



Performance Audit and Public Sector Budgetary Efficiency in Southwest Nigeria

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Abstract

This study examined performance audit and public sector budgetary efficiency in southwest Nigeria. Specifically, the study examined the effect of total quality management (TQM) on budgetary efficiency in Southwest Nigeria, Public service value (PSV) on budgetary efficiency in Southwest Nigeria and Government accountability system (GAS) on budgetary efficiency in Southwest Nigeria. Primary method of data collection was employed, through structured questionnaire and it was sourced from the Ministry of Finance, Ministry Rural Development, Ministry Health, Ministry Work and Infrastructure in selected Southwest States in Nigeria, which are, Lagos, Oyo and Ogun. Data were analyzed using both descriptive and inferential statistics. Descriptive analyses conducted in the study include frequency table, and pie chart while inferential analyses conducted in the study include linear regression and ANOVA analysis. F-test used to test the overall significance of the regression model while the coefficient of determinant r^2 , was used to determine how much variation the dependent variable was explained by the independent variable. Result revealed that coefficient of determination (r^2) of total quality management, public sector value and government accountability system were 0.730, 0.654 and 0.433 which implies that about 73%, 65.4% and 43.3% variation in budgetary efficiency of the selected states can be explained by total quality management, public sector value, government accountability system in individual States. The study found out that total quality management (TQM), public service value (PSV) and government accountability system (GAS) indicated positive and significant effect on budgetary efficiency in southwest Nigeria, (.854, $p .000 < 0.05$), (809, $p 0.003 < 0.05$) and (.658, $p .002 < 0.05$) respectively. The overall regression model of (Total quality management, Public sector value and Government accountability system in the selected States) are significant in terms as F calculated (256.641, 83.084 and 61.846) are greater than F critical (3.89) respectively. The study concluded that total quality management, public service value and government accountability system have significant effects on public sector budgetary efficiency in Southwest Nigeria, and positively related.

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Performance audit
Budgetary efficiency
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1. Introduction

The emergence of performance audit was in the early 1970's when the public agencies began to realize the importance of measuring and controlling the performance of government programs. This time frame

corresponds to the publication in 1972 of the standards for the audit of government organization, programs, activities and function by the US General Accounting Office (GAO) commonly referred to as the YELLOW BOOK. These standards which were subsequently revised in 1981, 1988 and 1994, expanded the scope of the audit function to include not only the audit of financial information but also the evaluation of the extent to which project/programs are being achieved. According to the [International Organization of Supreme Audit Institutions \(INTOSAI\) \(1998\)](#) performance audit is defined as “an audit of the economy, efficiency, and effectiveness with which the audited entity uses its resources in carrying out its responsibilities”. But performance audit is different in many aspects. It not only examines whether rules and regulations are followed while expenditures are being incurred but whether the goals of an institution are fulfilled and how economically, effectively and efficiently money is being spent from government exchequer. The performance audit is a systematic, purposeful, organized and objective examination of government activities. It provides parliament with an assessment on the performance of these activities with information, observations, and recommendations designed to promote efficiency and accountability in government expenditure and ensure an ethical and effective public service, good governance and sustainable development ([Waring & Morgan, 2007](#)). Successful execution of project and delivery of quality service to the general public necessitate efficient budgeting. Budgeting involves the establishment of predetermined goals, the reporting of actual performance results and evaluation of performance in terms of the predetermined goals. Performance audit serves as a check, monitor, and investigate the execution of budget of every tier of government, to ensure that revenues are generated and expenditure are used to deliver quality service to the citizens in a fiscal year, as it is done elsewhere like USA, UK and developed nations of the world. Recently, there are increasing public outcries on the government’s wastage in public spending, corruption, high recurrent expenditures, cost of governance and poor budget performance by the various governments in Nigeria since 1999. The inefficiency of budget preparation on the part of the Nigeria executives and legislature as stated in section 81 and 121 (Authorisation of expenditure from Consolidated Revenue Fund) of the federal government and state government law provision respectively. *“The governor shall cause to be prepared and laid before the House of Assembly at any time before the commencement of each financial year estimates of the revenue and expenditure of the state for the next following financial year” (1999 Nigeria constitution)*. This means the budget of a fiscal year can be prepared and laid down at any time, even in the last quarter of the fiscal year the budget is meant for. This will lead to a delay in budget implementation. The lack of accountability in the Nigerian public sector which has submerged the country in the mire of corruption is due to the weak and lack of independence of the supreme audit institutions, compromised by the public accounts committee in the legislature in their oversight functions and the corrupt legal system ([Odia, 2014](#)). Previous empirical studies on performance audit focused mainly on accountability, corruption and government performance ([Agbo & Aruomoaghe, 2014](#); [Amara, 2015](#); [Dereje, 2012](#); [Dijana & Adis, 2017](#); [Etvrek, 2002](#); [Loke, Ismail, & Hamid, 2016](#); [Loocke & Put, 2011](#); [Manaf, 2010](#); [Morin-Danielle, 2003](#); [Morin, 2001](#); [Morins, 2004](#); [Odia, 2014](#); [Reichborn-Kjennerud, 2015](#); [Reichborn-Kjennerud & Johnsen, 2011](#); [Reichborn-Kjenneruds, 2014](#); [Reichborns, 2013](#)). Prior empirical studies showed that different researchers have resulted in mixed findings and they have been inconclusive. The studies by [Morin \(2001\)](#); [Manaf \(2010\)](#) found that performance audit contributes to accountability and performance improvements in audited public sectors, while [Morin-Danielle \(2003\)](#); [Morins \(2004\)](#); [Reichborn-Kjennerud and Johnsen \(2011\)](#); [Reichborns \(2013\)](#); [Reichborn-Kjenneruds \(2014\)](#); [Reichborn-Kjennerud \(2015\)](#) Found that performance audit had contributed little to accountability and performance improvements in the audited public sectors. It was also ascertained that some of the audited public sectors have negative perceptions on performance audit conducted by auditors and the influence made on the audited public sectors by parliament and media is not significant. Various studies have been carried out on performance audit but few to the best of the researcher knowledge consider the role of a performance audit in public sector, as most of the studies are conducted in developed and developing countries and different method was employed. Due to the disagreement by previous researchers and difference in geographical location and methods, hence, this present study focused on performance audit on budgetary efficiency in Southwest, Nigeria and employed ANOVA analysis as an estimation technique. Thus, a knowledge gap filled by this study. In addition, public service values, total quality management and government accountability system was used to capture performance audit. These without doubt will provide insight and information and contribute to the existing literature in this field.

