



## Stakeholders' Perception of Public Sector Performance Audits

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### Abstract

This study focuses on evaluating public sector audit quality on public expenditure management in Nigeria. Qualitative and quantitative research was applied, and the data was analyzed using SPSS and NVivo 10. The F-statistics of 37.611, 27.644 and 27.218 explain the variations as adequate and significant at  $p < 0.000$ . The R ratios of 0.621, 0.562 and 0.559 indicate a significant influence of the audit quality on agencies' expenditure management. The R-squared values of 0.385, 0.315 and 0.312 for public expenditure management are influenced by audit quality. The study found a significant relationship between audit quality, agencies' expenditure management, and external influences on auditors that impair their independence. It also highlighted the absence of an audit commission. Therefore, it is recommended that the Audit Act is amended to promote mandatory annual audits that address economy, efficiency and effectiveness (3Es). In addition, standardized performance guidelines regarding the presentation of audit reports should be made available to curtail non-audit service contracts from agencies.

### Keywords:

*Audit expectation gap  
Public expenditure  
Medium-term expenditure framework  
Public sector  
Transparency.*

### JEL Classification:

*M48; H54; H50; H54; M40.*

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## 1. Introduction

The Nigerian state has gone into recession twice since 2015, and there is widespread unemployment among the growing young population in the country. Uzoho, citing Bismarck Rewane, stated that with 93.9 people in Africa's most populous country currently living below the poverty line (Uzoho, 2021), the country can be described as the poverty capital of the world, with an estimated GDP per capita of around US\$ 2,083 in 2020. The country is experiencing high levels of insecurity, kidnapping, banditry and terrorism across its six geo-political zones. The infrastructure facilities are abysmal and negatively affect the private sector; many companies and businesses have closed or relocated to other countries in the West African sub-region. Government agencies' regulatory policies, implementation and enforcement are riddled with corruption (Ewa, Kankpang, Adu, & Agida, 2017). It is an established fact that growth in a country's public expenditure has a positive impact on the socio-economic well-being of its citizenry, as the growth in public sector expenditure is aimed at reducing poverty, enhancing literacy, reducing infant mortality, enhancing healthcare facilities, improving sanitation, enhancing accessibility to housing, and promoting sustainable agriculture. In its drive to achieve good economic management and governance, Nigeria commenced the implementation of a medium-term fiscal framework (MTFF) in 2002. The medium-term expenditure framework (MTEF) and the fiscal

strategy paper (FSP) provide the basis for annual budget planning. The MTEF and the FSP consist of macroeconomic frameworks that indicate fiscal targets and estimate revenues and expenditures that the government intends to expend, including government financial obligations in the medium term.

The government's yearly expenditure is about 60% of the nation's total expenditure, and so its implementation should have a direct impact on the growth and wellbeing of its citizens. While the government's yearly budget allocations have steadily increased over the past two decades, there have been no improvements in social services, poverty reduction, employment generation, or infrastructural development. There is widespread corruption in the MDAs. According to [Kankpang, Ewa, Oti, Inyang, and Okon \(2020\)](#), because of socio-political and economic dynamics in Nigeria, there is a general upward trend in corruption and fraudulent practices among the people as many believe that power, authority and recognition can be achieved through the acquisition of wealth, either legally or illegally. Corruption is seen as the norm in the country ([Ewa, Adesola, & Kankpang, 2019](#)). This is evidenced by the latest Transparency International Corruption Perceptions Index (CPI) ranking, which shows Nigeria at 149 in 2020, 146 in 2019, and 136 in 2016 ([Transparency International, 2021](#)). Polls in developed countries indicate that many citizens do not trust their government officials to always act in the public interest; however, they have confidence in the independence of the Office of the Auditor General as a watchdog of the public interest and promoter of transparency and ethical behavior in their jurisdiction ([Dye and Stapenhurst, 1998](#)). In Nigeria, corruption is described as a cancer in public institutions that are subjected to yearly audits without any adverse audit reports or culpable officers being charged in court. Is the auditor therefore really a watchman or gatekeeper?

### *1.1. Statement of the Problem*

The Nigerian public is dissatisfied with the management of government projects because yearly funds are allocated and disbursed for projects but are expended with no justifiable outcomes. The public perception is that an unqualified opinion in audited financial statements means the entities audited have fool-proof financial reports devoid of fraud and misstatement. This is borne out of the firm belief that the primary function of an audit is the reassurance of the credibility of financial records and assurance of value for money on capital projects, highlighting the performance of the MDAs. Regrettably, auditors have failed in their fiduciary responsibility of certifying the efficiency, effectiveness and economy on the projects undertaken by the respective MDAs. In contrast, the auditors are of the opinion that they have taken all reasonable care and have acted in compliance with extant laws and existing auditing and accounting standards in ensuring that audit reports produced are adequate in content, contain information devoid of material misstatement, and are in accordance with international best practices. These opposing perceptions between stakeholders and auditors on the responsibilities and duties of auditors have thus created an expectations gap. Therefore, the purpose of this study is to assess the stakeholders' perception of public sector performance audit quality on public sector expenditure management in Nigeria.

### *1.2. Study Objectives*

The main objective of this study is to assess stakeholders' perception of public sector performance audit quality (audit quality) on public sector expenditure management. The sub-objectives are:

1. To assess the perception that audit quality influences public sector expenditure management (transparency).
2. To determine the perception that audit quality influences public sector expenditure management (budget credibility).
3. To evaluate the perception that audit quality influences public sector expenditure management (budget drivers).

