**1.0 INTRODUCTION**

In the middle ages, before the industrial revolution, each person had his own business which he ran by himself for his own benefit. But with modernization, craftsmanship and sole proprietorship reduced. Partnership was formed and businesses became incorporated and firms became persons at law separate from the owners. Governments based on monarchy, oligarchy and democracy were also formed; politicians who ran governments could not do so alone and had to appoint other people to assist them. The owner of private or government business, as a result modernization and civilization could not run their businesses alone. They had to invite others to render helping hands.

The owners of firms became **principals** while the people they employed to do the business for them assumed the positions of **agents.** Principals aim at maximization of wealth and they expect their agents to help in achieving that objective. But the agent may have his own objective that may be contrary to that of the principal. For example, he may play down on depreciation and thereby exaggerate annual profits in other to gain promotion. Since the agent has more information than the principal because he engages in day to day operations of the business, the principal’s interest may be jeopardized if the agent is not honest and decides to the hide information not in favour of the principal. In order for the owner to be sure that the agent renders true stewardship of the business, he employs third party to go through the books and transactions and report on the truth and fairness of the steward (the agent). That third party is known as an auditor (Ittonen, 2010). He may be engage in private or public sector auditing. The auditor may be asked to go beyond mere auditing he may be asked to look into how the funds and assets have been spent, to find out whether they have been spent judiciously, recklessly or carelessly (Butt, 2001). Judicious use of funds brings about growth of the business while careless spending may ruin business. The auditor therefore performs the dual role: financial auditing and performance auditing. This study looks into the latter role.

This paper is made up of eleven sections; namely, introduction as done above, statement of the problem, objectives, methodology, public sector auditing, literature review, procedure for money for value audit, application of money for value audit , challenges of money for value audit, conclusion and recommendation.

**Statement of the problem.**

The economy of a nation is made up of private and public enterprises. Private firms have inbuilt mechanism for checking itself against inefficiency, lukewarmness and ineffectiveness. These vices will reflect in lower sales, high labour turnover and low profitability which may result in mergers, take-overs, reorganization and at the worst, liquidation (Bartel, 2001). But the public firms are not profit oriented; they are established for the welfare of the people. Subjectivity based on politics or culture may crop in decision making which may result in inefficiency and ineffectiveness (Eze, 2015). The public sector contains wastage in many areas such as excessive or inappropriate manpower, poor purchasing and material management, poor assets and treasury management (Okekeocha, 2013; ICAN, 2006). Mismanagement of public resources stultifies economic growth and encourages crimes and unrest. Therefore, the duties of the external auditor in the public service should go beyond examining the true and fair value of the books of accounts, it should also embrace management auditing, which is better known as value for money audit. This study examines value for money audits, applications and challenges in the Nigerian public sector.

**Objectives Of The Study.**

 The general objective is to discuss value for money audit (VFM) in Nigeria. The specific objectives are:

1. To discuss the concepts relating to public auditing and VFM.
2. To review theories relating to public auditing.
3. To review some previous works on money for value audit.
4. To discuss the application of value for money audit in Nigeria.
5. To examine the challenges facing value for money audit in Nigeria.
6. To make recommendations in line with the discussion.

**Methodology of the Study.**

This study was exploratory, the concepts, theories and the work of some previous researchers were examined, commented upon and a recommendations were made.

**Public Sector Auditing.**

Public sector auditing is usually provided for in the constitution of a country. In Nigerian, Section 85 of the constitution makes a provision for the appointment of Auditor-General (AG) of the Federation who has the responsibility to audit treasury accounts, ensure that internal control is maintained and to perform the role of chairman in audit committees. There are three categories of accounts for auditing; namely, treasury accounts; ministry and departmental accounts; parastatals accounts.

By virtue of the Audit Act, 1958, the AG is directly responsible for the auditing of the first two while the third (parastatals accounts) should be audited by professional external auditors. Similar arrangement are made at state levels where there are state AGs. The Federal AG submits his report to the national assembly through the Public Accounts Committee while the states AGs similarly submit audit reports to their state assemblies (Office of the AG’s website, 2015; ICAN, 2006).