2. Literature Review

2.1. Performance Audit

According to Asian organization of supreme audit Institution ([ASOSAI, 2003](#)) a Performance audit may be defined as examining whether Government Ministries are doing “the right thing” and doing this in “the right and the least expensive way”. [Khan \(2006\)](#) on his part sees Performance auditing as an assessment of the activities of an organization to see if the resources are being managed with due regard for economy, efficiency and effectiveness and accountability requirements are being met reasonably. ([INTOSAI 2004](#)) sees Performance auditing as a way for taxpayers, financiers, legislatures, executives, ordinary citizens, and the media to „execute control“ and to obtain insight into the running and outcome of different government

activities. A performance audit is, therefore, an essential element of the accountability process in all public-jurisdiction. The process of a performance audit may differ. Megbeluba (2010) stated that the process of performance audit is made up of economy, efficiency and program audits. Economy and efficiency audits determine whether the entity is following sound procurement practice; acquiring appropriate types of resources; properly protecting and maintaining resources; avoiding duplication of effort by employees; avoiding idleness and overstaffing; using efficient operating procedures; using optimum amounts of resources; complying with requirements of laws and regulations that could affect acquisition, protection, and use of resources; has an adequate management control system. Program audit, on the other hand, may assess whether the objectives of a program is achieving its goals; identify factors inhibiting satisfactory performance; identify ways of making programs work better; and determine whether management has reported measures of program effectiveness that are valid and reliable (Megbeluba, 2010).

2.2. Differences between Performance Audit and Financial Audit

In most significant respects, performance audit is quite different from the financial audit. A financial audit is concerned with the examination of the financial statements prepared by public sector agencies. It is designed to provide independent and objective opinions whether the financial information prepared by management has been relevant, and accurate, fairly presented and also to assure that money has been spent appropriately. As part of the process, the auditor may examine the transactions in relation to expenditures receipts, and also the accounts of whether they are compliant with accounting standards, statutory provisions, and other regulations. Performance auditing differs from financial auditing in that the former focus on the implementation of the programs, activities or projects of government agencies. It examines whether programs implemented have achieved their goals economically, efficiently and effectively. This audit, in other words, addresses matters that extend beyond the traditional concerns of financial auditing by examining whether the agencies have 'done the right thing', followed procedures and used minimum costs.