### *1.3. Research Questions*

The following questions are asked in an attempt to achieve the stated objectives:

- i. To what extent does audit quality influence public sector transparency?
- ii. How does audit quality influence public sector budget credibility?
- iii. To what extent does audit quality influence public sector budget drivers?

### *1.4. Research Hypotheses*

The following null hypotheses are tested in the course of the research:

$H_{01}$  = Audit quality has no significant influence on public sector transparency.

$H_{02}$  = Audit quality has no significant influence on public sector budget credibility.

$H_{03}$  = Audit quality has no significant influence on public sector budget drivers.

## **2. Literature Review**

### *2.1. Theoretical Framework*

There are various theories underpinning audit of financial statements. This study is anchored on the theories of Inspired Confidence and Attribution. As stated in the theories, demand for audit services is a direct

consequence of the participation of outside stakeholders in the public sector. As Dutch economist Théodore Limperg stated, stakeholders (the public) demand accountability from management (public servants or politicians in authority) of public sector entities in return for their contributions by way of taxes and having the politicians represent them government.

Considering the fact that information to be provided by management might be biased because of a possible divergence or conflict of interest between management and outside stakeholders, an audit of this information is of the utmost importance. Regarding the level of audit assurance required by the public, it is expected that the audit should be executed in such a way that the expectations of a rational person are not frustrated by meeting reasonable public expectations.

#### *2.1.1. Attribution Theory*

This provides a relevant explanation for the phenomenon of auditors always being blamed. According to Mcleod (2010), this theory was propounded by Fritz Heider in 1958. Blame from a socio-psychological perspective may occur when one party in a contract is of the opinion that the other party has not fulfilled their part of the contract. Here, the 'injured' party attempts to explain the cause of the unexpected outcome or behavior by engaging in what social psychologists call an "attribution process".

#### *2.1.2. Theory of Inspired Confidence*

Transparency and accountability are essential for good governance. There is inspired confidence in the public quest for transparency and accountability in public sector finance management through the audit report prepared by the Auditor General. The public expect the audit to provide assurance that the financial information rendered is devoid of material misstatement and fraud and that there is value for money in the projects and programs executed by the MDAs.

#### *2.1.3. Audit Expectations Gap/Approaches*

The way the word 'audit' has come to have different meanings for different people is what generates the expectations gap. The public perception of deficient performance and duties of auditors transcend behind the reality and legal framework (Lee, Gloeck, & Palaniappan, 2007; Porter & Gowthorpe, 2004). There is no generally accepted definition of the meaning of the phrase 'audit expectations gap'. This refers to the difference between what society considers as auditors' responsibilities and what auditors' believe their responsibilities entail (Liggio, 1974).

##### *2.1.3.1. Porter's Approach*

This approach was formulated by Porter and tested in the context of private sector auditing (Porter, 1993). The key objective of the study was to test and analyze the structure, composition and extent of the gap between audit expectation and audit performance. Porter's approach looked at perceptions of current and possible duties of auditors.

The study examined the opinion of auditors, auditing organizations, the financial community, and the general public with regard to auditors' existing duties, the standard of performance of these duties, and the duties that auditors should perform. The study revealed that 25 suggested duties of auditors contributed to the audit expectation–performance gap. Six of these duties were due to deficient performance, seven of the duties were due to deficient standards, and seven were due to unreasonable expectations of society. Five of the remaining duties were found to have no effect on the gap. The study also found that only 40% of the general public were aware of, or have knowledge about, the duties of auditors.

##### *2.1.3.2. The Chowdhury Approach*

This approach was studied in the context of public sector auditing. Relying on an accountability-based framework, Chowdhury examined the existence of audit expectation gap issues in the public sector of Bangladesh (Chowdhury, 1996). The approach centered on the accountability of the Auditor General to the Public Account Committee members and international funding agencies. Accountability-based theory was utilized to examine whether the concepts of auditor independence, ethics, competence, materiality, audit evidence, truth, fairness, and audit performance would affect users' perceptions of the audit expectation gap in the public sector of Bangladesh.

Significant gaps were found concerning auditor independence, the scope of performance audits, the usefulness of the audit reports, auditor competence, and timeliness in audit reporting. The approach highlighted lack of independence from the ministry, absence of formal communication between auditors and users, lack of knowledge among users regarding the function of the Auditor General (i.e., the scope of performance audits), inadequate format and content of the audit reports, lack of auditor competence, and lack of timelines in audit reporting as necessitating the gaps.

