2014) Dimensions of audit and assurance services in the public sector. *Journal of Accounting, Finance and Development Research*. 8(9),113 -124.
- Hayes, T. R. & Glenn, N.D (2016). Auditing and assurance services for public project analysis and implementation. *Journal of Commerce and Entrepreneurship Studies* 5(1), 26 – 37.
- Jane, T.R & Brown, W.N (2017). The role of auditing, investigation and assurance services in public project implementation. *Journal of Auditing and Business Studies* 10(3), 91 – 105.
- Kalyn, A. F. & Nerman, D.D (2016) Auditors' role and public sector performance: A correlation investigation. *Journal of Contemporary Management* 7(5), 36 – 43.
- Lee, Y.N & Anderson, L.O (2014) Auditing and performance assessment in governance. *Journal of Development Research* 10 (3), 58 – 71.
- Mamman, N.C& Ekeji, O. (2014). The challenges of programme execution in the public sector of the Nigerian economy. *Journal of Social Science and Management Research* 6(3), 74–86.
- Mihriban, C. A. & Serkan, D. (2017). Auditing and assurance services. *Journal of Accounting and Finance Special Issue*, 127 – 135.
- Morgan, L.V & Cyril, B.R. (2016). Accountability issues in public project execution. *Journal of Contemporary studies* 5(4), 57 – 98.
- Multab, A.Y & khalif, E.I. *Modern statistics and quantitative techniques*. 3rd (Eds) (2014). Lagos Vineyard Publishers.
- Nolly, P.S & Sheiff, A.B (2013). Auditing and investigation: A practical approach in the public sector. *Journal of Contemporary Studies in Governance*, 2(1), 38 -51.
- Ogundana, O. M, Okere, W, Imeokparia, L.A, Njogo, B.O & Adeoye, D. (2017). Impact of public sector auditing in promoting accountability and transparency in Nigeria. *Journal of Research in Business and Management* 5(5) 28 – 32.
- Ogwuche, Y. I & Adahi, A. (2017). The challenges of accountability in the public sector of the Nigerian economy. *Journal of Contemporary Management* 5(1), 26 – 37.
- Riga, R. Kulli, T. Cherlin, A. & James, W.D (2015). The impact of performance audit on public sector organization: The case of Estonia. *Public Organization Review* 1(1), 15 – 22.