2.3. Empirical Review

Reichborns (2013) examined political accountability and performance audit. The review noted that performance audit contributes to political accountability. The study used a questionnaire to examine the influence of performance audit by analyzing data from a survey of 353 civil servants who have experienced one or more performance audits. Based on the assessments in the reports, the audited civil servants were expected to make changes and improve. The study found out that a performance audit is a tool designed to hold ministries and the government administration accountable for government spending and for results.

Odia (2014) examined Performance Auditing and Public Sector Accountability in Nigeria: The Roles of Supreme Audit Institutions (SAIs). The study survey employed a research method. The study found out that the strengthening of the legislature oversight and institutional capacity building of SAIs- independence, internal governance, work quality and more emphasis on performance auditor value for money audit by the SAIs would promote foster public accountability in Nigeria.

Reichborn-Kjennerud (2015) examined Resistance to Control Norwegian Ministries and Agencies Reactions to Performance Audit. Based on survey data from 353 civil servants in Norway the study analyses the ministries and agencies responses to the SAIs control. The analysis shows that civil servants in the ministries tend to be less positive to performance audit when compared to civil servants in the agencies. Top executives, irrespective of administrative level, were more negative than middle managers and other public employees. In addition, civil servants more exposed to performance audit were, in general, more negative towards it.

Amara (2015) examined Performance Auditing Practice in the Libyan Public Sector. The qualitative research method was used in this study, whereas 16 semi-structured interviews were conducted with performance auditors and public sector managers (eight with each group). The results reveal that the PA system in Libya can be improved through the adoption of certain procedures, of which the most important are improving performance auditors' skills and attention being paid to PA by the legislative and administrative officials at higher levels in Libya.

Loke et al. (2016) examined the perception of public sector auditors on performance audit in Malaysia: an exploratory study. The study employed a postal questionnaire method to seek the perception of the auditors. The questionnaire was distributed to the population of public sector auditors in the National Audit Department in Malaysia and a total of 503 respondents. The response was analyzed using descriptive statistical analysis including mean score and mean score ranking. The Findings revealed that auditors were of the opinion that effectiveness element should be one of the performance audit elements and that public sector auditors should be given the opportunity to influence policy decisions. In addition, the results show that the public auditor is not the only profession that can carry out performance audit but can team up with other professions. The performance audit was claimed to be able to enhance public accountability, as well as to enable more economical, efficient and effective utilizing of public resources.

Dijana and Adis (2017) examined performance audit of the public sector with reference to measuring efficiency in the educational system. The study employed a Survey research method, the study found out that

Performance audit contributes to the strengthening of the legality, trust, and efficiency of institutions in the public sector and the main objective of performance audit is to provide a better quality public service through better spending of public money and a higher level of public accountability.

Balli (2016) examined the Role of Performance Audit on Performance Improvement and Accountability in the Audited Public Sectors of Oromia National Regional State. The study employed a descriptive research method. The survey method was used to conduct this descriptive research. Closed-ended questionnaires using Likert 5 scales distributed to these some selected public sectors on which performance audits had conducted from the year 2010 to 2013. The data collected have analyzed using Microsoft Excel which is appropriate for this descriptive statistics. For statistical interpretation, mean and standard deviation have used. The study found out that majority of the selected audited public sectors conducted have positive or good perceptions of the performance audit. They also have positive or good perceptions of the auditors' performance audit recommendations given by the performance auditors but improvements that they made in implementing performance audit recommendations were small or slight. The findings also show that activities performed by the legislature from viewpoint of the audited public sectors were small or slight and the media participation in performance audit report from viewpoint of the selected audited public sectors were average or moderate.

3. Methodology

Model Specification

For the purpose of measuring the effects of a performance audit on budgetary efficiency, the model this study is specified as;

$$BUGEFFY = f(PSV, TQM, GAS) \tag{3.2}$$

Where:

BUGEFFY = Budgetary Efficiency

PSV = Public Service Value

TQM = Total Quality Management

GAS = Government Accountability System

The econometric form of equation 3.2 is presented as:

$$BUGEFFY = b_0 + b_1PSV + b_2TQM + b_3GAS + \mu \tag{3.3}$$

Where

b_0 represents the intercepts or constants;

$b_1 - b_3$ indicates coefficient of the independent variables

μ represents disturbance term

3.1. Source(s) of Data and Method of Analysis

The study focused on twelve selected ministries in three selected States in Southwest Nigeria namely; Lagos, Oyo, and Ogun States. The ministries include Ministry of Finance, Ministry Rural Development, Ministry Health, Ministry Work and Infrastructure. The study relied heavily on the primary source of data. Primary data used in the study was sourced through administered questionnaire to the selected States. Data collated were analyzed using Analysis of variance (ANOVA).