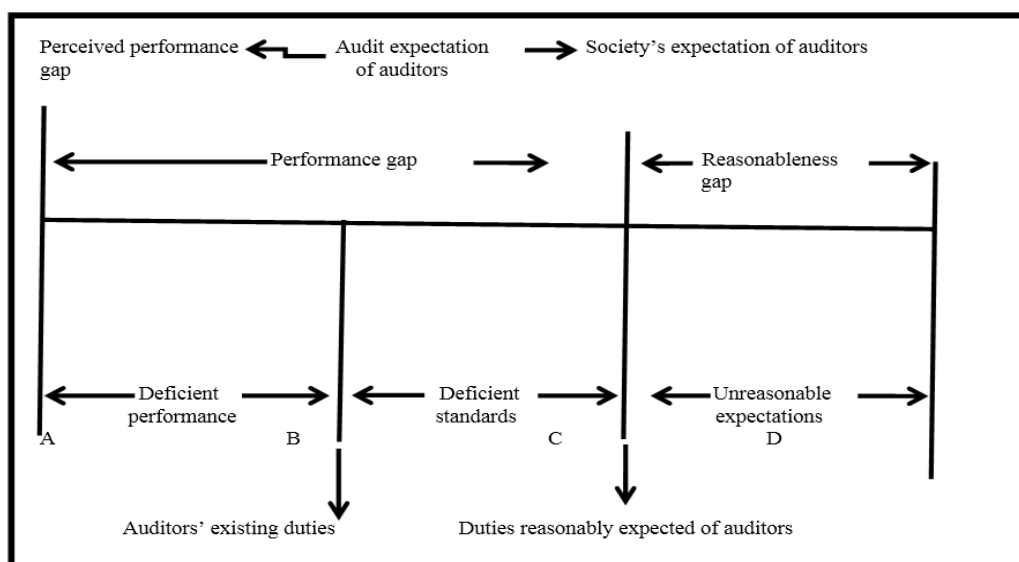


Figure 1. The components of the audit expectations gap.

Source: Porter (1993).

Table 1. Summary of results of Porter's study on the causes of the audit expenditure gap.

Category	Auditor responsibilities
Deficient performance	<ul style="list-style-type: none"> <li>Express doubts in the audit report regarding the company's continued existence.</li> <li>Detect theft of corporate assets by company directors/senior management.</li> <li>Disclose any misappropriation of company assets by directors/senior.</li> <li>Disclose deliberate distortion of financial information.</li> <li>Detect illegal acts by company officials which directly affect the company's accounts.</li> <li>Disclose any illegal acts which directly affect the company's accounts.</li> </ul>
Deficient standards	<ul style="list-style-type: none"> <li>Report doubts on the company's continued existence to the regulatory authority.</li> <li>Report misappropriation of company assets to the regulatory authority.</li> <li>Report suspicion of fraud to the regulatory authority.</li> <li>Report illegal acts uncovered within the company to the regulatory authority.</li> <li>Examine and report on the fairness of financial forecasts.</li> <li>Audit the published half-yearly company reports.</li> </ul>
Unreasonable expectations	<ul style="list-style-type: none"> <li>Guarantee that audited financial statements are accurate.</li> <li>Guarantee that the auditing company is solvent.</li> <li>Report breaches of tax laws to the Inland Revenue Department (IRD).</li> <li>Report theft of corporate assets by non-managerial employees to a regulatory authority.</li> <li>Disclose theft of corporate assets by non-managerial employees in the audit report.</li> <li>Detect illegal acts by the company that do not directly affect the company's accounts.</li> <li>Disclose illegal acts that directly affect the company's accounts in the audit report.</li> </ul>
Neither existing nor expected duties	<ul style="list-style-type: none"> <li>Prepare the auditing company's financial statements.</li> <li>Consider and report on the company's impact on its local community.</li> </ul>
Duties of auditors perceived to be performed satisfactorily	<ul style="list-style-type: none"> <li>State whether financial statements fairly reflect the company's affairs.</li> <li>Ensure compliance with company legislation.</li> <li>Detect deliberate distortion of financial information.</li> </ul>

## 2.2. Study Proxies

The study considered three proxies – auditor independence, competence, and audit reports – as audit concepts derived from the works of Chowdhury (1996) and Daud (2007). Also, the user groups for this study comprise public accounts committee members of the National Assembly, auditors, and officials of auditing ministries, agencies and commissions, and credit lenders who are also users of audit reports.

### 2.2.1. Concept of Auditor Competence

The International Education Standard (IES 8) defined competence as being able to perform a work role to a defined standard, with reference to a real working environment. In its explanatory framework, the standard states that competence refers to the demonstrated ability to perform relevant roles or tasks to the required standard. In other words, competence is actual demonstration of performance. The standard outlines the

minimum competence requirements expected of IFAC members before they take on the role of an audit professional. These are as follows:

- i. Auditors must have formal education (Knowledge) relevant to auditing.
- ii. Auditors must acquire professional skills, values, ethics and attitude.
- iii. Audit professionals are expected to have sufficient knowledge of current developments in the field of auditing. They must have a thorough understanding of the potential ethical implications of professional and managerial decisions. They need to be aware that decision-makers can be under tremendous pressure when it comes to upholding ethical principles.

The auditors' code, published by the Audit Practices Board (APB), prescribed nine fundamental principles of independence. Competence is one of the principles and is defined as the ability to carry out professional duties with great knowledge and skills.

### *2.2.2. Concept of Transparency and Accountability*

According to Schlenker (1997), accountability is being answerable to the public in performing in line with the prescribed standard(s) relevant to fulfilling obligations, duties, expectations, and other charges. Accountability is thus relevant because agents should demonstrate to the satisfaction of the principal that they have used the powers delegated to them by the principal and have achieved the agreed objectives of the organization by utilizing the resources provided by the principal effectively and efficiently.

In the public sector, accountability requires governments to answer to the citizenry to justify the sources and utilization of public resources entrusted to them. An audit report is the main channel of communication to stakeholders, and it is viewed as providing assurance regarding management or government representations or stewardship.

In the public sector, the constitution, the 1956 Audit Ordinance Act, financial regulations, the Finance (Control & Management) Act, the Fiscal Responsibility Act, and extant circulars may be issued by the Accountant General and the Auditor General to guide the preparation and audit of the financial statements of ministries, departments and agencies (MDAs). It is worth noting that the auditing standards and guidelines outline the minimum information content and format required rather than the maximum that must be incorporated in audit reports.

Although some shareholders would like to see more information disclosed within the audit report, auditors are restricted by confidentiality. There is thus a wide expectation gap between the content of information required by users or stakeholders (public) and what the auditors are required to disclose in the report.