**2.0 LITERATURE REVIEW.**

**History of the Value for Money Audit.**

The concept of value for money audit is not new, there were early articles citing a 1667 Act that special commissioners with the “care, fidelity and good husbandry with which the management of Royal Navy was carried out”, Flesher and Zarzeski (2002). In the United States of America, value for money audit started at Baltimore and Ohio Railroad in 1827. The leaders of the railway company constituted a committee to monitor and safeguard assets and ensure proper usage of cash. The committee performed regular checks of treasury reports, identified and addressed areas of financial weakness in the railway system. The railway firm was the forerunner of value for money audit and many other railway corporations copied their methods (Flesher, Samson and Previts (2003). Over the years, value for money audit was not formally incorporate into public sector auditing. Government auditors’ role was to examine public sector financial statement and establish its true and fair value. But in about the year 1970, their role begin to change because the public were desirous to know how government funds were being spent, whether it was being efficiently utilized or not. Governments both in developing and developed countries started including value for money in the functions to be performed by the office of their Auditors-General (Ugwu, 2013).

In the early 1980s, the Auditor-General of the Federation (Nigeria), introduced value for money audit (VFM) as a way of ensuring efficiency in the expenditure of federal government of Nigeria. The state governments, the government parastatals and the local governments later adopted the VFM. (Ugwu, 2013). Value for money audit has become more necessary than in the 20th century as a result on recent global economic recession which has prompted the need to save money and increase productivity. There is a growing demand by many nations to examine the way money from national treasuries is being spent and to suggest improvement in the allocation and utilization of funds. Auditors have been looked upon to perform these functions in order to bring about efficient and effective usage of funds. (Butt, 2001).

**Value For Money Concepts.**

 Public sector auditing was mentioned above, but in order to ensure good usage of public funds another type of audit is being practiced, it is referred to as performance audit or management audit or value for money audit.

A value for money (VFM) audit ‘’is a systematic evaluation of an entity’s operations and an organized search for ways to improve managerial efficiency and effectiveness” (Flesher and Zarzeski, 2002). It is a determination of whether **“**the entity is acquiring, managing or utilizing its resources in an economic and efficient manner and the causes of any inefficiencies or uneconomic practices” (Eze, 2015). “Value for money is the concept that seeks maximization of use of scarce resources for the welfare of the public by ensuring that activities and programme are carried out at low cost and to high standard” (ICAN, 2006). From these definitions; value for money audit is an investigation about the ways an establishment has been using its funds, a determination of the whether the funds have been put to good use or not and corrective measures that may be necessary to ensure excellent utilization of funds. Value for money audit is relevant in both the public and private sectors, but currently, emphasis on it is placed on the public sector which is the focus of this paper.

The framework for the VFM auditing is based on **economy, efficiency** and **effectiveness**, the 3Es (Barnett, Barr, Christie, Duff and Hext, 2010). It can be illustrated as follows:

**VALUE FOR MONEY**.

**ECONOMY**<---------------->**EFFICIENCY**<---------------> **EFFECTIVENESS**

**Costs**----------🡪 **Inputs**----------------🡪 **Output**--------🡪**Outcomes.**

Source:

Barnett et al (2010). Measuring the Impact and Value of Money of Governance & Conflict Programmes

The concepts are defined below**:**

Economy is the measure of direct and indirect costs in providing goods and services. Economy comprises physical, human, financial and information resources. Under VFM, the auditor would like to establish how the economic resources have been procured and the cost involved and the appropriateness of their acquisition.

Efficiency is the measure of productivity; it involves minimizing input while maximising output. Efficiency is the ratio of input to output, if less input can be used to produce more output without jeopardizing quality; then there is efficiency. Efficiency needs a yardstick for measurement, in the provision of goods and services, efficiency can be accurately measure; for example, the number of litres of water supplied per day by a water corporation can be measured against the costs of supplying it. Thereby a standard of water supply can be established for efficiency measurement. But, giving another example; it may be difficult to measure the output of a teacher by just comparing his salary with the time he attends to his pupils. The pupils are of different intelligent quotients, he may have to spend more time with the less brilliant ones. It follows that the Management of each establishment, in collaboration with the auditor, should agree on the yardstick for measuring efficiency.

Effectiveness is the measure of qualitative and quantitative outcomes of events; it measures whether outputs meet with expectation or not. If output meet with expectation, production has been effective; otherwise, production is ineffective. In other words, effectiveness is the extent to which set goals and planned objectives have been achieved. While goals are general aims of an establishment, objectives must be specific, measureable, achievable, and realistic and time bound (Heinz, Mark and Koontz, 2008). An optimum balance should be maintained among the 3Es for the achievement of high VFM (Barnett et al, 2010).