4. Data Analysis and Findings

Statistical analysis was conducted, consequently, ANOVA test was applied to develop regression analysis. The ANOVA test result has been clearly elucidated to determine the level of relationship between the Total quality management (TQM), Public service value (PSV) and Government accountability system (GAS) on the budgetary efficiency of the selected states in Nigeria.

4.1. Regression Analysis

Table-1. Public Sector Value

Model	B	Std.Error	T	Sig.T	Beta	R	r ²	Adr ²	F
Constant	2.508	0.142	17.693	.000					
Public sector value	.234	.053	9.115	.003	.809	.809	.654	.646	83.084

Table-2. Total Quality Management

Model	B	Std.Error	T	Sig.T	Beta	R	r ²	Adr ²	F
Constant	2.686	.157	17.063	.000					
Total quality management	.332	.086	-14.020	.000	.854	.854	.730	.727	256.641

Table-3. Government accountability system

Model	B	Std.Error	T	Sig.T	Beta	R	r ²	Adr ²	F
Constant	2.516	.140	18.013	.000					
Government accountability system	.166	.054	7.864	.002	.658	.658	.433	.426	61.846

4.2. Result and Discussion

The result of the analysis in Table 1, 2 and Table 3 shows that the correlation coefficient (R) of Total quality management, Public sector value, and Government accountability system were estimated to be 0.854, 0.809 and 0.658 respectively which implies that there is a strong positive relationship between Total quality management, Public sector value, Government accountability system and budgetary efficiency at each State level. Table 1, 2 and Table 3 shows the coefficient of determination (r²) of Total quality management, Public sector value and Government accountability system were 0.730, 0.654 and 0.433 which implies that about 73%, 65.4% and 43.3% variation in Budgetary efficiency of the selected states can be explained by Total quality management, Public sector value, Government accountability system in individual State while the remaining 27%, 34.6%, and 56.7% were due to other variables outside the regression model which also affect Budgetary efficiency of the selected states in Nigeria. Table 1, 2 and Table 3 respectively show the overall regression model of (Total quality management, Public sector value, and Government accountability system in the selected States) are significant in terms of its overall goodness of fit as F calculated (256.641, 83.084 and 61.846) are greater than F critical (3.89) respectively. The analysis in table 1 indicated that Public service value (PSV) is positively related with budgetary efficiency .809 with a significant effect (p=0.003 <0.005). The analysis in table 2 showed that Total quality management (TQM) positively related to budgetary efficiency in southwest Nigeria .854, with a significant effect (p=0.000 <0.005). More so, the analysis in table 3 explored that Government accountability system (GAS) positively related, which is estimated to be .658 and significantly influence budgetary efficiency in the selected State, with a p-value of 0.002 < 0.005 level of significant. Thus, the result of this study was consistent with the studies by Reichborns (2013) that found out that performance audit is a tool designed to hold ministries and the government administration accountable for government spending and for results. Also in the study of Balli (2016) on the role of performance audit on performance improvement and accountability in the audited public sectors of Oromia National Regional State affirmed that majority of the selected audited public sectors conducted have positive or good perceptions of the performance audit. It is also in consensus with Agbo and Aruomoaghe (2014) which discovered that performance audit could be an effective tool in curbing corruption. Also in the study of Dijana and Adis (2017) on performance audit of the public sector with reference to measuring efficiency in the educational system, established that performance audit contributes to the strengthening of the legality, trust, and efficiency of institutions in the public sector.

5. Conclusion and Recommendations

Base on the findings of this study, it was concluded that it is imperative for assessing the effect of performance audit on budgetary efficiency of selected ministries in southwest Nigeria, as clearly indicated in the study that public service value, total quality management, and government accountability system had positive and significant influence on budgetary efficiency in southwest Nigeria, the study recommended that the Government should encourage the persistent use of performance audit in all the states in other to ensure budgetary efficiency. The government should employ more qualified audit personnel and equipped them with necessary working materials, training so that they can improve their efficiency.

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