### *2.2.3. Management in the Public Sector*

The public sector encompasses all organizations that get their funding from public sources such as fees, taxes or licenses. It covers both government departments and government enterprises. Public sector finance management is therefore the administration and management of large amounts of resources used to provide a range of public goods through public sector ministries, departments and agencies (MDAs). The sole objective of public sector entities is social service, whereas profit is a motive for individual MDAs who have specific objectives for their establishment. Financial management is crucial in public sector fund management as it ensures systematic, efficient, transparent and legitimate application and utilization. It involves allocating resources, spending funds, and being accountable. Sound public sector financial management systems need to have good plans and credible budgeting, good accounting systems, and financial regulations to control spending in line with budgetary allocations.

Public expenditure management is the core of public finance management as income derived from taxes and fines are managed through public expenditure management. Public expenditure management is a comprehensive expenditure policy measure formulated within a specific time frame with a view to achieving a defined set of macroeconomic objectives, such as price stability, wealth creation, output growth, poverty reduction, and infrastructure development. The public sector working group, a multi-agency partnership programme, has developed the following performance indicators to use in measuring the public sector expenditure management in Nigeria.

1. Credibility of the budget: Here, comparisons are made between aggregate expenditure and original approved estimates, between actual expenditure composition by functional classification against approved estimates, and between aggregate actual revenue collection and projected estimates, stock monitoring and expenditure payment arrears. If the deviation between the actual and original approved estimates is less than 5%, public expenditure management is credible.
2. Comprehensiveness and budget transparency: This indicator assesses six dimensions: conformity to government finance statistics (GFS) of the classification codes used in budget preparation; the comprehensiveness of the information included in the budget documentation; how the budget has captured all significant operations of the government; the extent of unreported government operations; how transparent the inter-governmental fiscal operations are; and the level of public access to government fiscal operations. The budget is considered credible if at least five of these dimensions are positively assessed in the budget.



3. Drivers of the budget (budget-based policies): Here, the assessment is based on three dimensions: availability and adherence to a fixed budget calendar; the extent of political involvement in the preparation of the budget; and how promptly the budget is approved by the legislature. If at least two of these indicators are properly implemented, the public expenditure management is credible.
4. Controllability and predictability in the budget execution: Here, nine dimensions are used in assessing the performance of public expenditure management. They include: the level of transparency of the obligations and liabilities of the taxpayers; the effectiveness of the measures for tax registration and assessment; the effectiveness of tax collection; the extent of monitoring cash flows to MDAs, including ceilings for expenditure by MDAs; the effectiveness of payroll controls; the competitiveness in procurement and value for money; internal control effectiveness for non-salary expenditures; the effectiveness of internal auditing of MDAs; and accuracy in recording cash balances, debt and guarantees.
5. Effectiveness of the budget as it relates to accounting, recording and reporting: This assesses how timely and regularly the government accounts are reconciled; the quality of budget reports and how timely they are produced; the quality of government financial statements and how timely they are produced; and the availability of information on resources received by service delivery units.
6. External scrutiny and auditing of the budget measures performance: This determines the scope and follow-up of external audit engagement; the legislative scrutiny of government financial statements regarding their oversight function; and the legislative scrutiny of internal audit reports.

### *2.3. Empirical Review*

Pendlebury and Shreim (1990) tested the attitudes of external auditors on the conduct of effectiveness auditing in the UK's public sector and concluded that performance audit activities and operations rely more on personal judgment and less on verifiable data. The study opined that the objective of effective auditing is achievable, that the composition of audit teams should be multi-disciplinary with auditors from different disciplines, and that economy and efficiency rather than effectiveness are the primary motives of effectiveness auditing.

In their study that examined the attitude of public sector managers and finance officers of local authorities in England and Wales, Pendlebury and Shreim (1991) revealed that there were audit expectations gaps, albeit less obvious, in three areas: whether an effectiveness audit team should be multi-disciplinary, whether value for money (VFM) auditing is primarily concerned with economy and efficiency rather than effectiveness, and whether VFM auditing should be limited to economy and efficiency and should not cover effectiveness. The study further discovered that the attitudes of auditors and managers sampled differed significantly in assertion regarding the appropriateness of making personal judgments on effectiveness auditing. This assertion differs from the earlier study which suggested that judgments required in an effectiveness audit are appropriate to be made by the auditors.

Chowdhury, Innes, and Kouhy (2005) carried out a study to identify the existence of an audit expectation gap in the public sector of Bangladesh by applying an exploratory approach using qualitative and quantitative methods. The study revealed significant differences in the perceptions of the different categories of the study sample on the existence of an expectation gap in Bangladesh, following on from the study by Chowdhury and Innes (1998).

Tanko and Dabo (2013) carried out an empirical analysis of the audit expectation gap in Nigeria to establish the extent to which groups of respondents differ in their interpretation on matters relating to auditor performance and the standard of the auditing profession. The study revealed the existence of an audit expectation gap between the views of auditors and non-auditors in terms of the quality of audit reports. The study conforms with various other studies carried out in Nigeria (Adeyemi & Olowookere, 2011; Adeyemi & Uadiale, 2011; Akinbuli, 2010; Olowookere & Soyemi, 2013; Otolor & Okafor, 2013).