Barnett et al (2010) have developed four options for assessing and improving VFM audit thus:

**Option A. Result Based Management.**

The underlining assumption in this option is that good managers lead to good results. The quality of Management is assessed; using well designed criteria, and improvement in Management performance in built into the system.

**Option B. 3ES Rating And Weighting Approach.**

Some yardsticks are used to assess the 3Es, weights are attached to each criteria and a weighted average is established. This can be benchmarked against performance in other establishments.

**Option C. Trend Analysis.**

Performance of the 3Es over a period of time is compared to see if there is an upward or a downward trend in performance. Appropriate recommendations are made.

**Option D. Cost-Benefit Analysis.**

Both benefits and costs are monetized and compared. This would show the returns on investments and would facilitate decision making on VFM.

In all the options, risks and modifiers are incorporated. The four options are not independent but complimentary with a view to establish if the resources used up in government establishments provided maximum benefits for the citizenry.

Butt (2001) identified ten key factors to achieve success in money for value audit. The factors are summarized below.

1. There should be an audit reference that should be clear to all parties interested in the VFM audit.
2. The areas to be audited should be clearly selected.
3. There should be good lines of communications among all interested parties.
4. The audit team should hold consultations with staff and union members.
5. Formal progress meetings should be held with officials and government representatives to keep them informed of what audit team has so far done.
6. Experienced consultants should be used.
7. Consultants and auditors should be conscious of the fact that they are working in a political environment, they should be wary of their observations and recommendations being used and misuse for political advantages only.
8. There should be full commitment to work by all that are concerned with VFM audit.
9. To benefit from the work, a formal procedure should be in place to ensure that recommendation are considered, approved and implemented.
10. There should be political will and commitment to VFM audit.

It can be observed that the ten recommendations are comprehensive and that a VFM audit programme can be formulated from the recommendations.

**Relevant Theories To VFM.**

There are many auditing theories, for the purpose of this paper; three theories discussed below are relevant. The lending credibility theory says that the main purpose of auditing is to add credibility to the financial statements prepared by Management. After auditing, users rely on the audited financial information to make their investment decisions.

The theory of inspired confidence states that audit services arise because investors of a company demand for accountability from those who manage the businesses. Financial statements by Management may not inspire enough confidence in the investors because of the possibility of bias by the preparers of the statements. Therefore, the services of independent examiners, that is, auditors, are demanded to fill the gap in placing confidence in prepared accounts (Ittonen, 2010).

Agency theory states that the objective of the owners of businesses is to maximize their wealth; agents (managers) are employed to satisfy that business objective. But the agents may have their own objective which may conflict with the owners’ objective. The agents may not disclose some information to the shareholders but use such information for their own benefits. Therefore, shareholders engage the services of auditors to look into the books and align the interests of the shareholders (principals) with the agents (Bosire & Ngugi, 2013).

The most appropriate theory to this work is the agency theory because it is highly related to public sector auditing. The general public, that have elected politicians, constitute the principals while the latter are the agents who should account for their stewardship. Bartel and Rietschoten (1999) identified four agency problems in the public sector. There is agency problem between the sovereign (voters, tax pays and the general public) and civil servants leading to ‘’major waste and minor quality in the provision of collective goods and services’’.

There is agency problem between the sovereign and the elected political office holders, while the former desire selfless service, the later exhibit self interest. Agency problem exists between government and ministers on one hand and controllers of public utilities on the other hand. Some information in the public utilities is not known to the controlling minister, resulting into information asymmetry which is detrimental to objectives set for them.

Finally, there is agency problem between the sovereign and the national audit institution which is related to audit authority’s self restriction of its practice. This happens when auditors try to avoid public disputes. The problems mentioned create a gap between theory and practice in the sense that level of effectiveness attained in practice is far below what theory demands.

**Empirical Research Review.**

In their study, Bartel and Rietschoten (1999) found that efficiency of VFM in public sector was low and recommended that the four agency problems mentioned under section 2.3 above should be drastically reduced for VFM audit to have significant impact on performance.