The study also revealed that the perception of audit report quality depends on the chartered status of the respondent. In other words, chartered accountants have stronger views on quality than non-chartered accountants. The study also revealed that auditors view greater improvement in the quality of company audit reports than non-auditors. On the issue of the content of the auditor's report being improved, there was a gap between chartered accountants and non-chartered accountants. The study, therefore, recommended continued sensitization of the public on the responsibilities of the auditors, improved communication and feedback between the auditing profession and the general public, and a monitoring mechanism of auditing firms for quality control.

### **3. Research Methodology**

Qualitative and quantitative research methods were applied in the study. The purposive sampling technique was employed to select respondents who are members of the National Assembly, accountants, auditors and bankers. A five-point Likert scale was adopted as the items in the questionnaire are judged on a single dimension scale with equal intervals. The quantitative data was obtained through a survey

questionnaire, the qualitative data was obtained through interviews, and the data was analyzed using NVivo 10 and SPSS 20.0 software.

### 3.1. Model Specification

A multiple regression analysis model was employed to evaluate audit expectations gap on the performance of public sector expenditure management.

$$PSEM (PST, PSBC, PSBD) = b_0 + b_1AC + b_2AI + b_3AR + e_i$$

Where:

AC	=	Auditor competence (Independent variable)
AI	=	Auditor independence (Independent variable)
AR	=	Quality of audit reports (Independent variable)
PST	=	Public sector transparency (Dependent variable)
PSBC	=	Public sector budget credibility (Dependent variable)
PSBD	=	Public sector budget-based policies (Drivers) (Dependent variable)
PSEM	=	Public sector expenditure management
$B_0$	=	Constant
$B_1$	=	Regression coefficient
$e_i$	=	Stochastic error term
$\beta_1 - \beta_3$	=	Unknown coefficients to be estimated ( $\beta_0, \beta_1, \beta_2, \beta_3 \geq 0$ )

### 3.2. A Priori Expectation

It is assumed that AC, AI and AR are positively related to efficient PSEM and the coefficients of  $\beta_1, \beta_2, \beta_3$  are  $> 0$ .

## 4. Data Presentation

### 4.1. Test of Hypotheses

*H1: Audit quality (AC, AI and AR) has no significant influence on public sector transparency (PST).*

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Expectedly, the mean values shown in [Table 2](#) are not the same, and their spread measured in terms of standard deviation are also not the same, which indicates variation in these variables that influences PST. The inter-variable correlations presented in [Table 3](#) show that the three independent variables significantly negatively correlate with the dependent variable (PST  $r = -0.569, -0.437$  and  $-0.307$ ) but positively among themselves ( $r = 0.700$  and  $0.232$ ), except AI, which correlates negatively ( $r = -0.193$ ) with AR. These findings show that transparency in public sector expenditure management significantly decreases with AR ( $p < 0.000$ ), AC ( $p < 0.000$ ) and AI ( $p < 0.000$ ), which suggests that the three variables are good predictors in the model.

The prediction model parameters were estimated and tested using the F-ratio test. The results are presented in [Table 4](#) and show an F-value of 37.611 with probability associated with the computed F-value of less than 0.05, implying that the model employed to explain the variations is adequate. Therefore, the model is capable of explaining variability in the dependent variable. The Durbin-Watson value of 0.504 is below two, which implies a lack of autocorrelation in the sample.

[Table 5](#) shows that, apart from the regression constant, AC, AI and AR are all negatively significant predictors of PST, which is one of the indicators for measuring PSEM in Nigeria. However, AR seems to be adversely stronger than AC and AI as predictors of PST. The implication of this study means that AC, AI and AR as components of audit quality influence the transparency and comprehensiveness of accounts, which have a significant effect on the performance of government agencies in Nigeria.

The R-squared value of 0.385 in [Table 4](#) means that about 38.5% of the variation in PST is accounted for by AC, AI and AR, with a tolerable standard error of 0.830. The relative contribution of each of the independent variables to PST was estimated and tested for significance using the t-test. From the results given in [Table 5](#), the t-statistics are not the same for all the independent variables (i.e., AC, AI and AR). The result thus indicates that AR has a significant influence on public sector expenditure management measured by PST.

**Table 2.** Mean and standard deviations for PST AC, AI and AR.

Variable	Mean	Std. deviation
PST	26.348	1.050
AC	15.669	2.329
AI	15.832	3.348
AR	7.560	1.539

Table 3. Inter-correlation among the variables.

Variable	PST	PSBC	PSBD	AC	AI	AR
PST	1.000			0.000*	0.000*	0.000*
PSBC		1.000		0.000*	0.004*	0.000*
PSBD			1.000	0.000*	0.000*	0.000*
AC	-0.569	0.317	0.214	1.000	0.700	0.232
AI	-0.437	0.516	-0.186	0.700	1.000	-0.193
AR	-0.307	0.047	0.461	0.232	-0.193	1.000

Note: \* Significant at the .05 level; p < 0.05.

Table 4. Model summary and analysis of variance (ANOVA) of regression.

R	R-squared	Adj. R-squared	Std. error	R-squared change	DW
0.621	0.385	0.375	0.83001	0.385	0.504
Source of variation	Sum of squares	Df	Mean square	F	P
Regression	77.733	3	25.911	37.611*	0.000
Residual	124.000	180	0.689		
Total	201.739	183			

Note: \* Significant at the .05 level; p < 0.05.

Table 5. Regression constant and coefficients of the study variables.

Variable	Unstandardized coefficient		Standardized coefficient	T	P
	B	Std. error			
Constant	31.39	0.485		64.744*	0.000
AC	-0.139	0.043	-0.308	-3.209*	0.002
AI	-0.087	0.030	-0.277	-2.903*	0.004
AR	-0.197	0.048	-0.289	-4.132*	0.000

Note: \* Significant at the .05 level; p < 0.05.