 Henry Butt (2001) carried out a study on value for money in the British Local Government and found that centralization of purchases, rationalization of supplies, renewal of unnecessary tiers of government and reduction of staff would improve efficiency and effectiveness.

Barnett et al (2010) measured the impact of value for money on government programme and found that estimating efficiency (input and output ratio of performance) was very difficult in government business.

In Nigeria, a study undertaking on local government council (LGC) by Tanko, Muhammad, Samuel, Gabriel, Dabo and Zainab (2010) revealed that failure of the LGC to abide by due process in the award of contracts had a negative effect on value for money audit. Ugwu (2013) examined if value of money was relevant to the public sector, using Power Holding Company of Nigeria as a case study. He found that value for money was relevant and would have significant positive impact on public sector performance.

A study carried out on the City Council of Nairobi, Kenya by Bosire and Karanja (2013) found that diversion of funds, duplication of payments and poor record keeping; resulting from weak internal control, had negative effect on value for money audit. All of these studies pointed to the importance of VFM audit in checking against wastage and improving performance.

**3. APPLICATION OF VALUE FOR MONEY AUDIT.**

A search on the internet does not produce practical application of VFM in Nigeria. Researchers who have written published articles on the subject in Nigerian relied only on questionnaires to obtain data. A search at the website Office of the Auditor-General (OAG) did not yield any information about the VFM activities. This should be due to the recent revelation by the Auditor-General (AG) himself that since 1999, the National Assembly has not bothered to examine audit reports submitted to it (Information Nigeria, 2015). Since the reports are still lying idle at the National Assembly premises, they could not go to the President who should instruct on their implementation. Such an implementation directive would have made the reports get to the public domain.

 However, the following information was obtained from the OAG’s website. The office of the AG is a product of the Nigerian constitution of 1999 (Sections 85 (i-vi). His functions are to audit all accounts of the Federal Government and the Courts, his reports should be submitted to the National Assembly for onward submission to the President of the Federal Republic of Nigeria. In the exercise of his functions, the AG “shall not be subject to the directive or control of any authority or person” (Similar provisions are made at state levels for auditing government accounts).

 It means the AG has been given enormous authority to operate without hindrance, whether in practice, he is able to use his authority could not be established as a result of lack of data to examine his performance.

 The OAG is grouped into eight departments thus: Ministerial Audit, Extra-Ministerial Audit, Revenue Audit, Project Audit, Treasury Audit, Finance & Accounts, Admin. Human Resources and Public Procurement Departments. Project Audit Department is charged with the monitoring and evaluation of Federal Government capital projects, capital releases and implementation of government budgets. **Included in the duty of this Department is value for money audit.**

There is also Public Accounts Committee to review the spending of government funds. The Committee should pay due regard to economy, efficiency and effectiveness in the utilization of funds. The Committee, according to the OAG, usually hold meetings to review audit findings. The AG, the permanent secretary of the ministry concerned and other government officials usually attend such meetings. The ministry would defend itself against audit inquires and explain their line of action to resolve issues raised (OAG, 2015).

**Challenges Of VFM In Nigeria.**

Unlike developed nations such as Britain and USA, Nigeria has not made specific legal provision for VFM audit (Johnson, 1996). Nigerian constitution does not expressly empower the Auditor-General to engage in VFM audit, but the AG has only used his discretion to include it in his role (ICAN, 2006; quoting Afenikhe, 2004).

 The Fiscal Responsibility Act, 2007 makes no provision for VFM audit, the only auditing provision in the Act is contained in its section 49(1-3) which says that the Federal Government of Nigeria should publish its **audited accounts** “not later than six months following the end of the financial year”; that consolidated audited accounts should be published in the mass media and that the Accountant-General of the Federation is responsible for the publications. These provisions are similar to the Companies and Allied Matters Act, 2004 (Section 354), which made it mandatory for incorporated firms to audit and publish their financial statements. But the provisions failed to take care of VFM audit which aims at ensuring that public funds are economically, efficiently and effectively utilized.

 Furthermore, the Public Procurement Act (PPA), 2007 did not make any provision for VFM audit, but only mentioned it as a part of the principles of procurements. The Act says: “all public procurement shall be conducted............. with the aim of achieving value for money and fitness for purpose; in a manner which promotes competition, economy and efficiency” (PPA, 2007; Section 16(1,1e & 1f). This provision, stated under principles of procurement, sounds as a piece of advice to public officers without any backing on how VFM audit can be achieved. We are of the opinion that this lack of enabling law and regulations would curtail the auditor-general in reprimanding and discipline erring public workers who breach laid down rules in the financial dealings and it seems to be the biggest challenge to VFM audit in Nigeria.