#### 4.2. Testing of Hypothesis 2

H<sub>2</sub>: Audit quality (AC, AI and AR) has no significant influence on public sector budget credibility (PSBC).

H<sub>2</sub>: Audit quality (AC, AI and AR) has a significant influence on public sector budget credibility (PSBC).

To test this hypothesis, a multiple regression analysis was employed. The inter-variable correlations were computed using Pearson's product-moment formula (see Table 6). The results show that the independent variables correlate significantly with the dependent variables. The inter-correlations among the independent variables are also significant. Although this phenomenon is not desirable in a multiple regression analysis, it validates our assertion that they are all elements of AR. The significance of their correlation with the dependent variable suggests that they may be significant predictors of PSBC. This means there is a significant agreement in their variation. AI correlates positively with auditor competence but negatively with AR.

To test the significance of the independent variables' collective predictive ability, the prediction model parameters were estimated and tested for significance using the F-ratio test, which showed a result of 27.644 (see Table 7). The R-squared value of 0.315 means that about 31.5% of the variation in PSEM measured by PSBC is accounted for by AC, AI and AR, with a tolerable standard error of 0.59702. The Durbin-Watson value of 0.370 is below two, which means there is no autocorrelation detected in the sample.

Table 8 shows that AC adversely influences PSBC (p < 0.008). This suggests that PSBC in PSEM decreases when auditors performing competently. The implication of this study means that AC, AI and AR as components of audit quality influence credible PSEM. The t-test, which measures the relative contribution of each of the independent variables to the prediction of PSBC, was estimated and tested for significance. From the results in Table 8, the t-statistics are not the same for all the independent variables (i.e., AC, AI and AR). The results show that AI and AR have a positive influence on PSBC, while AC has a negative influence on PSBC. Therefore, the assertion that AR has no significant influence on PSEM measured by budget credibility is rejected.

#### 4.3. Testing of Hypothesis 3

H<sub>3</sub>: Audit quality (AC, AI and AR) has no significant influence on PSBD.

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Table 6. Means and standard deviations for PSBC, AC, AI and AR.

Variable	Mean	Std. deviation
PSBC	13.685	0.716
AC	15.669	2.329
AI	15.832	3.348
AR	7.560	1.539



Table 7. Model summary and analysis of variance (ANOVA) of regression.

R	R-squared	Adj. R-squared	Std. error	R-squared change	DW
0.562	0.315	0.304	0.59702	315	0.37
Source of variation	Sum of squares	Df	Mean square	F	P
Regression	29.559	3.00	9.853	27.644*	0.000
Residual	64.158	180	0.356		
Total	93.717	183			

Note: \* Significant at the .05 level;  $p < 0.05$ .

Table 8. Regression constant and coefficients of the study variables.

Variable	Unstandardized coefficient		Standardized coefficient	t	p
	B	Std. error			
Constant PSBD	11.537	0.349		33.082*	0.000
AC	-0.083	0.031	-0.27	-2.664*	0.008
AI	0.161	0.021	0.754	7.501*	0.000
AR	0.119	0.034	0.255	3.456	0.001

Note: \* Significant at the .05 level;  $p < 0.05$ .

To test this hypothesis, a multiple regression analysis was employed with PSBD as the dependent variable and AC, AI and AR as independent variables. In Table 9, the mean values are not equal, at least among the predictor variables, and their spreads measured in terms of the standard deviations are also not equal. The inter-variable correlations were computed using the Pearson product-moment formula. These correlation coefficients are given in Table 3 and show that the three variables correlated significantly among themselves.

To test the significance of their ability to predict PSBD, the prediction model parameters were estimated and tested using F-ratio test. The results are presented in Table 10. The computed F-value was found to be 27.218. Likewise, the probability associated with the computed F-value is less than .05. This indicates a high model adequacy; thus, the model is capable of explaining variability in the dependent variable.

As can be seen in Table 11, the regression constant, AC, AI and AR are all significant predictors of PSBD (drivers) as a performance proxy to measure agencies' performance. However, AC and AR seem stronger than AI as predictors of PSBD measurement. The prediction equation ( $Y = 13.518 + 0.050_{x1} - 0.034_{x2} + 0.039_{x3}$ ) implies that the ability to predict PSBD as a performance indicator depends significantly on AC, AI and AR. The R-squared value of 0.312 in Table 10 implies that 31.2% of the variation in PSBD is accounted for by AC, AI and AR, with a tolerable standard error of 0.19881. The Durbin-Watson value of 0.766 is below two, meaning that there was no autocorrelation detected in the sample.

The relative contribution of each of the variables to the prediction of PSBD measurement was estimated and tested for significance using the t-test. The results in Table 11 show that the t-statistics are not the same for all the independent variables. It is evident that PSBD policies, which is one of the performance indicators used to measure public sector performance, is significantly influenced by audit quality measured by AC, AI and AR, and so the alternate hypothesis is retained in place of the null hypothesis.

Table 9. Mean and standard deviations for PSBD, AC, AI and AR.

Variable	Mean	Std. deviation
PSBD	14.060	2.377
AC	15.669	2.329
AI	15.832	3.348
AR	7.560	1.539

Table 10. Model summary and analysis of variance (ANOVA) of regression.

R	R-squared	Adj. R-squared	Std. error	R-squared change	DW
0.559	0.312	0.301	0.19881	0.312	0.766
Source of variation	Sum of squares	Df	Mean square	F	P
Regression	3.228	3.00	1.076	27.218	0.000*
Residual	7.115	180	0.04		
Total	10.342	183			

Note: \* Significant at the .05 level;  $p < 0.05$ .

Table 11. Regression constant and coefficients of the study.

Variable	Unstandardized coefficient		Standardized coefficient	T	P
	B	Std. error			
Constant	13.518	0.116		116.402*	0.000
AC	0.050	0.010	0.493	4.851*	0.000
AI	-0.034	0.007	-0.483	-4.792*	0.000
AR	0.039	0.011	0.253	3.423*	0.001

Note: \* Significant at the .05 level;  $p < 0.05$ .

## 5. Discussion of Findings

The participants interviewed had various definitions for what the objective of performance audit quality is. Respondents affirmed the objective as providing assurance of accountability (value for money) in the management of implementing agency projects. They assessed the objective of a performance audit as whether the agency has managed a project economically, effectively and efficiently, as stated in the financial regulation requirements. Participants drawn from legislature, banks, and accountants opined that the objective is not achieved, and participants from the auditor group believe that the set objective of assurance is achieved. The lack of agreement between the auditors and the other users may reflect the magnitude of the 'relative knowledge gap of the user groups' (Porter, 1993). This is in agreement with the study by Daud (2007). Some performance audit reports published in the 2007 Audit Report of Federal Republic of Nigeria released in 2008 did not state the objectives of the report, thus confirming the assertion of the non-auditor participants on the matter.

Although 37% of respondents in the auditor group disagreed with the notion that officers should have a basic relevant degree to qualify as auditors, the majority believed that the possession of a relevant degree enhances competence, which, in turn, will ensure the credibility of reports. Secondly, the majority of the respondents believed that a multi-disciplinary audit team will enhance the quality of reports, but 42% of respondents from the auditor group as well as 14% from the banker group are of the opinion that experts in the relevant fields may be drawn under special assignment instead of being part of the audit team permanently. This finding is consistent with those of Daud (2007) and Pendlebury and Shreim (1990). However, according to the International Standards of Supreme Audit Institutions (ISSAI 200), dealing with government auditing, Supreme Audit Institutions (SAI) should recruit personnel with suitable qualifications, which it explained as "suitable academic qualification and be equipped with appropriate training and experience". It did, however, add an addendum that the SAI should establish and regularly review the minimum educational requirements for the appointment of auditors. Also, the standard states that the SAI should "...identify the skills which are absent and provide a good distribution of skills to auditing tasks...". Therefore, it is the discretion of the SAI to determine the minimum educational requirement as well as the multi-disciplinary team-need at any given period.

This is in agreement with the ISSAI 200, developed by the International Organization of Supreme Audit Institutions (INTOSAI), which include the requirement to develop and train SAI employees to enable them to perform their tasks effectively, and define the basis for the advancement of auditors and other staff.

Regarding whether auditors should have ability, skill and knowledge of public sector project management, the majority of the respondents were of the opinion that auditors of public sector entities should have the ability and skill to analyze complex data and possess an investigative mentality and thorough knowledge of public sector project management.

In relation to interference from management and external influences on auditor independence, thus impacting the performance of public sector agencies, the majority of the respondents (including the group of auditors) believe that there is great interference from both the agency management and outsiders, which influences the auditors and impairs their work. This strong consensus among users of audit reports is perhaps due to their direct interaction or observation of auditors' work during the audits and the issues contained in the audit reports. This assertion is confirmed by the outcome of the interviews, where all groups except the auditors believe that auditors are influenced by external parties. This result is in line with the works of Daud (2007) and Ewa et al. (2017). Similarly, the majority of the respondents believe that the remuneration paid for non-audit services by agencies to their auditors influences the auditors' actions and impairs their independence. This is confirmed by the interview results where participants are of the opinion that the independence of the auditor is impaired by their involvement in rendering non-audit services because of the pecuniary benefits arising thereof. In contrast, auditor participants in the interview are of the opinion that auditor independence will not be impaired by rendering non-audit services. This is confirmed by the results of the survey as 44% of respondents from the auditor group disagreed with the notion that auditors' decision-making processes are compromised by remunerations obtained from any non-audit services that they provide to audited agencies. This finding is consistent to some extent with the studies by Daud (2007) and Chowdhury and Innes (1998), which reported that auditors perceived that they are free from any external influences, but users, on the other hand, perceived that the auditors are subject to external influence, especially the government. Conscious of this dilemma, the ISSAI 200 states in section 2.1b that SAIs should avoid conflict of interest between the auditor and the entity under audit, and the SAI must maintain its independence and objectivity in carrying out the assignment.

On the impact of social security benefits influencing auditor independence in decision making, the majority of the respondents across the groups agreed that the fear of loss of employment without any social security benefit to fall back on affects auditors' decision making. They believe that auditors are afraid to report infractions and fraud committed by top executives for fear of being thrown out of work without anything to prevent the possible loss of employment. This is confirmed by the results of the oral interviews.

Regarding the timeliness of issuing performance audit reports, the majority of the respondents from all the groups agreed that the reports are not timely. The assertion of lateness was confirmed by the outcome of the interviews where all the participants are of the view that reports are not timely nor are they accessible to

the public, and there are no statutory performance audit reports expected from the Auditor General except special reports, which are not mandatory and not time bound.