 The objective of the public sector is to maximize the welfare of the people. The objective may seem laudable, but it is difficult to quantify and therefore it is exposed to subjectivity that may militate against VFM (Eze, 2015).

 Also, government financial records in Nigeria are on cash basis which merely make entries of cash receipts and disbursements. This method is useful only in the short term because it does not provide room for generally accepted accounting principles of accrual and depreciation. Government assets are difficult to monitor, comparability in spending and relevance of expenditure are not apparent, accrual basis of accounting, being used in the private sector, provides a better system of financial recording because they overcome these challenges (Aruwa, 2013).

 Corruption is another challenge militating against VFM in Nigeria. Otalor and Eiya (2013) defines corruption as “the process of circumventing formally agreed or implicit rules for decision-making (in the public and private sector) by use of personal inducements in order to achieve institutional and/or personal objectives”. Corruption allows individuals to enjoy undue rewards and gains to the detriment of the majority. Corruption leads to fraud, arson, lack of accountability and many other vices. Through financial malpractice and fraud, a lot of state funds are lost to individuals, and group of people, that drains the national treasury. Cases of fraud in the civil service and parastatals are rampant, it seems that every where in the public sector, dishonesty percolates and causes socio-economic damages (Appah & Appiah, 2001).

 Accountability is at its lowest ebb. Accountability commands transparency and a desire by the various governments and their agencies in the Federation to observe and abide by the law in their services to Nigeria; unfortunately, this has not been the case (Okon and Ohwoyibo, 2009).

 Poor recording keeping is a challenge against VFM. The public sector has not fully adopted modern information technology in its record keeping. The team of auditors for VFM would need financial records to do their jobs; these records may not be available, in some cases, the books might have been deliberately destroyed after fraud would have been committed (Okwoli, 2004).

 The cost of doing business in Nigeria is very high in comparison with other West African countries. There is no system in place to benchmark on the costs to contracts awarded and other government expenditure (Onuorah and Appah, 2012). Efficiency cannot be achieved under inflated contracts and bribery; again, it has to do with corruption. Lack of clear-cut public auditing processes in Nigeria public sector affects accountability and lowers VFM. Manpower in the public sector to drive VFM and collaborate with auditors is lacking (Eze, 2015).

 On the 2nd of December, 2015; the Auditor-General of the Federation complained that fourteen annual audit reports, since 1999; have been submitted to the National Assembly, but none of them has been examined by the two Houses. That has caused undue delay in forwarding the reports to the President for implementation (Information Nigeria, 2015). The delay bothers on the lack of political will to support and encourage auditing of government business; also the delay contradicted the provision of Section 49(1) of the Fiscal Responsibility Act, 2007 which says that the Federal Government should publish its audited financial statements not later than six months after each financial year. Given such a situation, public auditing in general and VFM audit in particular, may not serve its purpose.

**4. CONCLUSION.**

Value for money audit (VFM) involves assessing if government expenditure has achieved economy, efficiency and effectiveness. VFM is an old practice traceable to 1667, but it was not entrenched into public sector auditing until 1970. As a result of global economic recession at the turn of the 21st century, there has been a growing demand in developed and developing nations to ensure that government treasury funds are judiciously utilized. In Nigeria, VFM was introduced by the Accountant-General of the Federation in early 1980s. However, the application has been poor due to a lack of enabling law, cash basis of public accounting, corruption, poor accountability and a lack of political will. The challenges against VFM in Nigeria are many but not insurmountable.

**Recommendations**

The national assembly should promulgate a law to make value for money audit compulsory for all ministries and parastatals and to make independent audit firms perform VFM functions; replacing the OAG. The national assembly should examine the audit reports with them; pass the reports to the President for implementation. Government accounting should be converted from cash basis to accrual basis for easy monitoring of government expenditure and assets. Government financial record keeping should be fully computerized for fastness and accuracy. The Federal and the State Governments should encourage independent auditors to go for training on VFM auditing. Civil servants should be more transparent in their dealings with government funds. Nigeria should fully embrace value for money audit as a check against corruption and wastage.

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