On the legibility of the format of agencies' performance reports, the majority of the respondents in the four groups agreed that the present format is not legible enough to disseminate information on the performance of agencies. Interestingly, the result showed that even auditors in the study have reservations on the adequacy of the current report format and its ability to satisfy the stakeholders' requirements. They believe that the reports should address the economy, efficiency and effectiveness of agencies' projects to aid the evaluation of accountability and good governance. This is in agreement with the interviews conducted on the matter as well as the analysis of the reports obtained from the 2007 Audit Report of the Federation. The present reports have no standard format which incorporates a title, a signature, the date of the report, the objective of the report, the scope, completeness, identification of the subject matter, the legal basis for the assignment, and compliance with the relevant standards.

Relating to the issue of the reports being flexible and sufficient to address stakeholders' concerns, the majority of the respondents from the four groups believe that the present report is not sufficient to meet the aspirations of stakeholders. This is in agreement with the interviews where the majority believe that the content of the present performance reports is not sufficient to address stakeholders' concerns regarding corruption, fraud and mismanagement of government funds. They believe that the auditor should be more critical on the analysis by carrying out a benchmarking exercise with related agencies which would enable a comparison of achievements among agencies. This result is consistent with the findings by Daud (2007).

On the issue of whether performance reports are accessible to the general public directly from the Auditor General's Office, respondents from groups of bankers and accountants are of the view that the reports contain audit queries and disagreements between the agency and the Auditor General that need to be resolved by the PAC before making the report public. But the majority of the respondents are of the opinion that the reports should not only be sent to the National Assembly but should be made available to the general public to enhance good governance, transparency and accountability. They believe that making the report public is a check on both the legislature and the auditee agency to ensure probity. This assertion is in agreement with results of the interviews conducted.

On the issue of transparency and accountability, which follow due process in line with government guidelines in all operations in the MDAs, respondents believe that agencies lack transparency when they are weighed against the variables that constitute transparent behavior. The results of the study showed that the public has no access to government fiscal operations as government agencies' fiscal management is operated in secrecy. The study revealed that there is no mandatory requirement for agencies to publicly render their score cards. The study also revealed the lack of openness in inter-governmental fiscal operations. Each agency operates differently and there is no synergy or understanding among them.

On the assessment of budget credibility as one of the performance indicators to measure agencies' performance, the result of the study revealed that majority of the respondents believe that government budgets have always failed to capture all significant government operations because the budgets are not based on a strategic plan and need an assessment carried out prior to the budget process. Also, respondents believe that information included in government accounts is not very comprehensive to educate the public about government operations, and the accounts prepared do not conform to government finance statistics. The result also revealed that agencies aggregate expenditures and not in line with original budget approvals. Also, to evaluate budget credibility as a performance indicator, respondents in the study believe that agencies' actual yearly expenditure composition by functional classification is never accomplished by the agencies as most times some departments are starved of funds in the budget cycle while others spend out-of-vote allocation. The study also revealed that aggregate revenue collections are rarely achieved against the projected estimates due to lack of commitment on the part of officials, motivation, corruption, and lack of enforcement of targets and sanctions for failures. The result of the study shows that the agencies failed in all the performance parameters regarding budget credibility stipulated by international best practices.

Regarding budget drivers (policy-based nature of the budget) as indicators of performance in the public sector, the respondents asserted that there is no set budget date or adherence to a fixed budget calendar. The respondents and interviewees believe that the public sector puts less emphasis on strict adherence to budget administration and implementation in Nigeria. They opined that each successive administration determines its own timetable, emphasis and administration regarding budgets. On the preparation of budgets following a process anchored on the agencies' strategic plans and the political class not being involved, the respondents and the interviewees are of the view that the political class is fully involved in the budget preparation. They believe that political class involvement is to ensure that the policy trust of their electioneering promises is met. Therefore, appraising the agencies' performance based on this indicator, it is clear that they are not performing when measured against the international best practice benchmark.

### *5.1. Summary of Findings and Conclusion*

Based on the results and analyses, the following findings were obtained:

- i. There is no statutory requirement for audit performance set out in either the 1999 Constitution of Nigeria, or the 1956 Audit Ordinance Act.

- ii. The Nigerian Audit Act, which has been enacted since 1956, is very limited in scope, content and relevance in the twenty-first century.
- iii. There is no standardized format for presenting performance audit reports as stipulated by INTOSAI. The present format and contents of the audit reports are inadequate and do not meet the information requirements.
- iv. There are external influences on audits due to management, political, religious or ethnic affinity, or fear of job loss or threat to life of the auditor or their family.
- v. Apart from the Auditor General for the Federation, all other staff in the office of the Auditor General for the Federation are engaged and deployed to that office by the Civil Service Commission. By implication, therefore, they are staff of the Head of Service.
- vi. Performance audit reports are not issued as part of the yearly statutory financial reports of agencies.
- vii. Performance audit reports issued are released many years after the activity is consummated and the reports do not address the main objective of the performance audit of economy, efficiency and effectiveness. This timeliness of reporting contributes to the audit expectation gap as users believe that the significant delays in reporting render the audit reports meaningless.
- viii. Nigeria has no Audit Commission, which should be saddled with the responsibility for employment, standard-setting and regulation of the audit office as is applicable in other countries of the world.
- ix. Competence and independence of auditors and audit reports have a significant influence on agencies' performance. Auditor efficiency and effectiveness will improve agencies' performance regarding transparency, accountability and good governance, which is seen to be lacking.
- x. Although the study focused on agencies in the public sector, the results can be generalized across the public and private sectors in Nigeria as they portend to competence, auditor independence, audit reports, and performance.
- xi. It was established that auditor competence, independence, and audit reports have a direct impact on the performance of agencies and provide assurance of accountability, transparency and good governance in the agencies.

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